A Brief History on the Accumulation of Wealth

Alavi Ali

Freie Universität, Berlin, *alavi.f.ali@gmail.com*

Wealth had gradually created through the natural development of society. However, the growth of wealth at a significant scale started along with the rapid development of trading. This was especially true when trading activities enlarged into long distance framework. Consequently, such activity involved various states or even running inter-continentally, making accruing wealth at a larger scale became possible.

This especially happened in the 15th century, when oceanic discoveries started to lead the trading. In this context, Italy that was regarded as the entrepot of trade between Europe and the East became less important to the matter. This was caused by the discoveries of new routes around Africa. The process of discovering of these new routes were pioneered by Portugal, which, with the support of Prince Henry the Navigator, opened trading activities with Gold Coast, Africa in 1448. At 1488 Bartholomew Dias landed on Cape of Good Hope, which was then became a precedent for Vasco da Gama's voyage for Calicut, Malabar Coast, India years after. The geographical boundaries of trade were even more decreased by trans-Atlantic voyage. In 1492, a captain from Genese, Christopher Columbus, found America, in an effort of searching the route to Asia in the name of King Ferdinan and Queen Isabella from Spain. In 1498, Sebastian Cabot from Veneti, claimed New Found Land for Britain when, trying to search of North Atlantic route, found India. In 1500, Pedro Alvarez Cabral led a voyage and for the first time landed in Brazil, then continued his journey to India. The peak was achieved between 1519-1522 that materialized by succeeding to voyage around the world which was accomplished by Ferdinan Magellan (Baskin and Miranti, 1997: 55).

These events shown that the realms of trade were opened wider by geographic knowledge. Those knowledge, thus, set in motion the establishment of innovative organizations that were able to handle large-scale, long distance trading activities. In this context, joint-stock companies were born. Although these companies were spawning in commercial districts in Europe, it reached its maturity in England.

Baskin and Miranti, Jr. illustrate England as a country that already had the foundation of collaborated capital. It is reflected by the form of gild (a group of craftsmen that produce a certain of commodity and organized themselves as a distinct social group). These gilds were given political protection for their donation to the rulers. Thus, the connections between business and politics were established, which, at a certain level, formed an alliance among the rulers and gilds. In further developments, the gilds then developed into regulated companies and formed the embryonal of joint-stocks companies. In reality, the regulated companies were a group of independent merchants that was legalized by the kingdom, which then enjoyed monopoly of trade with particular foreign markets. This nature of relations between political rulers and a group of independent merchants had created the possibility for the accumulation of capital that significantly reduce transportation costs in the trading world (Baskin and Miranti, 1997: 58-59).

One of a few regulated companies involving in trade with foreigners was the Staple of London. The Staple of London was established in 1248 for controlling the export of wool. This occurred because the previous exporters, two companies from Italy the Bradi and the Peruzzi were bankrupt in 1343-46. The event forced the King of England Edward III altered the Staple of London to collect funds for war against French. Edward III prized this achievement by granting the Staple of London the rights to receive wool tax in 1357. A practice that was maintained until 1466 when England was under Henry IV. What is interesting is that the ancient form of gilds that transformed into the structure of regulated companies, which were politically protected, gave birth to the fundamentals of joint stocks. The inter-national nature of the trade then formed the seeds of trans-national or multi-national corporations. The character of the inter-national trade then naturally introduced transferable shares between them. As stated by Baskin and Miranti, Jr. (Baskin and Miranti, 1997: 60):

> *For example, the Genese Republic issued luoghi, or shares, secured by public revenues through the quasi official Casi di San Giorgio to fund its compare, or public debt, and for some military expeditions. Extractive and manufacturing ventures in other regions also relied on share financing. Mines in Syena, Styria and French sold share during the thirteenth century; tradable kuxen, or shares, funded many Central European mines during thirteenth century; and from the thirteenth to eighteenth centuries cloth mills in Duoai, Colegne and Toulouse were controlled through shares called uchaux.*

The combination of the monopoly rights was guaranteed by government and transferable shares in the form of joint-stock was first found in England at the end of Tudor and Stuart Monarch era. In this context, the King gave letters of patent for risky and explorative corporations. The colonialization of foreign territories such as Bermuda, Massachusetts, Ulster and Virginia was first managed through joint-stock companies. A special patent was given to every invention to encourage development of various manufactures such as linen paper, sword blade and saltpeter. One of the early corporations that had the form of large-scale multi-national trading, was a company from Russia that was led by Sebastian Cabot in 1553. This company took advantage of the monopoly of the route to Archangel.

This form of corporation proved effective for it reduced the transaction cost and enhanced investor's liquidity. The use of transferable shares increased the liquidity of investment corporation, where which those shares could be sold without neither costing nor pressing the liquidity of the company itself. The liquidity of shares increased along with the growth of larger and anonymous financial markets. At first, the financial market was developed in Amsterdam and then followed by London. Unlike the conditions applied in regulated companies, the growth of this financial system gave the possibility to invest ones capital without participating in the company's management (Baskin and Miranti, 1997: 60-61). Furthermore, continued to have political protection from the rulers, that had not significantly changed even after the Glorious Revolution in 1688, when government role was taken over by the parliament, joint-stock companies made a series of innovations in the financial system.

One of them was fund of credit that tried to use public finance as a means of reducing the risk of trade companies. Even though the King received less direct grants from businesspersons, the parliament forced joint-stock companies to purchase government bonds as a requirement for the continuing of their exceptional monopoly rights. These high-grade securities served as the best guarantee for loans to fund trades. Moreover, the interest gained from purchasing government bonds helped defray all cost that previously had been spent.

It could be understood, therefore, in this context, that there were a solid connection between the rapid development of joint-stock companies with the progress of state politics. As stated by Baskin and Miranti, Jr., the companies had their role in the advancement of state politics (Baskin and Miranti, 1997: 63):

> *The joint-stock companies effectively enlisted the assistance of private capital to extent state power in other ways. Enterprises specializing in colonialization and trade contributed to national economic growth and provided governmental administration and military protection in foreign territories. Joint-stock companies bolstered national power by stimulating the expansion of merchant navy and its ally shipbuilding and domestic armament industries. They had information about overseas conditions, often unavailable to the state. This enabled corporate officials to advance national*

interest by negotiating more advantageous terms with host regimes than less knowledgeable government officials were able to negotiate.

A Joint-stock company, which was able to develop and enhanced its function as an extended of state power in foreign trade territories, was something that England achieved: The East India Company.

The experience of organizing joint-stock companies that worked in a multi-national level, gave this corporation a chance to enhance its capability in administration system in utilizing at maximum level the potential of east territory trade. The process that had occurred since the first decades of the seventeenth century was first seen in form of terminable joint-stock in exploring the East trade. Twelve expeditions had been conducted between 1601-1612 to explore new markets, which expanded from the Red Sea to the East Indian Archipelago. The next phase was joint-stock with a longer run, each of them funded the fleet, expanded marketing infrastructure and managerial in East territory in 1612-1642. At the last phase in 1642-1720, the Company took permanent capital to support their wider scale operation areas.

The trade of the Company was programmed in a complex sixteen months voyage that had been done since the first decades. The first phase was scheduled at the end of winter to use favorable trade winds. In the expedition, the Company loaded their ships with metal and manufactured commodities, especially tin from Spain America that was purchased by the Company's agents in Amsterdam and other Continental Markets. A fewer amount of lead, tin and mercury were also exported with other exotic commodities, such as coral and tusk. The high cost of labor in Europe had limited the export of manufactured goods that can be exported. Tools of war, including weapons and swords, fabrics such as satin and broadcloth were just an example of finished goods that were most demanded in the East market.

British merchants used a mass convoy that consisted of a dozen or more ships to exploit more of the triangular trades that they discovered in the East. The window of opportunity of the Company was located between India and Indonesia. The benefit in trading of European goods in India's coasts was used to purchase cotton-based textiles, which were then traded in Indonesia to get spices, including pepper, clove and nutmeg. The interval of the sail course, brought the ships towards China, Japan, Persia, the Philippines or Cochin China, where their ships were loaded with silk, indigo, sugar, coffee and tea. Finally, on their way back they docked back in India. Here some of the goods were traded once more for tea and calicoes, commodities that were highly demanded in Europe.

Gradually, the Company developed an effective administration system for controlling and coordinating their operations. The supreme executive authority was the General Court, consisted of shareowners with eligible shares to have the right to vote. In general, these shareowners could be divided into two main groups. First, were Englishmen with a few foreign merchants that were active in the management, due to their experience in multi-national trade. The most prominent of them, among others, were foremost merchants like Sir Thomas Smith, Sir Morris Abbot and Sir Christopher Clitherow. Each of them possessed a high position in the Company. The second group consisted of nobles and private entities that were interested in the prospect of a large sum of dividend. However, if compared to the first group, the later were less active in the management. Despite that, investors at the caliber of the Earl of Cumberland and the Lord of Worcester and Southampton, who were the members of this second group, supported the interest of the Company effectively in court or parliament. The authority of the General Court encompassed the rights to choose governor, vice governor, and twenty-four members of Court of Directors, who acted as fiduciaries for fellow shareowners and responsible for management strategies. This team worked through seven sub-committee that specialized themselves in accounting, purchasing, corresponding, sailing, finance, repository, auditing, clerk, cashier and secretary. In many ways, the directors and staffs were the first hand experienced persons in trade in the East.

Governor and the Court strived to supervise the Company's agents abroad. During the solo sailing period (1601-1612), they hired agents. The most important among them were the captains that were responsible for the voyage, and the fleet merchants that were responsible for supervising trade activities. In this phase, the operation of the Company was similar to the regulated companies in the past. However, the newest development transformed fleet merchants into resident factors in managing trading posts or factory. Permanent headquarters were first built in Banten, Java, in 1603 and in Surat, India in 1609. In 1617, eighteen of the Company's factories had been spread in the Eastern Hampisphere, from the Red Sea to Japan. In addition, in these particular years, the Company developed another management level with appointing resident merchants in Banten and Surat to the level of president in the local areas, which were responsible for coordinating trading activities in the region. Local councils that consisted of personal staff were available for assisting the officials at this level. Their works were utterly based on direct instructions from the main headquarters in London.

The Court of Directors that worked through sub-committee functions made plans in London. The main goal was to maintain the flow of goods through the multi-national networking lanes of trade. Thus, although there were some exceptions, all executives from the upper to lower ranks worked based on the plan that was made from the main headquarters. Hence, again with a few exceptions, a disciplined corporate culture could be achieved. In this context, Baskin and Miranti, Jr. emphasizes (Baskin and Miranti, 1997: 69):

> *The scale and scope of trade helped London control the risks of opportunistic behavior. Since central leaders had more comprehensive and accurate knowledge of the market conditions, they enjoyed an important advantage in dealing with the local representatives. Moreover, the headquarters generally had superior information about how recourses might be best allocated to maximize returns. In addition, the Company could contain the agent opportunism through its control of fleets capable of making the long voyages between Asia and Europe*.

