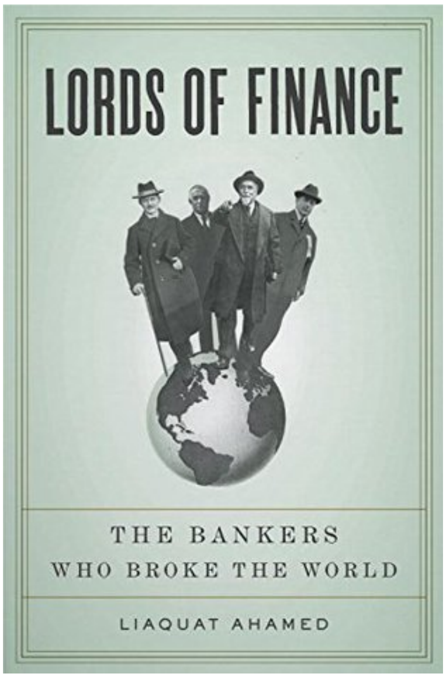

Lords of Finance: The Bankers Who Broke the World

Liaquat Ahamed

Lords of Finance: The Bankers Who Broke the World

Liaquat Ahamed

Lords of Finance: The Bankers Who Broke the World Liaquat Ahamed
With penetrating insights for today, this vital history of the world economic collapse of the late 1920s offers unforgettable portraits of the four men whose personal and professional actions as heads of their respective central banks changed the course of the twentieth century

It is commonly believed that the Great Depression that began in 1929 resulted from a confluence of events beyond any one person's or government's control. In fact, as Liaquat Ahamed reveals, it was the decisions taken by a small number of central bankers that were the primary cause of the economic meltdown, the effects of which set the stage for World War II and reverberated for decades.

In *Lords of Finance*, we meet the neurotic and enigmatic Montagu Norman of the Bank of England, the xenophobic and suspicious Émile Moreau of the Banque de France, the arrogant yet brilliant Hjalmar Schacht of the Reichsbank, and Benjamin Strong of the Federal Reserve Bank of New York, whose façade of energy and drive masked a deeply wounded and overburdened man. After the First World War, these central bankers attempted to reconstruct the world of international finance. Despite their differences, they were united by a common fear—that the greatest threat to capitalism was inflation— and by a common vision that the solution was to turn back the clock and return the world to the gold standard.

For a brief period in the mid-1920s they appeared to have succeeded. The world's currencies were stabilized and capital began flowing freely across the globe. But beneath the veneer of boom-town prosperity, cracks started to appear in the financial system. The gold standard that all had believed would provide an umbrella of stability proved to be a straitjacket, and the world economy began that terrible downward spiral known as the Great Depression.

As yet another period of economic turmoil makes headlines today, the Great Depression and the year 1929 remain the benchmark for true financial mayhem. Offering a new understanding of the global nature of financial crises, *Lords of Finance* is a potent reminder of the enormous impact that the decisions of central bankers can have, of their fallibility, and of the terrible human consequences that can result when they are wrong.

Lords of Finance: The Bankers Who Broke the World Details

Date	:	Published January 22nd 2009 by Penguin Press (first published 2009)
ISBN	:	9781594201820
Author	:	Liaquat Ahamed
Format	:	Hardcover 564 pages
Genre	:	History, Economics, Nonfiction, Finance, Business, Politics

From Reader Review Lords of Finance: The Bankers Who Broke the World for online ebook

Jason says

This was a bit of a work-related read. I changed jobs recently, and in my current position I am monitoring Congress' proposed regulatory reform of the banking industry. So, I thought I would add a little historical depth to my analysis.

This is obviously a timely book with many frightening parallels that you will recognize from the headlines in your morning paper. However, as someone who continues to be drawn to the inter-war period, it also filled in some gaps.

Most folks interested in history can at least give you a knee-jerk sketch of Hitler's rise to power. They will mention the "crushing" terms of Versailles that gave rise to German resentment. They will talk about the weakness of Weimar Germany's democratic institutions. They will likely also point to the Great Depression, and if they REALLY know something, they will point to the war debts.

Reading this book adds another deeply troubling layer to the challenges facing the West when trying to confront Hitler. Basically, the "roarin' 20s" were based on something of an economic ponzi scheme, not dissimilar to the circle of debt and purchase that we have created between the United States and the People's Republic of China.

Essentially, after the war, everyone was broke. As students of WWI will appreciate, US participation in that war was a bit reluctant. For a while, we called ourselves an "associate" power, rather than an ally. Our attitude towards war debt reflected this. Why should we subsidize the British and French empires? We lent them money, they should pay. Well, where did Britain and France -- especially France -- want to get the cash to pay us? Why Germany of course.

That brought us to a circle of reparations. The US government (though not the American people) appreciated that no one really had the capacity to pay any of these debts. So what did we do with our new found economic strength? Well, we made loans to Germany. The amounts were basically just enough for England and France to collect from Germany what they owed to us.

The difficult part was whenever a kink developed in this system -- weakness in the German economy, absence of Gold in Britain -- the whole damn edifice would threaten to collapse, and then everyone would get together and try to renegotiate the whole deal. So, things I vaguely remembered from AP History in high school like "the Dawes" plan, took on real meaning. For the entire period of the interwar years, diplomacy between the US, Britain, France and Germany was totally poisoned by these debts. Everyone was mad at everyone else, and extremely anxious because the stakes were in fact, life and death.

So enter Liaquat Ahamed to paint a picture of the heads of the Central Banks of these four great powers. Montagu Norman of the Bank of England obviously takes center stage, but not far behind him is his friend with the real money, Benjamin Strong of the Federal Reserve of New York. No story would be complete without the petulant French, so Emile Morceau of the Banque de France takes that role. And excepting the type-cast, arrogant, insufferable but brilliant German is Hjalmer Schacht of the Reichsbank of Germany.

The petty rivalries and dealings between these four men are the foundation of the book. I think Ahamed gives us a very definite sense of the individuals and their peculiarities. They get it all wrong, but you get a sense of why they made the choices they did.

Ahamed certainly leaves an enormous burden of blame on Norman's fixation on the return to the Gold Standard. It certainly wrecked Britain's economy, and resultingly -- as Norman's friend Ben Strong of the NY Fed. tried to prop up the UK with low US interest rates, he created a giant stock bubble. I think we all know what happens to giant stock bubbles don't we?

