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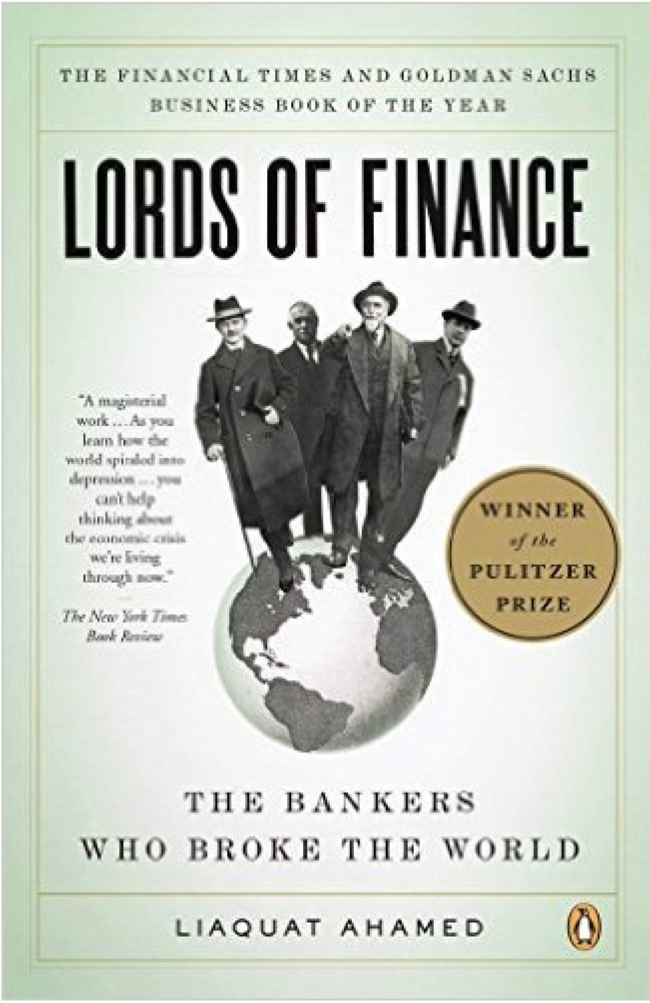
Lords Of Finance: The Bankers Who Broke The World



Synopsis

Winner of the 2010 Pulitzer Prize"A magisterial work...You can’t help thinking about the economic crisis we’re living through now." --The New York Times Book Review 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 that economic meltdown, the effects of which set the stage for World War II and reverberated for decades. As yet another period of economic turmoil makes headlines today, Lords of Finance is a potent reminder of the enormous impact that the decisions of central bankers can have, their fallibility, and the terrible human consequences that can result when they are wrong.

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Customer Reviews

Exclusive: Liaquat Ahamed on the Economic Climate In December 1930, the great economist Maynard Keynes published an article in which he described the world as living in Ã¢â ¬Å“the shadows of one of the greatest economic catastrophes in modern history.Ã¢â ¬Â• The world was then 18 months into what would become the Great Depression. The stock market was down about 60%, profits had fallen in half and unemployed had climbed from 4% to about 10%. If you take our present situation, 16 months into the current recession, we’re about at the same place. The stock market is down 50 to 60 percent, profits are down 50 percent, unemployment is up from 4.5% to over 8%. Over the next 18 months between January 1930 and July 1932 the bottom fell out of the world economy. It did so because the authorities applied the wrong medicine to what was a very sick economy. They let the banking system go under, they tried to cut the budget deficit by curbing government expenditure and raising taxes, they refused to assist the European banking system, and they even raised interest rates. It was no wonder the global economy crumbled. Luckily with the benefit of those lessons, we now know what not to do. This time the authorities are applying the right medicine: they have cut interest rates to zero and are keeping them there, they have saved the banking system from collapse and they have introduced the largest stimulus package in history. And yet I cannot help worrying that the world economy may yet spiral downwards. There are two areas in particular that keep me up at night. The first is the U.S. banking system. Back in the fall, the authorities managed to prevent a financial meltdown. People are not pulling money out of banks anymoreÃ¢â ¬â •in fact, they are putting money in. The problem is that as a consequence of past bad loans, the banking system has lost a good part of its capital. There is no way that the economy can recover unless the banking system is recapitalized. While there are many technical issues about the best way to do this, most experts agree that it will not be done without a massive injection of public money, possibly as much as $1 trillion from you and me, the taxpayer. At the moment tax payers are so furious at the irresponsibility of the bankers who got us into this mess that they are in no mood to support yet more money to bail out banks. It is going to take an extraordinary act of political leadership to persuade the American public that unfortunately more money is necessary to solve this crisis. The second area that keeps me up at night is Europe. During the real estate bubble years, the 13 countries of Eastern Europe that were once part of the Soviet empire had their own bubble. They now owe a gigantic $1.3 trillion dollars, much of which they wonÃ¢â ¬â„¢t be able to pay. The burden will have to fall on the tax payers of Western Europe, especially Germany and France. In the U.S. we at least have the national cohesion and the political machinery to get New Yorkers and Midwesterners to pay for the mistakes of Californian and Floridian homeowners or to bail out a bank based in North Carolina. There is no such mechanism in Europe. It is going to require political leadership of the highest order from the leaders of Germany and France to persuade their thrifty and prudent taxpayers to bail out foolhardy Austrian banks or Hungarian homeowners. The Great Depression was largely caused by a failure of intellectual willÃ¢â ¬â •the men in charge simply did not understand how the economy worked. The risk this time round is that a failure of political will leads us into an economic cataclysm. --This text refers to an out of print or unavailable edition of this title.

