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Banking on Global Markets: Deutsche Bank and the United States, 1870 to the Present

Author(s): Kobrak, Christopher

Reviewer(s): Tilly, Richard

Published by EH.NET (April 2008)

Christopher Kobrak, *Banking on Global Markets: Deutsche Bank and the United States, 1870 to the Present*. New York: Cambridge University Press, 2007. xx + 484 pp. \$45 (cloth), ISBN: 978-0-521-86325-4.

Reviewed for EH.NET by Richard Tilly, Institut f?r Wirtschafts- und Sozialgeschichte, University of M?nster.

When a group of private bankers founded the Deutsche Bank in 1870, their goal was to create an institution which would capture a larger share of Germany's foreign short-term credit and payments business, then seen as "needlessly" dependent on British intermediaries. This dependence continued, but the bank proved able to exploit it profitably by establishing its own British intermediary, i.e. a London agency, which came to execute a sizeable share of the business. To the chagrin of the Deutsche Bank's founders, however, their prot?g? by no means confined itself to the finance of foreign trade. Indeed, its growing domestic business transformed it into one of their most serious competitors.

Nevertheless, the bank's foreign business, though overshadowed by the volume of domestic transactions, was important. Given its growing size ? by the early twentieth century the Deutsche Bank had become the world's largest private bank ? it became a major player in international banking as well. The story Christopher Kobrak tells in this useful book is thus a welcome addition to the literature on banking history. Its focus is on the bank's business activities in the United States from the 1870s to the present, a long period divided here into three parts: a kind of "golden age" which takes us to 1914, the war and interwar years to 1945, and Part Three bringing us into the present. This basically chronological structure is somewhat imbalanced. The first part is not only much longer than the other two; it is much more closely researched, an "inside story" based in large part on material found in the Deutsche Bank's rich archival holdings (an observation which only partly applies to the second part and not at all to the last one). This review reflects the same imbalance.

Part One consists of a series of fascinating case studies of business finance involving railroads (e.g., the Northern Pacific), manufacturing companies (e.g., Edison General Electric), utilities, and a number of

other projects. The approach is highly personalized, reflecting not simply the sources but also the crucial importance of personal networks of trust on which much of international banking has always been based. Well into the 1890s the key relationship linked Georg Siemens, a cousin of the famed inventor and the Deutsche Bank's de facto leader, with Henry Villard, a German-born financial adventurer specialized in connecting American financial needs with German capital. Disappointments with Villard led to his replacement in 1893 by Edward Adams, an American banker, while Arthur Gwinner gradually assumed Siemens' functions as head of the Deutsche Bank's U.S. operations. The author describes the individual projects and the financial difficulties they raised with great clarity. My reading of these micro-studies left me with two general impressions. First, the cross-cultural differences in economic institutions (e.g., banking regulation) and behavior patterns (attitudes toward competition and cooperation) between German and American business repeatedly led to misunderstandings and communication difficulties. This was one reason behind the considerable risks the Deutsche Bank found itself taking on the Northern Pacific project. As the author notes, that project led the bank to reduce its own direct investment (risk exposure) and concentrate more on marketing U.S. securities in Germany; but communication problems and unexpected risk-taking persisted. Second, the Deutsche Bank's "U.S. directors." Siemens and Gwinner, both enjoyed considerable decision-making autonomy. Even when the risks just mentioned had become visibly threatening, the other directors seemed willing to accept their judgment. That might reflect the ability of strong executives to shape the bank's development path, the bank's ongoing commitment to its "internationalist" roots, or its willingness to take a fairly long-run position on its strategic investments, perhaps even all three of these. Since German foreign portfolio investment in the 1870-1913 period as a whole produced higher yields than comparable domestic securities, it is reasonable to assume that the Deutsche Bank's U.S. investments were profitable as well. Kobrak argues, however, that conclusive proof is not available.

World War One radically changed the rules of the game and the story Kobrak has to tell in Part Two. His focus here is initially on protection of German investments in the U.S., then on salvaging and seeking recompense for expropriated assets, followed by a discussion of the intermediation and subsequent "buy-backs" of U.S. loans to Germany. He quite sensibly devotes almost no attention to the Deutsche Bank's experience in the Nazi era, since there are alternative monographs on the subject (e.g. by Harold James). He does discuss one immediate consequence of that experience, however: the attempted "Americanization of German banking" that marked the 1945-52 period and which aimed at reducing the "power of the big banks" (such as the Deutsche Bank). The section closes with discussion of the rehabilitation of Hermann Josef Abs and his postwar role as the driving force behind the Deutsche Bank's revival.

Part Three opens with continued emphasis on Abs' leadership. Kobrak's comments on Abs' influence in postwar West German banking policy are uncontroversial. The suggestion that Abs was also responsible for a belated globalization of the Deutsche Bank's business stance, however, seems to be based on little more than temporal coincidence. The rest of the story, in any case, has further strong leaders like Alfred Herrhausen, Hilmar Kopper and Rolf Breuer transforming the bank into an international institution, benchmarks being acquisitions like the London investment bank Morgan Grenfell (1989) and, Rolf Breuer's crowning achievement, Bankers Trust, which, in 1997, for the first time made the Deutsche Bank a truly major player in the United States.

Not all readers will find the author's emphasis on strong leaders persuasive; and nor did I. This seems most obvious in Part Three, where Kobrak presents so little supplementary evidence on the bank's problems and decision-making. That reflects the source problem alluded to at the beginning of this

review. Strong leaders, moreover, can bring some disadvantages. Rolf Breuer, for example, is alleged to have cost the bank millions through careless remarks in the media, one concerning Bankers Trust, another concerning the media mogul Leo Kirch. Nevertheless, the excellent treatment of the 1870-1914 period alone makes the book a fine addition to German banking history.

Richard Tilly was Professor and Director of the Institut für Wirtschafts- und Sozialgeschichte at the University of Münster from 1966 to 1998. His most recent publications are a textbook (together with Toni Pierenkemper), *The German Economy during the Nineteenth Century* (2004) and a German textbook on the history of money and credit. He is currently completing the history of a German entrepreneur (Willy H. Schlieker). rtilly@web.de

Subject(s): Financial Markets, Financial Institutions, and Monetary History

Geographic Area(s): North America

Time Period(s): 20th Century: WWII and post-WWII

A History of Central Banking in Great Britain and the United States

Author(s): Wood, John H.

Reviewer(s): Redish, Angela

Published by EH.NET (December 2005)

John H. Wood, *A History of Central Banking in Great Britain and the United States*. New York: Cambridge University Press, 2005. xv + 424 pp. \$90 (cloth), ISBN: 0-521-85013-4.

Reviewed for EH.NET by Angela Redish, Department of Economics, University of British Columbia.

In 1694 a group of merchants agreed to lend the English government ?1.2 million in exchange for a charter to create a note-issuing bank, the Bank of England. Two hundred and twenty years later, in response to private sector rather than public sector concerns (notably the panic of 1907), the United States created the Federal Reserve Bank. Focusing on the UK and the United States, this book studies the transition from a seventeenth-century world free of central bankers, through the financial excitements of the eighteenth, nineteenth, and twentieth centuries to the sedate world of central banking in the late twentieth and early twenty-first centuries. The focus is on the interplay between bankers and politicians and on the evolution of an in-between species, the ‘central bankers.’

As the author, John Wood (Department of Economics, Wake Forest University), notes it is a propitious time to write such a book. Central banks are operating in a period of calm, and are widely seen as so successful that they are boring. In both the U.S. and the UK, the twentieth century posed extreme challenges for central banking: financing two world wars, facing the shocks of the Great Depression, and then learning how to operate in a fiat money world after the end of the Bretton Woods period. Since the early 1990s, there has been widespread agreement on the appropriate targets of monetary policy — price stability and financial stability — and, perhaps with the exception of how to respond to “irrational

exuberance” in asset markets, central banking has become a technocratic business of forecasting future demand so as to set interest rates at an appropriate level to engender price stability.

How independent should a central bank be in a democratic country? The book takes us through the ups and downs of independence. Today many central banks, including the Bank of England and the Fed, have operational independence but are subject at some horizon to state control, but the degree of independence has fluctuated. At its origins the Bank of England was private, and the fiscal needs of the government gave the Bank considerable power, but by 1833, after years of stable public finances, the government could “afford the luxury of an independent central bank” (p.72). (Interestingly, Wood’s evidence of independence is the introduction of a requirement for the publication of the Bank’s accounts which would make explicit any changing indebtedness of the government.). In the 1920s, the Bank of England was dominant in the decision that Britain would resume convertibility of the pound at the old par, despite the deflation that this would require, but after World War II, it was the politicians and Treasury officials that determined interest rates as well as exchange rate policy. In the second half of the twentieth century the Bank considered itself as merely the “central banking arm of a centralized macroeconomic executive” (p. 386), but then, after decades of erratic monetary policy, the Bank was given its independence in 1998.

