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CITY BANKERS, GOLD, AND BANKING PANICS

City Bankers, 1890–1914. By Youssef Cassis. Cambridge: Cambridge University Press, 1994. Pp. xv + 350. ISBN 0-521-44188-9. £40.00.

John Bullion's empire: Britain's gold problem and India between the wars. By G. Balachandran. Richmond: Curzon Press, 1996. Pp. xii + 252. ISBN 0-7007-0428-0. £40.00.

The banking panics of the Great Depression. By Elmus Wicker. Cambridge: Cambridge University Press, 1996. Pp. xviii + 174. ISBN 0-521-56261-9. £30.00.

The front cover of Cassis's book shows the heavily bearded and mustachioed directors of the Bank of England, gathered in 1903 in the magnificent Court Room. The City was at its peak, the undisputed financial capital of the world. Its interests were the major determining influence on British economic policy. The Bank of England directors were selected, according to ancient tradition, from the City's most prestigious trading houses, including the merchant banks. Towards the end of the nineteenth century it had become obvious that banking was undergoing a radical transformation. A revolution in the structure of English banking had caused the near-disappearance of the old country banker; private family-owned banking firms were under severe pressure and many had been absorbed by the joint-stock banks. However, much had remained the same. It is one of the virtues of Cassis's book, which focuses on the top layer of City bankers, that it shows how much continuity there was. The old private banker fitted smoothly into the new, larger banks. The occupation of private banker, carried out within a family firm, continued to represent the ideal. Banking remained a not particularly onerous job. The typical City banker was a part-timer, who used his position and representation on the boards of other financial companies as a means of furthering his own business interests – he had to, because a board position alone did not pay enough to live like a gentleman. Banking was a respectable way of building up a fortune. The City's strength was its private information network of social and business relationships which made the highly specialized financial system possible but also created opportunities to make money privately. The author shows that the distribution of tasks within the City, as well as the reluctance of the big joint-stock banks to develop into continental-style investment banks, eminently suited the private interests of the board members, 'as though the primary aim of the big deposit banks … was to make possible the activities of the private banking and trading firms and the overseas ventures of the partners of these firms'.[1] What is now considered insider trading was an accepted form of business. There were few professional bank managers; those there were had generally risen through the ranks and had a lower social status. The City's playing field was never intended to be level and appears to have become even more slanted in the period before the First World War.

City bankers, originally published in French in 1984,[2] is more of a social than an economic study, with a greater emphasis on bankers than on banking. At its core is a sample of 460 City bankers, board members of the City banking institutions during the

[1] Youssef Cassis, *City bankers, 1890–1914* (Cambridge, 1994), p. 313.
[2] Youssef Cassis, *Les banquiers de la City à l'époque edouardienne* (Paris, 1984).

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twenty-five years preceding the First World War. Cassis argues that control of the main City institutions during this period was concentrated in the hands of the old families of the banking aristocracy, composed of the most prominent merchants, merchant bankers, and private bankers, who mixed increasingly with the landed aristocracy to form a renewed elite. The merging of these two groups can be seen as 'the embryo of the British establishment in the interwar years and beyond'.[3] This elite had close connections with politicians, top civil servants, and colonial governors. As Cassis points out, bankers were unusual in this period of Britain's relative decline in that they, unlike industrialists, could move up the social ladder without having to give up their jobs. The image that emerges of City bankers is that of smooth, upwardly mobile financial operators, building up wealth and successfully reaching the top of British society. One could argue that as the sample of bankers is based on firms surviving in 1914 it leaves out banks that failed during the period and firms that were amalgamated without their members being offered a seat on the London board. Only 'the winners' are analysed, whereas a comparison with 'the losers' might have given an indication of the special qualities necessary to make it to the top of City finance.[4] In the sample, the least information is available about merchants and colonial bankers, the group that includes some of the most interesting and unusual operators who are less easy to stereotype and for that reason might have been used to correct or enhance the image of a typical banker.[5]

Such small criticisms should not detract from the fact that *City bankers* contains a wealth of detail on the social background of bankers, their education and career paths, private fortunes, way of life, marriages and the formation of banking dynasties, but also covers economic topics such as the changing structure of banking, the way a banker carried out his business, the City's information network, crossholding directorships, financial concentration, banking profits, and investment policy. Banking was hugely profitable between 1890 and 1914 as globalization and Britain's large surplus savings created enormous opportunities for the financial sector.[6] Cassis has dealt elsewhere with the relationship between banking and industry and the role of the City in Britain's economic decline[7] and in particular with what he calls 'the weight of finance' in the economy.[8] Whether the City bankers performed their task well depends, in the final instance, on their impact on the efficiency of the financial sector and the overall British

[3] Cassis, *City bankers*, p. 316.