Heroes? Well, two. First Ahamed certainly thinks that Keynes got most of it right. He saw the disaster coming. He tried to warn everyone. Some even listened, but in the end, the 4 central bankers had their way.

Another person singled out for some glory was FDR. He refused to be held captive to old banking orthodoxy. He utterly rejected the Gold standard -- though the US had ample gold reserves -- because he felt it would hold back price inflation, as the US was in a deep deflationary spiral. He was right, and within a year, Roosevelt had stopped the hemmoraging of the US economy and even turned a corner.

Finally, the French. Believe it or not, France made the best of the interwar years in terms of their economy. Regrettably, they attempted to use this economic strength for petty political aims, both vis a vis the English and the Germans. Ahh, the Gauls, when will they learn?

Single biggest light bulb from this read -- the Great Depression was basically a two step disaster. I always kinda thought we had Black Tuesday and then the banks started going under. Not so. Its almost 2 years between Black Tuesday and the banks going under.

Basically the stock market crash occurs -- but many in the Government think its actually a good thing. The bubble has burst, now we can get the US economy on a less speculative footing. Problem is, with all that lost wealth we stopped lending abroad, particularly to risky countries like Germany.

No churning of German loans means they have to pay Britain and France back with hard cash. They don't have it. Germany defaults, there is a run on German banks. Then people start realizing, wait -- our banks have a bunch of German loans. Run on US banks, banking system collapses in the US in kind of a swine flu contagion way. One state after another has to declare a "bank holiday." In some states, banks had been closed for months when FDR declared a national bank holiday.

That evolution of the Great Depression makes me think that another shoe could still drop in our present circumstance. However, the good news is, we really have at least successfully fought the last war. We understood some of what happened in the 30s and why. It seems to me, we have at least forestalled that particular set of disasters. Whether another unanticipated one will occur, we shall see.

Anyway, if you like the interwar years, and are at least vaguely interested in the present financial crisis, I think you will find Ahamed's work very enlightening. It was definitely a worthy addition to my reading list this year.

Brina says

Like many former American school students, I studied the Great Depression from a social standpoint in depth across many American history courses. The classes focused on Black Tuesday and the country plunging into a depression, yet not relaying to students what a financial depression actually was. We studied President Roosevelt's programs for recovery as well as how the hard times effected average American people. Yet, lacking in the courses I took in school were the financial causes for this worldwide economic depression and what a depression actually. When the nonfiction Pulitzer group here on goodreads selected Lords of Finance as a group read for early next year, I had my curiosity piqued; so piqued, in fact, that I made it a point of finishing this Pulitzer winner before the end of this calendar year. In reading Lords of Finance as my last nonfiction book of 2017, I thoroughly enjoyed the week I spent immersing myself in the history of worldwide economics and banking.

Liaquat Ahamed has been an investment banker for over twenty five years. After the 1997 through 1998 Asian depression that was thankfully averted before it reached worldwide proportions, Ahamed thought hard about the worldwide depression between the years of 1929-33. What had caused the depression and could it happen again. It nearly did with the bursting of the United States housing bubble in 2007 but was thwarted in time before it reached 1930 levels. This lead to Ahamed taking a leave of absence from his position at respected money lending firms in order to research the history that lead to this book. He used as his focal points the heads of the banks of the four major players on the world stage during the 1920s: Germany, France, England, and the United States; and their personal roles in the causes leading up to the depression and their plans for leading the world out of it. Over the course of the book, Ahamed wove in each character's personal history in order to frame his unique role in the actions that would lead to this international economic downturn.

Following the 1919 Versailles Peace Accords, Germany was ordered to pay war reparations to the allied nations of France, England, and the United States. Likewise, France and England owed money to the United States for lending them money to aid the allied cause. The money owed by these nations to the United States translates into billions if not trillions of dollars in today's economy. As early as the early 1920s, Germany was already headed on the path toward depression. The leader of the Reich bank Hjalmer Schacht believed that for Germany to avert depression was two fold: to go back on the international gold standard that had been prevalent prior to the war and to have the other countries relieve her of reparations. France took a tough position and refused to excuse the reparations, demanding millions of dollars in payments over the course of the next fifty years, which Germany had no means of paying. In this scenario, Germany would be subservient to France for the next three generations.

The United States and England lead by bank heads Benjamin Strong and Montague Norman respectively saw both the dangers of relieving Germany of reparations and putting their countries back on the gold standard. The Bank of England did not possess much in the way of gold, as most gold at the time was concentrated in both France and the United States. Should the leaders of the western world go back on the gold standard, most worldwide money would filter back to the United States, sucking money from the European continent, and throwing her countries into a tailspin. Strong and Norman communication by weekly letter, face to face meetings two to three times a year, and later by transatlantic cable and telephone. While Norman favored the return to the gold standard, Strong promoted the Dawes Plan that would lessen German reparations and hopefully return the nation to prewar standards. The French balked at Strong's ideas and its banking leader Emile Moreau was staunchly opposed to Strong at many of the summits of international banking heads held throughout the interwar years. Strong may have been a visionary; however, he was sickly, and he died prior to the outbreak of the depression. His successor George Harrison did not measure up and did not enjoy as much of a personal relationship with Norman as did Strong. It is difficult for Ahamed to state if Strong had not died young that the depression would have been averted, but he does point out that when Strong died, his ideas and visionary plans died with him.

Both President Roosevelt and Adolf Hitler make an appearance in this book, but not until the fifth part focusing on the depression itself and steps to lead the world out of it. Hjalmer Schact foresaw the Nazi party as not being able to economically manage Germany and became the country's treasury head following the Nazi overthrow of the Reichstag in 1933. Yet, Schacht distanced himself from the Nazis, stating that his position was to manage the country's money and he did not ascribe to the party's fanatical ideals. He even appealed to foreign Jews to sponsor German Jews prior to the onset of the Holocaust as a means of saving their lives, but this plan was thwarted and Schact was removed from his position. He did note that liquidating Germany of her Jewish bankers could potentially ruin the country's economy but to no avail. As a result, Germany focused on wartime industries to boost her economy whereas her day to day living situation did not improve much until after the second war and the introduction of the Marshall Plan. Although not an official member of the Nazis, Schacht was tried at Nuremburg and later acquitted in 1950. Aligned with Norman of England, his plans plunged the world into depression rather than boost it out of it.