The independence of the Federal Reserve System is even more tortuous to describe because of its diffuse structure, itself a reflection of the desire to create a bankers’ bank *and* a government bank. The Fed is composed of twelve regional banks plus the Board of Governors located in Washington, and tensions between bankers and the government were frequently played out between the Board and the regional (especially New York) Feds. Again the degree of independence fluctuated: the disagreements between the Board and the New York Fed in the late 1920s are well known; in 1935, the system was reorganized giving more power to the Board, and after World War II the Fed was essentially subservient to Treasury desires for low interest rates. The Fed’s reassertion of its independence in early 1951 — a showdown between President Truman and Chairman Eccles — is a story that should be required reading for all students of monetary policy (pp. 226-38). Yet triumph was temporary, and in the 1960s and 70s monetary policy became an issue in election campaigns. Most recently, at Senate confirmation hearings in November, President Bush’s nominee for Chairman of the Board of Governors, Ben Bernanke, stated that: “I will be strictly independent of all political influences and will be guided solely by the Federal Reserve’s mandate from Congress and by the public interest.”

The history of central banking is told against a backdrop of the development of monetary theory and the evolving understanding of how monetary systems and banks operate. The discussion of the real bills doctrine, of ‘operation twist,’ of the use of moral suasion and credit controls, of monetarism, and of price and wage controls takes the reader through the, usually painful, learning that central bankers have undergone. The author uses extensive quotations from memoirs and minutes so that the reader can see the decision-making process in the raw.

Now to cavils: There is an inherent organizational tension in telling two stories chronologically in parallel. The author chooses to begin with three chapters on the history of the Bank of England to 1914, then three chapters on the origins of the Federal Reserve and its history to the 1960s, then a chapter taking the Bank of England from 1914 to 1980, followed by three chapters that combine analysis of contemporary monetary theory and the history of monetary policy in both countries over the last 25 years. I’m not sure there is a better way, but I found some of the transitions awkward. I suspect earlier readers also did, as there are a large number of signposts for the reader, which help, but still further prevent a seamless flow.

Finally a minor gripe: There are very useful summaries of events and *dramatis personae* at the beginning of each chapter, but some curious choices are made. Beginning in 1951 the President of the Council of Economic Advisors is listed, but nowhere are the New York Fed Presidents listed; Governors of the Bank of England are not listed until 1914; G. William Miller, Fed Chairman in 1978-79 is not on any list. The lists would have been more useful as a reference if they had been presented as comprehensive appendices to the whole book.

No individual event retraced here is new, but by bringing the pieces together and focusing on the evolution of central bankers this book enables the reader to see the forest rather than the trees, and appreciate one of the successes of economics. This book will be a useful resource for both economic historians and monetary economists looking for a broad overview of the evolution of Anglo-American central banking and monetary theory.

Angela Redish's publications include *Bimetallism: An Economic and Social History* (2000) and (with Michael Bordo) "Is Deflation Depressing? Evidence from the Classical Gold Standard" in Burdekin and Siklos, editors, *Deflation: Current and Historical Perspectives* (2004).

Subject(s): Financial Markets, Financial Institutions, and Monetary History

Geographic Area(s): North America

Time Period(s): 20th Century: WWII and post-WWII

Enterprising America: Businesses, Banks, and Credit Markets in Historical Perspective

Editor(s): Collins, William J.
Margo, Robert A.

Reviewer(s): Craig, Lee A.

Published by EH.Net (May 2018)

William J. Collins and Robert A. Margo, editors, *Enterprising America: Businesses, Banks, and Credit Markets in Historical Perspective*. Chicago: University of Chicago Press, 2015. viii + 287 pp. \$110 (cloth), ISBN: 978-0-226-26162-1.

Reviewed for EH.Net by Lee A. Craig, Department of Economics, North Carolina State University.

This volume of essays, the product of a well-deserved conference celebrating the career of Jeremy Atack, covers a lot ground in nineteenth-century U.S. economic history. I learned something useful from every chapter, and, importantly, a few of them led me to unlearn some things I knew that, it turns out, are incorrect. The volume would be a good companion (for good students) in an upper-level undergraduate course.

The volume is organized into three sections. Following the editors' introduction, the first section is

entitled “Business Organization and Internal Governance.” In the first chapter, Naomi Lamoreaux reviews the legislative history of incorporation in Pennsylvania. She documents a messy process that produced the state’s general incorporation laws, which, frequently, were not all that general. The legislative process exposed tradeoffs between efficiency and other objectives. Running controlled experiments to test the merits of alternative arrangements was never a possibility, and efficiency was not necessarily the primary objective of the key players. In the big picture, this highly-micro story matters, because when economists analyze long-run growth rates across countries, they often find that common-law countries outperform civil-code countries. The complexity of Lamoreaux’s tale of common-law Pennsylvania suggests that we should not be too sanguine about such results. A variable, or two, might be missing from the relevant equations.

Since the seminal work of Adolf Berle and Gardiner Means, the advent of the modern corporate enterprise has been dated from “the turn of the twentieth century” (p. 8 and p. 73). Eric Hilt pushes that date back a bit in the volume’s second chapter. Employing a data set that matches the 1875 Massachusetts’ manufacturing census with firm-level data on ownership, he reveals and analyzes some of the key characteristics of the state’s corporations. He finds that rates of incorporation were high in industries in which average firm size was large. He also finds that, controlling for size, firms with large investments in fixed assets, such as steam engines, and those more likely to employ unskilled labor displayed higher rates of incorporation. In addition, the largest textile firms were “widely held” even by today’s standards, and, again controlling for size, the steam/unskilled labor combination was associated with more concentrated ownership. Overall, Hilt concludes that, at least in Massachusetts, “modern” corporate enterprises could be found by 1875.

In the third chapter, Howard Bodenhorn and Eugene White report on the evolution of bank boards in New York between 1840 and 1950. They focus on two key features: Timing the separation of ownership and control (essentially, Hilt’s question), and the trend in the number of directors on bank boards. With respect to the first question, like Hilt, they find that the “fraction of shares held by directors was smaller in larger banks” (p. 109), but they also find that, in the nineteenth century, bank directors owned, by any reasonable standard, a lot of stock in the banks they directed. As for average board size, they find that, over time, boards got smaller. The authors speculate that this trend might have been a response to regulatory changes, or changes in the business of banking, or both.

The second section of the volume is entitled “Bank Behavior and Credit Markets.” The first chapter in this section, by Jeremy Atrack, Matthew Jaremski, and Peter Rousseau (henceforth AJR), documents and analyzes the positive correlation between local railroad access and local bank performance in the antebellum United States. AJR argue that access to a railroad may have contributed to a bank’s success in at least three ways: (1) Railroads enhanced overall economic activity by increasing bank liquidity and the returns on bank loans. (2) Railroad access increased the demand for a bank’s notes, while decreasing the discount on those notes. (3) The railroad may have created an inverted version of the “lemons problem;” specifically, the outside scrutiny that came with railroad access led to the self-selection of good bankers locating near a railroad. AJR’s econometric results also suggest that banks in existence before the railroad came to town improved their behavior following its arrival. Either way, the lemons, i.e. the wildcat banks, would have been more likely to locate in the hinterlands.

In the other chapter in this section, Mary Eschelbach Hansen sheds new light on an old topic: Bankruptcies during the Great Depression. Using a dataset that contains information on thousands of debts associated with 789 bankruptcies in Mississippi, between 1929 and 1936, Hansen analyzes the sources of credit employed by both consumers and businesses. She notes that much of the previous

work on credit networks has “been biased toward banks and manufacturers” (pp. 194-95). She finds that, while the majority of the cases in her sample involved businesses rather than consumers, the modal reported type of business was “merchant,” and the majority of debts (roughly 60 percent) were owed to commercial rather than financial lenders. Loans for inventory seem to have played a particularly important role in the Mississippi economy.

The third, and final, section of the volume contains two chapters and is entitled “Scale Economies in Nineteenth-Century Production.” The first, by Robert Margo, addresses an issue familiar to anyone who has handled firm-level data from the era: How does one address the “entrepreneurial labor input?” In short the problem is that by omitting the labor of the owner-operator-entrepreneur, which census of manufacturing data tend to do, the denominator in output-per-worker measures is too small and thus productivity estimates are biased upwards. Space constraints prohibit a detailed explanation of Margo’s analysis, but the bottom line is that the findings of his chapter “can be seen as half empty (negative) and half full (positive)” (p. 240). On the negative side, the U.S. Census of Manufacturing data are flawed, and, without arcane adjustments, they probably cannot answer some of the key questions economic historians typically ask of them. On the positive side, the “rise of big business” narrative so common to nineteenth-century U.S. economic history misses a major point: Small firms were arguably quite productive, and there’s an important story to be told about that phenomenon.

The final chapter of this section, and the volume, is by Alan Olmstead and Paul Rhode. They address a specific question: Is it accurate to describe antebellum cotton plantations as “factories in the field?” To address this question, the authors employ several large data sets from the manufacturing censuses and the censuses of agriculture, for both northern and southern farms, to compare the operations of firms and farms from the era. After a detailed analysis of the relevant economic concepts, such as scale of operation and capital-labor ratios, Olmstead and Rhode conclude that the metaphor fits in some areas (e.g. professional managers overseeing large workforces), but, overall, the expression “factories in the field” is probably best thought of as a rhetorical device used by earlier authors to connote a degree of “modernity and efficiency” (p. 272) that obscures more about U.S. slave agriculture than it reveals.

Lee A. Craig is Alumni Distinguished Professor and Head of the Department of Economics at North Carolina State University. His most recent work in economic history is “The Impact of Mechanical Refrigeration on Market Integration: The U.S. Egg Market, 1890-1911,” with Matthew T. Holt, in *Explorations in Economic History*.

