Liaquat Ahamed, *Lords of Finance: The Bankers Who Broke the World*
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Tom Mertes

WAR, CRASH, SLUMP

As austerity policies roll out across the Western world, markets await the next shock and central bankers' moves command the headlines, thoughts naturally turn to comparisons with the last great global meltdown. Liaquat Ahamed's blockbuster, *Lords of Finance,* is undoubtedly the most engaging narrative of the run-up to the 1929 Crash to have appeared in recent years. The elements that Ahamed synthesizes here are not especially novel. Like Peter Temin, in *Lessons from the Great Depression* (1989), and Barry Eichengreen, in *Golden Fetters* (1992), Ahamed traces the disequilibria of the 1920s and 30s back to the First World War. As per Milton Friedman's and Anna Schwartz's account of the period in their *Monetary History of the United States* (1963), monetary policy is the crucial determinant: problems of international capitalist production remain distant from the action. And as in Eichengreen, again, the dysfunctional inter-war gold standard plays a central role.

But *Lords of Finance* is different in two respects. First, this is not a work of economic scholarship but a historical narrative, in the manner of Barbara Tuchman. As a storyteller, Ahamed marries an assured grasp of pace and structure with a cinematic eye for costumes and settings. His focus is on the commanding heights of the international financial system and his principal *dramatis personae* are the heads of the American, British, French and German central banks. Chapter by chapter, the action shuttles between the major financial capitals—London, Paris, Berlin, Manhattan, with occasional trips to Washington, DC—while characters, back-stories and personal relationships are deftly interwoven. It is little surprise that *Lords of Finance* has topped the holiday reading lists of investment bankers, winning Goldman Sachs and *Financial Times* 'book of the year' awards, as well as a Pulitzer. Ben Bernanke commended it to the Congressional inquiry into the financial crisis, Lawrence Summers to Obama's Council of Economic Advisers.

For the second difference is that, unlike the standard economic histories, Ahamed's work carries an unambiguous message of solace and support for today's financial lords. Indeed, the circles the author moves in are not far removed from theirs. Born in Kenya in 1953, Ahamed relocated to England, read economics at Trinity College, Cambridge, then crossed to the US for a masters at Harvard and a stint at the World Bank. Since the mid-1980s he has been a professional investment manager, with close personal ties to Clinton Administration officials—Strobe Talbott and his wife are thanked as 'mentors, promoters, counselors and editors' of the book. As Ahamed explains, the inspiration for *Lords of Finance* came from a *Time* magazine cover in the aftermath of the 1997 Asian crisis, showing Alan Greenspan, Robert Rubin and Summers over the heading, 'The Committee to Save the World'. The function of the book is that of apologia: damning the 1920s quartet of central bankers, the better to highlight the wisdom of the 1990s trio, and now of their successors: Bernanke, Mervyn King and other saviours since 2008.

That said, the story may contain other parallels, and Ahamed tells it with élan. His muse throughout is John Maynard Keynes, who pops up in nearly every chapter to furnish an analysis or pave the narrative path. On the two major problems facing central bankers and politicians at the time—the crushing burden of war debts and reparations, and the re-establishment of that 'barbarous relic', the gold standard—Keynes's positions cannot but strike today's lords of finance as enlightened and far-sighted. The core of the book investigates the relations between the Central Bank chiefs—members, according to the 1920s press, of the 'World's Most Exclusive Club'—and Ahamed provides a lively sketch of each. Montagu Norman, born in 1871, joined the Bank of England's staff in 1915 and was appointed Governor five years later. His forebears had been City bankers for generations, though Norman, something of a misfit, had dabbled in speculative philosophy and sought psychoanalytical help from Jung. The anglophile Ahamed is clearly charmed by Norman's life and personality: with his broad hat and pointed beard, he 'neither looked nor dressed like a banker', but 'more like a grandee out of Velázquez or a courtier from the time of Charles II.'

