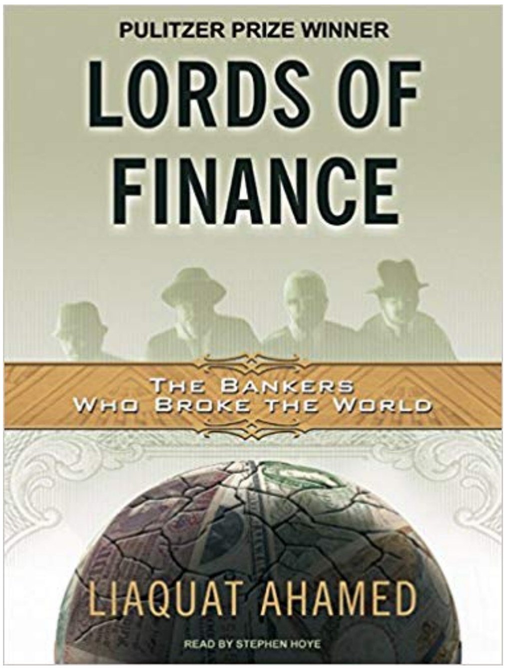
Lords of Finance: The Bankers Who Broke the World *by* Stephen Hoye,Liaquat Ahamed



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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 made 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 boomtown 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.

Reviews of the Lords of Finance: The Bankers Who Broke the World *by* Stephen Hoye,Liaquat Ahamed

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Read the "Creature from Jekell Island" first to understand the history and creation of Central Banking and how individuals, for personal reasons, created the Central Banking and international Banking system, and then read this magnificant study of the central personalities involved in the creation and managing of the international banking system that helped to create the depression. There are plenty of excellent reviews that describe the book, and I will not rehash that for the reader, I will simply say this is must reading FOR EVERYONE, not simply the 'person who wants to understand" yada yada. Everyone must understand the political system and economic systems that affect us directly every day. This book shows clearly how individual decision makers make decisions, often for thie good of their states, often for their own personal benefit (money, power, prestige) and these decisions affect everone of us. As the system has been established, very seldom are these decisions made by our elected representatives, rather they are made by insiders, even cronies. The author seems do totally disreguard the fact that the "Kensayan solution" is inflation which is a huge transfer of wealth from the saver to the Banker and the Government. That is my only criticism of this excellent study. I wish I had read it 30 years ago, but alas it was not available 30 years ago. Great work!

Just_paw

Lords Of Finance is an excellent book for the average person who wants to understand monetary history from about 1900-1945, the Gold Standard's effect on world economies, and how economic disruption caused by political polarization and mismanagement helped pave the way for Hitler, the Japanese military junta and thereby World War II. (The Japanese history is not mentioned in the Lords of finance, but is covered by the book "Golden Fetters".) Lords of Finance makes the story interesting by detailing the careers and influence of the persons most involved with managing the world's economy at that time: Montagu Norman - Bank of England, Winston Churchill British Minster of the Exchequer (US=Treasury Secretary); Benjamin Strong, President of the New York Federal Reserve; Hjalmar Schacht of the Reichsbank (later indicted war criminal - found not guilty); Emil Moreau of the Banque de France and John Maynard Keynes the "greatest economist of his generation". These, along with some other colorful characters are the Lords of Finance.

Lords of Finance covers International finances with starting with some overview of pre 1900 Central bank dealings and goes up to the Bretton-Woods agrement that fixed the dollar to gold and other curriences to the dollar. Especially interesting is the German hyper-inflation after WW I which was partially, if not wholly, self-inflicted by Germany in an attempt to forestall onerous reparations payment. But during this same period Germany also borrowed money from the U.S. to build municipal swimming pools. It would seem that Germany inflicted sever damage on its own economy to avoid reparations payment. This failure to pay by Germany led, in 1923, to the French invasion and military takeover of the Ruhr valley: Germany's industrial heartland.

Lords of Finance also covers the tabloid side of finance. Joseph Caillaux, was a radical who had suggested an income tax be adopted in France. Le Figaro, a conservative newspaper, then published the love letters that Joseph Caillaux had written to a former mistress. Madame Caillaux, his wife, was upset and purchased a gun. She went to the offices of Le Figaro and waited two hours for the editor to come out. She said to him, "You know why I'm here", and shot him dead. She was put on trial, but an all-male jury found her not-guilty as it was a crime of passion. Monsieur Caillaux had his own problems and was convicted of financial irregularities. When he returned to the Ministry of Finance, "an American newsmagazine reported that it was as if Benedict Arnold, instead of being executed, had been barred from Philadelphia, exiled to the country, then pardoned, and appointed secretary or war. "

I had first started reading "Golden Fetters: the Gold Standard and the Great Depression" which covers roughly the same ground as Lords of Finance. But Golden Fetters is more technical and a bit over my head (I have no formal economics training) but very informative. It has incisive analyses of parliamentary vs. US style two party democracy, and looks at the political polarization that occurred in Germany and Japan over who should pay taxes (sound familiar?). This gridlock helped destroy those economies (think Tea Party blocking the repayment of national debt). That led to death squads and right wing takeovers. The military put people back to work: building armaments. In Germany they made lots of guns but butter and domestic needs were hard to come by. About a third of the way through I started reading "Lords of Finance".
Lords of Finance covers pretty much the same ground as Golden Fetters but in less technical terms and less depth. Golden Fetters gives detailed accounts of Gold reserves, balance of payments, foreign currency reserves etc. buttressed by pages of charts graphs and tables of same for every major country in Europe and North and South America. I just skipped the tables. Lords of Finance gives a clear picture of the economic forces at work and the theories behind them plus details about the people who controlled the world's economies.