[4] How family firms survived is discussed by M. J. Daunton, 'Financial elites and British society', in Y. Cassis, ed., *Finance and financiers in European history, 1880–1960* (Cambridge, 1992), pp. 121–46.

[5] For example, Stuart Muirhead's admirable study of the Chartered Mercantile Bank (*Crisis banking in the East: the history of the Chartered Mercantile Bank of India, London and China, 1853–1893* (Aldershot, 1996) shows how quickly the character of a colonial bank could change. The Chartered Mercantile Bank started in 1853 with a majority of 'native' shareholders and some Indian directors. Becoming a chartered bank meant that the head office moved to London and that the board of directors became all-European.

[6] For the argument that the role of banking depends on the stage of the industrialization process in a country's history, see S. Pollard and D. Ziegler, 'Banking and industrialization', in Cassis, ed., *Finance and financiers*, pp. 17–36.

[7] Y. Cassis, 'British finance: success and controversy', in J. J. van Helten and Y. Cassis, eds., *Capitalism in a mature economy: financial institutions, capital exports and British industry 1870–1939* (Aldershot, 1990).

[8] Y. Cassis, 'Introduction: the weight of finance in European societies', in Cassis, ed., *Finance and financiers*, pp. 1–15.

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economy. Cassis's rich and satisfying book makes one wonder to what extent, when bankers assessed risks and returns on investments, their private preferences and social ambitions made them choose sub-optimal solutions.

The City and Bank of England appear in a different light in Balachandran's book on the Indian currency and external account in the interwar period[9] when India, the author states, was of vital importance to the City and Britain's financial interests.[10] India's contribution to the operation of the international monetary system has not been fully appreciated, Balachandran argues, while historians of India have paid scant attention to Britain's balance of payments problems. In their efforts to restore the City's position as the world's financial capital and promote a more expansionary world economic environment, the British authorities sacrificed India's economic interests. India's thirst for gold was considered a threat to Britain's adherence to the gold standard and a destabilizing factor globally. Gold jewellery and coins were the main store of value to the rural population. When India prospered because of good harvests or growing demand for its manufactured products, rising Indian gold imports had a deflationary effect on global liquidity,[11] therefore Indian demand for gold had to be regulated.[12] With sterling, in Montagu Norman's expression, 'under the harrow', there was little sympathy in London for the impact of such a policy on the Indian economy. Overvaluation of the rupee, officially to preserve stable prices in India,[13] was a central part of this policy, which suited British creditors and exporters and facilitated the transfer of Home Charges. The rupee was the only currency to be revalued after the war.[14] The deflationary monetary and fiscal policy pursued in India during the global depression had a savage effect on the rural population. However, it did release a stream of 'distress gold' during the 1930s, boosted the Bank of England's gold stocks, and led to the return of most of the gold accumulated since the end of the First World War.

The financial relationship between Britain and India has not received the attention it deserves in part because of its complexity and obscurity.[15] The historian needs to unravel the technicalities of colonial finance, interpret unreliable economic data, differentiate between the real and the stated reasons for specific policies, and explain the political motivations at a time when economic orthodoxy was in crisis and policy largely made by 'practical men'. Balachandran has risen to the challenge. He describes the intricacies of the Indian currency system and gives a detailed and welcome description of monetary and currency policies. The analysis of the justification for Britain's currency policy towards India – a major part of the book – is based on extensive use of the evidence collected by the Babbington-Smith and Hilton-Young parliamentary committees. Balachandran states that the Babbington-Smith Committee of 1919–20 accepted Keynes's argument that India faced an inflationary threat because it wanted an excuse 'to justify a virtually predetermined course of action' to administer a deflationary policy shock to the Indian economy by revaluing the rupee.[16] The

[9] G. Balachandran, *John Bullion's empire: Britain's gold problem and India between the wars* (Richmond, 1996).