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Subject(s): Agriculture, Natural Resources, and Extractive Industries
Business History
Financial Markets, Financial Institutions, and Monetary History
Industry: Manufacturing and Construction
Transport and Distribution, Energy, and Other Services

Geographic Area(s): North America

Time Period(s): 19th Century

Central Banks into the Breach: From Triumph to Crisis and the Road Ahead

Author(s): Siklos, Pierre L.

Reviewer(s): Wood, John H.

Published by EH.Net (February 2018)

Pierre L. Siklos, *Central Banks into the Breach: From Triumph to Crisis and the Road Ahead*. New York: Oxford University Press, 2017. xviii + 324 pp. \$45 (hardcover), ISBN: 978-0-19-022883-5.

Reviewed for EH.Net by John H. Wood, Department of Economics, Wake Forest University.

Central bankers used to know what they were supposed to do and how to do it. Now they know neither, and whether they will ever know again is uncertain. However, they keep trying, with apparently undiminished self-confidence, in the hope that economic relations will settle into a “new normal.” Hence the title of the book under review.

The book begins (chapter 1, “Moderation before the Storm”) with conditions prior to the Great Financial Crisis of 2008 (the Great Moderation) when central banks had developed simple inflation targeting or Taylor Rule policies, and the virtues of independence were generally accepted. This simple state was disrupted by the Great Financial Crisis, which added financial stability along with asset prices and credit to the objects of concern, brought central bank balance sheets to the fore, and questioned the value of independence.

Chapter 2 (“When Finance and the Real Economy Collide”) points out that the former monetary policy goals (inflation and sometimes its trade-off with GDP) were considered separable from financial stability and enabled the myopia of central bankers. The Great Financial Crisis made this approach unacceptable. More complicated models were required. Of course (chapter 3), political constraints, such as pressures for easy money, are also important. Chapter 4 (“The Decline of Simplicity and the Rise of Unorthodoxy”) considers the increased complexity of central bank problems, and also of their models, which, however, have not kept up. Words have become increasingly important as a policy tool as formal models have become less helpful, although broken promises have reduced central bank credibility and transparency has been relegated to the “scrapbook of history.” Chapter 5 (“The Overburdened Central Bank and the Shift from Autonomy”) describes how the goals (responsibilities) of central banks have passed their understanding (and models). They have become more accountable and less trusted. The last chapters (“Disquiet on All Fronts?” and “Trust but Verify”) summarize the present, which has followed from officials’ growing responsibility for complex goals (including financial stability) without a corresponding growth in capabilities.

The book is a useful accompaniment to central banker statements and decisions. Focusing on the Federal Reserve, Janet Yellen and her colleagues clearly do not know what they are doing. They think

they ought to have a rule — like pre-2008 — but do not. Their former “dual mandate” or “Taylor rule” is inoperable, not to mention the addition of “financial stability.” Interest rates used to (“normally”?) rise significantly during expansions but inflation is below target. So what to do? They lack a reason (rule) to raise rates, but they feel like they should, although as often as not they fail to keep their promises.

The only qualification I would make to Siklos’ contribution is that he overstates the novelty of recent central bank difficulties. Misreading (or not understanding) the present is the rule, not the exception, as are its adverse impacts on financial and economic stability, such as the Great Depression and the inflation of the 1970s, not to mention the growing inflation of the 1960s. The notion that the 1951 Accord gave the Fed independence to pursue price stability is a fiction. The GDP deflator is almost eight times its value at that time; it rose more than fifty percent during Federal Reserve chair Martin’s tenure (1951-70). In comparison, the price level was about the same in 1930 as in 1830. Central banks since the end of the gold standard constraint have not been kind to investors seeking real returns.

John H. Wood (jw@wfu.edu) is author of *A History of Central Banking in Great Britain and the United States* (Cambridge University Press 2005) and *Central Banking in a Democracy: The Federal Reserve and its Alternatives* (Routledge 2015). He is currently working on the effects (or lack thereof) of legislation on markets during the tenures of William McChesney Martin, Jr. as president of the New York Stock Exchange (1938-41) and chairman of the Federal Reserve Board (1951-70).

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Subject(s): Financial Markets, Financial Institutions, and Monetary History

Geographic Area(s): General, International, or Comparative

Time Period(s): 20th Century: WWII and post-WWII

Other People’s Money: How Banking Worked in the Early American Republic

Author(s): Murphy, Sharon Ann

Reviewer(s): Goodspeed, Tyler Beck

Published by EH.Net (January 2018)

Sharon Ann Murphy, *Other People’s Money: How Banking Worked in the Early American Republic*. Baltimore: Johns Hopkins University Press, 2017. xii + 192 pp. \$20 (paperback), ISBN: 978-1-421-42175-9.

Reviewed for EH.Net by Tyler Beck Goodspeed, Council of Economic Advisers.

Covering, when all is said and done, over half a millennium of American monetary history in a readable, introductory text of under two hundred pages is no mean feat. Doing so while also satisfying specialists in a relatively niche field and period of financial history is an especially daunting task. In *Other People's Money: How Banking Worked in the Early American Republic*, Sharon Ann Murphy (Department of History, Providence College) has managed to achieve both.

The Bank War between Jackson and Biddle — perhaps, as Murphy notes, many students' only encounter with antebellum American banking — provides an appropriate opening to Murphy's account, introducing the principal cast of characters and illustrating the extent to which issues of money and banking permeated early American society, as well as the gravity with which ordinary Americans accordingly considered monetary matters.

Having thus set the stage, Murphy then proceeds through a packed “how it worked” series. Starting with the arrival of Columbus, in chapter 1, “How Money Worked,” she races through commodity money, fiat money, inflation, debt, and financing the American Revolution, contextualizing the economic concepts within the specific historical setting. In chapter 2, “How Banks Worked,” Murphy similarly catalogs the various sources of credit in colonial America, the assets and liabilities — particularly private bank notes — of colonial and antebellum banks, the incentives to incorporate, and the (First) Bank of the United States.

In chapter 3, “How Panics Worked,” we are then provided an account of the causes and dynamics of banking panics of the antebellum period that is both concise and consistent with the latest academic research. We here learn also of bimetallism, the Second Bank of the United States, and both public and private responses to panics, including public liability insurance, free banking, and clearinghouses. Chapter 4, “Experiments in Money and Banking,” expands on some of these topics, describing in greater depth the motivations and public discourse behind the movement toward both free banking and regulation, acute anxieties about fractional reserve banking generally, as well as the growing diversity of formal banking institutions. The chapter culminates with a succinct but accurate discussion of the Panic of 1857, including mention of the role of bank branching in mitigating the severity of the crisis.

Finally, and, for this reader, most interestingly, chapter 5 offers a brief but again academically sound overview of the fiscal challenges faced by the Union and Confederate governments in financing the Civil War, and how responses to those challenges intertwined with money and banking. This is perhaps the most data-intensive of the chapters, though quantitative evidence is seamlessly woven into a predominantly qualitative account. The chapter concludes with a short summary of the contours of American banking in the wake of the Civil War and, in particular, the National Bank Act.

It is important to be clear what this book is, and what it is not. It is an excellent introduction to how money and banking worked, not only in the early American republic, but in the post-Civil War national banking era as well. As such, it will likely offer a valuable companion for students of American economic and financial history, and even of early American political history, as well as informed lay-readers. It is not, and does not purport to be, an academic monograph intended for research historians or economic historians. Accordingly, footnotes are kept to a minimum, which makes for a smoother read, though at the cost of ability to investigate further. Murphy does, however, provide an extensive summary of suggested further reading, which will again be helpful for undergraduate and graduate students just beginning to explore the subject.

On the whole, Murphy has written what this financial historian considers a sound and reliable

introductory or companion text to early American banking that is both engaging and easy-to-read, and at the same time broadly consistent with recent economic research on the topics covered. While students of economic and financial history generally would likely find it a useful text, my sense is that it might be of particular use to those more on the history side of economic history, than on the economic side of economic history.

My one idiosyncratic lament, which in any event may lie outside the scope of the book, is that I felt myself yearning for a more provocative embedded theme. As Murphy correctly notes throughout, many of the issues of, for example, note issuance and deposit insurance and branching and regulation may seem banal to the contemporary reader, but were intensely debated at the time. While the author addresses the political nature of these issues and responses to them, a stronger sense of the political contingency of the development of American banking would, I think, plant important questions in students' minds. The path to 1913, or 1933, or, for that matter, 2008, was not at all linear, and a better sense of the alternative possible histories of American banking, and what may or may not have amplified the relative fragility of American banking system, would have been welcome.

Regardless, it is a fine text, made all the better by a fitting nod to Supreme Court Justice Louis Brandeis' 1914 book by the same title, and a fascinating epilogue on the changing faces of the \$20 bill.

Tyler Beck Goodspeed is a Senior Economist at the Council of Economic Advisers. He recently published *Legislating Instability: Adam Smith, Free Banking, and the Financial Crisis of 1772*, and *Famine and Finance: Credit and the Great Famine of Ireland*.

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Subject(s): Financial Markets, Financial Institutions, and Monetary History

Geographic Area(s): North America

Time Period(s): 18th Century
19th Century

The Oxford Handbook of Banking and Financial History

Editor(s): Cassis, Youssef
Grossman, Richard S.
Schenk, Catherine R.

Reviewer(s): Neal, Larry

Published by EH.Net (July 2017)

Youssef Cassis, Richard S. Grossman, and Catherine R. Schenk, editors, *The Oxford Handbook of Banking and Financial History*. Oxford: Oxford University Press, 2016. xviii + 537 pp., \$160 (hardcover), ISBN: 978-0-19-965862-6.