The perfection of administration system and sustaining organizational discipline and worldwide scale imagination were very important for a corporation working at inter-continental scale. This became even more important due to that those corporations worked in the fourteenth until eighteenth centuries, where communication technology had not yet well developed. Hence, it is not a surprise if social cohesivity was emphasized. In addition, this reality explains why the Company preserved the patterns of relationship using the old-time gilds as their model. In this context, the Company intrinsically tended to employ children of shareowners as apprentices. Therefore, the corporation cohesivity was built in every component of the Company, which is commented specifically by Baskin and Miranti, Jr. (Baskin and Miranti, 1997: 66-67):

> *The use of terms such as "brethren" and "family" to describe various echelons within the Company reflected the conscious effort to form a strong sense of community identity among the field staff. A spirit of Gemeinschaft. Was especially important in isolated overseas outposts where the well-being and effectiveness of a small circle of traders depended on group and mutual support*.

The internal cohesivity was not something without material purpose. The reward was material advantage. This is due to the capital and trading network controlled by the Company was superior to those in individual companies, where every notable merchant in London was shareowner of the Company. Thus, it was inevitable that every actor involved in the Company would receive the right amount of rewards. The fact that every great merchant involved in the Company clearly depicts why they had no reason to stunt the corporation.

However, all that was explained above would not be adequate if not financially supported. In this context, the establishment of the Company gave birth to the financial innovation. Related to that, five developments formed the Company's financial policy. First, the period for enterprise financing shifted from short to long run when the sphere and operation of trade tremendously enlarged. Second, the management of corporate finance was more aware of investor's needs. Third, beside an increase in the flexibility of the corporate finance, the effort to avoid usury that was forbid by religion, encouraged corporation to use capital efficiently through financial advantage. Forth, the liquidity of investment of shareowners grew with the development of secondary financial markets. Fifth corporation and public finance was in a strong foundation, because since the seventeenth century, the state and corporation supported each other in the system to finance trade.

At the beginning of the seventeenth century, when the centers of Netherland's financial markets —Amsterdam, Delft, Middleburgh and Rotterdam— were marked by the establishment of big banks, the same financial institutions in London, England, were still inefficient and shredded. Consequently, the British society had to be content when their financial needs were only covered by financial institutions that were developed in medieval era. This can be seen, through the fact that the merchants' finance depended on merchant-bankers and, a century later, on goldsmith-bankers. In reality the performance of this banking system was not solid. This was due to multiple services these banking institutions handled, which includes deposits, bill of exchange, money changer, and the loan of unused credit balances. In the mid seventeenth century, they played a larger role through the development of negotiated bank check. The new banking community was fully serviced by lawyers and notaries or money scriveners, whose scope of work related to the management of property, business and bank notes. These professionals played a key role in a very personal but unorganized market for allocating savings to the investment of passive capital such as housing mortgage, private consortium or personal bonds, government institutions or federation of Business Corporation.

During the pioneering period with the solo sail that only held out until 1613, East India Company is very dependent on short run funds. This tendency was understandable due to limited knowledge on business and political risks in India. It was also because of some investors, including the ones involved with Levan Company were only looking for protection for their capital while waiting for the increase of trading activity in the main market. Others tried to avoid privateering venture and preferring sailing liquidation voluntarily that was organized by the Company. Besides that, there were presumption that short run funding was more prudent by considering that there were no guarantee that the King would continuously grant the Company rights to monopolize trade. The fact was, at that current time, the renewal of monopoly grant that was given by the King was going to take place in 1615.

The anxiety of investors and general obstacle in collecting trustworthy information were regarded as the reason why the first voyage of a dozen ships was organized in a terminal system. This could work because of the selling of shares with the nominal value of £100. The amount of capital needed for a voyage varied, starting from the highest £80,000 (1609) to the lowest £7,147 (1612), which had an average between £40,000 to £60,000. The profits were distributed to the shareowners in terms of division that were divided equally without regards of income and return of capital. This is reasonable because it was considered what they received was a part from the whole voyage liquidity that has been completed.

Although doubted initially, the first voyages that was organized by the Company was profitable. The tenth voyage in 1611, for example, gained profit up to 148 percent with a nominal worth of £46,092. The profit was divided to the shareowners gradually in four years and followed by a smaller amount in 1617. Net income, contributed annually approximately 24.5 percent of the profit at the time its rates fluctuated between eight and ten percent. The only voyage that loss was the fifth in 1608, which caused a massive loss of £13,700.

The interesting fact is that trade at that time had started to be funded by debt instruments. First, the Company depended on the traditional bill of exchange for transferring funds internationally. Second, they issued debentures with a fixed interest rate and with a six-month period. These loans enhanced the funding flexibility of the corporation because it was easy to renew. Furthermore, debentures were appealing for the creditors due to the possibility of diversifying risk through managing portfolios with various due time or by obtaining part debentures and shares. The liquidity of the Company was guaranteed because the payment was scheduled on 30 March and 30 September, in time with the auction.

Third, the shareowners were offered bottomory loan option, where the ship owners borrowed money to finance the voyage of their ships. However, the ships themselves served as the collateral or maritime insurance contracts that was first developed in the medieval and still practiced in financial markets in Mediterranean and Amsterdam until the early seventeenth century. These contracts were valid only if the ships and the goods dock back safely in the period agreed. These financial packets guaranteed the sustainability of the trading operation of the Company, if not caused by unwanted situations. But these forms of credit and source of funding faded in the seventeenth century in London, when insurance company with bigger capital emerge in the financial market.

In further developments, since 1613 the Company sought to double their source of funds. First, the success of the solo voyage had obtained enough capital to support the expansion of trading activities. Second, the extension of trading period automatically muffled internal conflicts that were caused by the inefficient terms of infestations during the solo voyage era. Third, multi voyage arrangement promises better efficiency. Fourth, the investors profited by the diversification of risk by the solo voyage group. Fifth, the Company, due to religious or superstitious reasons runs the important operations on the number twelve or its multiplication. This depict why they had changed their business plans after the twelfth sail.

The rising needs for fund to run the multi voyage were obtained through the innovation of share subscriptions with installments basis. The so-called First Joint-Stock (1613) successfully gained funds up to £416.000 from selling £100 per share based on a four installments period. This system guaranteed investors that had stated their willingness and gave their exact schedule on their personal cash flow to support the Company's expansion. In addition, it signaled the investors that their fund was liquid even if the Company had not yet finished the trading voyage, through the payment of installments. Furthermore, if this effort was successful, the shareowners could reinvest their profits from earlier voyages. However, if the sail was a failure, the investors could reduce detriment by refusing to pay the next installment.

After going through periods of vicissitudes, mainly ones that were caused by domestic political conflicts and wars between nations, the journey of the Company at last discovered a new financial structure that was more permanent that formed corporate finance in some ways. The stability of this new capital structure pushed the expansion of debentures financing. To enhance their share's advisability in the market, the Company's management introduced a new feature to enhance their liquidity. Working under King Charles II's (with his newly restored authority in 1661) charter, the Company promised that in 1664 that all the shares that were near their book value, which had been proven by their triennial balance sheet. In addition, they modified their financial policies by announcing that dividends were only from net income. However, these changes had a large impact on the investor's needs for information. The critical issue on share valuation was the estimation of the present value of the discounted flow of future earnings available to finance dividends. This question is even more important during the 1690's, when financial markets like those in Netherlands emerged in Exchange Alley, London.

Socio-Political Factors: Wealth and States

Hence, since 1685 until 1815, London emerged as a famous financial market. Wars that occurred before and after that, mainly with its rival, French, had been the main desire for financial innovation. In their rivalry with French, England's political and business leaders were proven resourceful in forming economic institutions that assisted in achieving political stability and forming their leadership in the international market The Bank of London was established in 1694. In addition, they also re-established Board of Trade in 1695.

There were several factors that made British public finance strong and stable. First, was the reformation of politics driven by the 1688 Revolution that made parliament as the key agent to manage the nation's fiscal. The change of rule of law from monarch that was religious to a more secular system secured investor's interests —because protection from state was better than the King's personal promise. The standardization of contract details about government credit obligations brought the unity of market price and rationalization of creditor and state relationship. New markets thrived because they provided liquidity to portfolio investors. In addition, those markets could make authorities to obtain a bigger financial power than previously. The state's finance became more flexible after effective methods were discovered on debt service and devastating demands to liquidify outstanding obligations could be avoided. In the past, outstanding obligation had destroyed the last monarch.

Thus, being supported by state income diversification, where tax played a larger role, British authority developed new type of debt obligations to lure funds from wider range of investors to obtain a more fluent synchronization between tax income and the duty to pay interest and other obligations to the investors. Standardization of government contracts and a massive expansion of fund to the society's economy gave a strong foundation for the growth of a healthy market. Serviced by a good amount of jobbers, brokers, guarantor and other financial specialists, this growing market supplied liquidity and offered price uniformity to this security investment. Hence, in this way, not only did the state create its income prosperity, but also obtain funds to pay their credit obligations to investors. Because, the authorities were aware that state's control could only be maintained in times of peace if a large amount of debts made in times of war were paid.

Therefore, a strong correlation between the growth of market and the rise of private economic actors with state as a political entity could be depicted. In this context, Baskin and Miranti, Jr. wrote (Baskin and Miranti, 1997: 102):

> *The new finance affected the state in many ways. This experience encouraged the cultivication of corporative relationships between the Treasury and the City's monied interest. Lacking substantial administrative recourses and a large cadre of knowledgeable bureaucrats, the voluntary of seasoned and patriotic merchants and bankers proved in valuable. Furthermore, extensive experimentation with various types of debts yielded valuable insight of Treasury officials about consumers preferences for particular contractual terms, interrelationship between long-and-short borrowing and the importance of stable currency and attracting foreign capital. Moreover, the government was able to avoid insolvency by establishing manageable debts servicing plans while at the same time concentrating unprecedented amounts of capital in selected areas. The high volume of debt was sufficient to support the formation of viable financial markets. Government debts represented a central core of liabilities that was above suspicion —or effectively risk free. The debt serve as a base that allowed riskier issues to be dealt with. In addition, because these credit instruments readily salable in the markets, such as London and Amsterdam, that attracted foreign investors, they were effective vehicles for drawing in foreign wealth and thereby bound the economic interest of the overseas investors with those of the English state. Finally, since the obligations could be used as collateralized borrowing, they also had the potential to serve as financial stimuli to national economic growth.*

The long quotation above illustrated the firm bond between political powers that was played by state with the rise of a financial system to push an economic system to work. The technical complification process of financial system was a reflection of market actors —entrepreneurs in the real sector and bankers in financial sector— to counter the problem of capital scarcity. But politically, the complification process was supported by state, as a political authority, to maintain their legitimation upon in the society that was becoming more organized by economic activity.