Norman's counterpart at the Banque de France in the late 1920s was Émile Moreau. Born in 1868 in Poitiers, to a minor landowning family, he was an outsider to the financial aristocracy; an outstanding graduate of Sciences-Po, fast-tracked through the Ministry of Finance, his career was subject to the revolving door of Third Republic ministries. Proudly provincial, Moreau was a man of few words, 'blunt and almost rude', who made no attempt to enter Parisian salon society, preferring to spend his time hunting with fellow notables in Poitou. At the Reichsbank, Hjalmar Schacht was also a social outsider: born in North Schleswig in 1877, a country doctor's son, he combined 'a strong work ethic and brazen ambition'. Alone among the top central bankers he gained a doctorate in political economy, then a job at Dresdner Bank's headquarters in Berlin. For Ahamed, Schacht was 'a typical product of the Kaiserreich: conformist, unquestioningly nationalistic and fiercely proud of his country and its material and intellectual achievements.'

By contrast Benjamin Strong, the first chairman of the Federal Reserve Bank of New York, though not personally ultra-rich, was very much an insider. Born in the Hudson Valley in 1872, he came from a Puritan family that had landed in Massachusetts in 1630 and 'exuded the confidence of the Ivy League athletic star', although in fact he was consumptive and would retire for long spells to a Colorado sanatorium. Strong took up stock-jobbing on Wall Street after a chance worsening in family fortunes denied him his place at Princeton. Henry Davison, a key figure at J. P. Morgan, soon took him under his wing, and the pair played a central role in Pierpont Morgan's bail-out of the US banking system after the 1907 Panic. When the Federal Reserve banks were established in 1913, the New York financial elite considered Strong to be the obvious 'safe pair of hands'.

Ahamed also provides profiles of each of the central banks, which were in turn utterly distinct as national institutions. The Bank of England was the oldest and, like its European counterparts, a product of war. It was founded in 1694 during the War of the League of Augsburg with France, when a group of City bankers offered the Exchequer funding for the military effort in exchange for the authority to issue paper currency—therefore, to regulate the price of credit, through its interest rates—and for a monopoly on government business. It soon became a bankers' bank, looking after the others' deposits; accountable to its directors, paying dividends to its shareholders, yet with a vast say over the British—and world—economy. In 1914 two-thirds of global trade credit and over half the world's long-term investments flowed through the City of London. Its powers huge yet never formalized, the Bank of England at the height of the Empire was run like a gentlemen's club.

The Banque de France was founded in 1800 by Swiss and Rouen bankers who extracted the same condition from Napoleon, in return for funding the Directory's wars: a monopoly over note issuance in Paris. But when, after the disaster at Trafalgar, the Banque nearly failed to finance the Austerlitz campaign, Napoleon subjected its directors to a whiff of grapeshot. Henceforth the Governor and his two Deputies would be appointed by the government: 'The Banque does not belong only to its shareholders, but to the state.' The Reichsbank for its part was, famously, the creation of Bismarck and his banker, Bleichröder, in 1871. Legally it was owned by private shareholders; but, on Bleichröder's advice, the Bank's Governor and top officials were made answerable to the Chancellor and representatives of the major German states.

Ahamed relishes the telling of the 1910 Jekyll Island meeting that designed the US Federal Reserve system: Strong, Davison, Paul Warburg and others travelling incognito to a supposed duck shoot with Senator Nelson Aldrich at a private island retreat off the Georgia coast, so as not to awaken suspicions that a cabal of top bankers was getting together to refashion the American monetary system. He shows clearly how the New York Fed—by far the largest of the twelve regional Reserve Banks capped by the Federal Board—dominated the Reserve system from the start. While the Washington body struggled to appoint its board, New York became its pilot and Strong the dominant force in formulating monetary policy.

Yet despite their different origins and cultures, the central banks of the gold-standard countries shared the same responsibilities: intervening to calm financial panics and maintaining sufficient reserves of bullion to guarantee their currencies, convertible to gold on demand. As Ahamed explains, national regulations varied on the precise relation of gold to paper: at the Bank of England, the first $75m equivalent of pound notes it printed was exempt, but any currency in excess of this had to be fully matched by bullion, while the Federal Reserve was required to have 40 per cent of all the dollar bills it issued on hand in gold. All the currencies linked to gold were, by corollary, tied to each other: sterling at 113 grains of gold, the US dollar at 23.22 grains, were fixed at £1 to $4.86. The availability of world credit was likewise tied to the world supply of bullion, expanding during new finds—the gold rushes of the 1850s and 1890s—and contracting in between, exerting a gravitational pull on prices. Within these constraints, the central banks of the major powers cooperated to raise or lower rates, seeking to maintain equilibria, with the Bank of England generally functioning, in Keynes's image, as 'conductor of the international orchestra'.