Reviewed for EH.Net by Larry Neal, Department of Economics, University of Illinois at Urbana-Champaign (emeritus).

The global financial crisis that began in 2007-08 and continued to rattle the Eurozone countries after 2010 has certainly been good for the market for financial history. *The Oxford Handbook of Banking and Financial History* is clearly a response to these events. In their introductory chapter, the editors set out their ambitious agenda, which is to deal with the individual parts of our modern complex financial system and trace how each has evolved over time. Each chapter ends with some insight into how the current turmoil in global banking and finance might affect part of the global financial system. This broad-ranging approach is very much in keeping with current analysis by policy economists, who have become very sensitive to how our financial system intertwines banks, which specialize in particular niches of the economy; shadow banks, which innovate to find new niches; money markets, which deal with short-term finance; capital markets, which provide long-term finance; and regulators, who attempt to oversee the operation of the financial system for the interest of the public (or the government). The editors' goal is to provide anyone concerned with a particular aspect of the financial system an authoritative treatment by an acknowledged expert that is clearly written for the non-specialist combined with a useful bibliography to follow up particular aspects.

The *Oxford Handbook* is organized into four parts: Part I, Thematic Issues, deals explicitly with the problems that the editors confronted at the outset: how have historians approached the issues in financial history (Youssef Cassis); how have economists dealt with the issues that interest them (John D. Turner); and how have policy makers tried to apply lessons from history for promoting economic development (Gerard Caprio, Jr.). To pay due attention to historical contingency, economic analysis, and policy relevance in each of the following chapters is, indeed, a daunting task for each author.

Part II, Financial Institutions, takes up these challenges by separating out several categories of distinctly different institutions, a useful distinction too often overlooked in practice and one that illustrates nicely the complexity of any financial system. Youssef Cassis's "Private Banks and Private Banking" begins with the initial role models for banks, from their origins in kinship networks in Renaissance Italy to today's Swiss managers of private wealth. Gararda Westerhuis's "Commercial Banking: Changing Interactions between Banks, Markets, Industry, and State" follows by dealing with the nineteenth-century spread of industrialization globally, which led to the rise of universal banks. By the end of the twentieth century, however, it appeared that commercial banks might be in "a state of terminal decline." (See Raghuram Rajan, 1998, "The Past and Future of Commercial Banking Viewed through an Incomplete Contracts Lens," *Journal of Money, Credit, and Banking*. 30(3), 524.) The financial crisis of 2008 led many observers to push for a separation of investment and commercial banking once again in the interest of financial stability. Westerhuis goes on to distinguish the motives for establishing market-based systems (U.S. and England) versus bank-based systems (Germany and Japan). She posits that the two paths diverged early on due to the differences in government control over banks and then the role played by banks in financing industrialization for follower countries, such as Germany and Japan. Oddly missing from her overview is any consideration of the experience of Scottish banking, which developed joint-stock banks with national branches early in the eighteenth century. Only after the financial crisis of 1825 did the English care to look seriously at the Scottish example for improving their commercial banking

system! Further, joint-stock banks did not disappear in the U.S. during the “free banking” period as she asserts. While they were confined within state boundaries, limitations on branching within a state varied considerably. The wide range of experiments undertaken by various states has stimulated a growing and interesting literature among U.S. scholars, largely omitted from her bibliography.

Caroline Fohlin’s “A Brief History of Investment Banking from Medieval Times to the Present” takes up the most challenging role of banks, how to transform short-term liabilities into long-term assets. Rather than taking specific organizational forms, she prefers to analyze investment banks as a set of services that help finance the long-term capital needs of business and governments. After briefly looking at merchant banks from medieval times to the early nineteenth century, this loose definition requires her to take up individual countries one by one during the nineteenth century. Sections follow that deal with England, the European continent, Belgium and the Netherlands, France, Germany, Austria and Switzerland, Italy, Japan, and the United States. Each section highlights the differences in organizational structures created to accomplish basically the same goals, helping governments promote industrialization. The twentieth century presents more interesting differences, essentially due to the ways various governments regulated, deregulated, and then re-regulated from the 1920s to the present. She concludes, “even well-known investment banking names that have endured over the centuries bear little resemblance to their ancestors” (p. 159).

Christopher Kobrak’s “From Multinational to Transnational Banking” takes up the complex transformations of the world’s leading banks by size as they successively internalized their international operations. The availability of huge advances in information technology combined with increasing opportunities for re-allocating domestic savings across foreign investments provided the basis for the growth of today’s megabanks. Oddly, however, Kobrak takes as archetypes of the new transnational bank two of the worst performers after 2008 — Deutsche Bank and Citibank. Relying on their respective annual reports in 2007-2010, he touts each of them as “market players” rather than staid fiduciary agents, lauding their scale and scope of activities that are only vaguely related to financial intermediation associated with banks “lending long, while borrowing short.” He dispassionately notes that three-quarters of Deutsche Bank’s two trillion euros in assets in 2007 were securities held for trading, and 40 percent were financial derivatives (p. 183), without disparaging the obvious omission of fiduciary responsibility. Citibank, similarly, by 2007 had “invested huge resources in creating an internal market, in essence warehousing securities and derivatives to build hedged positions and for future sale” (p. 182). All these intra-bank holdings of assets and liabilities enabled such banks to make a lot of money by proprietary trading that remained unobserved by regulators or by publicly accessible financial markets. He refrains from criticizing the model developed by these two megabanks, each of which has suffered huge losses and justified public acrimony since 2008, confining himself to the anodyne remark that “megabanks may be forced, as they have many times in the past, to find an intertwined institutional and organizational adaptation more sustainable in the modern social order” (p. 185)!

R. Daniel Wadhvani’s “Small-Scale Credit Institutions: Historical Perspectives on Diversity in Financial Intermediation” concludes Part II by lumping together a motley assortment of credit cooperatives, savings banks, industrial banks, pawn shops, and savings and loans associations. Wadhvani argues their cumulative size makes their impact on their respective economics arguably as great or greater than that made by the commercial, investment, and public banks dealt with in the previous chapters. Their common origin across many cultures and through past millennia he finds in the ubiquitous presence of ROSCAs (rotating savings and credit associations). Beginning with small kinship groups desiring to pool their limited resources to enable individual members to acquire a desired goal, perhaps a piece of land, a

dwelling, livestock, or even the means to migrate somewhere else for employment, ROSCAs often provide a basis for transition to the more modern forms of intermediation. These include savings banks, credit cooperatives, and savings and loans, with each evolving quite differently depending on local circumstances. Critical to their evolution historically is the role of government, whether as regulator (restricting competition), competitor (postal savings banks), or customer (providing sovereign debt as risk-free asset). The theoretical economic bases for their evolution and persistence are robust, both for their monitoring capability and for their local knowledge of investment possibilities. Nevertheless, Wadhvani calls attention to more post-modern “theories” that favor the creation of supportive narratives when cultures confront changes in economic regimes.

Part III, Financial Markets, begins with Stefano Battilossi’s “Money Markets,” which emphasizes the importance of access to outside liquidity for banks when they face unanticipated shocks either for increased loans or increased withdrawals of deposits. Further, Battilossi argues that a key lesson learned by banking theorists and practitioners in the nineteenth century, namely that money markets are essential for a smooth working of the economy but are inherently unstable, was lost over the course of the twentieth century. The success of the Bank of England in stabilizing the money market at the center of the global economy of the nineteenth century, he argues, was due to a complex combination of close monitoring by the Bank of England and cartel complicity by the major joint-stock banks, each with extensive branching networks domestically and overseas. U.S. efforts to imitate the British example after creation of the Federal Reserve System in 1913 failed due to irreconcilable differences in institutional structures between the two banking systems and their respective central banks. It took over a century and a half for the Bank of England to learn how to avoid being a dealer of last resort, a role that the Federal Reserve System in the U.S. had to undertake in the 2008 crisis, and which it has not yet been able to relinquish. Readers are left to draw the implications for the future of the global financial system for themselves!

Ranald C. Michie’s “Securities Markets” lays out convincingly and clearly the importance of securities markets for a successful financial system. Divisibility and transferability of a security expands greatly the potential customer base, adding the virtue of diversity in demands for liquidity among the creditors as well. He distinguishes clearly between “Primary Securities Markets” and “Secondary Securities Markets,” showing their interdependence in layman’s terms. “Stock Exchanges” provide the effective linkage between the two levels of markets, but fall prey in turn to problems either of monopoly pricing or government repression. His exposition of the underlying theory of securities markets provides the structure for his narrative that follows. From “Early Developments in Securities Markets,” which only mentions briefly the roles of informal markets in the speculative booms of 1720, Michie insists on focusing on the nineteenth century, starting with the London Stock Exchange in 1801. It’s unfortunate that he ignores recent work on the Amsterdam stock market, (e.g., Lodewijk Petram, *The World’s First Stock Exchange*, New York: Columbia University Press, 2014), or early work by this reviewer on the precedents for the London Stock Exchange (Larry Neal, *The Rise of Financial Capitalism*, New York: Cambridge University Press, 1990). Committed to the importance of formal structures for modern stock exchanges, however, Michie takes up their rise in the advanced capitalist economies of the nineteenth century and then their eclipse from 1914 to 1975. Thanks to the exigencies of war finance from World War I through the Cold War, stock markets seemed to “appear somewhat irrelevant in a world dominated by governments and banks” (p. 253) “The Era of Global Banks” did not come to an end in 2008, however, but what had ended was the “self-regulation that had contributed so much to the attractions of stocks and bonds to governments, businesses, and investors through the reduction or elimination of counterparty risk and price manipulation and the certainty that sales and purchases could

be made as and when required” (p. 258). Big banks are bad once again!