As in the history books I learned from, Roosevelt's role here is that of a motivator. His fireside chats meant to boost his country's morale did little to curb the depression overtaking his country. Harrison alongside members of Roosevelt's cabinet were little equipped to deal with the economic ruins facing their country, and, unfortunately, it was not until the United States entered the second war that her economy, with the influx of war time industries, took a turn for the better. The bulk of the depression, however, ended in 1933, after Roosevelt's inauguration. Ironically, President Hoover called for many of the same policies as did Roosevelt but the latter president would not sign off on them until he took office. Immediately, Roosevelt stepped in to take the United States off of the gold standard. This measure inevitably lead to a suspension of banking and fireside morale boosting chats, but it also temporarily removed the United States as being dependent on European nations to set its economic policies, setting a slow course toward economic growth and recovery.

Being someone who enjoys history but finds economics challenging, I found Ahamed's research to be fascinating. I knew little of the world banking heads during the 1920s who did their best to avert worldwide depression yet inevitably were the four key players who depended on the gold standard as well as war reparations that plunged the world into economic panic. It would take another war and less reparations to finally lead the world back to economic prosperity. Banking heads Schacht, Moreau, Norman, and Strong are all fascinating characters who usually take a back seat when discussing history to the well known heads of state. Yet, it is these bankers who set worldwide economic policy that played as large a role as any in setting the interwar year policy toward gold dependency and eventually depression. Ahamed ends with a brief mention of could another depression happen, citing 1997-8 and 2007 and contrasting these years with 1929-33. Hopefully, today's world leaders have studied his book, so that they know what steps to take to avert a worldwide economic crisis. A fascinating read, Lords of Finance was a worthy book to end my nonfiction reading year with.

5 stars

BookishStitcher says

I listened to the audiobook of this, and I think I need to stop listening to non-fiction books on audio because I never remember the certain facts that I love to commit to memory when I read historical non-fiction books. That said this book had a lot of information about the time and people involved. It was interesting to learn a lot more about economics.

David says

An excellent book, deserving of the many rewards and positive reviews that it has received. I listened to this on a three-part Audible download, and I noticed the following small errors.

-- Part two, chapter four, time 13:40: Mixed metaphor alert: “Moreau's star was about to turn.” I guess a star can actually rotate, but, in my mental dictionary, when you wish to metaphorically indicate an improvement in someone's fortune, their star **rises**. Fortunes themselves, less metaphorically, can turn.

A Google search indicates that rising stars generally outnumber turning stars by 10 to 1. I could find no other indication that anyone else ever used the words “star” and “turn”, in any grammatical variation, to indicate an improvement in fortunes.

[Digression: While researching the previous paragraph, I found that a UK e-commerce site for women's shoes had inexplicably pasted a page-long portion of this book, including the above quotation, into the comments section of its site. I found this vaguely disturbing.]

Update 12 May 2015: Someone on Goodreads very politely emailed me to point out that the point I tried to make in the next paragraph was incorrect. Upon re-reading, I am embarrassed by my rudimentary mistake. Apologies.

~~-- Part two, chapter four, time 46:30: The author's biography says he has been a “professional investment manager for 25 years”, worked at the World Bank, is a trustee of the Brookings Institution, and a graduate of Cambridge and Harvard. So it's surprising that, here and in at least one other location, he makes a rudimentary error in statistics. In this case, he says that an appreciation of the French Franc from 50 Francs on the US Dollar to 36 as a 40 percent increase. It isn't. It's a 28 percent increase. A change **from** 36 **to** 50 is a 40 percent change, but a change **from** 50 **to** 36 is a 28 percent change. If a simple English teacher like self can understand this, then....,~~

-- Part two, chapter five, time 45:44: Instead of “*de jure*”, the narrator says “*de jute*”. As far as I can tell, this is not a word or phrase in either English or French. Was it too much trouble to go back and say the word correctly?

-- Part three, chapter one, time 13:40: A historical character is characterized as “bespeckled”, which, unless he was covered in spots, is a mistake. I think that the intention was “bespectacled”, meaning that he wore eyeglasses. However, this mistake made me laugh, so I don't mind it so much.

---

rmn says

Yawn.

Screw waterboarding, let’s make the terrorists read this book cover to cover. Its length is only dwarfed by its lack of pace.

In theory, this is a 500 page book about the four central bankers whose missteps led to the Great Depression and sinking of the global economy in the 1930s. However, maybe half of the book is about those central bankers (who are exceedingly boring) while the other half is about the minutiae of the international financial wranglings of the time and the myriad people behind them. The author introduces a new person on just about every page and then describes that person's background, schooling, temperament, and even appearance but then after one paragraph that person is never heard from again. This leads to a disjointed flow of the book as if the author is stepping on the gas but his car is in neutral.

This book should really be a 5ish page magazine article or simply the 8 page epilogue (which was the best part of the book and not just because it marked the end) where you learn all you need to know which is the following:

1. WWI screwed up the global economy and the reparations put on Germany made things worse since they couldn't pay.

2. After WWI Germany inflated their currency, Britain deflated it, while France found a middle ground and along with the US was able to build a strong economy (the US because of their late entry into the war and gold reserves, France because of keeping their currency at a discount to Britain made their goods relatively cheaper in the world economy).

3. In the 1920s, the 4 central bankers profiled in the book (US, France, England, Germany) insisted on sticking to the gold standard which was an outdated and arbitrary system (especially with the US holding most of the reserves) and led to the eventual panic/depression. I believe this is the author's main point, other than trying to cure insomnia.

4. During this time the Dawes plan and then the Young plan cut reparations and led to continued squabbling within Europe.

5. The US stock market was overvalued (partly caused by a Fed move) and crashed thus leading to US bank failures and the US to stop loans to Germany which was still saddled with reparations and bank failures of their own. This in turn spurred further global panic and bank runs in all countries.

6. The second generation of central bankers went off the gold standard (the US waiting until FDR to do it) and soon afterwards each of the economies began to recover.

7. John Maynard Keynes predicted it all and was a genius (no idea if this is true, but so says this author).

Thank me later for the 8 hours of your life I just saved you.

