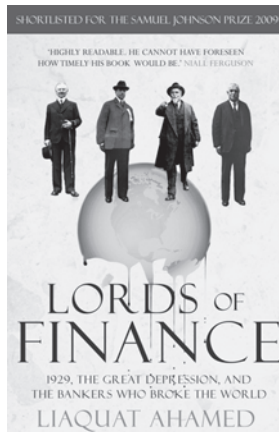


Book Review

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Lords of Finance, 1929, The Great Depression, And The Bankers Who Broke the World

Author: LIAQUAT AHAMAD

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Shortlisted for BBC Samuel Johnson Prize for Non Fiction and has won the Financial Times-Goldman Sachs Business Book of the Year Award, the Financial History Book of the Year Award and the 2010 Pulitzer Prize for History.

About the Author

Liaquat Ahamad, a professional investment manager for 25 years, has worked at the World Bank in Washington DC and with the New York based partnership of Fischer Francis Trees and Watts as the CEO. He is currently advisor to several hedge fund groups and is on the board of trustees at the Brookings Institution. He has degrees in economics from Harvard and Cambridge universities.

Lords of Finance is Liaquat Ahamad's first book

Review

Lords of Finance is a chronicle of the tumultuous years between 1914 to 1936 in World History and a humanised version of international finance. Few major events which shook the world in the said period are the First World War in Europe from 1914-19, a fragmented and wounded Europe in the 1920s and the Great Depression in 1929-31 in the USA which affected the whole world. It is significant that the seeds of Second World War from 1939-45, the Holocaust, persecution of Jews were sown in the early 1920 and have origins in the events and financial practices forced upon the pariah the WW1, Germany by the international financiers. Rise of Hitler in the 1930s in a Germany whose pride was wounded, a nation of proud and intelligent people who were traumatised by the treatment meted out to them.

The four principal players who were the lords of finance between 1918 to early 1930s were, Montagu Norman- Governor of Bank of England, Benjamin Strong of the US Federal Reserve, Emile Moreau of the French Central Bank and Hjalmar Schacht of the German Central Bank.

It is pertinent here to mention briefly, that in the known human history, thousands of wars and battles have been fought. But relatively little facts are known about how those conflicts were financed or who financed them. However, the financiers and weapons makers of the WW1 and WW 2 are now known because of modern communication, intrusive press and the enormity of the transactions. Though the trigger for the WW1 is attributed to the assassination of Franz Ferdinand the II in Ugoslavia, the ground realities of Europe of 1914 tell the story of an aggressive, strong and expansionist Germany, several international treaties involving England, Russia, France and Germany which left loopholes to start a war. In Germany, the accused country, the loser of WW1, in 1919, the victims were the common people who fought the war as cannon fodder, lost their lives in millions, whereas the decision makers, such as the then German Emperor Kaiser Wilhelm, never experienced the hardships of a condemned nation. Further, outside the purview of this book, after WW2, the same kind of humiliation was meted out to Germany, it was divided, culturally bifurcated and

it was only the social resilience and strength of the public which led to the reunification in 1989.

Lords of Finance, to ease our study, can be divided into three major issues such as the National Finance and Gold Standard, War Reparations from Germany and the Great Depression.

International Finance and Gold Standard

England, supposedly the richest nation in the world in 1918 had to come out of the treasury system which followed the practice of amassing gold in Govt reserves to guard against inflation and secure the availability of a strong Pound in the hands of the people. The debt resorted to for financing the WW1 had taken its toll and gold reserves no longer supported the money circulation. United States, on the other hand amassed gold, both as a result of the industrial surge and as payment from the debtor nations. In the second half of the 1920s, Montagu Norman, against heavy opposition from the likes of John Maynard Keynes, the famous economist and Winston Churchill, reintroduces gold standard. Whereas, France which starts amassing gold in the early 1920s, even with a very weak Franc, ends up handling these difficult years better than England in the hands of Emile Moreau. Germany, on the other hand, remains a pariah, a reviled nation. In a span of 13-15 years from 1920, the value of German Mark goes from a few thousand to a dollar to 15 billion to a dollar. The rise, fall and rise of Hjalmar Schacht in the eyes of the German Govt and people tells the story of a condemned nation. Lord of Finance succeeds in building a picture of the international environment in finance. Importantly, the complete detachment of the general public or even the national Govts from the deals made between a handful of men draws the attention of the reader. In the heaving scene of bankrupt nations, pitiful state of public affairs in Europe, United States emerges as the powerhouse of economic strength. As the leadership changes hands from Calvin Coolidge to Edgar Hoover to Franklin D Roosevelt in the early 1930s, the centre of gravity of world finance shifts from London to Newyork. This can be seen from the eroding value of the British pound vis a vis the US dollar in that period. Newyork bankers become world bankers. Overseeing America's play in these years is an intelligent, efficient but sick Benjamin

Strong, responsible for the Federal Reserve of the US survives till the beginning of the Great Depression in 1929.