Moritz Schularick’s “International Capital Flows” is the most quantitative and instructive of the chapters, as he summarizes succinctly in nine brief tables and one graph, the levels of international capital flows over the nineteenth and twentieth centuries, their size relative to Gross Domestic Product, and the main sending countries and main receiving countries over time. In sum, rich countries invested in poor countries in the nineteenth century, when international capital flows were highest relative to GDP, and the rich continued to invest in poor countries even when capital flows were severely constrained during the period 1914-1975. But after the collapse of Bretton Woods, when international capital flows rose sharply once again, the result has been for poor countries to invest in rich countries. Further, when capital does flow suddenly to emerging economies, financial crises often follow when the flow tapers off, undoing whatever economic advance may have occurred.

Youssef Cassis’s “International Financial Centres” concludes the coverage of financial markets by analyzing the recurring features of international financial centers that lead to their persistence over time. The physical layout of the dominant cities, the combination of functions they perform (government, communications, education, as well as trade and finance), and their organization may change as the technology of transport, communications, and information change, but, Cassis argues, the network externalities created by the concentration of so much expertise in one location make the existing centers hard to replace.

Part IV, Financial Regulation, takes up the most vexing questions for policy makers, starting with Angela Redish’s “Monetary Systems.” Redish begins with the complexity of metallic currencies with coins minted in varying combinations of copper, silver, and gold in early modern Europe, and deftly reviews the causes that concerned European policy makers as they sought to maintain coins with fixed legal tender values, whether minted in any or a combination of the three precious metals. Basically, their concerns were the same as today, “whether nominal change can have real consequence for the balance of trade or level of economic activity?” (p. 327). Redish goes on to trace out the academic literature that has dealt with the Emergence of the Gold Standard, the Latin Monetary Union, the Cross of Gold, the Classical Gold Standard, and the Good Housekeeping Seal of Approval, highlighting the controversies that have arisen under each rubric. Next, she divides the End of the Gold Standard into the First World War and the Interwar Period, Bretton Woods and European Monetary Arrangements, and the End of Bretton Woods and the Rise of the Euro. Reproducing faithfully the graph produced by Eichengreen and Sachs to show that countries that stayed committed to the gold standard after 1929 suffered in terms of industrial production relative to those that devalued, she doesn’t point out that the outliers of Germany and Belgium are readily explained by mistaking their formal exchange rate regimes with the ones they followed in practice (Germany using bilateral trade agreements to increase industrial exports while keeping the nominal exchange rate fixed, and Belgium reducing its nominal exchange rate while being forced to maintain existing trade agreements with France). She concludes with a brief discussion of both inflation targeting under fiat currency regimes and the rise of crypto currencies such as Bitcoin. Her conclusion is merely that “money is information, a method to enable multilateral clearing of myriad transactions. It would be surprising if the digital revolution did not lead to a revolution in how this information is managed” (p. 339).

Forrest Capie’s “Central Banking” takes up the baton passed on by Redish to provide a brief synopsis of the issues confronting central banks as they have increasingly taken control of the supply of money over the past two or more centuries. Monetary stability, their prime responsibility, can be assessed in terms

of price stability, but financial stability, which has become a major concern, he notes is more difficult to assess, much less to sustain. Central bank independence, however defined, does seem to correlate with monetary and price stability, which shows that policy lessons have been learned successfully on that score. Continued independence of central banks, however, hinges very much on attaining and then sustaining financial stability. This task, very much underway now among the world's central banks, 174 at last count, may require expanding their role to include financial regulation as well as oversight of the banking system.

Harold James's "International Cooperation and Central Banks" makes an interesting argument that central banks in their pursuit of the goal of monetary stability naturally tend to cooperate with other central banks internationally, but without need for formal mechanisms. Cooperation can then be merely discursive, as it was during the classical gold standard. Financial crises, however, often do call for international cooperation, but cooperation is difficult, perhaps impossible, to sustain given the priority of strictly national policy concerns. Large countries, needed to make cooperative efforts successful, are the most reluctant to join in cooperative efforts. His examples cover episodes during the classical gold standard, the interwar period, the brief Bretton Woods period, and the ongoing travail of the euro-system, which he concludes is "the global test case for both the possibilities and the limits of central bank action" (p. 391). In an interesting aside, he explains why the Bank for International Settlements was resuscitated to manage the European Payments Union in the 1950s. Top U.S. officials were wary of using the newly-established International Monetary Fund because its staff were largely protégés of Harry Dexter White, then under suspicion as a possible Russian agent!

Catherine Schenk and Emmanuel Murlon-Droul's "Bank Regulation and Supervision" develops a sub-theme to the arguments presented by Harold James, namely the recurring problems of regulatory competition, moral hazard, and regulatory capture. Essentially, "[r]eputation and private information are key bank assets in a market with information asymmetry, but this complicates the ability to engage in transparent prudential supervision" (p. 396). The U.S. stands out for having the most complicated and unwieldy array of conflicted regulatory agencies, summarized in Table 17.1. The authors conclude, as do Charles Calomiris and Stephen Haber (*Fragile by Design: The Political Origins of Banking Crises and Scarce Credit*, Princeton, NJ: 2014), that it is no accident that Canada and the UK, with more coherent approaches to bank regulation have had fewer banking crises. Much of the remaining chapter focuses on China and the successive efforts of China's rulers to establish, then regulate, a banking system to enable industrialization and modernization, concluding, perhaps prematurely, that China managed to reduce the problem of non-performing loans after their peak in 2000. The difficulties of deciding where to locate the regulator of the banking system are highlighted by tracing the successive efforts of the U.S., then the UK to find an ex post regulatory solution to the problems of recurring financial crises. The efforts of the Basel Committee, established after the collapse of the Bretton Woods System, are described in the context of the European Union's efforts to move toward regulatory cooperation within a more limited scope of international cooperation. Prospects for success on that score are still very much in doubt.

Laure Quennouelle-Corre's "State and Finance" takes a step back to look at the origins of the ongoing dilemma for the Eurozone of the interaction between governments' sovereign debt and financial fragility of their banks. The recurring differences between France and the other members of the European Union form the backdrop for his rambling notes on the interactions of private and public financial institutions, ending with the observation that France alone has had to deal with the European Union's pro-market ideology versus the French tradition of state intervention.

Part V, Financial Crises, opens with Richard Grossman's "Banking Crises," which reprises the standard story of boom-bust cycles, exacerbated when new opportunities for speculative investments open up (first globalization after 1848; second globalization after 1979; post-war adjustments after WWI) but then moderated under strict regulation (capital controls, interest rate restrictions from 1945-71). In his perspective, the Eurozone crisis fits the boom-bust pattern first described by D. Morier Evans in 1859 (*The History of the Commercial Crisis, 1857-58, and the Stock Exchange Panic of 1859*, New York: Augustus M. Kelley, 1969).

Peter Temin's "Currency Crises: From Andrew Jackson to Angela Merkel" takes up the international aspect of the boom-bust paradigm by extending it into national decisions about setting the exchange rate with foreign trading partners and possible investors. To bolster his long-standing conviction that most, if not all, banking crises are really currency crises at heart, he lays out in detail the open macro-economy model developed by Trevor Swan. Swan's diagram relates a country's domestic level of production to its real exchange rate. Internal balance is maintained if production rises with the real exchange rate, while external balance requires the real exchange rate to fall when production increases. The model leads to dire consequences for a country if it does not succeed in maintaining both internal balance (matching domestic investment with domestic supplies of savings) and external balance (matching capital account flows with offsetting trade balances) simultaneously. Either excessive inflation or long-term unemployment occurs whenever imbalances are sustained due to misguided government policy. Banking crises then arise as the necessary outcome of such policy failures by governments. The historical evidence to support Temin's argument starts with Andrew Jackson and the crisis of 1837 in the U.S., continues through the Great Depression in the U.S. in the 1930s, not to mention the concurrent crisis in Germany, and concludes with the ongoing Eurozone crisis, all basically due to misguided political leaders, as named in his sub-title.

Juan H. Flores Zendejas's "Capital Markets and Sovereign Defaults: A Historical Perspective" concludes the *Oxford Handbook*. The first global financial market, arising with the collapse of the Spanish Empire in Latin America after the Napoleonic Wars, saw various devices to cope with the recurring problem of governments defaulting on the sovereign bonds they issued for whatever reason, usually to fight a war or quell a revolution. Flores recounts the success of the London Stock Exchange in bringing governments to heel if they wanted access to British savers. The monitoring capabilities of the leading merchant bankers, especially the Barings and Rothschilds, put their imprimatur on bonds issued through their firms. Twentieth century regulatory restrictions on these leading investment banks by their host governments, however, have limited the effectiveness of their "branding" and their intrusive follow-up in monitoring the finances of their customer governments. Flores casts some doubt as well on the effectiveness of the Council of Foreign Bondholders in the nineteenth century. He could also have challenged the effectiveness of international financial control committees that served as the model for the League of Nations Financial Commission after World War I if he had cited the recent work of Coskun Tuncer (*Sovereign Debt and International Financial Control, The Middle East and the Balkans, 1870-1914*, London: Palgrave Macmillan, 2015). Flores concludes in general that governments that avoided defaulting in times of general crisis did so because they had been excluded from the earlier expansion of international credit.

