

Changes in Economic and Financial Structure and the International Integration of Capital Markets over the Past Century and a Half

Abstract: The focus of this paper is on market integration and the evolution of financial-market institutions over the years 1871 to 2020 and the relationship linking the two. One of its key findings is that changes in the exchange-rate regime, and in particular the change to more flexible exchange rates in the early 1970s, have had no lasting negative effects on the degree of financial integration. I attribute this observed neutrality of the change in the regime to the development of forward-looking markets that allowed market participants to hedge the risks inherent in the greater volatility of exchange rates under floating. I go on to present data that are consistent with conjecture.