Far from our imagination, the rise of financial regime was not an instant response to technical economic problems due to scarcity of resources. But, it was caused by structural obligations brought about by endless wars between European countries in medieval centuries. As stated by Ferguson, around thirteenth and fifteenth centuries states in Italy such as Florence, Pisa, and Siena were at war with one another. In a few matters, it even expanded to other Italian cities. The fund for this ceaseless wars had triggered crisis throughout those states. In this situation, the financial innovation system was invented in Florence *preztanze* —forced loans by the government to extract funds from the wealthiest with interest as compensation — was put into effect. What was interesting from the system known also as compulsory investment is that the loans could be sold to other citizens if the investors needed ready money. Thus, even though the government bond was not more than a line in the leather-bound ledger, the document had served as liquid assets. Hence, it is not surprising that Florence succeeded in transforming its citizen into the largest investors. Even though a large amount of the investation came from the economic elites, but two third of Florence citizens had participated in this way to fund government debts (Ferguson, 2008: 71-72).

The same system with different terms had even occurred earlier in Venice in the name of *monte vecchio* (literally: old mountain), that functioned as a government public debt system through *prestiti* or *prestanze* in Florence, the forced loan Venetians way. *Monte vecchio* was another term for government-consolidated debt. In the context of war between Genoa and other rivals in the fourteenth century it had played a big role as a source of fund. The war between Venecia and Turkey in 1463 and 1479 enforced the establishment of a new debt system in the name of *monte nuovo*. In this system, an investor received 5% interest annually that was paid in two periods. Interestingly, those letters of debts could be sold in secondary market if the investors needed cash (Ferguson, 2008: 72).

However, it was not only the states in Italy that tried to develop this new financial system. Urban political society in North Europe also thrived to create the same system without infringing Church stipulations. In this context, they tried to engineer a financial system that was then called *census* —a form of contract prevailed in European Medieval ages. In this system an individual or a group of individuals were permitted to purchase stream of annual payments from others. In the thirteenth century, raising funds by the trade of annuity had started in Northern cities of French such as Douai and Calais and Flemish cities such as Ghent. They took one of two systems to be put into effect. The first was *rentes heritable* or *erfelijkkrenten*, documents of income where its purchasers could inherit it to the benefactor. Second was *rentes viagères* or *lijfrenten*. This type of security would not be beneficial if the purchaser departed. In other words, rentes *viagères* or *lijfrenten* could not be inherited. Hence, the seller not the buyer had the right to redeem by buying back the ownership. In the middle of the fifteenth century, the sales of annuities increase to a level of 7% of the total amount of income in the Netherlands (Ferguson, 2008: 73-74).

It could be seen that the rise of financial regime were supported by non-economic factors, which was the unavoided war among countries. Therefore, this financial regime or system accommodated two main actors only: state and investors. State, substantially was a political regime whose obligation was to create social order. The existence of a country, therefore, theoretically guaranteed the sustainability of the society. In other words, without state, the sustainability of society could be threatened. Those threats, during the European Medieval ages, were not only internal but also external. In this context, state intrinsically tried to accumulate funds to maintain their existence. Besides being used to pay its staff to maintain the bureaucracy, state required a larger amount of funds to maintain and enhance its military strength by purchasing weaponry superior from its rivals to defend themselves. This reality had driven the state obsessed to economic and financial resources. Only with that did a country was able to maintain its right to live.

It was the state's intrinsic needs of economic and financial resources that gave birth to financial system. In the most general definition, finance is "a system of money, credit, etc., especially with respect to government revenues and expenditures" (Wilkes and Krebs, 1991: 577). This general definition depicts the government as the main actor, because the flow of funds came from government revenues and expenditure. However, in a more technical definition the role of actors outside state are more accommodated. Because financial system is (Pass, Lowes and Davies, 1988: 188):

> *A network of financial institutions (banks, commercial banks, building societies, etc.) and markets (money markets, stock exchange) dealing with a variety of financial instruments (bank deposits, treasury bills, stock and shares, etc.) that are engaged in money transmission and the lending and borrowing of funds.*

This definition, illustrates that it was impossible to expect the financial system to work perfectly by depending only on state resources. Because the system requires a network of financial institutions and market that bind various financial instruments in order to channel funds to the society. The role of state even more decreased because trading sector through time had started to surpass geological and political constraints. As a result, the emergence of varous multi-national financial system were inevitable. This especially happened when the world was marked by the rise of multinational corporations where their funds had the ability "to move money and profits among its affiliated companies through internal transfer mechanisms" (Mishkin, 1991: 16) Thus, the developing of multinational financial system in reality was an expansion process of financial system from a domestic to a global level —that was actored by non-state capital power.

In line with the reduction of the role of state, emerged non-state actors whose influence steadily grew in the financial system: the investors. Investors, in a financial system are individuals or a group of individuals investing their capital by purchasing bonds or other financial instruments that was offered by the government of other private corporations. Especially in the medieval era, the government guaranteed every bond that was issued. Thereby, the state's need for liquid funds that was gathered by the issuance of bonds was heavily dependent on private investors. In this context, in making itself survived, the state had to have great persuasive power in the face of investors and the capability to influence the state's economic policies.

The Rothschilds: A Striking Example

An interesting figure in the history of financial system in the matter of his power to influence state economic policies was Nathan Meyer Rothschild, founder of the London Branch NV Rothschild. His major role in the financial system was created on the stage of war between European countries in the early nineteenth century. The story was complicated. In June 18, 1815, 67,000 British, Netherland and German troops under the command of Duke Wellington were facing French troops with almost the same amount under the command of Napoleon Bonaparte. The war of Waterloo was an accumulation of a sequence of two decades of wars between England and French. But this event was not only a battle between military forces, but also, as Ferguson wrote, "a contest between rival financial systems: one, the French, which under Napoleon had come to be based on plunder (the taxation of the conquered); the other, the British, based on debt" (Ferguson, 2008: 80).

This England debt based financial system, as said above, depicted from the nation's effort to issue bond in order to fund the war, where amount increasingly amounted. Between 1793 until 1815 England's debt became three times larger up to the level of £145 million, two times bigger than the national output. However, a large amount of the increasing supply of bond happened in London's market. Since February, the price of console £100 3 per cent fell from £96 to under £60 in the imminent of the Waterloo war. An unlucky period for an investor. If it was true that way, then how could Nathan Rothschild emerge as an influential investor by surfing on the tidal wave of the war?

This was related to the war between England-French before August 1808. Duke Wellington led an expedition to Portuguese that a year earlier was attacked by the French. In order to have a beneficial stance for the next six years, soldiers and goods must be supplied perpetually to Iberia peninsula. Selling bonds to citizens will significantly badly impact the England's fund. Meanwhile, bank notes were unbeneficial to use in distant battle territory. In order to supply the military force and paying allies to face France, Wellington needed a currency that could be accepted everywhere.

The problem was how to convert share market to gold and allocated it where it was needed. Sending gold guinea from London to Lisbon in times of war was very expensive and vulnerable to corruption. The problem was Portuguese merchants declined to accept government bonds offered by Wellington that made consignment through waters the only alternative.

It was in this context Nathan Rothschild took center stage. This figure that barely settled in London in 1799, and until 1811 was not active in banking industry, was believed to have the ability to smuggle gold to European main land by infiltrating French blockade. Hence, in January 1814, the Chancellor of the Exchequer gave the Commissionary-in-Chief —John Charles Herries— the rights to use Nathan Rothschild in a top secret mission: collecting as much as possible gold guinea and French silver in Germany, Netherlands and French. Within two months, the operation succeeded to gather £600,000 value of gold. All the coins were dispatched to British fleet in Helvoetsluys Port in Netherland and shipped to Wellington, which in the mean time had crossed the Pyerenee Mountains to French. The success of this operation, which then made Nathan Rothschild to be influential, as Harries's compliment: "Rothschild of this place had executed the various services entrusted to him in this line admirably well, and though a Jew, we place a good deal of confidence in him" (Ferguson, 2008: 82).

This audacious social-political position of Nathan was supported by the fact that simultaneously Nathan's brothers had built a banking network. While Nathan built a bank in London, Amschel, James and Carl established the same financial institutions in Frankfurt, Paris and Amsterdam. Salomon, in other hand, traveled to places that were thought to be beneficial to Nathan. With the European scale banking network, the Rothschild's were in a strategic position to exploit price differences and exchange value between markets. If, for example, the exchange value of gold was higher in French then England, James in Paris would sell gold and send the bill to London, where Nathan used it to buy even more gold. The fact that their transactions were under the name of Herries played a large role in influencing the price differences that increased the profit of their business even more. Simultaneously, the Rothschild also handled an amount of subsidies that were paid to England's allies. In June 1814, Herries counted that they had made payments for the subsidies handling worth of 12, 6 million franc. Also the success was complimented by England Prime Minister Lord Liverpool, as he said to Foreign Minister Lord Castlereagh: "Mr. Rothschild had become a very useful friend. I don't know what we should have done without him" (Ferguson, 2008: 83).

However, what factor that made Nathan Rothschild as an outstanding broker —and to some extent was thought to be visionary— was the next political phenomenon. All still related to Napoleon. In April 1814, Napoleon was dethroned and exiled in Elba Island, Italy. However, on March 1st 1815, he returned to French and determined to rebuild his emporium. This news brought fear to European elites. However, Nathan Rothschild reacted differently: purchasing as much gold bullion and guinea that worth up to £2 million. The massive amount of gold filled 884 chests and 55 casks. Simultaneously, Nathan was offered to manage England's subsidies for its continental allies that made his total transaction with Herrie in 1815 achieved £9, 8 million. With a commission from the subsidy around 2 to 6 percent, the determination of Napoleon to return to his previous power only to make Rothschild wealthier.