Lords of Finance opens with the onset of the Great War, which would make and unmake each of the central bankers' legacies. All four shared the conventional expectation that, if it came at all, the conflict would be a short one. (Ahamed cites the tearful plea of Walter Cunliffe, Norman's predecessor as Bank of England Governor and best known for his ferocious reparations demands at the Paris Peace talks: 'Keep us out of it! We shall be ruined if we are dragged in.') Eleven million combatants died and 21 million were wounded in the four years that followed; 9 million civilians died from epidemics, hunger or cold. Europe's treasuries were empty, its savings and investments exhausted, and its populations desperate. To pay for the war, nations borrowed money and printed more—convertibility to gold was suspended from August 1914. All expected to pass the bill onto the vanquished, in reparations. Here as elsewhere, Ahamed follows Keynes's *Economic Consequences of the Peace* in converting all currencies into dollar equivalents: handy for comparisons. He calculates that Britain ('most responsible' of the belligerents, financially) spent $43bn on the war: some $9bn raised through taxation, $27bn borrowed from the US and at home, and the rest printed; money supply doubled. France (the 'most feckless') spent $30bn: $1.5bn from taxes, $10bn borrowed from the US or UK, and $15bn raised from government bonds bought by the country's 'thrifty savers', while printing trebled the country's money supply. Germany, possessing 'neither rich allies nor a sophisticated financial market', was in the worst situation of all: $47bn spent on the war, of which less than $5bn was raised through taxes and much of the rest through printing; by Armistice Day, German money supply had multiplied fourfold.

As financier and arms supplier to the combatants, the US was, famously, the great beneficiary of the war. The $20bn that Washington (with an economy three times the size of Britain's) spent on waging war in 1917–18 was largely raised through Liberty Bonds, while Wall Street lent some $12bn to the Allies. The war effected a 'seismic shift' in world capital flows. On the eve of the Great War the Bank of England had $200m worth of gold ingots in its vaults, the Reichsbank $500m, the Banque de France $800m, and the US, with its much larger economy, around $2bn, or approximately 40 per cent of the world's total bullion supply. By 1923, the US had nearly 70 per cent of the world's total bullion, while Germany's coffers were nearly empty. Ahamed's concentration on the central banker quartet offers some interesting perspectives on the story that follows: the Paris Peace Conference, the German hyper-inflation, the 1924 Dawes loan, sterling's 1925 return to gold, the soaring American stock market, the Fed's rate-tightening in 1928, the German recession, the Latin American defaults, the Crash of 1929 and then the banking crises, exploding like a string of firecrackers from Austria to Germany to Britain to the United States, that helped transform a bad downturn into the Great Depression.

Following Keynes, Ahamed has no truck with the myth of a magnanimous Uncle Sam whose far-sighted and disinterested advice at the Paris Peace Conference and after is shunned by squabbling, petty-minded Europeans. In a chapter entitled 'Uncle Shylock' he describes how the US delegation in Paris 'reacted strongly' against French and British suggestions that, if the Americans would agree to forgive some of the $12bn Allied debt, they would in turn moderate demands for reparations from Germany. Wilson's Secretary of State Robert Lansing was adamant that there could be no linkage: the American loans should be repaid in full. France and Britain therefore depended on extracting large sums from Germany in order to refund the US. At the Reparations Conference that followed the Versailles Treaty England, not France, sought the highest sums, initially demanding $100bn; the eventual figure was fixed in 1921 at $12.5bn—Ahamed reckons that an equivalent debt today would be around $2.4 trillion. As Keynes's *Economic Consequences of the Peace* pointed out, while signatures were still drying on the Treaty, Germany would have to build up a trade surplus in order to pay the punitive fines, thus eating into the world-market share of its main competitors.