Jan-Maat says

An honest title for this book would be the 1001 Nights of International Finance from the eve of the First World War to Bretton Woods. We are tumbled from one story to another detail many of which are completely irrelevant (Madame Caillaux shooting the editor of Le Figaro, the First Name Club failing to set up a US central bank, the names of Poincare's pet dog and cat (which was a Siamese)) but which are included because they are entertaining. This is an undisciplined book written by somebody always prepared to be diverted. It is entertaining, but reading it is at times a game trying to find the subject and focus of the book. Which is how Napoleon's victory at Austerlitz in 1805 saved the Banque de France gets into a book ostensibly about the central bankers of Germany, France, Britain and the USA around 1929 - it is a gruelling marathon through a porridge of information to reach the Wall Street Crash which doesn't occur until we are 7/10ths (view spoiler) of the way through the book.

This book won a prize and this tells us a lot about the business of book prizes. Firstly it is a question of Zeitgeist, a book about economic turmoil published during economic turmoil fits the bill. Secondly the wealth of detail gives it a wow factor. It is constantly diverting and entertaining. This means that the book is also, for all that author's appraises Keynes as brilliant in an age of non-Keynesian approaches to the economy (at least in the countries under discussion), conservative. Montague Norman, Governor of the Bank of England in the inter-war period and allegedly one of the four central characters in the book, is described as having *"the task of nursing a crippled economy back to health"* (p148) but there is no consideration of the limitations formal and informal (in terms of the presumptions and categories that litter our minds) that shaped his actions and determined his actions. Instead we are invited to accept this as a purely human story, yet reading critically the question is how dif1ferent would things have been had another person had his job given they would have experienced the same institutional restraints, had a broadly similar set of mental models and been subject to the same events. (view spoiler).

Because there is no analysis (view spoiler) the implicit subtext is that this is just the way the world is. There are scandalous divorces, high level talks that lead to nothing and the unemployment of millions of people - oh so sad. We may watch, and even have opinions as to how scandalous any particular divorce is, or as to the appropriatenessof owning a Siamese cat, but in Ahamed's world the conception of a different ordering of international finance is beyond the realms of thoughtcrime, Bretton Woods the height of radicalism. A gaudy carousel rotates before us, the children cry and laugh, but the painted wooden horses distract us from what drives the whole contraption. Galbraith's book The Great Crash even though it only addresses the USA, is a far better book on 1929 and its aftermath. That book is focused, this by contrast is a hippopotamus wallowing in one story after another, one character sketch follows another of people who will disappear from the narrative a page after beginning introduced while from time to time those Lords of Finance like Harun al-Rashid or Sindbad in the Arabian Nights will pop up for a story or two before vanishing before the next diverting divorce, irrelevant or inaccurate detail (view spoiler). If the author is trying to make a point by describing some of the eccentricities of the various politicians attending international financial meetings, like Senator Pittman from Nevada who was found naked in a kitchen sink at Claridges doing a passable impression of a statue in a fountain, then it is a point that he studiously avoids ever making explicit. This is a book at once both readable and without value.

I was struck how blasé Ahamed was about the Florida land bubble in the USA. In a way that seems fundamental in that revealing something of the culture - a preparedness of one group of people to create a market to sell low value assets for high prices to ignorant investors, a process which was backed by the banks. This was to be repeated on a larger scale in the run up to the Wall Street Crash through stock market manipulation using the media and endorsements.

On the other hand the lack of analysis makes this a very open text. In the note to the bibliography the author backs identifying "the Gold Standard as chief culprit for transmitting depression around the world" (p533) but reading we can see the financial crisis made clear how dependent the world was on short term lending from the USA - at the same time banks were collapsing there (only around half holding a quarter of all US deposits were backed by the Federal Reserve which seems to have operated on an 'opt-in if you fancy' basis) and scandals were coming to light leading to abrupt withdrawals of credit all round. Gold Standard or no Gold Standard there would have been a world wide crisis.

This is for me the interesting part of the story - the role of confidence and psychology. The Gold Standard was all about confidence. The USA was setting its interest rates based on the state of the US economy already in the mid 20s when technically the Gold Standard required that they should be determined by the flow of gold into the economy. Central bankers were keen to move back on it and loath to move off it out of a concern for reputation and business confidence and those are considerations that also have an economic impact. Social attitudes show up when on a couple of occasions central bankers decide not to bail out enterprises because they are owned by Jews (and in one case by the 'wrong sort' of Jew at that).

It is also striking how the author glosses over the causes of the Wall Street Crash of 1929 and this I feel is explained by the author's note to the bibliography. While in the text Ahamed praises Keynes, in the bibliography he says his thinking has been framed by Milton Friedman (among others). Rather than address the tension between the idea of having a managed international economy and a deregulated one Ahamed perhaps chose to avoid analysis - that way he could admire both men without ever having to address the differences in their attitudes.

Possibly there is a slim, focused, analytical book trapped inside what we've got but it would take a surgical level of editing to bring it out. Readable but unfocused, this is the kind of book that leaves you feeling over informed while understanding less than before.

Katy says

I never thought that a book on economics would be so interesting. A quartet of biographies mixed into the economics and history of the time period. This gave me a much deeper insight into the Great Depression and the decades that surround it.

Emily says

In the early 1930s, a reporter asked John Maynard Keynes whether anything like the Great Depression had ever happened before. His reply: "Yes, it was called the Dark Ages, and it lasted four hundred years." This book is about the four central bankers (of the U.S., Great Britain, France, and Germany) who presided over the economic collapse between the World Wars. Imagine something much worse than the banking crisis of 2007 taking place after a brutal war in which millions of men were killed and in countries where governments might change every few months, while Bolsheviks and Nationalists threatened government stability. That, in a nutshell, is what this book describes.

The author provides biographical information on all four men, but this isn't really a biography; the men's lives are used to enliven the book and personify national attitudes. The author shows how economic problems grew in the late teens and early twenties as an extended series of currency crises. Despite the U.S. holding a disproportionate amount of the world's gold reserves in the wake of the war, England and France were determined to go back on the gold standard, regardless of the short term pain. Meanwhile, Germany suffered catastrophic inflation. Then, in the late twenties and early thirties, the crisis spread into banking, becoming what we know as the Great Depression.