Of course, in Ferguson's appraisal, this episode was not a happy ending for Nathan and his brothers in term of material aspect. Because, the purchase of massive amount of gold they had done still contained financial risks. And the risk was just ahead, when Duke Wellington, by unexpected matter —mainly because of the arrival of Prussian army to support Napoleon were delayed— overpowered Napoleon in the Waterloo war. Thus, if Wellington regarded the defeat of Napoleon as welcoming news, to Nathan it was the opposite. Ferguson illustrates the dilemma Nathan and his brothers' faced (Ferguson, 2008: 84):

> *He and his brothers were sitting on top of a pile of cash that nobody needed —to pay for a war that was over. With the coming of peace, the great armies that had fought Napoleon could be disbanded, the coalition of the allies dissolved. That meant no more soldiers' wages and no more subsidies to Britain's war time allies. The price of gold, which had soared during the war, would be bound to fall. Nathan was faced not with the immense profit of legend but with heavy growing losses.*

Even so, a profitable way out was not unavailable for Nathan Rothschild. With gold and liquid funds that were accumulated massively, Nathan potentially would suffer a large lost by purchasing government bonds in the market. In July 20 1815, an afternoon paper published by London Courier stated that Nathan purchased stock in a large amount, which means government bonds. Nathan's gamble would mean that the victory of England in Waterloo, and the prospect of decreasing government loans, should rapidly increase the bonds price. To this point, the nerve of an investor was tested, and Nathan passed the test. "Despite his brother desperate entreaties to realize profits," Ferguson wrote, "Nathan held his nerve for another year" (Ferguson, 2008: 85). At last, at the end of 1817, with the price of shares rose to the level of 40 percent, he sold all of the Rothschilds shares —to gain profit, which today would worth up to £600 million. It was not surprising, if Ferguson complimented Nathan: “It was one of the most audacious trades in financial history, one which snatched financial victory from the jaws of Napoleons military defeat” (Ferguson, 2008: 85).

Even though this glorious success sounded like a fantasy, Ferguson sees the real footprints of the Rothschild’s on the face of the earth. Post Waterloo War, the Rothschild established themselves as the main actors in London’s stock market that was becoming more internationalizing. They achieved it by building a centre of capital and networks of information that boosted them from their closest rivals, especially Barings. Between 1815 and 1859, London stock markets had established fourteen different sovereign bonds worth £43 million. This value was more than half than the total issued from all banks in London. Although British government bonds were the main security they marketed to investors, they also sold French, Prussian, Russian, Austrian, Neapolitan and Brazilian bonds. In this matter, the Rothschild maximilize the use of the European scale banking networks: largely purchasing newly issued bonds from the government, collected commission for their services to distribute the bonds through their European scale network, and transfered funds to the government only if all the installments was received from the purchasers.

The financial system that was developed after 1815 was under their control, making the Rothschild’s wealth sky rocketing. Here, through their authority, the Rothschild tried to influence new debentures to issue new bonds in sterling and made interest payments in London or anyplace where the Rothschilds had branches. Furthermore, through a persevering negotiation, the Rothschilds were able to influence Prussian government Initial Public Offering (IPO) for their 5 percent bonds that was not only published in London but also in Frankfurt, Berlin, Hamburg and Amsterdam. Thus, it was not surprising, if John Heinrich Bender, in his book *On the Traffic in State Bonds* that was published in 1825, saw the success of the Rothschild’s to persuade Prussian government as a financial innovation. Further, he stated: “Any owner of government bonds ... can collect the interest at his convenience in several different places without any effort” (Ferguson, 2008: 88).

When Nathan died in 1836, his personal wealth was equal to 0.62 percent England’s national income. Between 1818 and 1852, the total of the five Rothschild’s companies (Frankfurt, London, Naples, Paris and Wien) ascended from £1.8 million to £9.5 million. In the beginning of 1825 their capital exceeded nine times larger than Baring Brothers and the Baroque de France. In 1899 their wealth reached £41 million, a capital that exceeded 5 stock companies and German Banking combined all together. In short, at the European scale —which was the richest region in the world at that time— the piles of the Rothschild's family wealth were comparable to none. And all of this was using the tide of financial system that was created by the structural necessity to war between European nations.

This controlling position on both the networks and the flow of capital had become the main factor that made the Rothschilds expanded through economic realms. The phenomenal presence of the Rothschilds gave inspiration for many people to create symbols to mark this family's demonstrative wealth. The Secretary Counselor of Austria Prince Metternich, for example, called the Rothschilds as *die Finanzbonaparten* —to symbolize how the wealth of this family was connected to Napoleon Bonaparte. And an illustrious poet from German, Heinrich Heine, created a parable in 1841 that was based on religious views: "Money is the God of our time and Rothschild is his prophet" (Ferguson, 2008: 85). Anything that could be depicted related to this phenomenon could not be separated to the fact that the existence of the Rothschild's influence had developed through unimaginable realms.

This expansive influence were depicted even clearly when it started to touch social-political realm that illustrated how the Rothschilds grew as if it could compete with the states power. In this realm, for example, Heine, that has been mentioned above, pointed that the presence of the influence of the family as a new layer of aristocracy, replacing the old aristocracy that was based on land ownership. Totally different from the last aristocracy, the Rothschild's aristocracy was more beneficial because the nature or the form of the wealth under their control was different (Ferguson, 2008: 89):

> *The system of paper securities frees ... men to choose whatever place of residence they like, they can live anywhere, without working, from the interest of their bonds, their portable property, and so thy gather together and constitute the true poer of our capital cities. And we have long known what it portends when the most diverse energies can live side by side, when there is such centralization of the intellectual and of social authority.*

The same poet continued his illustration of the Rothschilds with an imaginative description, but without hiding his deep sarcastic (Ferguson, 2008: 89):

> *... raising up the system of government bonds to supreme power ... [and] endowing money with former privileges of land. To be sure, he has thereby created a new aristocracy, but this was based on the most unreliable of elements on money ... [which] is more fluid then water and less steady than the air.*

The last words from the phrase above that their wealth was based more on money, not land or other goods —which was more fluid then water and less steady than the air— was a sharp description that combined both astonishment and hatred all at once on the presence of the Rothschilds at that time. And for a radical ideology politician such as member of the parliament Thomas Duncombe, the abhorrence towards Nathan Rothschild was stated clearly, like in his phrase in 1828 (Ferguson, 2008: 78):

> *Master of unbounded wealth, he boast that he is the arbiter of peace and war, and that the credit of nations depends on his nod, his correspondents are innumerable; his couriers outrun those of sovereign princes, and absholut sovereigns; minister of the stat are in his pay. Paramount in the continental Europe, he aspires to the dominant of our own.*

Without a doubt, that by running on a narrow financial system, creative investors as Nathan and his brothers of the Rothschild family, steadily emerged as a distinct-power. Even though they could not perfectly compete with the state's power, but as illustrated by the history, their role and influence could not be neglected from any political forces.

The Emergence of New Financiers

After the Second World War, the state forms and international relations was reorganized in order to avoid earlier calamitous event —which is today known as the largest and the most profound of the 20th century— the 1930s great depression. The restructuring of both state forms and international relation could also be seen as a prevention of revivification of inter-state geopolitical rivalries that later on led to the war. Through a political-economic view, order to find peace and tranquility, a form of concession between capital and labor had to be constructed. Thus, it is seeable that the neoclassical and in some extent communism approach on the economy that was applied before failed. As stated by two eminent social scientist, Robert Dahl and Charles Lindblom, in their book *Politics Economy and Welfare: Planning and Politico-Economic System Resolved into Basic Social Processes*. They argued that, both capitalism and communism to their own ends had failed. They implied that the only way a head was to create a middle form of economy that combines both approach (Harvey, 2007: 43). This is done by finding a formula to construct the right blend of state, market and democratic institutions that will guarantee peace, inclusion, well-being and stability. This thought was then amplified from domestic to international scale through the Bretton Woods agreement which led to the establishment of United Nations, IMF (International Monetary Fund), IBRD (International for Reconstruction and Development) or popular today as World Bank and the

Bank of International Settlements in Basel. These developments were to reconstruct and stabilized international relations. Under this newly developed system, free trade in was encouraged beneath an arrangement of fixed exchange rate based by the US dollar's convertibility into gold at a fixed price. Although fixed exchange rates were incompatible with free flow capital, but in order to be internationally accepted as the global reserve currency the US had to let dollar to flow freely beyond its borders. This system was under the protection of the US military power. Hence, only the Soviet Union and the Cold War gave the limit of its global scope.

In Europe, the great depression also gave birth to various Social democratic, Christian democratic, dirigiste states. This phenomenon also took place in the US where was transforming into a liberal democratic state form. Though there were various transformation of state forms in European countries and the US, it all had one thing in common: that the focus of states were full employment, economic growth and welfare of its citizens. By that, it is then agreeable if state power should be applied, if not analogously, interferingly or even substitusional to the market course in order to achieve the objectives. This is where the 'Keynesian fiscal and monetary policies were functional to ensure the economy to keep moving. This was what David Harvey referred as a 'class compromise' between capital and labor, this acted as the assurance of domestic peace and composure (Harvey, 2007: 67). Thus, it was reflected by the construction of various welfare systems by setting standards for social wage. This was done by the intervention of state in industrial policies. This political-economy organizational structure is known as 'embedded liberalism' that in practice, state actively made regulations. These regulations constructed a web of social and political constraints, which, although in some extent restrained market processes, entrepreneurial and corporate activities, but in other instance led the way in economic industrial strategy. There for nationalization of key sectors such as coal, steel and automobiles were common to see at the time.

According to David Harvey, embedded liberalism was successful in advance capitalist countries during 1950s and 1960s (Harvey, 2007: 50). This was shown by the rapid economic growth. By applying this system, US were ready to run deficit in order to absorb excess products within its boundary. Thus it helped the expansion of export markets. The political product of 'class compromise' was working-class institutions such as labor unions and left political parties had a significant influence on the state. The redistribution and at some extent integration of working-class trade unions in controlling the free mobility of capital, the development of public expenditures, active state interventions on the economy, and planned development. These were seen as keys to the high rates of economic growth. By this, it is seeable that states became an active barrier in maintaining the tranquility of class relations.

Despite the of almost thirty years of success and high rates of economic growth, embedded liberalism saw the beginning of its end by the late 1960s. This era was marked by the surge of rising unemployment and inflation rates. State was no longer able to subsidy its soaring social expenditure as fixed revenues slumped. The Bretton Woods system of fixed exchange rates had fallen into hysteria Gold could no longer be an anchor for the system of fixed exchange rates. By 1971 fixed exchange rates system was abandoned. As a result the exchange rates were left to float, and the effort control it was no longer a consideration. The 1970s were defined by an increased accumulation of capital, unemployment, inflation (or stagflation as it was dubbed), and a variety of fiscal crises. As Harvey notes, that "the embedded liberalism that had delivered high rates of growth to at least the advanced capitalist countries after 1945 was clearly exhausted and no longer working" (Harvey, 2007: 61).