Germany had lost 27,000 square miles of territory, perhaps six million people, and at least an eighth of its economic potential. In 1914 the mark had stood at 4.2 to the dollar; in 1920 it had weakened to 65. With a mass Social Democratic Party and a militant young Communist Party, backed by Bolshevik Russia, to contend with, the new German Republic was committed to relatively high levels of social provision: post-war pensions to widows and veterans, unemployment insurance, an 8-hour working day. Ahamed cites the Hamburg banker Max Warburg's remark to explain the hyperinflation: the Reichsbank's dilemma was whether 'to stop the inflation and trigger the revolution', or carry on printing money. Famously, Reichsbank President von Havenstein carried on printing, executing 'the single greatest destruction of monetary value in human history'. By August 1923, the mark stood at 620,000 to the dollar; by November 1923, at 630 billion. It was at this point that Hjalmar Schacht was appointed by Stresemann as the new Commissioner of the Currency. He introduced the Rentenmark, backed by a land tax and fixed at one to 1 trillion marks, and circulated a tightly limited supply: a 'bridge between chaos and hope', as he put it. Backed by Stresemann's ruthless fiscal measures, including the firing of 25 per cent of government employees to produce a balanced budget, Schacht sought to attract gold back to Germany in sufficient quantities to return to the pre-war standard. Hailed by the press as 'The Wizard', Schacht was duly appointed Reichsbank President in December 1923. The following month he was in London, being introduced to the City's powerbrokers by Norman, who reported to Strong that Schacht 'seems to know the [German] situation from A to Z and to have, temporarily, more control of it than I should have believed possible'.

The American solution to the German problem was embodied in the Dawes Plan: a $200m loan to stabilize the Rentenmark, conditional on Berlin's acceptance of a US-appointed Agent-General who would manage the reparations fund; payments would be lower for five years, to rise in 1929. Ahamed paints the scene at the *belle époque* Hotel Astoria, close by the Arc de Triomphe: Charles Dawes was a Chicago banker who had served as Brigadier General with the American Expeditionary Force in France, 'a straight-talking Midwesterner with a long, basset-hound face who smoked an underslung Sherlock Holmes-style pipe and peppered his conversation with picturesque swearwords'. A US–UK bankers' front led by Norman and the House of Morgan representative, Thomas Lamont, insisted on French withdrawal from the Ruhr as a pre-condition for floating the $200m Dawes loan. The *New York Times* reported that many Frenchmen were convinced that 'America's only purpose is to make more money out of Europe's misfortunes', while the Springfield *Republican* commented, 'In the lean years that follow an exhausting war, financiers outrank generals'. In August 1924 the Dawes Conference presented the German delegation with a take-it-or-leave-it deal, and gave it a single night to reach a decision. Schacht alone spoke out against, in his 'harsh Frisian accent': 'We cannot accept the terms—we can never fulfil them.' Stresemann insisted otherwise: 'We must free the Rhineland. We must accept.' The Dawes loan set off a quickening flow of hot capital into Germany, and the green shoots of European recovery seemed to be appearing at last. Keynes summed up the Plan: 'The United States lends money to Germany, Germany transfers its equivalent to the Allies, the Allies pay it back to the US government.' The foul-mouthed Dawes was soon Silent Cal's running mate and a Nobel Prize winner.

The central bankers' recipe for 'normalcy' and stabilization was a return to the discipline of gold, ideally at pre-war parities. For the weakened European currencies there were two paths to achieve this: deflation—raising interest rates to strengthen the currency, at the expense of exports and businesses—or devaluation: accepting a lower valuation of the currency, and thus punishing savers and investors. Strong and Norman went for the former course, Moreau and Schacht for the latter. In the US deflation was not particularly difficult, since the American economy was on a much more solid footing; it had become the world's largest creditor and held a huge stock of gold. Strong, however, intervened to prevent the 'normal' function of the gold standard—the expansion of credit in tandem with the gold inflows, which would eventually encourage capital to seek other currencies with higher interest rates. Instead, he ensured that the Federal Reserve kept interest rates relatively high, thereby 'sterilizing' the growing auric hoard. Had he allowed the dollar to devalue or level off, gold would have been more likely to circulate back to Europe.