All in all, the editors did get the compilation in print still in time to be useful for anyone concerned with how the ongoing financial crisis of the early twenty-first century will play out. Specialists in each topic, however, may be disappointed in the necessary brevity of treatment, not to mention absence of references to their own work, particularly if they worry most about the future of the U.S. financial

system.

Larry Neal is the author of *A Concise History of International Finance: From Babylon to Bernanke*, Cambridge: Cambridge University Press, 2015

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Subject(s): Financial Markets, Financial Institutions, and Monetary History

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20th Century: WWII and post-WWII

The Fall of the House of Speyer: The Story of a Banking Dynasty

Author(s): Liebmann, George W.

Reviewer(s): Cook, Eli

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George W. Liebmann, *The Fall of the House of Speyer: The Story of a Banking Dynasty*. New York: I.B. Tauris, 2015. xii + 244 pp. \$35 (hardcover), ISBN: 978-1-78453-176-8.

Reviewed for EH.Net by Eli Cook, Department of History, University of Haifa.

George Liebmann has written a richly detailed and highly useful history of the final fifty years of the German-Jewish Speyer family's investment banking empire which spanned across England, the United States and Germany — if not the world. Deeply researched, the book paints a precise picture of the two Speyer brothers — James in United States and Edgar in England — who ran the investment bank on both sides of the Atlantic at the turn of the twentieth century. Hardly a one-track book, Liebmann delves not only into the Speyer's business interests but also their philanthropic work, cultural milieu, spousal relations, musical talents, political leanings and personal problems. A declensionist narrative that laments the end of free trade and the rise of "nationalism," Liebmann convincingly portrays how the Speyers suddenly found themselves torn between warring national allegiances. In tracing the fall of the House of Speyer through Edgar's exile from England and James's fall from grace in the United States, the book reminds us how difficult it was for cosmopolitan German-Jewish banking elites living in the Anglo-American world to maintain not only their banking business but their personal ties (which were indistinguishable from each other) following the outbreak of World War I. In the end, as Liebmann carefully shows, a banking empire built on linking German capital with American and English elites was

unable to survive the belligerence of the early twentieth century. The rise of Hitler served as the final straw, and the Speyer's empire collapsed in 1939.

True capitalist pioneers, Phillip Speyer opened the wealthy Frankfurt family's New York branch in 1837 — well before the Schiffs, the Kuhns, the Goldmans, the Sachses or the Loebes ever made their names in the city. After marketing Union bonds to Europe during the Civil War, the family built much of its fortune and reputation as central architects in the financing of the transcontinental railroads in the 1870s. However, as he is interested mostly in the lives of Phillip's grandsons, James and Edgar, between the 1890s and the 1920s, Liebmann does not focus much on the Speyers' role in those great — and, as Richard White's *Railroaded* (W.W. Norton, 2012) has taught us, highly corrupt — railroad adventures.

Liebmann's own account of the Speyers' business — like the family's vast financial network — spans the globe. The book does an excellent job of covering James and Edgar's wide-ranging investment portfolio, be it Los Angeles Aqueducts and London subways, Cuban and Weimar Republic bonds, Philippine and Bolivian railroads, or Hungarian and Bulgarian League of Nations loans. Thick descriptions of all these investment deals will likely be the most useful part of the book for the economic historian. Liebmann shows, for instance, that while Edgar Speyer made the London tube the only privately financed subway in the world, the project only became profitable after the Speyers also made sure to buy the biggest bus company in London. In covering the Speyer's marketing of Cuban loans, Liebmann nicely demonstrates how this lucrative issuance was secured by Edgar and James' ability to get the Pro-American Cuban government to commit to permanent taxes (known as the "Speyer Taxes") on tobacco, alcohol and sugar following the Spanish-American War. Similarly detailed chapters examine the central role the Speyers played in Latin and Central American railroads as well as Eastern European sovereign debt.

Yet while Liebmann does an excellent job documenting the life and work of James and Edgar Speyer, he often misses the opportunity to use his vast knowledge of the Speyers as a lens into bigger historical questions. For example, Liebmann notes how Edgar Speyer was an influential free-market Liberal who railed against increased government and municipal expenditure. Yet he takes this position as a given, and does not link Edgar's austerity politics with his own business interests. As owners of the London Underground, could it be that the Speyers — and other financial elites — rejected government investment because they were afraid to be priced out of the profitable infrastructure business?

The Speyers could have also served as a tremendous case study for understanding the rise of American imperialism in the early twentieth century, as they were central players in the "dollar diplomacy" taking place in Cuba and the Philippines — the two prize regions that the United States wrested away from Spain at the turn of the century. Their actions — such as the establishment of the Speyer Taxes — would have massive political repercussions. As Liebmann notes, up until 1940 the Cuban government had to devote a whopping 15 percent of its national revenue to service the Speyers' debt, a development which surely played a role in the Cuban Revolution of the 1950s. Such investments, as well as the sovereign debt loans to Weimar Germany and Eastern Europe, belie Liebmann's simplistic claim that the free-trade Speyers were victims of "nationalism." If anything, nation-building and the Speyers' close ties to government leaders helped make them rich.

Finally, the Speyers' shifting investment patterns — from transcontinental American railways to global railroads and sovereign debt — could have also offered a fascinating look at the United States' own epochal shift from a nation that attracts capital to a country that exports it. Such a transformation of American capitalism from debtor to creditor has been painfully overlooked by historians, and while Liebmann's book offers rich material, his analysis of this transformation is lacking.

Despite these faults, Liebmann has written the best account yet of the House of Speyer, the third largest investment banking firm at its peak in the 1900s and one that managed in 1913 the 2015 equivalent of \$52 billion in assets. Often overlooked by the Houses of Morgan, Lehman, Goldman and Sachs — perhaps because they are no longer a household name — this book will be an invaluable read for any historian interested in the biggest financial players of the era.

Eli Cook is an Assistant Professor of American History at the University of Haifa in Israel. He received his Ph.D. from Harvard University in 2013, where he was part of the Program for the Study of Capitalism. He is currently finishing up a book manuscript for Harvard University Press titled *The Pricing of Progress: Economic Indicators and the Capitalization of American Life*.

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Subject(s): Business History
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20th Century: Pre WWII

Complexity and Crisis in the Financial System: Critical Perspectives on the Evolution of American and British Banking

Editor(s): Hollow, Matthew
Akinbami, Folarin
Michie, Ranald

Reviewer(s): Moen, Jon

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Matthew Hollow, Folarin Akinbami, and Ranald Michie, editors, *Complexity and Crisis in the Financial System: Critical Perspectives on the Evolution of American and British Banking*. Cheltenham UK: Edward Elgar, 2016. xv + 339 pp. \$145 (cloth), ISBN: 978-1-78347-132-4.

Reviewed for EH.Net by Jon Moen, Department of Economics, University of Mississippi.

Complexity and Crisis is a set of thirteen essays aimed at providing insight into the causes of the 2008 financial crisis. Most have a strong historical element to them. They examine the financial and banking systems of the United Kingdom and the United States, comparing responses to crises in the past. The essays are drawn from several disciplines including economics, law, and management. The theme that

ties this set together is the role of increasing complexity in contributing to financial crises today and in the past. The definition of complexity is elusive, although lack of transparency about financial instruments or intermediaries certainly contributes. One example presented early on is that of the complex financial derivatives that collapsed during the 2008 crisis. Other examples include innovations in financial markets that lead to unexpected connections with other intermediaries that in turn create confusion or uncertainty among participants leading to a crisis.

The book is organized into three sections. The first describes the long run, historical growth of the U.S. and UK banking systems. This section contains four mainly historical essays, two that compare different financial and banking crises and two that look at the growth and development of the British banking system since 1688. The second section looks at how legislation and market pressures changed the financial structures of the two countries. It contains five essays that look at how legal decisions and legislative changes altered the location of liability in financial markets and the structure of corporate governance in financial firms. The third section focuses on how financial crises can be dealt with while they are unfolding and what could be done in the aftermath of a crisis. The four essays in this section look at how the governments of the UK and the U.S changed their responses to crises and what might be some new ways to respond to the inevitable crises in the future.

This is a well-done set of essays. Although they are arranged somewhat thematically, they can be read in no particular order or even independently. The book, therefore, can also serve as a useful reference book for those studying more historical aspects of banking and financial markets. A majority of the essays focus on the UK; only three examine the U.S. exclusively. This is not really a weakness, as this a useful set of essays to have as most are heavily documented, further enhancing its use as a reference volume.

The theme of complexity and its connections to crises is interesting, although it is not really needed to appreciate any of the essays. I think there could have been more comparative analysis across various crises because the relative simplicity of earlier crises and panics helps us understand current problems. Increasing complexity does not rule out seeing parallels across episodes of financial crisis. The Panic of 1907 and the Crisis of 2008 contains some striking similarities once you get past the complex surface of 2008. In both cases short-term lending was disrupted, intermediaries outside the purview of the lender of last resort were the hotspots in both crises, and regulatory response — or lack thereof in the case of Knickerbocker Trust and Lehman brothers — featured prominently in both crises. My work and that of Gary Gorton address these parallels. The place of intermediaries being “too big to fail” also is absent in the book, although that was a concern in the past just as it has been currently. An essay on that topic would have added a great deal.