There are slow parts, but I thought the author did a good job of untangling complicated economic situations where it can be difficult to distinguish cause and effect. He also used economics to link World War I and

World War II--events that are so often treated separately--in a worthwhile way.

Pamela says

Lords of Finance: The Bankers Who Broke the World is an intricate, in-depth look at the men who were in charge of the financial structures of the four biggest economies during the lead up to The Great Depression. Starting as early as 1919 and the Treaty of Versailles, Liaquat Ahamed gives us a detailed account of the triumphs and, most importantly, the mistakes these men made in the economic well being of their own countries and, consequently, of the rest of the modern world.

The major characters in this story are Montague Norman of the Bank of England who was considered the most influential of the four; Benjamin Strong head of the newly formed Federal Reserve Bank of New York; Hjalmar Schacht of the Reichsbank and Émile Moreau from the Banque de France. For the most part, these four men were in charge of the central banking (The U.S. used the Federal Reserve system, established in 1911 in lieu of a "central" bank) system in each of their countries and so, controlled the ebb and flow of first gold, and then, cash reserves which affected commerce at this critical period between the wars. Also included are many other financiers, economists, and politicians who played major parts in the pivotal economic events of the twenties and thirties.

Ahamed identifies several major "blunders" he feels led to the massive economic dislocation of the Great Depression. One, the decisions of the politicians at the Paris Peace Conference for the huge reparations bill, the continuing insistence on full repayment of war debts which placed a heavy burden on all of the fragile recovering economies. Two, the unwise decision made by these four leading bankers to return to return to the gold standard. John Maynard Keynes, the new, young economist with maverick ideas opposed a return to the gold standard and Winston Churchill, Chancellor of the Exchequer in 1925 was not totally in favor either but, eventually, the decision was made to return to it. The largest error for Mr.Ahamed seems to be a failure on the part of the bankers to ever get a true understanding of the post war economy and a failure to show leadership when they did understand.

Lords of Finance is an excellent discussion of money and how it worked in the economies of that time. It is written in an easy to follow way and presented in such an interesting manner that it occasionally has the feel of a thriller. Events cascade upon themselves, sometimes in a frenzy, and the fact that, as readers, we know the particular outcomes doesn't dimish the tension and relief of discovering what happened all over again. Highly recommend this Pulitzer winner to anyone who is interested in what money does and where it goes and what happens when it misbehaves.

Mahlon says

Lords of Finance tracks the lives of the central bankers of the USA, Great Britain, France and Germany from 1900 to about 1950, and explains how their fiscal policy led to the Great Depression.

While this important book is definitely worth reading, I can't really understand why it won a Pulitzer. It's a bit of a slog before the depression but the storytelling and quality of writing picks up once 1929 arrives. Recommended for anyone who likes books about finance, tycoons, or wants A really good understanding of how the gold standard works, or doesn't

AC says

I returned to and finished this book on audible -- driving about the local streets -- to and from work -- and driving the kids hither & thither... what it lacks as a book (and my opinion about the issue of reparations has not been changed by L.A.'s arguments) -- that it is somewhat shallow qua analysis -- it gains as an audible -- in that it is very strong on narrative.

The result is that the author often strives for effect, rather than truth -- there is a rhetorical element, common to many books, of course. At any rate, I'm glad I finished it, as it fills in many of the blanks.

Take two...

(I've lost interest -- the book is second-rate. The hedge fund guys thinking they're historians... because they can spot a trend. Good reading for those with the time to spare)

I've lowered my rating. This book is good, and got off to a rousing start. Well-written, fascinating... and it is certainly informative. For anyone looking for a good book on the Depression, and real page-turner (not kidding), this might be it. But then I got to chapter 7, and Ahamed's discussion of the Weimar inflation. It is awful. It seems to be contaminating by the writings of Niall Ferguson, that arch-reactionary who argued, in Pity of War, that the Great War was Britain's fault (not Germany's), and Ahamed blames the inflation on reparations, which is bunk.

This view was debunked by both Jens Parsson (http://mises.org/web/4017 a tremendously good book) AND Bresciani-Turroni (http://www.questia.com/PM.qst?a=o&amp...). The reparations had NOTHING to do with the inflation, and the claim that it did was due to ultra-nationalist German propaganda -- meaning everyone to the right of Rosa Luxemburg.... (If anybody REALLY wants to know about this issue, email me and I'll forward some notes on the topic....)

The fact is, contrary to popular myth, Versailles was too mild. Proof? 1939-1945. Had the Entente pressed on for another two weeks after November 11th, the German experiment in unification would have ended then and there.

Chapter 8, which deals with the US handling of the Allied war debts -- another sorry chapter in our history -- is much better, though by now it has become clear to me that the author's knowledge is second-hand, and not free of Neoclassical conventions....

The book, at any rate, was finished during the current market crisis, and the author is informed. He is a money manger, not an academic -- which is, in part, a plus.

I do expect to keep at it, and to finish this book -- deo volente

Max says

Ahamed profiles four central bankers who defined monetary policy in the decade leading to the 1929 crash. Montagu Norman, the Governor of the Bank of England; Benjamin Strong of the New York Federal Reserve Bank; Hjalmar Schacht of the Reichsbank; and Émile Moreau of the Banque de France. While their personalities played a role, far more important was their adherence to the gold standard which straitjacketed their banks culminating in the Great Depression. German reparations for WWI were problematic, but it was the restraints of the gold standard coupled with a reluctance of governments to interfere with market forces that doomed the world to depression. Well written and informative, I enjoyed this book and recommend it to those with an interest in economics, monetary policy and the depression. My blow by blow account below will give those interested a fair representation of what Ahmed covers, although Ahmed does it with considerably more style.

WWI devastated the economies of Europe and transferred world economic leadership from London to New York. In order to support the war England borrowed heavily from the US. France borrowed from both Britain and the US. Germany without other resources simply printed money. The Versailles Treaty called for Germany to pay huge reparations to Britain and France. Germany, essentially bankrupt, could not pay. The US expected repayment of its loans from England and France which they could not pay without the reparations from Germany. Britain and France tried unsuccessfully to link the amount they received from Germany to the amount paid to the US. The US would have none of it. Perceptive financial leaders saw that if this situation were to continue Europe would never recover and Germany could become chaotic. To pay reparations Germany printed more money causing runaway inflation. By 1923 German pay scales and prices changed daily. Anything earned had to be spent immediately before it lost its value. There was tremendous resentment in Germany for having to pay reparations to its conquerors. In turn France and England resented the US for its firm stance on loan repayment. They felt America did not appreciate that they had sacrificed millions of lives to protect the world from the Kaiser.

