



Lords of Finance: The Bankers Who Broke the World

By Liaquat Ahamed

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Winner of the 2010 Pulitzer Prize

With penetrating insights for today, this vital history of the world economic collapse of the late 1920s offers unforgettable portraits of the four men whose personal and professional actions as heads of their respective central banks changed the course of the twentieth century

It is commonly believed that the Great Depression that began in 1929 resulted from a confluence of events beyond any one person's or government's control. In fact, as Liaquat Ahamed reveals, it was the decisions taken by a small number of central bankers that were the primary cause of the economic meltdown, the effects of which set the stage for World War II and reverberated for decades.

In *Lords of Finance*, we meet the neurotic and enigmatic Montagu Norman of the Bank of England, the xenophobic and suspicious Émile Moreau of the Banque de France, the arrogant yet brilliant Hjalmar Schacht of the Reichsbank, and Benjamin Strong of the Federal Reserve Bank of New York, whose façade of energy and drive masked a deeply wounded and overburdened man. After the First World War, these central bankers attempted to reconstruct the world of international finance. Despite their differences, they were united by a common fear--that the greatest threat to capitalism was inflation--and by a common vision that the solution was to turn back the clock and return the world to the gold standard.

For a brief period in the mid-1920s they appeared to have succeeded. The world's currencies were stabilized and capital began flowing freely across the globe. But beneath the veneer of boom-town prosperity, cracks started to appear in the financial system. The gold standard that all had believed would provide an umbrella of stability proved to be a straitjacket, and the world economy began that terrible downward spiral known as the Great Depression.

As yet another period of economic turmoil makes headlines today, the Great Depression and the year 1929 remain the benchmark for true financial mayhem. Offering a new understanding of the global nature of financial crises, *Lords of*

Finance is a potent reminder of the enormous impact that the decisions of central bankers can have, of their fallibility, and of the terrible human consequences that can result when they are wrong.

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Editorial Review

Amazon.com Review

Amazon Exclusive: Liaquat Ahamed on the Economic Climate



In December 1930, the great economist Maynard Keynes published an article in which he described the world as living in “the shadows of one of the greatest economic catastrophes in modern history.” The world was then 18 months into what would become the Great Depression. The stock market was down about 60%, profits had fallen in half and unemployed had climbed from 4% to about 10%.

If you take our present situation, 16 months into the current recession, we're about at the same place. The stock market is down 50 to 60 percent, profits are down 50 percent, unemployment is up from 4.5% to over 8%.

Over the next 18 months between January 1930 and July 1932 the bottom fell out of the world economy. It did so because the authorities applied the wrong medicine to what was a very sick economy. They let the banking system go under, they tried to cut the budget deficit by curbing government expenditure and raising taxes, they refused to assist the European banking system, and they even raised interest rates. It was no wonder the global economy crumbled.

Luckily with the benefit of those lessons, we now know what not to do. This time the authorities are applying the right medicine: they have cut interest rates to zero and are keeping them there, they have saved the banking system from collapse and they have introduced the largest stimulus package in history.

And yet I cannot help worrying that the world economy may yet spiral downwards. There are two areas in particular that keep me up at night.

The first is the U.S. banking system. Back in the fall, the authorities managed to prevent a financial meltdown. People are not pulling money out of banks anymore—in fact, they are putting money in. The problem is that as a consequence of past bad loans, the banking system has lost a good part of its capital. There is no way that the economy can recover unless the banking system is recapitalized. While there are many technical issues about the best way to do this, most experts agree that it will not be done without a massive injection of public money, possibly as much as \$1 trillion from you and me, the taxpayer.

At the moment tax payers are so furious at the irresponsibility of the bankers who got us into this mess that they are in no mood to support yet more money to bail out banks. It is going to take an extraordinary act of political leadership to persuade the American public that unfortunately more money is necessary to solve this crisis.

The second area that keeps me up at night is Europe. During the real estate bubble years, the 13 countries of Eastern Europe that were once part of the Soviet empire had their own bubble. They now owe a gigantic \$1.3 trillion dollars, much of which they won't be able to pay. The burden will have to fall on the tax payers of

Western Europe, especially Germany and France.

In the U.S. we at least have the national cohesion and the political machinery to get New Yorkers and Midwesterners to pay for the mistakes of Californian and Floridian homeowners or to bail out a bank based in North Carolina. There is no such mechanism in Europe. It is going to require political leadership of the highest order from the leaders of Germany and France to persuade their thrifty and prudent taxpayers to bail out foolhardy Austrian banks or Hungarian homeowners.

The Great Depression was largely caused by a failure of intellectual will—the men in charge simply did not understand how the economy worked. The risk this time round is that a failure of political will leads us into an economic cataclysm.

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

Review

"A magisterial work...As you learn how the world spiraled into depression...you can't help thinking about the economic crisis we're living through now."—*The New York Times Book Review*

"The rich and charming story of the end of the world."—*Time*

"*Lords of Finance* is highly readable That it should appear now, as history threatens to repeat itself, compounds its appeal."—**Niall Ferguson, *Financial Times***

"There is terrific prescience to be found in [*Lords of Finance's*] portrait of times past...[A] writer of great verve and erudition, [Ahamed] easily connects the dots between the economic crises that rocked the world during the years his book covers and the fiscal emergencies that beset us today. He does this winningly enough to make his book about an international monetary horror story seem like a labor of love... Mr. Ahamed does a superlative job of explaining the ever-germane way the problems of one shyster, one bank, one treasury or one economy can set off repercussions all around the globe."—**Janet Maslin, *The New York Times***

"This absorbing study of the first collective of central bankers is provocative, not least because it is still relevant."—*The Economist*

"This is narrative history at its most vivid, an epic portrait of how the predecessors of Ben Bernanke, Jean-Claude Trichet and Mervyn King helped shove economies into the abyss in 1929...His reportorial style has the Barbara Tuchman touch. Learned yet unpretentious, he dips into diaries, letters and cables to pull out evocative vignettes...Central bankers, [Ahamed] says, can resemble Sisyphus in Greek mythology—condemned to roll a boulder up a hill, only to watch it roll down again. Like Alan Greenspan, the four men described here saw their apparent successes melt into failure."—*Bloomberg News*

“The parallels evidenced by Ahamed between state of the world financial system then and now add to the fascination of this remarkable achievement in history, biography and analysis.”—***Fort Worth Star Telegram***

“An outstanding book...[Ahamed] found a fascinating frame for relating global economic history from the beginning of World War I until the dying days of World War II.”—***The Houston Chronicle***

“[Ahamed’s] protagonists’ high-wire efforts to stave off national bankruptcies furnish Ahamed with plenty of drama to highlight his engrossing analysis of the complexities of monetary policy.”—***Publishers Weekly***

“Erudite, entertaining macroeconomic history of the lead-up to the Great Depression as seen through the careers of the West’s principal bankers...Spellbinding, insightful and, perhaps most important, timely.”—***Kirkus Reviews (starred)***

“Books grounded in history sometimes offer an eerie resonance for contemporary readers. Rarely has that statement seemed truer than with *Lords of Finance*.”— **Steve Weinberger, *Dallas Morning News***

“[A] wonderful new history”—***Newsweek***

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