A proposal to this matter that was by the socialist and communist party in Europe was to deepen state controls and regulations over the economy through an even more corporative strategy. This includes regulations on income policies and wage price controls, which accommodate the aspirations of labors and labor unions. This answer of the crisis stated above had significant influence in European countries such as Portugal, French, Spain and Britain. But the influence grew larger as in the early 1970s the US passed a surge of regulatory reform, that governs everything from environmental protection to occupational safety, civil rights and consumer protection. The bill was signed into law by a Republican president, Richard Nixon, which as Harvey stated, the president even went as far as to state that 'we are all Keynesians' now' (Harvey, 2007: 45). But again the regulatory system with stat's intervention failed to go further than their predecessors.

This failure then brought the capitalists countries to neoleberalism as an answer, which was then reflected by the Washington Consensus at the late 1980s. The concept and name of the Washington Consensus were first presented in 1989 by John Williamson, an economist from the Institute for International Economics, an international economic think tank based in Washington, D.C. Williamson used the term to summarize the commonly shared themes among policy advice by Washington-based institutions at the time, such as the International Monetary Fund, World Bank, and U.S. Treasury Department, which were believed to be necessary for the recovery of Latin America from the economic and financial crises of the 1980s.

But why did the Capitalist country turned to neoliberalism? The Harvey responded in this manner: "The uneven geographical development of neoliberalism, its frequently partial and lop-sided application from one state and social formation to another, testifies to the tentative of neoliberal solutions and the complex ways in which political forces, historical traditions, and existing institutional arrangements all shaped why and how the process of neoliberalization occurred" (Harvey, 2007: 57). He also added that one element that had to be underlined regarding this transition was the position of the upper class that was in jeopardy (Harvey, 2007: 55). During the first World War, the US top 1 percent of income earners fell from a high 16 percent to less than 8 percent by the end of the second World War. As stated above, post the second World War communist and socialist parties were politically popular in Europe. With the popularity they have the power to promote widespread reforms and state intervention. As a result, the upper class experience economic restraints that labors, in Harvey's term, had a larger piece of the economic pie (Harvey, 2007: 58). Thus, the numbers stayed the same for three decades after that, where embedded liberal system was put to effect. At the time, the high rate of economic growth that was derived because of the system, made the smaller share of the economic pie insignificant. But when the economy collapsed in 1970s, the upper class felt threatened. This, according to Harvey, pushed the upper class to protect themselves economically and politically. Thus making neoliberalism viewed as a project to restore class power (Harvey, 2007: 37).

This was proven that after the installment of neoliberal policies in the late 1970s, the share of national income of the top one percent of income earners in US skyrocketed to 15 percent by the end of the century. The US government sustainably gave support for this significant share of the upper class by approving the estate tax (a tax on wealth) and taxation on income from investments and capital gains were reduced, at the same time tax on wages and salaries was maintained. This phenomenon also occurred in Britain. The top 1 percent of its income earner rose from 6.5 percent to 13 percent since 1982. By then this trend has reached beyond 'capitalist' and 'non-capitalist' boundaries. As Harvey stated (Harvey, 2007: 17):

> *[w]hen we look further afield we see extraordinary concentrations of wealth and power emerging all over the place. A small powerful oligarchy arose in Russia after neoliberal 'shock therapy' had been administered there in the 1990s. Extraordinary surges in income inequalities and wealth have occurred in China as it has adopted free-market-oriented practices. The wave privatization in Mexico after 1992 catapulted a few individuals (such Carlos Slim) almost overnight into Fortune's list of the world's wealthiest people.*

While the upper class enjoys its newly 'old' prosperity, on the other hand, reports of increases of inequality in the 1980s.

It was in this era (end of 1970s-1980s) a surge of reformation marked by changes in parliament and leaders in influential countries that were drawing ever close to neoliberalism. In Britain, Margaret Thatcher was elected with a strong mandate to reform the economy in 1979. Thatcher's political and economic philosophy emphasized reduced state intervention, free markets, and entrepreneurialism. She vowed to end what she felt was excessive government interference in the economy, and did this through privatizing nationally-owned enterprises and selling public housing to tenants. Concluding that the previous Keynesian approach to demand-side management had failed, Thatcher felt that the economy was not self-righting and that new fiscal judgments had to be made to concentrate on inflation. Influenced by monetarist thinking as exposed by Milton Friedman, she began her economic reforms by increasing interest rates to try to slow the growth of the money supply and thereby lower inflation. She also placed limits on the printing of money and legal restrictions on trade unions, in her quest to tackle inflation and trade union disputes, which had bedeviled the UK economy throughout the 1970s. In accordance with her anti-interventionist views, she introduced cash limits on public spending and reduced expenditures on social services such as education (until 1987) and housing.

Even a Democratic Party president Jimmy Carter applied deregulation of the economy. In October 1979, Paul Volcker, Chairman of the Federal Reserve under President Carter shifted US monetary policy from earlier Keynesian fiscal and monetary policy that views full employment as an objective toward policies that intended to suppress inflation no matter the costs. By that Volcker's Fed is widely credited with ending the United States' stagflation crisis of the 1970s. Inflation, which peaked at 13.5% in 1981, was successfully lowered to 3.2% by 1983. The federal funds rate, which had averaged 11.2% in 1979, was raised by Volcker to a peak of 20% in June 1981. The prime rate rose to 21.5% in '81 as well. These changes in policy contributed to the significant recession the U.S. economy experienced in the early 1980s, which included the highest unemployment levels since the Great Depression. But it was his successor, Ronald Regan, that sturdily campaigned neoliberalism. His supply-side economic policies, dubbed "Reaganomics," advocated reduced business regulation, controlling inflation, reducing growth in government spending, and spurring economic growth through tax cuts. In 1981, PATCO (Professional Air Traffic Controllers Organization declared a strike, seeking better working conditions, better pay and a 32-hour workweek. In this context that, Regen's fight against earlier embedded liberal policies was vividly illustrated by declaring the PATCO strike a 'peril to national safety' and ordered them back to work under the terms of the Taft-Hartley Act of 1947. Only 1,300 of the nearly 13,000 controllers returned to work. Subsequently, Reagan demanded those remaining on strike return to work within 48 hours, otherwise their jobs would be forfeited.

In 1973 the OPEC oil price hiked that came with the oil embargo. This placed oil producing countries such as Saudi Arabia, Kuwait, and Abu Dhabi, with vast amounts financial power. The movement towards an even global neoliberalization occurred when US using threats of military and financial power forced their way to bring down oil prices. This benefited them with massive funds which needed to be invested. This brought the new model of imperialism. The funds were distributed to Third World countries. In return these countries will always welcome US capital and promote US interest in the country or even in the region. By this US investors had an ideal advantage to financially exploit the third world. As in the case of Mexico where, their debts rose and as a consequence they surrendered their assets to foreign companies, presumably US companies in this context, with a fairly low price. As Harvey stated: "The restoration of power to an economic elite or upper class in the US and elsewhere in advance capitalist countries drew heavily on surpluses extracted from the rest of the world through international flows and structural adjustment practices" (Harvey, 2007: 15).

George Soros: Master of the Universe

Gorge Soros was born in Budapest, Hungary in 1930. He was a Hungarian refugee when the German army occupied Hungary. In 1947 he emigrated to England and graduated from the London School of Economics in 1952. In 1956 he moved to New York, he worked as an arbitrage trader with F. M. Mayer from 1956 to 1959 and as an analyst with Wertheim and Company from 1959 to 1963. By 1969 he established Soros Fund Management and Quantum Fund. Through his Hedge Fund activities, in 1985 and 1986 the Quantum Fund had accumulated an intriguing $2.5 billion (Slater, 1996: 145). His own income from the fund was $200 million. By 1992 he was well known as the "world's greatest investor," and a creative philanthropist (Krugman, 1999: 121). He spent Has given away $6 billion from his personal net worth since 1979 via Open Society Institute (http://www.forbes.com/). This figure includes his democracy promoting activities in Eastern Europe and Russia post the crumbling of communist countries at the late 1980s.

According to Forbes Billionaires list, in 2009 Soros was number 29 wealthiest people with a net worth of $11 billion (http://www.forbes.com/). Though it seemed he is way down the ranks, but he was the only Billionaire that raised his net worth during this year of crisis. As Forbes mention (http://www.forbes.com/):

> *Today there are 793 people on our list of the World's Billionaires, a 30% decline from a year ago. Of the 1,125 billionaires who made last year's ranking, 373 fell off the list--355 from declining fortunes and 18 who died…*
>
> *…The world's richest are also a lot poorer. Their collective net worth is $2.4 trillion, down $2 trillion from a year ago. Their average net worth fell 23% to $3 billion. The last time the average was that low was in 2003.*
>
> *Bill Gates lost $18 billion but regained his title as the world's richest man. Warren Buffett, last year's No. 1, saw his fortune decline $25 billion as shares of Berkshire Hathaway (nyse: BRK.A - news - people) fell nearly 50% in 12 months, but he still managed to slip just one spot to No. 2. Mexican telecom titan Carlos Slim Helú also lost $25 billion and dropped one spot to No. 3.*

Before being acknowledged as the "world's greatest investor" and a creative philanthropist, young Soros was a little boy that was raised and grew up in an upper-middle-class neighborhood. His father, Tivadar was a legal representative that in the years of after Soros's birth had 'perfected' his art of survival. Apart, if not a big chunk of the perfection of Tivadar's art of survival was due to the raging of the First World War. Robert Slater in his book *Soros: The Life, Times, & Trading Secrets of the World's Greatest Investor*, mentioned that Tivadar in was Russia, where he spent three years — from the opening days of the revolution in 1917 to the civil war in 1920— in prison (Slater, 1996: 18). He was on the run in Siberia during those years doing everything to survive. What he had learned during his survival throughout the First World War seemed to be reflected on his everyday life after. For his neighbors, Tivadar was known to have a unique if not deviant way of thinking and thus reproduced trough his daily actions. As Slater quoted Ferenc Nagel cynical words in imaging Tivadar (Slater, 1996: 18-19):

> *Tivadar took the 7:00 AM boat daily from Lupa Island to his office in Budapest. "When he heard the boat was coming, remembered Nagel, "Tivadar put on his trousers and began shaving. He went out to the boat with the razor blade in his hand, and continued shaving on the way to the boat and during the boat ride. It was all in order to sleep the last minute. This was unusual for a lawyer. He was always very, very tricky.*

His experiences and his art of survival would then be inherited to young Soros through conversations that they had. Through these conversations also, Tivadar showed his affection towards his sons. As noted by Slater (Slater, 1996: 19):

> *The greatest gift Tivadar bestowed on his younger son, however, was simply paying a great deal attention to him. He talked to him often, passed along a few secrets about life, as he had come to understand them, and generally made the youngster feel important. Beyond instilling in the boy a*