Before the war, the major participants were all on the gold standard. The amount of currency in circulation was determined by the amount of gold in the central bank based on its exchange rate. During the war the Europeans desperate for cash began printing money not backed by gold. This, exacerbated by the scarcity of items for purchase, led to inflation and devaluation of the currencies. The US had a different problem. It accumulated vast quantities of gold from Europe in payment for war supplies. Abiding by the gold standard meant that more currency had to be issued even though the goods available for purchase were not increasing in proportion. Thus inflation occurred in America too. This was tempered by the beginning of Open Market Operations, the Feds buying and selling of securities to increase or contract the money supply. In this case they sold securities to pull in currency from circulation. This innovation was the brainchild of Benjamin Strong who had come from the House of Morgan. A devoted civil servant Strong took it upon himself to meet European financial leaders including Montagu Norman. If not for Strong’s new idea, inflation in the US would have gotten much worse. Today the Fed relies on Open Market Operations as a primary tool to control the value of the dollar.

In 1923 a new German government led by Chancellor Gustav Stresemann brought Hjalmar Schacht into the Treasury Department as currency tsar. This position was created to administer a new currency, the Rentenmark, based on the value of German land which the government could tax. The Reichsbank was still printing the Reichsmark by the wagonload. Schacht however pegged the value of his currency to that of the prewar mark and with great discipline held it there. Once everyone realized the Rentenmark was stable it soon replaced the old currency. In 1924 Schacht took over at the Reichsbank with Germany’s inflation problem solved. Now a hero at home he still had the problem of reparations.

Schacht went to London to meet with Norman and boldly proposed that the Bank of England lend Germany money to pay reparations which would send the money back to Britain. The pound would be used as backing for German currency. This part impressed Norman who was trying to restore the pound's position as a reserve currency. Perhaps more important Schacht impressed the Dawes Committee. Dawes was assigned by President Harding to lead an international committee to resolve the reparations issue. But it was another American, GE Chairman Owen Young, whose ideas led to a resolution. Realizing that they could not get agreement to lower the total amount of reparations he proposed that the amount of payment for the next several years be lowered to a more reasonable level ignoring the total amount due. Further he proposed that American banks loan Germany the money for the first year's payment. The banks would be guaranteed that repayment of their loans had priority over reparations. The idea was to give the German economy time to recover so it could meet its obligations. With the guarantee US banks saw this as a profitable venture and it began a cycle of American lending to Germany. Dawes was rewarded by becoming Calvin Coolidge's VP.

In 1925 England returned to the gold standard in what Churchill, the newly appointed Chancellor of the Exchequer, would much later call, "the biggest blunder in his life". Urged on by Strong with whom Norman had recently met in New York, Norman pushed the gold standard on Churchill as a way to keep the currency from being manipulated for political reasons. Churchill understood little about economics and had to rely solely on the opinions of others. Keynes told Churchill to stay off the gold standard saying it would tie Britain to America where all the gold was, force unemployment, lead to high interest rates and bring down the English economy. Churchill sided with Norman. Keynes was right.

In France in 1926, the franc began to stabilize. This was due to Moreau who was brought in as Governor of the Banque de France that year. More political than economic expert, Moreau, unlike Churchill, heeded the right advice, which called for a lower but controlled value for the franc. This reduced the amount of the French debt. Unlike Germany where inflation wiped out all debt ruining its middle class, or England where Norman maintained a high value for the pound that brought recession, the French positioned the franc in the middle. Finding the sweet spot and keeping it there with purchases and sales of foreign currencies, Moreau brought France prosperity.

Back in the US, Strong's innovative monetary policy helped keep inflation low and interest rates low at the same time the economy was robust due to growth in automobiles, radios and appliances. By 1926 many became concerned that the stock market might be entering a bubble. Given solid industrial growth, stock valuations were not yet out of line. However, low interest rates did facilitate a growing trend to take out loans to buy stocks. Strong did not see the stock market as the Feds concern, but he was concerned about the increasing number of loans going to Germany which were often spent on projects of little economic value. American bankers chasing profits bent over backwards to provide Germany loans. Germany prospered and accumulated too much debt for its creditors to let it fail. In 1927 Strong invited his counterparts, Norman, Schacht and Moreau, to New York. Moreau sent his economic expert, the English speaking Charles Rist. Schacht concurred in the fear of possible bankruptcy from the high amount of German debt. Norman was worried about the impossibility of maintaining the value of the British pound tied to the gold standard given Britain's weak economy. Only Rist in France was satisfied with his situation. Following the meeting Strong decided against much internal dissension to lower US interest rates thus deferring to Norman to strengthen the pound. Strong ignored that lowering interest rates fueled speculation in the stock market which was now poised to head from reasonable valuations to stratospheric ones.

In 1928 Strong, who had a long history of tuberculosis, unexpectedly died in surgery. By this time, many in government and at the Fed including Strong's successor, George Harrison, realized stock market speculation was leading to disaster. Harrison raised interest rates but the horse was out of the barn. Norman even came to the US to lobby Harrison for a further, albeit temporary, rate increase to slow the market down. Norman saw the US stock market as a greater risk to Britain than loss of value of his beloved pound. But the Fed was constrained. Raising rates further would hurt American farmers who were already suffering as credit was being diverted to Wall Street. The Fed also feared forcing Britain off the gold standard. However interest rates were high enough with the stock market eating up much of the available credit that reasonable long term loans to Germany stopped. So called “hot money”, short term loans at high rates, were available and Germany took them. With Germany now heading into recession and facing financial disaster a meeting was held in Paris in 1929 with Schacht, Moreau, Owen Young for the Americans and Sir Josiah Stamp of the original reparations commission for the British. Schacht proposed reduced reparations payments given Germany’s fragile situation. Moreau felt Germany had enough time to get its act together and Germany should resume full payments. After much drama, Schacht agreed to allied terms for reparations payments but the underlying worldwide credit issues were not dealt with at all. As the US stock market sucked up all credit, not just US farmers, but farmers worldwide faced depression taking down countries from Australia to Canada to Argentina. Even worse was that gold was leaving European central banks for America to feed the beast of Wall Street. With their currencies tied to the gold standard the Europeans had to raise interest rates turning their economies first to recession then depression. In August of 1929 the Fed raised its discount rate to stem the market bubble with little impact, but in Britain, now in a deep recession, this exacerbated the drain of gold leaving Norman to face the prospect of abandoning the gold standard and loss of faith in the pound.