The Bank of England was in a much less advantageous position, but Norman was adamant about returning to gold at pre-war parity as a 'civilizational' matter, vital for the prestige of sterling and for London's position as the financial centre of the world. In 1920 the Fed and the Bank of England had both raised interest rates to 7 per cent, to cool an inflationary post-war consumer surge; the American economy had bounced back within a year, while Britain remained recession-bound throughout the 1920s, with two million workers redundant. Nevertheless, Norman continued to steer the pound towards its pre-war value of $4.86. Ahamed notes, indulgently, that Britain's economic troubles were not 'the result of ineptitude or wages of financial sin', as was the case with France or Germany, but merely 'the unfortunate side-effect of a high degree of financial piety and rectitude'. At the same time, his account illuminates the role of the New York Fed and House of Morgan in sustaining the gold-fetish policy. Strong held that if sterling failed to return to the gold standard, it could only lead to 'a long period of unsettled conditions too serious to contemplate':

> It would mean violent fluctuations in the exchanges, with probably progressive deteriorations in the values of foreign currencies vis-à-vis the dollar; it would prove an incentive to all those who were advancing novel ideas for nostrums and expedients other than the gold standard to sell their wares; and incentives to governments at times to undertake various types of paper money expedients and inflation; it might indeed result in the United States draining the world of gold . . . a terrible period of hardship, suffering and social and political disorder . . . [culminating in a] monetary crisis.

In January 1925 Norman spent a fortnight as a guest in Strong's Park Avenue apartment, where—the official US line of 'hands off' on Europe notwithstanding—he was subjected to an 'intense campaign' by his host and the Morgan bankers to get sterling back on gold as soon as possible. Strong arranged for a $200m Fed loan and $300m from Morgan's to the Bank of England, on condition that Norman remain at the helm and a shock-therapy policy of wage and benefit reductions be pushed through 'by *force majeure*'. Churchill, then Chancellor of the Exchequer, dithered but eventually led the pound back onto gold at $4.86 in April 1925, declaring bombastically that if 'the English pound is not to be the standard which everyone knows and trusts, the business not only of the British Empire but of Europe as well might have to be transacted in dollars'. As Keynes pointed out in 'The Economic Consequences of Mr. Churchill', the pound was now overvalued by more than 10 per cent. Workers in the export industries were hit hard, especially dockers, miners and textile workers. The following year, mine owners' demands for a wage cut and hours increase triggered the ten-day general strike.

In France, meanwhile, Moreau at the Banque de France aimed with much success at the opposite policy: keeping the franc down and boosting exports—thereby creating even greater problems of competitiveness for British industry, while soon attracting inflows of gold. Relations between the two central bankers were tense. Ahamed describes the contrast at their first meeting in 1926: 'Norman, tall, distinguished and cosmopolitan, with his trimmed beard and his well-cut dandyish clothes; Moreau, short, squat and balding, looking like a provincial notary out of a novel by Flaubert'. Faced with his Gallic opposite number, 'Norman's famous charm seemed to desert him. He was gratuitously patronizing, and despite being fluent in French, insisted on speaking to Moreau, who spoke no foreign languages, in English throughout'. Moreau noted in his diary: 'Norman spares nothing in his efforts to flatter Strong or gain influence over him. He went to spend several days in Antibes solely because Strong was staying there.'

By the summer of 1927, then, many of the imbalances that would underlie the Crash and Great Depression were already in place: the newly reconstituted international gold standard was not self-correcting, as the pre-1914 system had been; hot money was flooding into a German building boom; sterling was pegged too high, and the franc too low. In July 1927 the leading central bankers met in conclave at a private mansion set in the 'Gatsby-esque world' of Long Island's 'Gold Coast', to debate the problems they faced; above all the need to strengthen Europe's gold reserves and encourage flows out of the US. Strong could see only one option: a cut in American interest rates, even though he recognized, as he told the French, that this would give the stock market '*un petit coup de whisky*'. Strong, steering the Federal Reserve from Manhattan, was accused—not least by Herbert Hoover—of thereby encouraging speculation in the bubble, as the Dow broke 200 and debt-based trading began to soar, brokers' loans rising from $3.3bn in 1927 to $4.4bn in 1928.