[10] Ibid., p. 5.

[11] A point referred to by Keynes in *Indian currency and finance*: 'Every one knows Jevons's description of India as the sink of the precious metals.' J. M. Keynes, *Collected writings* (London, 1971), I, pp. 70–1.

[12] Balachandran, *John Bullion's empire*, p. 38.

[13] Ibid., p. 40.

[14] Ibid., p. 222.

[15] B. R. Tomlinson, 'Indo-British relations in the post-colonial era: the sterling balances negotiations, 1947–1949', *Journal of Imperial and Commonwealth History*, 13 (1985), p. 142.

[16] Balachandran, *John Bullion's empire*, p. 88.

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committee was aware of the effect of its proposals on Indian incomes.[17] The policy initially appeared to be successful in curbing Indian gold imports in the global post-war boom.[18] A weakness in this argument is that the regulation of Indian demand for gold was not all that effective during the expansionary phase of the interwar economy (1922–9) because it conflicted with other policy objectives of the colonial government, harvests were abundant, and the strong rupee made gold appear cheap, especially compared with sharply depreciated silver. By 1925, net gold imports reached their highest-ever level. Balachandran shows that reasons of international finance rather than domestic Indian interests determined the recommendations of the Hilton-Young Commission of 1925–7. India's new gold bullion standard was in effect no different from the previous sterling standard, nor did the Treasury and India Office ever intend it to be different.[19] The colony's silver policy, the demonetization of the silver rupee and liquidation of India's silver reserves, built up at great expense during the First World War, were 'in the final analysis... determined by the nature of Britain's financial relations with the United States'.[20]

The crunch for Anglo-Indian financial relations came during the Great Depression, which made the conflict of interests obvious, with Britain devaluing sterling, following 'cheap money' policies and welcoming the inflow of 'distress' gold, while India was forced to follow a deflationary course which deepened the downturn. Fears of an Indian debt default may also have played a larger role in determining London's attitude towards India than Balachandran admits.[21] One wonders whether the overall impact of the depression on India was really 'relatively benign'[22] as indicated by the fall in real per capita incomes of less than 3 per cent between 1930 and 1935.[23] Lower food prices may have raised the standard of living of urban dwellers but for the overwhelming majority of the population in the countryside, the source of the gold exports during the 1930s, there was real distress. The depression led to a liquidity crisis, the collapse of the supply of agricultural credit and widespread rural unemployment.[24] Balachandran does not make it clear how much Britain's control over colonial currency and monetary affairs damaged India's growth. A study of the impact of the exchange rate on Indian national income and welfare would have gone to the heart of the issues raised.[25] Admittedly, such a study faces formidable difficulties as 'so much of the raw data available is misleading, deceptive or partial'.[26] Balachandran's almost exclusive focus on policies and their motivations[27] may reflect the preference for political and

[17] Ibid., p. 40. [18] Ibid., p. 107. [19] Ibid., p. 157. [20] Ibid., p. 155.

[21] B. R. Tomlinson, *The economy of modern India, 1860–1970*, The New Cambridge History of India III-3 (Cambridge, 1993), pp. 152–4. The depression led to a rise in the real value of debt and a squeeze on tax revenues. India's colonial debt peaked in 1931 at Rs 10,347m, equivalent to 45 per cent of India's (declining) national income. See Rothermund, *India in the Great Depression, 1929–1939* (Manohar, 1992), p. 61, and S. Sivasubramoniam, 'Revised estimates of the national income of India, 1900–1901 to 1946–47', *Indian Economic and Social History Review*, 34 (1997), p. 153.

[22] Balachandran, *John Bullion's empire*, p. 185.

[23] A. Heston, 'National income', in Dharma Kumar and M. Desai, eds., *Cambridge economic history of India* (Cambridge, 1983), II, p. 402. For a recent estimate, see Sivasubramoniam, 'Revised estimates', pp. 113–68.