In the fall of 1929, the stock market crashed quickly losing 40% of its value. Harrison bought treasuries to inject money into the banking system. By the summer of 1930 he had purchased $500 million and had prevented bank failures. He also lowered interest rates. Still the economy deteriorated, although as Ahmed notes the US had actually entered a recession <u>before</u> the crash. Still Ahmed credits the psychological impact of the crash as a primary factor leading to the depression. My own take is that other factors may have been more important. Kennedy in *Freedom From Fear* points out that income inequality left most people with little to spend and in debt to the hilt causing a recession before the crash. And as Ahmed did mention farmers had been in a depression for years before the crash. The stock market crash did dry up credit which particularly hurt Germany which could not meet its payments including to its many US creditors. The impact of this would kick in later forcing a depressed economy deeper into depression when the US government did not support at risk banks.

In 1930 the Bank of the United States, a private institution, became the first major bank to fail. Soon other banks began to follow suit as people pulled deposits and banks called in loans to boost reserves in a downward spiral. But tight credit caused even greater havoc overseas. Germany could not even pay its government workers without fresh loans which were near impossible to get. Then the 1930 election in which the Nazi’s became the second most powerful party in the Reichstag scared investors and capital flew out of the country. Britain’s strict adherence to the gold standard already bringing it a deep recession now headed into depression as credit dried up. Only France where the gold standard was mitigated by Moreau’s deft currency manipulations was prospering. In May 1931 Austria’s largest bank, Credit Anstalt, failed. This set off a loss of confidence across Germany as well as Austria leading to bank runs and more capital fleeing the country. Attempts by the US to stem the tide with a debt moratorium, which the French after much delay reluctantly agreed to, were too late. Major German corporations and banks failed and the banks were closed. Marks were no longer honored abroad and one-third of able bodied Germans were unemployed. Schacht who had alienated his political supporters with emotional tirades and resigned his position a year earlier now warmed up to the Nazis.

In 1931 Britain finally went off the gold standard. After exhausting all sources of loans, Britain realized the game was up. The pound depreciated 30% but now deflation was halted and recovery could finally begin. Next the US came under pressure as panicky holders of dollars suspected the US was next and began demanding their gold. By 1933, the New York Fed's gold was totally depleted and it could no longer support the dollar. Bank runs had ensued all over the country and as FDR was inaugurated many states had instituted bank holidays. Unemployment was at twenty five percent and industrial output was in a tailspin with steel production at 12% of capacity. Prices had fallen 30%. The chaos of Europe in the prior year had now overtaken the US. FDR acted quickly taking the US off of the gold standard and even purchasing gold to further devalue the dollar. Prices rose, interest rates were low, it again became smart to borrow, the money supply increased, stock prices went up, and by the end of FDR's first term industrial production doubled and GDP increased 40%.

Schacht became Hitler's Minister of Economics and Reichsbank president in 1934. While giving lip service to the gold standard, he issued alternative currencies expanding the money supply, stopping deflation and financing Hitler's industrialization and militarization. Schacht objected to the maniacal focus on rearmament while consumer goods were still expensive and often not available. He also was put off by the virulent anti-Semitism. In 1937 Goering forced him out of office. He was tried at Nuremberg but acquitted since he was not in office during the war. He died in 1970 at the age of 93. Norman remained as Governor of the Bank of England but with reduced influence and died in 1950. Moreau who left the Banque de France in 1930 for better paying private positions, also died in 1950. Harrison went on to the Manhattan Project authoring the famous cable to Truman at the Potsdam Conference announcing the success of the first atom bomb. He died in 1958.

Greg Brown says

Even given his opening epigraph claiming that biography was the only way to understand history, Ahamed spends surprisingly little time describing each of the bankers as people. Sure, there are the vivid descriptions of their personalities and the expected personal details that helps to explain some of their behavior, but more important to the story is the unique situations each of them faced in their respective home countries: Moreau in France, Schacht in Germany, Norman in England, and Strong in the United States.

Those three European countries ended World War I financially devastated—not just in terms of direct casualties from the war, but also from the loans needed to finance it. The United States, on the other hand, was on the other side of those loans; removed from most of the financial and human effects of the war, after cessation of hostilities the US found itself newly-elevated in the world order.

But beyond the mere balance-book debts and deficits was a deeper issue: their common reliance on the gold standard. All four had suspended matching their currency to the gold available during the war, but afterwards, desperately wanted to get back on the system for perceived stability.

But then they encountered the first crisis: what should they peg their currencies to now? The money supply had grown in all countries as the government pumped out bills to finance their militaries, and on top of that, their gold reserves had drastically changed as well. While the United States' gold reserves had newly-swelled due to their loans, all three European countries found their reserves drastically diminished.

It's fair to say that the gold standard—in all its allure and limitations—forms the central driver of the book. Each struggled to decide when to go back on the system, and stubborn domestic politics complicated acceptance of a devalued currency for most of the European nations. Their ties to gold sharply limited their available actions during the tumultous decade that followed, and sealed their fate with the catastrophic crash.

It continues to be astonishing that there exists a faction of Americans—national politicians, even—who advocate for a return to the gold standard and ignore all history that says otherwise.

And then there were the reparations. Under threat of resuming hostilities, the Allies pried a stiff price out of defeated Germany. Not only was land ceded to France and others, and not just there army largely stood-down, but Germany found itself owing billions to France, the US, and the UK. Again, internal politics played a strong role here; the US argued for lower reparations in the interests of the world economy (and because they wanted to disengage with Europe at the time), while the UK and France wanted to squeeze Germany dry, extracting as many kilograms of flesh as they could.