In this situation, the effects of the Fed's decision to raise interest rates in order to check the bubble from late 1928 were massively amplified. The reversal of capital flows, as hot money was sucked back from Germany and Latin America to the US, left the weaknesses of the indebted countries exposed and hurt British investments there. Economic competition and nationalist distrust continued to combine to erode the co-operative 'rules' that were supposed to ensure the gold standard's equilibrating function. Ahamed argues that, by this stage, the bullish stock market was 'too violent and intense to kill'. More to the point, Strong, who passed away in October 1928, his health sapped by tuberculosis and pneumonia, had not factored in the role of the non-financial economies in undermining a deeply flawed international monetary system, with Britain one of the weakest links. Personal relations reflected fracturing international bonds. At his final meeting with Norman, four months before he died, Strong raged against the Bank of England Governor 'in the most vehement language', declaring it 'stupid beyond understanding' for Norman to pick a quarrel with Moreau over who should float a loan to Romania when Moreau's hoard of sterling left the English 'completely dependent on the Banque de France'.

In February 1929, on schedule, the Americans ratcheted up German reparation payments. (Ahamed provides the menu for the opening banquet of the Paris conference that formulated the notoriously punitive Young Plan: oysters with a 1921 Chablis, lobster *à l'americain* with a 1919 Pouilly, venison with an 1881 Château Rothschild, and so on through three more courses to finish with an 1820 Cognac Napoléon over coffee.) Schacht resigned from the Reichsbank in protest against the extortionate fines and began to align himself with the far right (he would return as Hitler's Reichsbank President and Economics Minister a few years later). By the summer of 1929, with 'Germany teetering on the brink of default, a shortage of gold, falling commodity prices, madness on the US exchanges and a chronically weak sterling held captive by the Banque de France', it was hard to tell which was the more combustible factor. Investors flooded into the safe havens of the French and American markets, while plunging prices crushed export hopes. A negative feedback loop built up as governments cut public provision and raised tariff barriers and interest rates: demand was choked even as prices were falling. A recession was already brewing across broad swathes of the world economy even before the New York stock-market crash.

From Black Tuesday onwards, central bankers were slapped back and forth by their national economies. By 1930, industrial production was down 20 per cent in Britain, 25 per cent in Germany and 30 per cent in the US. Millions more had been thrown out of work and international commodity prices—cotton, coffee, rubber, wheat—had tumbled by 50 per cent. In May 1931 the collapse of Credit Anstalt, Vienna's largest and most reputable bank, proved the final undoing of the inter-war trade, debt and currency system. Investor confidence in the Reichsbank cracked. A last-minute American offer to suspend Berlin's reparation payments was scuppered by the political demands of the French. The ensuing German banking crisis set off waves of panic across the globe. Chile followed Bolivia and Peru into default. Capital drained away from London, badly implicated in both Germany and Latin America. At the end of July, Norman left the Bank early, noting in his diary, 'Feeling queer'. His doctors diagnosed a nervous collapse brought on by excessive strain and prescribed a complete rest. The Labour government split over the House of Morgan's conditions for a loan, which included savage cuts to unemployment benefits. In September 1931 Ramsay MacDonald suspended gold convertibility; sterling fell by 30 per cent against the dollar over the next three months.

With British doors bolted, fears focused on a dollar devaluation. The contagion spread throughout the US, spawning an unprecedented run on the banks which decimated the banking system. The situation was compounded by ill-formulated Federal Reserve regulations which forced it to raise interest rates, in step with declining gold holdings, just as the economy plunged into a deflationary spiral. Only with Roosevelt's decision to come off the gold standard and devalue the dollar did the US economy hit bottom and level off. On the international front, a falling dollar eventually broke the French commitment to the gold standard, as its exports could no longer compete. When the World Economic Conference met in London in 1933, national concerns again trumped any agreement on stabilizing currencies. The central bankers had been close to a behind-the-scenes agreement when Roosevelt sent a sharp missive scotching the deal. The rest of the decade would see an unstoppable process of beggar-thy-neighbour competitive devaluations. Not until the Bretton Woods agreement in 1944 would a stable international monetary system be—temporarily, at least—put in place.