[24] Tomlinson, *The economy of modern India*, pp. 89–90. Tomlinson also suggests (p. 142) that by the mid 1930s 'all the available surplus had probably been transferred out of agriculture'.

[25] See for instance the discussion in Balachandran, *John Bullion's empire*, p. 40.

[26] Tomlinson, *The economy of modern India*, p. 2.

[27] Balachandran, *John Bullion's empire*, p. 223.

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intellectual history and neglect of economic history in current Indian historiography.[28] The use of charts would also have made the book clearer, and comparisons with other colonies and the dominions might have strengthened the thesis that India was treated harshly and selfishly by Britain.[29]

The $250 million gold outflow from India during the 1930s pales into insignificance compared with the $722 million that poured out of the US after Britain abandoned gold in September 1931. The ensuing severe US banking crisis has often been attributed to this outflow but the connection is rejected by Wicker in one of many controversial conclusions of his challenging analysis of the causes and effects of the banking panics of the Great Depression.[30] The main focus of Wicker's critical re-examination is Friedman and Schwartz's monumental *Monetary history of the United States*.[31] Wicker finds analytical shortcomings in their treatment of the banking crises and provides alternative interpretations, without rejecting their monetary explanation of the Great Depression. Friedman and Schwartz gave a special role to four national banking panics between 1930 and 1933. Banking failures were the mechanism which produced a drastic decline in the stock of money[32] and changed a mild downturn in 1929 into a major recession by October 1930. The Federal Reserve Bank's (Fed) failure to halt the fall in the stock of money turned a local disturbance into a nationwide drop in income and prices and subsequently into a national decline in output and employment. Wicker shows how the character of banking panics differed regionally by examining bank failures by Federal Reserve district and identifies a fifth 'mini' panic in Chicago in 1932, which, measured by the amount of currency hoarding, was as significant as the first panic in 1930. He paints a more varied, sometimes fundamentally challenging, picture of the mechanism of banking crises, their contribution to the Great Depression, and the role of Fed policy. He finds that at least two of the four banking crises did not have clearly identifiable effects on the national economy but were specific to the regional economy. The banking panics during the Great Depression differed from pre-1914 panics in that they did not follow an initial shock in the New York money market but originated in the interior of the US and the end of a panic did not lead to currency dishoarding because depositor confidence was not restored.

The first banking crisis (November 1930 – January 1931) has remained the battle ground of monetary and non-monetary explanations of the Great Depression, ever since Friedman and Schwartz asserted it was the initial cause. They considered the failure of the Bank of United States the critical event of the crisis, but admitted it did not leave a strong mark on economic data. Wicker repeats his well-known view that the centre of the crisis was the failure of Caldwell and Company of Nashville, Tennessee, the largest investment banking house in the South. However, Caldwell's collapse had only limited regional output effects and the decline in the stock of money during this period was not unusually large. Wicker suggests that Caldwell's failure may have been atypical, caused

[28] C. A. Bayly, 'Modern Indian historiography', in M. Bentley, *Companion to historiography* (London and New York, 1997), p. 686.

[29] Rothermund, for instance, has argued that India was hit exceptionally hard during the depression, especially the rural population, also compared with other underdeveloped countries. See Dietmar Rothermund, *The global impact of the Great Depression, 1929–1939* (London and New York, 1996), p. 17. See also the comparison with Australia in Rothermund, *India in the Great Depression*, p. 31.

[30] Elmus Wicker, *The banking panics of the Great Depression* (Cambridge, 1996).

[31] M. Friedman and A. J. Schwartz, *A monetary history of the United States, 1867–1960* (New York, 1963).

[32] Ibid., p. 351.