Almost all critics praised Lords of Finance for its command of economic history and engaging, lucid prose. Ahamed, noted the New York Times, illuminates wise parallels between the misplaced confidence that spawned the global depression in the 1930s and the illusory calculations of risk that led to the current financial crisis. His compelling biographies also personalize economic history. While critics disagreed about whether lay readers will, in a century's time, care about Norman, Moreau, and Schact, the only negative words came from the Wall Street Journal, which criticized Lords of Finance for an imprecise understanding of the gold standard: "Harrumphing about the Ã¢â ¬Å¡Ãƒâ ÃƒÂ gold standard,' Mr. Ahamed reminds me of the fellow who condemned Ã¢â ¬Å¡Ãƒâ ÃƒÂ painting' because he had no use for Andy Warhol."Copyright 2009 Bookmarks Publishing LLC --This text refers to an out of print or unavailable edition of this title.

ÃƒÂ¢Ã â ¬Ã Å“Central bankers can be likened to the Greek mythological character Sisyphus,ÃƒÂ¢Ã â ¬Ã Â• writes Liaquat Ahamed in Lords of Finance. ItÃƒÂ¢Ã â ¬Ã â„¢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.AhamedÃƒÂ¢Ã â ¬Ã â„¢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 worldÃƒÂ¢Ã â ¬Ã â„¢s sudden plunge into the Great War; then the economic ÃƒÂ¢Ã â ¬Ã Å“consequences of peaceÃƒÂ¢Ã â ¬Ã Â• during post-war reconstruction; and finally the Great Depression and its aftermath.The bookÃƒÂ¢Ã â ¬Ã â„¢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 ÃƒÂ¢Ã â ¬Ã Å“Most Exclusive Club in the WorldÃƒÂ¢Ã â ¬Ã Â•: 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: ÃƒÂ¢Ã â ¬Ã Å“You have been a politician. Given the situation as it is, what decision would you make?ÃƒÂ¢Ã â ¬Ã Â•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, ÃƒÂ¢Ã â ¬Ã Å“[T]hey had fallen into the first trap of financial officials dealing with complex marketsÃƒÂ¢Ã â ¬Ã â œÃƒÂ¢Ã â ¬Ã â œan excessive level of confidence in their own judgements.ÃƒÂ¢Ã â ¬Ã Â•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 systemÃƒÂ¢Ã â ¬Ã â œÃƒÂ¢Ã â ¬Ã â œeven 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 workÃƒÂ¢Ã â ¬Ã â„¢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 bookÃƒÂ¢Ã â ¬Ã â„¢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.

Lords of finance unveils the details and nuances of the central bank decisions in the aftermath of World War I and 1929 market crash. The early parts of the book bring history to life with scenes behind the secret Aldrich plan that ultimately resulted in the genesis of Federal Reserve (despite opposition and skepticism from Progressives and Midwestern Republicans, skepticism that has continued to live on 100 years later among contemporary Fed opponents). The psychology behind historical market actions also seems no different from market behavior of our times. We can argue that markets react much more swiftly to news in the Internet era but the length and extent of market reactions follow similar course - moves in 1912, when the US woke to news of a Russian general mobilization causing a 7% drop in Dow, and subsequently in the first half of 1929, when markets initially ignored rising cost of borrowing and Fed rate hikes to continue the bull run. While media and market bulls and bears tussled with the prognosis of market moves, no one could guess the actual exogenous event that would push the domino and lead to the Great Depression: the collapse of Clarency Harty’s empire, Bank of England’s subsequent rate hike to prevent a knock on effect on sterling, and subsequent liquidation of US stocks by British investors who lost money in Harty’s fraudulent scheme. Other parts of the book delve into Pre-World War II German economy, Gold standard, Roosevelt's market plan, British and French central banking and provide brilliant insights. Lords of Finance is a copious research piece and brilliant narration of early 20th century central banking - well deserved Pulitzer

The parallels between our current economic conditions and those that arose after World War 1 are numerous. These parallels, the economic policies pursued by the different countries and the social and economic effect of the policies make the book worthwhile.The author quotes Herodotus for "Circumstances rule men, men do not rule circumstances." The economic and social devastation wrought on Europe by World War 1 and its aftermath provides the circumstances that ruled the financiers (Norman of Great Britain, Strong of the US, Schacht of Germany and Moreau of France) who attempted to rebuild the international financial order. Their failing, described in detail, arose from the commitment to the gold standard. Norman of Great Britain in particular was trapped by his adherence to gold. The gold standard had been economic orthodoxy prior to 1914 and had served Great Britain and international trade well. As generals tend to fight the last war, so the financiers seemed constrained by gold orthodoxy. However, in the financiers' defense, the issue of war reparations to be paid by Germany to Great Britain and France, and the United States' insistence on being repaid its loans to Great Britain and France frustrated rebuilding efforts.If the book has a hero, it is John Maynard Keynes, who refused to adhere to the gold orthodoxy. His arguments for expansive government action acted as counterpoints to the policies adopted by the four main protagonists. Even if you believe that Keynes's arguments are flawed, it is still instructive to see their advocacy in the history of the time.The book is well worth reading for parallels with current economic developments. As has been said, history may not repeat itself, but it does rhyme. The financiers did not pursue exactly the same policies and the policies produced different social and economic results, which may be helpful to know as we live through our own economic turmoil.As a part of the backdrop of the times, the book explores the U.S. Federal Reserve System's formation and practical operation. The importance of the New York Federal Bank has apparently been a feature of the System from its beginning. The use of the New York Fed by private bankers to influence, if not outright determine, U.S. banking policy arose very early in the development of the Fed. The book is enlightening on this point as well.The book provides an interesting interplay of the policy initiatives and personal lives of major figures in international finance during and after WWI. This was an unexpected element of the book, which made the protagonists more human.

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