The role played by the legendary John Maynard Keynes at London in the late 1920s and later is significant. Keynes was one of the first to warn the British Govt on the economic policies and against entering gold standard as advocated by Montagu Norman. Almost all the warnings and predictions by the great economist come true to haunt England. By the late 1920s, Keynes becomes the oracle of the London financial world, then an investor in the early 30s and survives till the 50s to become one of the best known economists.

War Reparations from Germany

The financier to both England and France was the United States. The French and the British, following the treaty of Versailles at the end of WW1, enforced draconian penalties on Germany, its people to pay for the losses the war has caused and to penalise a 'war monger'. The French, went a step further. In the beginning of the 1920s, when they find that Germany is not keeping up as per agreement of the annual payments, they occupy Rhineland. Germany and France being traditional rivals for several centuries, such acts sow the seeds of hatred in the minds of the German people towards the French. Following the Versailles treaty, the original demand from Germany of over 20 billion British Pounds becomes 17.5 billion Pounds and then 7.5 billion Pounds to the exasperation and frustration of the British and the angry French over an un-relenting, wretched, vengeful Germany. French and the British link their payment of debts to the US to the payments from Germany due to them. In the entire period, the United States becomes the hated money lender, the Shylock of the world who wants back his money or his pound of flesh. The attitude of the US, can be summarised by the utterance of Calvin Coolidge, the then President of US, in an important meeting of world financiers in 1923 near Newyork. When the world financiers look up to him to give succour to Germany in the form of concessions, Coolidge looks at Benjamin Strong and says "They hired the money, isn't it?", referring to the European central bankers and refuses concessions of any kind.

The fall and rise of Hitler, his unceremonious humiliation in the Beer Hall Putsch of 1923, the travails of the people of a condemned nation helping him build the foundations of the Nazi empire makes interesting reading. The persecution of Jews, Nazi mission of hatred towards the moneyed class makes us part of the cauldron that was Germany. A hateful Germany, grating its teeth to take revenge on the world, the French, the British, the Russians sprouts youth, men and the middle aged who join Hitler and his horde in the 30s to invade neighbouring countries and start the WW2 later.

Great Depression 1929-31

By 1929, the US is already on the crest of a four year long dwell of the stock market mania. Presidents of huge corporations to the poorest of the poor tramps, college going girls to great grandmas are dealing with stocks and shares. Speculating in stocks and shares, whatever the business becomes a national pastime. The mood of the people and investors can be gauged by this statement by a Newyork banker in the beginning of October 1929. "When shoe shine boys give me stock tips, when housewives do not want gold to wear but invest all money in obscure stocks, when tramps in the streets collect change to buy shares, it is time for me to run away from this market". He survived the crash. On October 29, 1929, called the Black Tuesday, the Newyork stock indices fall over 20%, in the consecutive days, several banks are rendered bankrupt. Parleys run behind hidden walls between the Govt and bankers. Consumption and Industrial Production drops sharply. Tremors of the depression is felt across the world. The jobless roam the streets in cities and country side with nothing to eat. Hoover Govt changes hands with Franklin Delano Roosevelt taking the helm in 1931. Over cautious Hoover, takes the blame for being too slow to act. But the damage was done. Between 1931 and 34, an inexperienced but determined Roosevelt builds back the confidence, institutes measures to bring back the nation from the brink of collapse.

Tail Piece

Lords of Finance tells us the story of the calculative, ruthless and unforgiving world of international

finance of 1920s and early 30s in a humanised form. This book constructs the un glamorous details of central banks of Europe and US into arresting plots of enduring interest. As you turn the last page, you realise that this is one of the best efforts in the making of a gripping tale of ravages of a war torn Europe, sorrows of the commoners, ruthlessness of the powerful with money being the thread connecting all this.

About the author

Lt Col (Retd) Prasad S. N. has more than 20 years experience as an officer in the Indian Armed Forces. After completing BE (Mechanical Engineering) in 1987 he passed out of the Indian Military Academy, Dehradun in 1989 and was commissioned into the Corps of Electronics and Mechanical Engineers (EME). He specialized in Aeronautics at the Airforce Technical College, Bangalore. He obtained ME (Automobile Engineering) from University of Pune. He has published a research paper on a composite material for battle field applications. He was cited for Outstanding Academic Performance on completing Post Graduate Diploma in Human Resource Management at SIBM, Pune. He was on the faculty of Defence Institute of Advanced Technology, Pune and has taught Administration, HRM, Materials Management, Equipment Life Cycle Management, and Logistics. He took part in the combat operations at Kargil in 1999 and in the Counter Insurgency operations at J&K in 2004. Lt Col Prasad was awarded the Chief of Army Staff's Commendation medal in the Siachen Glacier sector in 2002. His email ID: snprasad@sdmimd.ac.in