Ahamed's concluding judgement is a succinct illustration of the 'great man' theory of history: the Great Depression was 'the direct result of a series of misjudgements by economic policy makers', starting with the debt and reparation decisions made at the Paris Peace Conference, followed by the central bankers' determination to return to the gold standard and their failure to respond in an adequate and coordinated manner to the banking crises of 1931. Leadership at the Fed after Strong's death was in the hands of 'inexperienced and ill-informed timeservers', while Moreau at the Banque de France was 'more intent on using France's newfound strength for political than economic ends'. As a result, 'what began as modest and corrective recessions in the United States and Germany were transformed by sheer folly and short-sightedness into a worldwide catastrophe'. Though Strong was responsible for the disastrous gold-standard policy, had he still been at the helm in 1931 he would have acted 'more vigorously and with greater effect' than his successor, Ahamed argues. And, of course, had Keynes been in charge from 1918 onwards, the world economy would have taken an entirely different course. The happy ending of *Lords of Finance* depicts Keynes and Harry Dexter White establishing the IMF–World Bank architecture of the post-war order amid the bucolic luxury of Bretton Woods, 'setting the stage for one of the longest periods of sustained economic growth the world has ever seen'. (Though Ahamed does not say so, it would also be an age when central bankers played a much reduced role; Paul Volcker's appointment as Chairman of the Federal Reserve in 1979 would signal their renewed world stature.)

In form, then, *Lords of Finance*'s view of the causes of the Great Depression is a bracing polemic rather than a balanced adjudication of a range of complex factors, let alone an attempted model of their intercalation. During the period itself, many economists thought the roots of the problem lay in the over-investment of the previous decades, which resulted in lower aggregate demand as fewer opportunities for new investment presented themselves. Rexford Tugwell, one of Roosevelt's most influential advisors, argued in his 1933 'Design for Government' that the underlying problem was 'a present capacity for more production than is consumable, at least under a system which shortens purchasing power while it is lengthening capacity to produce'. Labour economist Charles Persons suggested in 1930 that 'the existing depression was due essentially to the great wave of credit expansion in the past decade'—the consumer binge had eventuated in 'a great excess in competitive capacity', with large quantities of investment 'hopelessly sunk in idle plants'. Hoover stressed the problem of overproduction in Europe, and the debts and deficits there, but he also complained that the failure of the financial system had 'produced by far the largest part of the demoralization of our systems of production and distribution'. Later scholars have also pointed to the roles played by income inequality and underconsumption (Paul Sweezy), the trade mismatch between primary-producer and industrial nations (Charles Kindleberger), business cycles and stagnation (Simon Kuznets and Moses Abramovitz), misinvestment, together with the shift from capital goods to consumer production (Josef Steindl and Michael Bernstein), or deflationary spirals and poor credit intermediation (Ben Bernanke).

The real economy is almost entirely absent from *Lords of Finance*, as is the wider world beyond the four great powers: there is barely a mention of the Soviet Union, Latin America or the colonial empires on which sterling and the franc relied. Keynes is present, but the drama of his worldview is somewhat neutered. 'The last of the great English liberals', in the words of his biographer, Robert Skidelsky, brought the state in only because he saw it as 'the last resource' to redress the failings of society. *The Economic Consequences of the Peace* is, ultimately, an impassioned call to arms to save the liberal capitalist order from 'that final civil war between the forces of Reaction and the despairing convulsions of Revolution, before which the horrors of the late German war will fade into nothing'. The deeper politics of Keynes's approach to the reparations question—'debt as an engine of American lending, foisting the yoke of New York bankers on Europe'—likewise eludes Ahamed; Skidelsky's suggestion that Keynes, disturbed at the passing of financial power from London to New York, sought to build up Germany as a partner to resist the 'Americanization of the world', is closer to the mark.

What comparisons can be made between the concatenation of crises that inaugurated the Great Depression and the world-economic problems of today? In a striking epilogue, Ahamed draws out three distinctions. Firstly, the scale of the 1930s meltdown: over a three-year period, real GDP in the major economies fell by over 25 per cent, commodity prices fell by half, wages by a third, and a quarter of the male workforce was unemployed; almost every sovereign debtor defaulted, including Germany, the third largest economy in the world. Secondly, the crises of 1929–31 came 'cascading one upon the other in a single, concentrated two-year period'; by contrast, those that have buffeted the world economy since the end of the Cold War have 'conveniently struck one by one, with decent intervals in between'. Here, Ahamed proposes an interesting set of parallels between the component crises of 1929–33 and those of our own era. He argues that the 1928 halt in the flow of American capital to Europe, which tipped Germany into recession, has its counterpart in the Mexican peso crisis of 1994. The Crash is paired with the burst of the dot.com boom in 2000: 'both followed a frenzied bubble in which stocks completely lost touch with economic reality', becoming overvalued by 30–40 per cent. The 1931 evaporation of confidence in German and Central European banks has its analogue in the 'emerging markets' crisis of 1997–99, which affected not only Thailand, Indonesia, South Korea and Russia but also Argentina and Brazil. Finally, the 1931–33 sequence of banking panics twins with the credit crunch and global crisis of 2007–10:

> The present turmoil has also led to a mass run on the financial system—this time not by panicked individuals but by panicked bankers and investors pulling their money out of not only commercial banks but investment banks, money market funds, hedge funds and all those mysterious 'off-balance-sheet special-purpose vehicles' that have sprung up over the past decade. Every financial institution that depends on wholesale funding from its peers has been threatened to a greater or lesser degree.

In some respects, Ahamed argues, the current crisis is 'even more virulent' than the banking panics of the early 1930s. In those days, depositors had to line up physically outside their bank to get their money, whereas now 'massive amounts of money are siphoned off with the click of a mouse'. Moreover, the world financial system has grown far larger, relative to GDP, and has become far more complex and interconnected, with much greater leverage and reliance on short-term wholesale sources of funding that can 'evaporate overnight'. The international banking system is thus far more vulnerable today, Ahamed concludes.

Offsetting this, however—and this is the third major distinction to be drawn with the 1920s and 30s—has been the admirable response to the 2008 crisis by central bankers and treasury chiefs. Without their unprecedented moves to 'inject gigantic amounts of liquidity into the credit market and provide capital to banks', there is little doubt that the world financial system 'would have collapsed as dramatically as it did in the 1930s'. This time round, the lords of finance have 'staved off a catastrophe'—in the words of *Time* magazine: saved the world. A less complacent reading, however, would suggest that, far from being happily different, the strategy of today's central bankers has been all too comparable to that of Norman, Strong et al: propping up a broken financial system, itself a product of deeper underlying problems in the real economy. Alan Greenspan and Ben Bernanke at the Federal Reserve, Mervyn King at the Bank of England and Jean-Claude Trichet at the ECB all shared a penchant for 'light-touch' regulation of the hypertrophied financial sector. Greenspan deliberately encouraged the inflation of the US housing bubble, and its spread into sub-prime territory, after the dot.com bust. Bernanke and King ensured that Wall Street and the City of London would dictate the 'solutions' to the crisis. All are now pushing for pro-cyclical austerity measures; none have questioned the fundamental design of the banking system. Like Norman, King aimed to keep the pound strong, boosting London's role in international finance but destroying domestic manufacturing.

Greenspan himself has recently argued that the present crisis is rooted in the vastly expanded labour force producing for export markets, driving up GDP in the 'developing' world and thereby creating more savings than 'global intentions to invest'; a historically low US interest rate is thus the result of a lack of other investment opportunities. In fact Greenspan and Bernanke, like Strong, though well aware of the importance of Fed decisions on the international monetary system, in the last instance based their actions on the needs of the domestic economy. Hence the return of the national blame game so evident in the 1920s and early 30s. The Anglophone financial press is loud in its criticisms of the excessive savings of Asian nations, especially China, and of Germany. British policymakers have come under attack for abstaining from the EU–IMF promise to hold the cracking euro together. Congress has led the campaign for pressure on the PRC to let the renminbi strengthen against the dollar; the greater Chinese consumption that would supposedly follow proposed as the missing tonic for the flagging US economy.

The systemic problems caused by the declining profitability of the advanced capitalist core, the hyper-expansion of its financial sector and the destabilizing rise of a new 'workshop of the world' in the Far East are on a different scale, morally as well as economically and politically, to the devastation wrought by World War One. Yet many of the symptoms of dysfunctionality today bear an uncanny resemblance to those of the late 1920s: excess capacity from overinvestment in the same lines; untenable levels of sovereign, personal and corporate debt; high levels of inequality; escalating recurrences of financial-market failure; above all, perhaps, an absence of intellectual and political leadership in the wealthiest nations that would be willing to make the sweeping structural changes necessary to 'save the world'.