Both books agree that the Gold Standard is a strait-jacket that is fine in normal times, but when things get dicey (WW I, WW II, Great Depression, recession of 2008) it proves fatal. That is why the world's economies were forced off the gold standard over and over again. When countries tried to return they paid a high price in fewer exports and rising unemployment. The Gold Standard constrains the money supply and hence economic growth. Bankers love it as it discourages inflation and encourages deflation. Think, do you want to pay back your mortgage in dollars worth more or less than the ones you borrowed. Inflation: good for debtors, bad for bankers; deflation good for bankers and savers, bad for debtors. Deflation: prices go down (good for savers), exports are hurt, and unemployment goes up. Winston Churchill called returning to the gold standard, "the biggest blunder in his life." He blamed it on the bad advice that he had received from the Governor of the bank of England (Norman) and by the experts of the Treasury who called the gold standard "knave-proof. It could not be rigged for political reasons." It would prevent Britain from "Living in a fool's paradise of false prosperity." Learning from this Churchill, during WW II, would trust his gut and let the military "experts" be dammed.

History repeats itself, Oh boy does it. In 1931 the US government could have stopped the first of a string of bank failures by injecting thirty-two million dollars into the Bank of the United States (no government affiliation). In 2008 thirty billion dollars in guarantees would have saved Lehman Bros. For want of a nail a shoe was lost...

Good books: The End of Wall Street (highly recommended) - a footnoted blow-by-blow of the crises of 2008; Thirteen Bankers (also highly recommended)- history of U.S. banking from roughly 1900 to 2009. Golden Fetters: the Gold Standard and the Great Depression 1919-1939 (rather technical): A monetary History of the United States by Milton Friedman (very technical and way over my head); and of course, Lords of Finance (a must).

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“Central bankers can be likened to the Greek mythological character Sisyphus,” writes Liaquat Ahamed in Lords of Finance. It’s hard to imagine Alan Greenspan heaving a boulder up a hill, but given that his career ended marred by the gravitational pull of derivatives and a pendulous business cycle, the analogy works. Of course, central bankers like Greenspan are not bound for eternity; in Lords of Finance they retire after rolling their fiscal stones halfway, then take roles as elder statesmen, marry young wives, and suckle personal fortunes while withering into obscurity.

Ahamed’s thesis is that the Great Depression was caused by misguided economic policies implemented by central bankers in Germany, France, England, and America. The book moves chronologically, first describing the politically controversial creation of central banks; then the financial impact of the world’s sudden plunge into the Great War; then the economic “consequences of peace” during post-war reconstruction; and finally the Great Depression and its aftermath.

The book’s subtitle, The Bankers Who Broke the World, implies that blame for the disastrous policies should lie with the nominal policymakers, the central bankers who made up the so-called “Most Exclusive Club in the World”: Benjamin Strong, Emile Moreau, Montagu Norman, and Hjalmar Schacht.

But blaming the central bankers is facile scapegoating. Consider an earnest question posed to an economic advisor by Winston Churchill: “You have been a politician. Given the situation as it is, what decision would you make?”

To the chagrin of a present and dissenting John Maynard Keynes, Churchill follows the advice of the advisor, which leads to economic calamity.

Blaming politicians, too, is shortcoming. To quell speculation in the pre-Depression stock market, Herbert Hoover, the engineer, and Adolph Miller, a Berkeley economist, have their own misguided policy ideas. Ahamed writes of these, “[T]hey had fallen into the first trap of financial officials dealing with complex markets––an excessive level of confidence in their own judgements.”

Lords of Finance shows economic policymaking for what it is: a muddled orgy of ideology, overconfidence, ego, theory, expertise, indicators, populism, vested interests, ignorance, and politics. Though there are individuals who possess the ability to impact financial crises, they are time and time again shackled by doubt, bureaucracy, and institutions. Nearly everyone errs; the boulder rolls down the mountain.

But circumstances have improved. Ahamed concludes by acknowledging the relative stability of the modern financial system––even as the book was published one year into the 2008 financial crisis. The world is better off because of consensus acceptance of the ideas popularized by the infallible John Maynard Keynes and the relative maturity of monetary theory.

For all of the economic insight, some of the work’s most enjoyable reading comes during tangents, when Ahamed drifts from lucid but dry discussion of interest rates and bank behavior into anecdotes about characters. Ahamed thankfully chooses to use footnotes to personify his characters, rather than expound on economic theory, which contributes to the book's fluency and fun.

Lords of Finance is an excellent resource for anyone interested in economics, finance, and banking, or interested in seeing the Depression-era through a different lens.

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