Several of the essays caught my attention, in part because they relate to my own research or they demonstrate comparative analysis across panics. The first chapter (by Robert Bruner, Sean Carr, and Asif Mehedi) examines six panics from U.S. history, highlighting the presence of financial innovation in each crisis and its contribution to complexity in financial markets. I suspect that innovation was in part spurred as a means to get around new regulations in addition to new profit opportunities. The third chapter (by Randal Michie) shows how the evolution of the U.K. financial system was more likely to be guided by internal, market-based responses to crises while the U.S. system was more likely to be changed by outside legislative changes. As he points out, such legislative changes likely will be followed up with innovations around the legislation, producing unintended consequences in the future. Chapter five by (Dalia Mitchell) and chapter eleven (by T.T. Arvind, Joanna Gray and Sarah Wilson) taken together provide a nice comparison of the evolution of how legal liability was assigned in the U.S. and the UK over

time. There seems to have been a shift away from interpreting losses as a sign of criminal behavior on the part of directors towards one based more on interpreting losses as a result of market vicissitudes and bad decision making. This is a theme that appeared during the examination of the crisis of 2008, one that blamed much of the crisis on the fact that the incorporated investment firms that had supplanted partnerships had much less “skin in the game.” The result was that corporate firms took on more risk. The remaining chapters are all worth reading, and most of you will select a unique set that appeals to your interests.

Jon Moen is Chair and Associate Professor in the Economics Department at the University of Mississippi. He has studied the Bank Panic of 1907 and its role in the founding of the Federal Reserve System. He currently is examining the limited role of the New York Clearing House as a lender of last during the National Banking Era.

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Subject(s): Financial Markets, Financial Institutions, and Monetary History

Geographic Area(s): Europe
North America

Time Period(s): 17th Century
18th Century
19th Century
20th Century: Pre WWII
20th Century: WWII and post-WWII

Central Banking in a Democracy: The Federal Reserve and Its Alternatives

Author(s): Wood, John H.

Reviewer(s): Timberlake, Richard

Published by EH.Net (May 2016)

John H. Wood, *Central Banking in a Democracy: The Federal Reserve and Its Alternatives*. New York: Routledge, 2015. xx + 222 pp. \$160, ISBN: 978-1-138-01639-2.

Reviewed for EH.Net by Richard Timberlake, Department of Economics, University of Georgia.

John H. Wood, Reynolds Professor of Economics at Wake Forrest University, has put together a very valuable, historical, and timely study on the lack of control the electorate has over the central banking functions of the Federal Reserve System.

A reader who first sees the title to this book wonders what is implied by the words “in a Democracy.” Why a “Democracy,” and also, why not a “Constitution”? Wood treats this question in his preface (although it is not so-labeled): “Monetary stability (. . . the primary purpose of central banks) requires responsibility, meaning punishment for failure, instead of a remote and irresponsible (to the public) agency such as the Fed. It requires either private money motivated by profit or Congress disciplined by the electoral system as before 1913.” That is, either a system of private money operating under the rule of the law of the Constitution and competitive economics, or a system governed by the principles of majoritarian democracy. Wood’s choice, and the answer to “Why Democracy,” is that, “Change involving the least disturbance to the [existing] system suggests the latter.” In his “Introduction” (p. 9), he argues this crucial point further:

The world is full of unexpected problems that lawmakers have to contend with. “A well-run monetary system requires that Congress take the Constitution’s assignment ‘to regulate the currency’ seriously.” Policymakers, therefore, must be made more responsible to the electorate, which means “significant change in the institutions of American monetary policy.” There is reason for optimism, Wood writes, because of the performance of earlier institutions “that were richer in incentives in the public interest, in profits and losses and electoral rewards and punishments” (p. 9).

This statement implies many arguments. First, Congress was not given the power to “regulate the currency” — only the value of grains of precious metal in gold and silver coins, in order to keep both types of coins in circulation, and minimize the problem of inadequate denominations, a major problem throughout the nineteenth century. Nothing but gold and silver was to be a tender for debt. Second, the “earlier monetary institution” was the Gold Standard, which did not include any rewards or punishments, but only the realization that any government-run system would result in “bills of credit.”

Wood’s first two chapters review the political structures and monetary policies of what would become, or were, central banks, from 1694 when the Bank of England first appeared to the Federal Reserve System (the Fed) in 1913. The material in these chapters is well-documented with original sources, and with the findings of others who have used primary materials. The Bank of England, and the First and Second Banks of the United States were government-sponsored and, therefore, partly government-controlled institutions that sporadically acted like central banks, that is, deliberately and purposefully carried out monetary policies. His account includes the private clearinghouse system, whereby the private banking system innovated the means to protect itself (pp. 57-60). It was, however, “legitimized” by being made a governmental institution — the Fed. Then came World War I and then the 1920s. Wood treats Benjamin Strong’s stable price level policy accurately, noting that it implied a hands-on Quantity Theory of Money for its application. But if a Fed policy using the Quantity Theory was legitimate, so were other man-made policies, such as the Real Bills Doctrine, especially its condemnation of speculation, which prevailed from 1929 to 1935. (Wood errs in dismissing the “real bills” era as unimportant.) Then came the gold confiscation of 1933-34, the Banking Act of 1935, and the doubling of member banks’ legal reserve requirements in 1937. Wood is properly critical of this last policy, as it reflected the Fed’s inattention to monetary fundamentals and the dominance of the Treasury. This dominance, Wood notes, was repeated under Presidents Johnson, Kennedy, and Nixon. Throughout these administrations, the Fed was a servant of the Executive-Treasury. Wood notes well that all of the Fed chairmen, regardless of party affiliation, adopted various rate-of-inflation policies trying to supply enough “credit” — money — to satisfy political demands, with predictable results: The price level kept rising, and the intrusions of the Executive branch became worse.

The Great Recession of 2008 was a disaster. Under Timothy Geithner, Henry Paulson and Ben Bernanke

the Fed made “too big to fail” an avowed principle. Wood’s discussion of this episode is an all too accurate and damning report on what has become a political central bank having no responsibility to the private economy. It is, in fact, a frightening prospect for a constitutional republic, or a “democracy.” The Fed has one tool, Wood confirms in his Conclusion — control over the quantity of money. He would have that control by a “democracy.” Since the Fed is a “public choice” institution, how can it be controlled? Wood argues against a gold standard for various reasons that can be refuted, in favor of Congress! — that is a Congress “having a direct involvement in money and finance” without a central bank to screen its activities from the public. Wood’s final remark is: “The creation of the Fed was a powerful example of the advice: ‘Be careful what you wish for’” (p. 194)

Wood’s book is both interesting and informative. He has a good style without significant pedantry. His conclusion, however, is not the answer. Congress would find ways to repeat all the wrong things. The monetary system in a “democracy” must be a constitutional constant so that neither Congress, nor any creature of Congress, is be able to violate its tenets. The gold standard was one such. And here this reviewer must stop. Anything more would be another book!

Richard Timberlake is the author of *Constitutional Money: A Review of the Supreme Court’s Monetary Decisions* (Cambridge University Press, 2013).

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Subject(s): Financial Markets, Financial Institutions, and Monetary History

Geographic Area(s): North America

Time Period(s): 20th Century: Pre WWII
20th Century: WWII and post-WWII

America’s Bank: The Epic Struggle to Create the Federal Reserve

Author(s): Lowenstein, Roger

Reviewer(s): Richardson, Gary

Published by EH.Net (February 2016)

Roger Lowenstein, *America’s Bank: The Epic Struggle to Create the Federal Reserve*. New York: Penguin Press, 2015. 368 pp. \$30 (hardcover), ISBN: 978-1-594-20549-1.

Reviewed for EH.Net by Gary Richardson, Federal Reserve Bank of Richmond and Department of Economics, University of California at Irvine.

Roger Lowenstein, author of a series of *New York Times*’ best-selling books on recent financial history, including one of my favorite homilies on hubris, *When Genius Failed*, has written a new book on the

foundation of the Federal Reserve, *America's Bank*. The book illuminates the long and painful birth of the United States' central banking system, which involved more than a century of debate about how to structure our nation's financial system. *America's Bank* is cogent, informed, and opinionated, but also polished, enlightening, and entertaining. The book is a work of scholarship based upon primary sources and demonstrating mastery of the academic literature. It could have been submitted as a doctoral dissertation in history at most universities in the United States, but it captures readers' imaginations in ways that academic writing seldom does. It tells a story with heroes, like Paul Warburg, and ghosts, like Andrew Jackson, and brings to life politicians whose names every school child in the United States remembers, like Woodrow Wilson and William Jennings Bryan, and that most people have forgotten, like Carter Glass and Nelson Aldrich.

The introduction's first paragraph establishes that the author is not an apologist for the Fed, with some offhand skepticism about recent Fed decisions. The author notes that the Fed today has enormous influence around the world, and that it "manages, sometimes adroitly and sometimes wantonly, the supply of credit whose ebb and flow alternately buoys and batters business. It supervises — or it is supposed to supervise — the nation's banks" (p. 1).