All these tensions recur throughout the book, and it adds a shocking level of detail to what I previously knew about the crash. Again, while Ahamed claims his project is a four-fold biography of these lead bankers, his actual aims are far more grand: a well-written, accessible look at how and why the financial system failed. Unlike his presumptive thesis that hubris and personal factors led to the crash (as his title and other paratext would have you believe), the book's verdict is far more nuanced and damning. Given the financial systems at play and the political situations at the time, it's hard to imagine how any combination of personalities could navigated the troubles.

But that's not to say the book is entirely fatalist; there is one lone speck of light in the darkness, and his name was John Maynard Keynes. While he doesn't get as much attention as the four main characters, he acts as a hectoring marginalia to most of the decisions of the time. Keynes was utterly prescient, and has rightfully seen a resurrection after the crash of 2008. But he is the Cassandra of his tale, predicting the coming crash, and unable to do much more than step out of the way.

Will Byrnes says

Ahamed has written a fascinating account of how four central bankers were at the core of the economic madness that gripped the world after World War I and led to the second great war.

The personalities are interesting, and the scent of the times wafts from the pages sufficient to sting the nostrils. This is a book written for a popular audience. No great knowledge of economics is required. But that sure would help. It is not only our elected officials, Wall Street brokers and government officials who are ignorant of the rules of economics. I, and surely many of you are as well.

For me, it is a sort of blockage, like being able to read music. I taught myself to play the guitar at age 15, not well, but at all, and played for some years thereafter, writing a few songs, even performing on stage a few times, but I was never able to learn to read music. I tried several times, but was never able to get past a crude identification of the difference between whole, half and quarter notes. In the same way, whenever I have tried to crack the code that is economics, the result was intellectual cacophony. As that pertains here, while the story is fascinating, and the wealth of information proffered expands our knowledge of the times, one can only grasp a percentage of what is offered if one is economically tone deaf. I just do not get how a currency can be based upon the presence of gold or any other substance for that matter. Why not seashells or jelly beans? As a considerable portion of the book focuses on the ramifications of the gold standard, my intellectual economic disability severely reduces the understanding I can gain here. If you get the gold standard and are comfortable with discussions of macro economics, this will be mother’s milk for you. Great stuff. For the rest of us, it is a fascinating look at a tumultuous period with color portraits of some of the central players in the world economy.

Ahamed appears to be blaming the four economic titans on which he focuses for the ensuing economic and military maelstrom. But what should they have done, what could they have done, had the power to do, differently that would have changed the outcome? To lay blame at their door seems a convenient way to personalize blame for undercurrents that are all too widespread in humanity, short-sidedness, greed, mean-spiritedness, and downright stupidity. OK, wise guy, what *should* they have done? Yes, people, individuals, particularly powerful, influential individuals matter. But history is not just a series of he did this and she did that. There are currents to history that flow, regardless of how large the fish may be that inhabit the waters. The economic miseries of today are not merely a product of the madness of King Dubyah. The latter reflects the former and not the other way around.

One reason to read this book is to see how our current fiscal crisis might resemble those of the past. And indeed it does. Perhaps the mis-steps that were taken might be avoided today if we are to learn from history. But if there is one thing that we learn from history it is that people rarely, if ever, learn from history. It is an easy and interesting read. Whatever the conclusions the author may draw from his story, and whatever the cranial incapacities of an individual reader, the story itself is quite intriguing.

KOMET says

Economics plays a decisive role in shaping and guiding our lives. For most of us, it is not an easy subject to understand. I am the holder of an Economics degree (cum laude) from my college days. Even so, there are still many things about economics and finance that either elude my grasp or I partially understand, for both disciplines are fluid and dynamic, ever evolving, ever changing.

For that reason, I sought out this book, "Lords of Finance: The Bankers Who Broke the World", to help me to begin to understand the various historical and economic factors that led to and touched off the Great Depression and any parallels between events of yesteryear and today. Certainly, I've learned a lot about the 4 principal personalities in the world banking system during the 1920s who sought to promote and build a solid world economic system in the post-World War I era pegged to the gold standard. The foursome were "the neurotic and enigmatic Montagu Norman of the Bank of England; the xenophobic and suspicious Emile Moreau of the Banque de France; the arrogant yet brilliant Hjalmar Schacht of the Reichsbank; and Benjamin Strong of the Federal Reserve Bank of New York, whose facade of energy and drive masked a deeply wounded and overburdened man."

Reading this book taught me that the collapse in the world economic system in 1929 was not inevitable. The author identifies 3 culprits that he deems culpable of contributing to events that caused the Great Depression:

(1) "... the politicians who presided over the Paris Peace Conference [of 1919]. They burdened a world economy still trying to recover from the effects of war with a gigantic overhang of international debts. Germany began the 1920s owing some $12 billion in reparations to France and Britain; France owed the United States and Britain $7 billion in war debts, while Britain in turn owed $4 billion to the United States." Expressed in today's money, that would be the equivalent of Germany owing $2.4 trillion, France owing $1.4 trillion, and Britain $800 billion. Grappling with such heavy debt during the 1920s made it a onerous challenge for the financial statesmen of the day to take on. The debt issue also poisoned international relations and created a fissure in the world financial system that gave rise to pressures that would cause it to collapse in October 1929.

(2) "[t]he second group to blame were the leading central bankers of the era" --- i.e. Montagu Norman, Emile Moreau, Hjalmar Schacht, and Benjamin Strong. "Even though they, especially Schacht and Norman, spent much of the decade struggling to mitigate some of the worst political blunders behind reparations and war debts, more than anyone else they were responsible for the second fundamental error of economic policy in the 1920s: the decision to take the world back onto the gold standard."

(3) "... the Great Depression was caused by a failure of intellectual will, a lack of understanding about how the economy operated. No one struggled harder in the lead-up to the Great Depression and during it to make sense of the forces at work than Maynard Keynes [the distinguished British economist]." He believed that if what he regarded as "muddled thinking" could be eliminated in economic matters, "then society could allow the management of its material welfare to take a backseat to what he thought were the central questions of existence, to the 'problems of life and of human relations, of creation, behavior and religion.' "

This is a magisterial work that, I believe, anyone should read with care and patience (given the weightiness of the subject) to gain a better understanding on a fundamental level of how economies work and function. You'll be glad that you did.