> *sense of his own self-worth, Tivadar bolstered the child's self-confidence, assuring him that, just as the father had, the boy would learn how to overcome great odds, how to handle tumultuous situations. And just as Tivadar had, George would learn that frequently it was best to search for unconventional methods to solve problems.*

Eventually, Soros discovered that his father was knowledgeable and even cunning. Soros saw that his father, by using his intelligence, could outsmart people. To this extent young Soros putted high regards on his father. The self-confidence and the vision of triumphing over great odds gave a fantasy that Soros brought along from when he was just a boy, to his adult life. Soros had thought himself as divine. As Slater, describes it, Soros felt that if he was to survive, this messianic fantasies had to be a well guarded secret he kept for himself (Slater, 1996: 15). But, in his seminal work *The Alchemy of Finance: Reading the Mind of the Market*, he did not only confess but he saw that his fantasy was turning out to be evermore towards reality (Soros, 1994: 362-363):

> *It will come as no surprise to the reader when I admit that I have always harbored an exaggerated view of my self-importance —to put it bluntly I fancied my-self as some kind god or and economic reformer like Keynes (each with his General Theory) or, even better, a scientist like Einstein (reflexivity sounds like relativity). My sense of reality was strong enough to make me realize that these expectations were excessive and I kept the hidden as a guilty secret. This was a source of considerable unhappiness through much of my adult life. As I made my way in the world, reality came close enough to my fantasy to allow me to admit my secret, at least to myself. Needless to say, I feel much happier as a result.*

And Godly he became and acted. Just a few years after publishing of *The Alchemy of Finance* he pronounced his divinity. Soros wanted that not only his money making achievement to be known, but also his philosophical and intellectual believes pronounced globally. Britain, thus, gave the opportunity he desires. In 1990 Britain had joined the European Monetary System's Exchange Rate Mechanism (ERM), a system of fixed exchange rates that was a road towards the unification of European currency. The British were discontented about the monetary policy that it was forced to follow. At the time, European Central Bank was not yet established; hence, a lot of European nations were following Germany's Bundesbank monetary policy that maintained its high interest rate to maintain inflation. This policy was applied due to the reconstruction of —what was under the influence of Communism known— East Germany. This reconstructing compelled to spend large sums of expenditure into the project. Meanwhile, Britain was in a deep depression, and its government was experiencing the growing dissatisfaction. The officials were denying that they consider dropping ERM, but, there were doubts of it.

Soros viewed these events as a ready-made situation for currency crisis. Predicting the crisis to come, he decided not only to bet on it, but he is also determined to provoke it. In order to do that, Quantum Funds established credit lines that gave them authorization it to borrow $15 billion worth of British pounds and convert that sum to dollars anytime. Once the funds were at long dollars and short pounds, Soros looked pretentiously in short-selling the pound, giving interviews of how he believed that the pound would be devaluated soon. In this matter, Paul Krugman illustrated what was to happen regarding Soros's conduct: "[t]his would generate a run on the pound by other investors, a run that would force the British government to give in and devalue" (Krugman, 1999: 122).

The plan to provoke the crisis that put to effect from August 1990 succeeded. Only within weeks Britain had spent $50 billion in foreign exchange markets in order to protect the pound which had not done much. During mid-September, the government again attempted to save the currency by increasing interest rates. This attempted was proven politically unacceptable. After only three days, Britain dropped out of the ERM. Thus the pound was set to be left floated. This did not only made Soros achieved an astonishingly US$1.1 billion in capital gains in one night, but he also established himself as Krugman stated, the most famous speculators of all time (Krugman, 1999: 122).

In reality, the British currency crises was in sight, as the pressure on the pound was building steadily and economist already suspected that it would not take long before Britain dropped out of ERM. What Soros had done was only to reschedule it to happen sooner rather than later. The John Major administration never recovered from the humiliation, but Britain as a country experienced stabilization in its economic. Floating the currency means that Britain was not anymore obliged to maintain its pound, thus they could reduce interest rates. This led to a strong recovery of the British economy, and within a few years brought unemployment to the lowest level in Europe.

But Soros did not stop at that, or at least it is rumored that he did not stop at that. Five years later in 1997 the Asian financial came into stage. The crisis started in Thailand with the financial collapse of the Thai baht caused by the decision of the Thai government to float the baht, cutting its peg to the USD, after exhaustive efforts to support it in the face of a severe financial overextension that was in part real estate driven. At the time, Thailand had acquired a burden of foreign debt that made the country effectively bankrupt even before the collapse of its currency. As the crisis spread, most of Southeast Asia and Japan saw slumping currencies, devalued stock markets and other asset prices, and a precipitous rise in private debt. This crisis then found its way to Hong Kong —which had only been handed over sovereignty of Hong Kong to the People's Republic of China by the British government. The story goes as Krugman illustrated (Krugman, 1999: 126-127):

> *A small group of hedge funds —rumored to include Soros's Quantum Fund and Julian Robertson's less famous but equally influential Tiger Fund, although officials named no names— began a double play against Hong Kong. They sold Hong Kong stocks short —that is, they borrowed stocks from their owners, then sold them for Hong Kong dollars (with the promise to those owners to by the stocks back and return them, of course— as well as a "rental fee" for the use of the stocks in the meantime). Then they traded those Hong Kong dollars for US dollars. In effect, they were betting that one of two things would happen. Either Hong Kong dollar would be devalued, so they would make money on their currency speculation; or the Hong Kong Monetary Authority would defend its currency by rising interest rates, which would drive down the local stock market, and they would make money off their stock market short position.*

This depicts the true power modern day speculators hold through the economy which was reflected through their grasp —how they were able to manipulate in such manner— in the currency and the financial system. Even so, Hong Kong government were able to counter this "attack" by buying local stocks, thus driving their pieces up and causing the hedge funds, which had sold those stocks short, to lose money. Of course to be effectively done, these acquisitions should be on a large scale comparable if not larger than hedge funds short sale. Krugman's statement is essential to have an illustration of the funds that was used to shake Hong Kong's financial market (Krugman, 1999: 128):

> *Its stock market was large compared with that of most developing counties, but not compared with the resources of the hedge funds; reports are that the combined short position of the alleged conspirators was about $30 billion, which would be equivalent of short-selling roughly $1.5 trillion in the U.S. stock market.*

Warren Buffett

Warren Edward Buffett was born in August 30, 1930 is an American investor, businessman, and philanthropist. He is one of the most successful investors in the world, the primary shareholder and CEO of Berkshire Hathaway. Buffett is widely known as the "Oracle of Omaha" or the "Sage of Omaha" and is noted for his devotion to the value investing philosophy and for his personal frugality despite his immense wealth (Heller, 2008: 6). Buffett is also a notable philanthropist, having pledged to give away 85 percent of his fortune to the Gates Foundation. He also serves as a member of the board of trustees at Grinnell College. Warren Buffett currently sits third on the list of the world's richest people.

Buffett was the second of three children, and the only boy. His father, Howard Buffett was an insurance man that became a stockbroker with a local bank. In 1931, he became unemployed as the bank shut down. Soon after, he opened his own stock brokerage. The brokerage was quiet successful as the family made a good living through it during the 1930s (Morris, 2009: 60). Eventually, in 1942 his father was elected to the first of four terms in Congress and after moving with his family to Washington, D.C. Buffett graduated from Woodrow Wilson High school and entered college in 1947 at the Wharton School of the University of Pennsylvania. After two years he transferred to the University of Nebraska–Lincoln, where in 1950, at the age of nineteen, he finished his studies for a B.S. in Economics.

Little Buffett had a fascination with numbers. As depicted by Morris " As a kid, he kept notebooks full of passing license plates, memorized city population numbers, counted occurrences of letters in texts, and at added eleven, was almost transported by the discovery of interest compounding in a text book called *One Thousand Ways to Make $1,000*" (Morris, 2009: 61). Even as a child Buffett displayed an interest in making and saving money. By the age of six he went door to door selling chewing gum, Coca-Cola, or weekly magazines. For a while he worked in his grandfather's grocery store. While still in high school, he carried out several successful money-making ideas: delivering newspapers, selling golf balls and stamps, and detailing cars among them. Filing his first income tax return in 1944, Buffett took a $35 deduction for the use of his bicycle and watch on his paper route. In 1945, in his sophomore year of high school, Buffett and a friend spent $25 to purchase a used pinball machine, which they placed in the local barber shop. Within months, they owned several machines in different barber shops. Warren finished high school with a $5,000 savings account, which today is equal to about $53,000 (Morris, 2009: 60). Morris gave an interesting description which reflects Buffett during his early age (Morris, 2009: 60):

> *Warren was an unusual child: very bright, but socially awkward and immature well into adulthood; not good at team sports, but a fierce ping-pong player; a loner, but with the drive to dragoon friends and acquaintances into working on his multiple enterprises. Business and money were an obsession from an early age —not obsessive in a miserly sense, but in the way of the dedicated art collector or a video game addict.*

Buffett entered college in 1947 at the Wharton School of the University of Pennsylvania. He was unhappy there, due to complaining that he knew better than his professors and showed abhorrent attitude in class. As Morris noted "[a]fter the first week or so, he knew all the business textbook by heart and liked to correct professors who misquoted their own books" (Morris, 2009:

61). After two years there, he transferred to the University of Nebraska and graduated in only three years. He then applied to Harvard Business School, where he was rejected because of his young age (Kennon, http://beginnersinvest.about.com/). He then enrolled at Colombia Business School and took Graham's class.

Graham quickly noticed his extraordinary talent in stock valuation. He absorbed every aspect from Graham's book and understood by heart almost all varieties of stock in the market. By this, he was the only student in securities class to achieve an A+. This convinced Graham to freely give Buffet job recommendations. But despite Graham's acknowledgement Buffett failed to obtain his dream job at Graham-Newman.

After graduating in only three years, Graham returned to Omaha and worked at his family's security company as a stock broker. He felt at home here, but Buffett had an unhappy spell. He did not like the brokerage, at only twenty one years old of age, older people were hesitant in taking his recommendation. He also felt terrible when someone took his advice on buying a stock and it went down. And last, Buffett felt more comfortable investing for himself, not by stirring customers account, continuously buying and selling. This hatred of brokerage still influence him for years to come, as Morris noted Buffett's critics on buyout funds (Morris, 2009: 84-85):

> *The buyout fund chiefs, in Buffett's view, were engaged in a massive wealth transfer from companies and shareholders to themselves and their teams. The selling shareholder might get a windfall, but the company will be loaded up with debt, the investors would extract deal and management fees, and remaining shareholders, employees, or subordinate bondholders would eventually get in the neck. Buyout firms love to talk about "building wealth," but financial engineering more often redistributes wealth only coincidentally in productive ways. The giveaway in that financial buyers almost always focus on the "takeout" —the economics of a deal, that is, usually turn on the chance of a subsequent sale through a public stock offering or a corporate acquisition. The emphasis on a quick sale pushes managers towards short-term window dressing, like the paintjobs of house flippers. Buffett believes that you create wealth only by building companies, which takes a long-term commitment.*

Despite his reservations, Buffett did well within a year. He built a client base, especially the ones that knew him from graduate school. During this time Buffett was working on his social skill by applying Dale Carnegie's How to Win Friends and Influence People and attending Dale Carnegie school classes (Morris, 2009: 62). After convincing himself that he was ready, using what he learned, he felt confident enough to teach an "Investment Principles" night class at the University of Nebraska-Omaha. At the university, he taught an adult evening class with the average age of his students was more than twice his own.