After that, the book describes the Fed's creation as a crowning achievement of Progressive politics circa 1913. The Federal Reserve Act reconciled ideas and ideals of three main streams of turn-of-the-century political thought — progressive, populist, and laissez-faire. The leaders of all of these movements in both political parties contributed ideas to and advocated passage of the final legislation. This reconciliation bridged intellectual and political divides between those in favor of and hostile to centralization and federalism which had bedeviled the American republic since its birth after the revolution from England.

The book's introduction recounts Alexander Hamilton and Thomas Jefferson's debate over the first Bank of the United States. Their debate sets the stage for "The Road to Jekyll Island," which is Part One of the book. Chapter 1 tells how "national bank" and "central bank" became phrases of condemnation in America's political lexicon. The chapter explains the monetary babel of colonial and antebellum America, when thousands of currencies, all denominated in dollars of different potential values were issued by thousands of privately owned and operated commercial banks. This monetary chaos impeded commerce and bred panics, which every fifteen years or so shut down the financial system, triggering long and painful recessions. Each recession inspired a flurry of reform proposals by businessmen and politicians. The reiteration of recession and reform fills much of Chapters 2 and 3. These chapters also introduce the protagonists of this part of the narrative: Republican senator Nelson Aldrich, the chair of the Senate Finance Committee; Frank Vanderlip, president of National City Bank of New York (now Citibank) and a former Treasury official; and Paul Warburg, a successful, German-born financier who was a partner at the leading investment bank Kuhn, Loeb, and Co (which merged with Lehman Brothers in the 1970s). While these well-intentioned men and many others hoped to reform financial institutions which they believed impeded American commerce and industry, political tensions kept all of their plans on the drawing board. Chapters 4 through 6 focus on the Panic of 1907, the political response, the National Monetary Commission, and the realization rising in the minds of many businessmen and politicians that America should and could create a central bank. These efforts culminated in the Aldrich Plan to create a National Reserve Association, which the National Monetary Commission submitted to Congress without informing them that the initial draft of the plan had been written, secretly, by a cabal consisting of Aldrich, Vanderlip, Warburg, A. Piatt Andrew (an economics professor from Harvard and Assistant Secretary of Treasury), and Henry Davison (a senior partner at J.P. Morgan, a founder of Bankers Trust, and an adviser to the National Monetary Commission). Their infamous vacation on Jekyll

Island, when they pretended to be on a duck hunt but actually wrote a proposal for a central bank, is the topic of Chapter 7.

My review skims over these chapters, because the content in them is well known, at least among economic historians. Elmus Wicker (2005) details the recession-reform dynamic in his monograph entitled *The Great Debate on Banking Reform*. Wicker elucidates the roles of Aldrich and Warburg and the conclave at Jekyll Island. That story has been known for nearly one hundred years. In 1916, B.C. Forbes wrote about it in articles published in *Leslie's Weekly* and the magazine *Current Opinion*. The participants themselves denied the Jekyll Island caucus had occurred for twenty years, until the publication of Aldrich's biography in 1930, after which all of the participants revealed their roles in drafting the blueprint for the Federal Reserve. From these personal accounts and the conventional academic literature, Lowenstein has crafted a compelling narrative that is accurate, informative, and fun to read. I've recommend this section of the book to students and relatives, including my brother and a cousin, who received copies for Christmas and found every page fascinating. A specialist who has read Wicker or the original sources will find pleasurable prose and a source to assign to students, but few historical revelations.

Why then, do I believe Lowenstein's work merits substantial scholarly praise? The second part of the book, entitled "The Legislative Arena," crafts a new and coherent account of the Jekyll Island proposal's tumultuous transition into Congressional legislation acceptable to the American electorate. Numerous accounts exist, but often disagree, even on basic points, due to the cacophony of competing claims over authorship of the Federal Reserve Act. In 1914, Edwin Seligman, a prominent professor at Columbia University, wrote that "in its fundamental features the Federal Reserve Act is the work of Mr. Warburg more than any other man." In the 1920s in his memoir, *An Adventure in Constructive Finance*, in speeches, and in submissions to prominent publications including the *New York Evening Post* and the *New York Times*, Carter Glass claimed credit for the key ideas in the Act. Critics responded. One example is Samuel Untermyer, former counsel to the House Committee on Banking and Currency. He published a pamphlet titled "Who is Entitled to the Credit for the Federal Reserve Act? An Answer to Senator Carter Glass," in which he asserted that Glass's claim of primary authorship was "fiction," "fable," and a "work of imagination." Glass, he argued, claimed credit for many ideas advocated by Senator Robert Owen and Congressional staff. Another example is Paul Warburg. In reply to Glass's memoir, Warburg published a two-volume tome describing his "recollections of certain events in the history of banking reform," including copies of correspondence between himself and other founders of the Federal Reserve, and a line-by-line comparison of the Aldrich Plan, originally drafted at Jekyll Island and submitted to Congress in the final report of the National Monetary Commission, and the final Federal Reserve Act, which evolved from bills introduced in the House by Carter Glass and the Senate by Robert Owen in the spring of 1913. Warburg demonstrated that much of the text of the Federal Reserve Act was identical to text of the bill submitted by the National Monetary Commission and also to text of reform proposals that he had written single-handedly and published prior to the conclave on Jekyll Island.

As a professor of economics and professional historian, I had despaired at the confusion concerning who should receive credit for the creation of the Federal Reserve, confusion literally carved in stone on statues in the foyer of the Federal Reserve Building. I knew of one account, a chapter in a biography of Woodrow Wilson, which covered part of this ground, but I feared a comprehensive and coherent account would never emerge.

The second part of Lowenstein's book fills this void. Chapter 8, "Into the Crucible," tells how Warburg and other allies of Aldrich advocated for financial reform. They circulated the plan among bankers,

incorporated suggestions, and established the National Citizens' League for the Promotion of a Sounding Banking System, which sought to popularize reform on Main Street as well as Wall Street. Opposition solidified among progressives and Democrats, who feared the Aldrich Plan to create a National Reserve Association was a Trojan horse destined to create a national banking monopoly. Chapters 9 and 10 cover the 1912 presidential campaign, when opposition to the creation of a central bank appeared as a key plank in the Democratic Platform, and William Jennings Bryan required Woodrow Wilson to publicly repudiate the Aldrich Plan in return for political support. Chapters 10 through 13 tell how after winning the election, the Democrats adopted the mantle of reform, and turned the Republican plan to create a National Reserve Association into their own plan to create a Federal Reserve Association, based upon similar scientific principles but with a different political superstructure. President Wilson then convinced Republicans and Democrats as well as progressives and populists to vote for the proposal, which was signed into law two days before the first Christmas of Wilson's presidency.

Lowenstein's novel narrative is a substantial scholarly achievement. I checked many of his sources, and over the phone and in person, I questioned him about how he came to key conclusions. Future historians may revisit aspects of his story, but I believe the core of his work will stand the test of time. I recommended this part of the book to members of the Federal Open Market Committee, to my Ph.D. advisor (who told me he had learned little from the first half of the book and stopped reading) — and I recommend it to readers of my review.

The epilogue discusses how our nation's perpetual debates about centralization versus local autonomy, Main Street versus Wall Street, and elastic versus stagnant monetary systems continue today. While reiterating these core concepts may be useful, the epilogue is the weakest part of the manuscript. It begins by stating that "The Federal Reserve System established in 1913 was identical in its framework to the system today. The federalist structure enacted a century ago remains in force; so does the essential purpose ... along with setting short-term interest rates ... the Fed is in charge of the nation's monetary policy." These statements seem misleading or incorrect. The Banking Act of 1935 replaced the Fed's federalist structure of regional Reserve Banks with authority to operate independently with a national central bank controlled from Washington via the Board of Governors and Federal Open Market Committee. When the Fed was founded, its essential purpose was not monetary policy. The original Fed determined neither the inflation rate nor the exchange rate. Those aggregate prices were set by the gold standard, which had been de jure since the Gold Act of 1900 and de facto for several decades before. The original Fed did not alter interest rates to influence levels of employment, unemployment, or output. Despite my qualms about the epilogue (and a quibble about the inconsistent and inaccurate use of the term "fiat money" throughout the manuscript), I think America's Bank is worth reading repeatedly. I will assign it to undergraduates when I teach about the history of the Federal Reserve, and I will keep a copy on my bookshelf next Alan Meltzer's three-volume *History of the Federal Reserve* and Milton Friedman and Anna Schwartz's *Monetary History of the United States*.

Reference:

Elmus Wicker, *The Great Debate on Banking Reform: Nelson Aldrich and the Origins of the Fed*, Columbus: Ohio State University Press, 2005.

Gary Richardson is the Historian of the Federal Reserve System, a research economist at the Federal Reserve Bank of Richmond, a professor of economics at the University of California at Irvine, and Research Associate at the National Bureau of Economic Research.

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Subject(s): Financial Markets, Financial Institutions, and Monetary History

Geographic Area(s): North America

Time Period(s): 19th Century
20th Century: Pre WWII

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A Concise History of International Finance: From Babylon to Bernanke. By Larry Neal . Cambridge, UK: Cambridge University Press, 2015. xiv + 361 pp. Tables, .
Banking on global markets: Deutsche Bank and the United States, 1870 to the present,
Monitoring the world economy, 1820-1992,
The history of foreign exchange,
Larry Neal, Concise history of international finance: from Babylon to Bernanke
(Cambridge: Cambridge University Press, 2016. Pp. 376. ISBN 9781107034174 Hbk.£,
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