

Prof Christoph Trebesch's seminar title + abstract:

title: International Lending in War and Peace, 1790-2020

### Abstract

This paper examines the behavior of international capital flows over 200 years, contrasting private and official (government-to-government) lending. We compile a novel dataset covering 1.8 million cross-border loans, grants and guarantees issued by foreign governments and multilateral organizations since 1790. Based on this comprehensive data, we show that official lending is the "unsung hero" of the global financial system. Official lending flows have a long history, are much larger than previously known, and are markedly countercyclical, with pronounced lending spikes during major crises such as World War I, World War II, or the 2008 crash. In contrast, private cross-border flows quickly dry up in emergency situations, just when they are needed most. Time and again, it has been official rather than private cross-border lending that has helped avert financial collapse or military defeat. To explain the direction and magnitude of official lending flows across space and time we test an augmented gravity model. Wartime official lending is greatest between governments that are military allies, while peacetime lending is greatest during financial crises and in particular between countries with close economic ties. In case of future geopolitical and financial turmoil, one can expect state-led capital flows to again take over the leading role in the international monetary order.