In the years after Buffett's graduation, he stayed in touch with Graham, corresponding on stock recommendations, and not wasting any opportunity for a trip to New York to visit Graham. Finally in 1954, he received an offer from Graham-Newman. There were two particular deals that Buffet made at Graham-Newman that were important learning experiences and typify Buffett's thought process. One of it involved Jay Pritzker —who later built the Hyatt hotel chain— which at the time was buying a candy company in Brooklyn. Pritzker was putting up the shutters to an unprofitable line of manufactured goods in his newly bought candy company. Pritzker offered to barter cocoa beans —which were the raw material in the closed production line— with shares of other shareholders of the company. Graham assigned Buffett to execute the deal. This deal showed Buffett's talent in calculating intrinsic values of stock as stated by Morris (Morris, 2009: 63):

> *Applying his usual microscope, Buffett calculated that Pritzker had disproportionately allocated his cocoa bean inventory among outsiders' shares and those he was retaining, a disproportion that would only grow as shares retired. Unless there was a major break in cocoa prices, the intrinsic per-share value of the company should rise. The presence of so well-known a name as Pritzker as the controlling investor would also inevitably draw attention to the stock. So while Buffett diligently booked the $2 a share arbitrage profit for Graham-Newman, he bought and retained stock for his own account, soon selling out at 2½ times his investment.*

The other deal involved an unknown bus company in Massachusetts that built up a large cash reserve. The stocks were selling in the $30 to $35 range, while the cash reserve was about $60 a share. The board was buying back share in order to reduce cash and increasing their share value. Buffett started his buying campaign on the stocks. He bought the shares from bigger shareholders directly from the lists maintained by the state public utility regulators. Then on a trip to the company, Buffett met the company president and learnt that the company was in view of a special dividend to reduce its cash reserve, most likely as much as $50. His buying venture signaled that the share was mispriced. Thus, triggered a feeding frenzy among other professionals. Within weeks Buffett booked a $20,000 profit. Buffett's fame skyrocketed; he quickly became the young star of Graham-Newman (Morris, 2009: 64).

Although he was very happy working at Graham-Newman, Buffett decided to leave in 1956, when he learnt that Graham was retiring. Buffett was offered a partnership in an heir firm with Newman's son. He was home sick and the only reason he left Omaha for New York was to work under Graham. Thus, he decided to return home to Omaha. Along his short but influencing years in Graham-Newman, Buffett made friends with you men that he would work for much of his life. The coterie were Walter Schloss, a young assistant at Graham-Newman when Buffett came to the firm

—latter Schloss left Graham-Newman and started investing on his own. Then there were Tom Knapp and Bill Ruane that worked with other firms but were closely connected to Graham-Newman.

He was home at Omaha unemployed, but Buffett did not intend to be employed. His objective after settling in Omaha was to become a millionaire by investing for his own account. With approximately $175,000 in capital, it was a sensible objective. But he wanted to do it fast, so e made propositions to close relatives. He succeed as his father-in-law put in $25,000. Followed by an aunt with $35,000. Buffett's roommate at Wharton put up $5,000 of his own savings and $25,000 from his mother. Last Buffett's sister and husband inserted $10,000. The first year of the partnership the cash return was more than 7 percent or about $4,500. The Buffett partnership fee split was 5 1/2 percent went to the partners, while Buffet's 1 1/2 percent of the share stayed in the partnership.

In 1957, Buffett had three partnerships operating the entire year. He purchased a five-bedroom stucco house in Omaha, where he still lives, for $31,500. The following year Buffett expanded to operate five partnerships the entire year. In 1959, the company grew to six partnerships operating the entire year and Buffett was introduced to Charlie Munger. By 1960, Buffett had seven partnerships operating: Buffett Associates, Buffett Fund, Dacee, Emdee, Glenoff, Mo-Buff and Underwood. He asked one of his partners, a doctor, to find ten other doctors willing to invest $10,000 each in his partnership. Eventually eleven agreed, and Buffett pooled their money with a mere $100 original investment of his own. His own capital of about $175,000 was managed separately in order to get $12,000 annually for his family's living expense (Morris, 2009: 68).

Sanborn was an early prototype of Buffett's investment style. It was an undervalued company with an investment portfolio 40 percent more than its stock price. He explained that in 1958 Sanborn stock sold at only $45 per share when the value of the Sanborn investment portfolio was $65 per share. This meant that buyers valued Sanborn stock at minus $20 per share and were unwilling to pay more than 70 cents on the dollar for an investment portfolio with a map business thrown in for nothing. Irritated, Buffett bought more shares to gain a control position. He then offered the board a "Pritzker cocoa bean deal". This earned him a spot on the board of Sanborn. In 1961, Buffett revealed that Sanborn Map Company accounted for 35 percent of the partnership's assets.

He was well known and credited even amongst the most skeptical of the Omaha residents. In just four years the investors had become conscious of a 24 percent annual rate of return against the Dow Jones' 9 percent. Buffett reinvested his incentives and pushed his shares of the fund to approximately a quarter-million dollars. He was ever close to becoming a millionaire. That year he took a space at Kiewit Plaza —in which he still operates from today— and brought all partnerships and his portfolio into one single entity, Buffett Partnership Ltd. There were three early investment made after he pulled all the partnership to Buffett Partnership Ltd. First was Dempster, a windmill manufacturing company, which he sold a year after for trhee times the price he bought it. The second was American Express. American Express stock went to a free fall —the shares fell to $35 (Kennon, http://beginnersinvest.about.com/)— after a fraud by Tony De Angelis that tricked its employees into certifying tanks of seawater as containing soybean oil. When a sudden break of soybean oil price in 1963 uncovered Angelis fraud, American Express was left with $175 million in losses (Morris, 2009: 71). He sold the American Express stocks in 1967 for $180 per share (Kennon, http://beginnersinvest.about.com/).

Third was a midsize New England textile manufacturing firm, Berkshire Hathaway that he started a campaign on buying the shares a year before he sold his Dempster share. He managed a business coup in 1965 and took control of the Company. Surprisingly the now well-known Berkshire Hathaway, as Heller stated in his book, started as one of the worst of Buffett's investment (Heller, 2008: 6). It fits all the Grahamian criteria, steady, boring, low-price-to-asset ratio. He spent a large quantity of time for Berkshire, but if one thing is absent from the Graham-Dodd security analysis is that the price-to-asset ratios missed tidal currents such as technology shift. In other words, Berkshire's production methods were out of date. Buffett decided to close down the less profitable division and with the income the textile factory receive, he re-arranged Berkshire Hathaway to becoming an insurance company —Buffett's love for insurance company started early when he was still in Colombia and felt attached to GEICO where Graham was appointed chairperson. Buffett, through Berkshire Hathaway has bought stocks from major American companies such as, Coca Cola, Walt Disney and Mc Donald's.

This depicts Buffett's ability to run in the narrow financial system. His maneuvers in the financial system were probably not as extravagant as Soros, but his methods are as honored and respected as it has been proven. To Morris Buffett and Soros were two out of the world investors that cannot be easily described (Morris, 2009: 67):

> *Buffett's investment style in short, does not fit a mold. His success in grounded in a unique talent set: the rare ability to size up managements and companies, and the capacity to gather and synthesize prodigious amounts of information and then laser in on a business's heart. His investment style is the*

polar opposite of George Soros's, but they both have the quality of genius that can't be captured in a textbook.

Concluding Remarks

Throughout the natural development of society wealth had been created gradually. Nevertheless, the accumulation of wealth at a significant degree initially with the development of oceanic study —which triggered the enhancement of the scale of trading. Thus, trading have been encompassed almost the whole world. Consequently, such activity involved various states or even running inter-continentally, making the accruing wealth at a larger scale became possible.

However, far from our imagination, the rise of financial regime was not an instant response to technical economic problems due to scarcity of resources. But, it was caused by structural obligations brought about by endless wars between European countries in medieval centuries. This unavoidable warring environment had structurally forced these nation-states enormously in a need of large amount of money in a very limited time. This happened because the warring environment had pushed each of them to strengthen their military defense. In other words, they needed to strengthen their military forces. Building a strong military defense needed huge money. In this endeavor, the states turned to non-state allies or private actors that led to the invention of an effective financial system. When exerted efforts were staged in tracing back the origins of wealth growth, one struct with the phenomena of the European state-formation. This was especially problematic in the era of the emerging of nation-state, following the collaps of the "universal authority" under the tutelage of Roman Catholic in the age of enlightenment of the 15th and 16th centuries. The rising of the European nation-states had not only risen the problems of a clear boundaries among them, but more importantly, the need to consolidate a distinct social and cultural identity —as a dominant mark, substituting the previous shared religious symbols. It was in order to get a clear boundaries and self-identity that had created various wars among the European states.

The wars they waged produced new needs, from an effective strategy of the arts of war to the creation of various weapons. But beneath all of these was wealth. No war which was waged was able to endure for a considerable of times without having something to finance it. Conversely, no state could defend itself from enemies' military attacts if it did not have material things to persuade the people to go to the battle fields. In short, what was desperately needed in the warring situations was wealth. Although wealth was not a hundred per cent guarantee to win a war, but by having it, much of the war objectives could be attained.

It could be understood, therefore, why the European states in the Middle-Ages were so eager to create wealth as much as they could. For, without it, they saw no hope in the future. However, the sum of wealth they needed were indefinite in number, for nobody quite sure when the wars were started and when they finally ended. Being under constant uncertainties, each of the European states could not relied on the conventional sources in reaping the wealth, such taxes. The empirical data had shown that the taxes were only a small part of the needed total wealth.

Nor did the trading and craft sectors —what are nowadays called as the real sectors— were able to close this wealth gap. Both trading and craft sectors could not be hoped to develop vastly, precisely because the warring environment inevitably produced unsecured environments. Further more, the growth of these sectors run slowly and thus did not commensurate to the mounting needs of the wars' financing.