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by 'questionable managerial and financial practices',[33] and rejects the popular notion of the time that poor loans and investments were the principal factor in the bank suspensions. Instead he supports Friedman and Schwartz's idea that the rash of bank suspensions caused a 'contagion of fear' originating in the agricultural areas which had experienced the heaviest impact of bank failures in the twenties.[34] Wicker concludes after detailed analysis that the evidence that changes in money and bank credit aggregates during the first banking crisis caused the Great Depression remains 'highly ambivalent'.[35] Kindleberger has argued that it is more plausible that the Caldwell and other bank failures were belated consequences of the October 1929 stockmarket crash.[36] Caldwell was a typical case of an aggressive bank engaged in risky loans, leveraged debt, and property speculation, caught out during a downturn and lacking the discountable paper and government bonds to raise liquidity. However, Friedman and Schwartz state that the pressure on bank reserves in 1928 and 1929 made banks more selective in their lending and investment.[37] The most important source of bank suspensions by 1931 was the impairment of capital, rather than poor lending,[38] which made it impossible to acquire additional high-powered money from the Fed, an opinion repeated by Temin.[39] Banks became forced sellers of bond portfolios when faced with a run on deposits. Wicker, however, mentions an unpublished Fed study of the period, which shows that impairment of capital was the cause of bank suspensions only in a tiny percentage of cases.[40]

The second and third banking crises in 1931 have received much less attention and this is where Wicker's reconstruction comes into its own, by creating a better understanding of the mechanism of bank suspensions and Fed policy. A detailed analysis of the second banking crisis (April–August 1931) shows it to have been region-specific (focused on Chicago and Toledo) but, like the first crisis, without perceptible nationwide effects. The more severe third banking crisis (September–October 1931) left a much clearer imprint. Wicker admits that the crisis may have raised fears about the convertibility of the US dollar and the solidity of the banking system but finds no direct linkage in the regional evidence between the gold shock and specific bank failures.

The Fed's responsibility for the Great Depression remains highly controversial. Wicker stays on the side of the apologists.[41] Fed policy was successful within its own narrow framework, he argues, because it managed to expand the monetary base during the crisis, but Fed officials could not have known that changes in the currency–deposit ratio had altered the money multiplier as articles about the relationship did not appear until 1933 and 1934. However, sufficiently large open market operations could have led to a return flow of currency to the banking system and the restoration of depositor confidence. By contrast, Friedman and Schwartz's verdict that the Fed showed ineptitude, a 'belated concern', and 'limited understanding' of the linkages between events seems more justifiable, given that the US economy was collapsing. Monetary policy could have prevented the catastrophe, 'if additional high-powered money had

[33] Wicker, *Banking panics*, p. 36. [34] Friedman and Schwartz, *Monetary history*, p. 308.

[35] Wicker, *Banking panics*, p. 59.

[36] Charles P. Kindleberger, *The world in depression, 1929–1939* (Harmondsworth, 1987), p. 130.

[37] Friedman and Schwartz, *Monetary history*, p. 354. [38] Ibid., pp. 356–7.

[39] P. Temin, *Did monetary forces cause the Great Depression?* (New York, 1976), p. 84.

[40] Wicker, *Banking panics*, pp. 100–1.

[41] As Wicker had done previously in Elmus Wicker, *Federal Reserve monetary policy, 1917–1933* (New York, 1966).

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been made available from whatever source'.[42] The Fed's failure to live up to its responsibilities led directly to the fourth and final banking crisis (February–March 1933), when state after state declared banking moratoria, closing all banks. Neither the Fed nor the Reconstruction Finance Corporation appeared to be fully aware of the threat of a national banking collapse and its possible effects, nor had they the courage to overcome perceived legal limitations on their ability to act as lender of last resort.

Wicker's meticulous, in many respects exemplary, account is essential reading for the financial history of the Great Depression. This is not a book for bold assertions, but for cautious statements on the state of research and the strength of proof. Wicker's analysis creates a deeper understanding of the banking crises, their economic impact and Fed policy but also raises more questions: how was it possible that the US became, in Hobsbawm's words, 'the epicentre of… the largest global earthquake ever to be measured on the economic historians' Richter Scale'?[43] Less clear in Wicker's analysis is the contribution of the human factor. US bankers and politicians allowed the monetary environment to deteriorate to a point where the process became self-reinforcing and an economic collapse unavoidable. Their personal backgrounds and characteristics may in part explain the lack of decisive, timely action and the financial catastrophe that followed.[44]

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[42] Friedman and Schwartz, *Monetary history*, pp. 357–8.
[43] Eric Hobsbawm, *Age of extremes, the short twentieth century, 1914–1991* (London, 1994), p. 86.
[44] Friedman and Schwartz, *Monetary history*, p. 419.

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