It is in this context we see the logic of the birth of the financial system. This system was the innovative responses to the indefinite needs for wealth in winning the wars. The initial creation of the financial system, therefore, was much more to do with the political authorities of the Middle-Ages of European nation-states than merely the works of the entreprenuers. Especially because of this system was able to create a much faster wealth growth and mostly in cash, the political authorities of these Ages prefered to support the development of financial system compared to others. The rapid growth of wealth and the much needed of cash money were much more helpful politically. The more florishing a financial system, thus, the bigger opportunity of a state to built a strong military power, as boasted by an Englishman in 1914 (Silber, 2007: 152):

> *The large amount of capital that Great Britain has supplied to individual colonial and foreign countries ... [shows) powerful influence which Great Britain has exerted in developing the world's natural resources by supplying other countries freely with the funds for railway construction, mining and for production of any kind of natural wealth.*

Although in the modern era, the developments and the role of financial system varied in nature, its growth deeply rooted to the political reasons in the past of European nation-states.

The innovation of the financial system is marked also by institutional change and created a new ground that structured a typical relations between state and its non-state allies. It is no longer enough to base these relations on norms, customs, mores and traditions. A more concrete basis was required. Thus states and their private allies compromised. This compromise between state and its private allies was accommodated by the birth of “the market relations”, being marked by the fact that the whole social relations was predominantly mediated by market mechanism. This market mechanism could only work with the guarantee of a formal institution based on “property rights”. By standing on the firm ground of “property rights”, private actors had the privilege to maneuver freely in pursuing their self-interest, which made them to become more autonomous. While on the other hand, they were able to provide the state a respectable amount of funds to finance various wars. This is where financial actors emerge to become wealth based autonomy.

The Rothschilds, as an eighteenth century leading financiers, were a vivid example of the collaboration between state and non-state allies in an attempt to finance the wars. Led by Nathan, the Rothschilds allied themselves with British government in supporting its warring campaign against French. Their main objective was to pile as much gold as possible. Not only did Nathan and his brothers managed to accumulate wealth, they also succeeded in distributing it through the battlefield. The remarkable success of this family effort was due to the banking network he and his brother had established in four major countries of Europe: England, Germany, French and the Netherlands.

The field of which George Soros and Warren Buffet have been creating huge financial wealth was somewhat different compared to the Rotschilds. It was a rule of the game of continuous debate between world-scale political authorities that took place after the Second World War. Various advanced industrial states organized an economic international relations in order to avoid previous economic catastrophic episode: the 1930s Great Depression. Since then various financial policies had been so fluctuative, where which one passed previously could be cancelled by a new policy. There have been class compromises between capital and labor. This is where the Keynesian fiscal and monetary policies were functional to ensure the economy to keep moving. This was the era of a heavily regulated economy under the Bretton Woods System. Efforts had been done in order to confine the wild nature of financial system, such as division of banking industry into commercial, savings and loans.

However, after thirty glorious years of the Bretton Woods system, in the 1970s many signs had shown its failure. As a result, deregulation and privatization policies were initiated. This campaign was started by British Prime Minister Margareth Thatcher in early 1980s and followed by the newly elected United States’ President Ronald Reagan not long after. The spirit of these new financial policies was the re-encouragement of a liberal policy, where which the role of private actors was largely freed, while the role of the state was radically reduced in the field of the economy. It was on this rule of the game, both George Soros and Warren Buffett were able to play a major role in creating a remarkable sum of wealth through the financial system.

Sociologically, the creation of the financial system had become a *field* —in Bourdieu's perspective. By treating Bourdieu's field as an extended field into the realm of economy —which is explored in the "Introduction" of this thesis— as a "market dependence role of the game" or "market relations", many things could be explained in its relations to the socio-political phenomena. As a *field*, a financial system was not only function as a vehicle upon which each of its actors had been able to creates himself/herself and competing each to other. Instead, they also absorb the influences animated by the system itself. Both of the system and the actors, therefore, transform themselves into a solidified interaction entity. "The moods of the market," says Leon Levy, a financial market player, "affect not only stock prices but also the fortunes of business" (Linden, 2002: 1). Thus, although initially it was a state creation, gradually the financial system had become self-propelling. In a sense that the system had reached the point where it, as if, did not need its own creator anymore: the state or political authorities.

The radical progress development of this financial system owed much to the institutional change. Unable to fulfill the needed money for winning the wars, the Middle-Ages European nation-states were forced to shift the previously prevalent embeddedness institutions to more formal ones, where which property rights and the freedom of business activities guaranteed constitutionally. The collaboration between states and private actors had given an enormous momentum for a deeper and a larger development of the financial system.

It is in this typical characteristic of states' support an the change of political-economic institutions that the financial system was able to create wealth at an unimaginable amount. "A pease" of its trading was able to create huge wealth, such as the case with the credit default swap (CDSs). If in 2000 the value of the CDSs were below $100 billion, "(b)y 2008 they had grown to over $50 trillion" (Ritholtz and Task, 2009: 138). This amount of money was so great, even in the standard of the US. For, as Ritholtz and Task write: "To put this in context, that is four times the size of the annual gross domestic product (GDP) of the United States" (Ritholtz and Task, 2009: 138).

By seeing its extraordinary ability in the creation the wealth, it is no wonder, therefore, that the actors or agents who dominanate the system had become the ones who were able to transform theirselves to be the wealth-based autonomy persons. And, with this huge scale of wealth owned personally, they became problematic sociologically. For, this kind of wealth-based personages would easily not only to compete the state's or official political authorities, but also were able to destroy a gigantic state, such as experienced by the U.S. in 2007-2008 financial crisis.

References

Baskin, Jonathan and Paul J. Miranti. Jr., 1997. *A History of Corporate Finance* (Cambridge: Cambridge University Press).

Berger, Peter. L., 1986. T*he Capitalist Revolution: Fifty Prepositions About Prosperity, Equality, and Liberty* (New York: Basic Books, Inc., Publishers).

Bernanke, Ben S., 2000. *Essays on The Great Depression* (Princenton, New Jersey: Princeton University Press).

Ferguson, Nail, 2008. *The Ascent of Money: A Financial history of the World* (New York: The Penguin Press).

Gilbert, Dennis, 2002. *The American Class Structure in an Age of Growing Inequality* (New York: Wadsworth Publishing).

Grusky, David B., 2001. *Social Stratification: In Sociological Perspective* (Colarado: Westview Press).

Haralambos and Holborn, 2004. *Sociology: Thames and Perspective* (London: Collins Education).

Harvey, David, 2007. *A Brief History of Neoliberalism* (New York: Oxford University Press Inc.).

Heller, Robert, 2008. *Warren Buffett: Investor yang Meraup Miliaran Dolar Dengan Strategi Investasi yang Unik* (Jakarta: Esensi Erlangga Group).

Hurst, Charles E., 2007. *Social Inequality: Forms, Causes, and Consequences* (New Jearsey: Pearson Education).

Krugman, Paul, 1999. *The Return of Depression Economics* (Middlesex: Allen Lane The Penguin Press).

Kunio, Yoshihara, 1988. *The Rise of Ersatz Capitalism in South-East Asia* (Singapore: Oxford University Press).

Levy, Leon with Eugene Linden, 2002. *The Mind of the Wall Street* (New York: Public Affairs).

Lisa A. Keister and Stephanie Moller, 2000. "Wealth Inequality in the United States", in *Annual Review of Sociology* vol. 26.

Mills, C. Write, 2000. *The Power Elite* (New York: Oxford University Press).

Mishkin, Fredric, 1991. *Foundation of Multinational Financial Management*, Third Edition (New Jersey: Prentice Hall).

Morris, Charles R., 2009. *The Sages: Warren Buffett, George Soros, Paul Volcker, and The Maelstorm of Markets* (New York: Public Affairs).

Moore, Barrington Jr., 1974. *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Victoria: Penguin University Books).

Pareto, Vilfredo, 2008. *The Rise and Fall of Elites: An Application of Theoretical Sociology* (New Jersey: Transaction Publishers).

Parkin, Michael, 2008. *Economics 8th Edition* (Boston: Person International Edition).

Parsons, Talcott, 1961. *Theories of Society: Foundations of Modern Sociological Theory* (New York: Press).

Pass, Christopher, Bryan Lowes and Leslie Davies, 1988. *Collins Refrence Dictionary: Economics* (London and Glosgow).

Ritholtz, Barry, 2009. *Bailout Nation: How Greed and Easy Money Corrupted Wall Street and Shook the World Economy* (Hoboken, New Jersey: John Wiley & Sons, Inc.).

Roberts, Richard, 2002. *Wall Street: Markets, Mechanisms and Players* (London: Profile Books Ltd.).

Robison, Richard, 1986. *Indonesia: the Rise of Capital* (Sydney: Asian Studies Association of Australia).

Rothbard, Muray N, 2008. *The Mystery of Banking*, second edition (Alabama: Ludwig von Mises Institute).

Saunders, Peter, 1989. *Social Class and Stratisfication* (London: Routledge).

Schwarz, Adam, 1994. *A Nation in Waiting: Indonesia in the 1990s*, (New South Wales: Allen & Unwin).

Silber, William L, 2007. *When Washington Shut Down Wall Street: The Great Financial Crisis of 1914 and the Origins of America's Monetary Supremacy* (Princeton and Oxford: Princeton University Press).

Skinner, Andrew, 1974. *Adam Smith: The Wealth of Nations* (Victoria: Pelican Classics).

Slater, Robert, 1996. *Soros: The Life, Times, & Trading Secrets of the World's Greatest Investor* (Chicago: Irwin Professional Publishing).

Soros, George, 1994. *The Alchemy of Finance: Reading the Mind of the Market* (New York: John Wiley & Sons, Inc.).

Stearns, Linda Brewster and Mark S. Mizruchi, "Banking and Financial Markets" in Ed. Neil J. Smelser and Richard Swedberg, 2005. *The Handbook of Economic Sociology*, second edition (New Jersey: Princeton University Press).

Strange, Susan, 1996. *The Retreat of the State: The Diffusion of Power in the World Economy* (Cambridge: Cambridge University Press).

Wilkes, G. A. and W. A. Krebs, 1991. *Collins English Dictionary*, Third Edition (Sidney: Harper Collins Publisher).

Weber, Max, 1973. *The Protestant Ethic and the Spirit of Capitalism* (New York: Charles Scribner's Son).

Weiss, Linda and John M. Hobson, 1995. *States and Economic Development: a Comparative Historical Analysis* (Cambridge: Polity Press).

Wood, Ellen Meiksins, 2002. *The Origin of Capitalism: a Longer View* (New York: Verso).

Yergin, Daniel and Joseph Stanislaw, 2002. *The Commanding Heights: The Battle for the World Economy* (New York et-al.: A Touchstone Book).