

Marc Flandreau, Carl-Ludwig Holtfrerich, Harold James, eds.. *International Financial History in the Twentieth Century: System and Anarchy*. New York: Cambridge University Press, 2003. x + 288 pp. \$65.00, cloth, ISBN 978-0-521-81995-4.



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International Financial History in the Twentieth Century: System and Anarchy contains an impressive selection of articles addressing the development of the international financial system in the twentieth century. The book's overall agenda is very ambitious, trying to link the history of the international financial system in the twentieth century to the current globalization debate. While this approach is not new, and reflects a common trend in some of the recent policy oriented economic history literature, the key contribution of this volume lies in the detail and the focus given to the peculiarities of the previous regimes. The topics of the individual chapters range from the challenge to deal with sovereign risk under the classical gold standard, to the military determinants for economic policy in the post World War II period, to the question of whether the world should gravitate to a global currency. The introductory chapter by Flandreau and James helps to place the wide variety of economic experiences considered in the book into the broader globalization literature. Flandreau and James outline the key features of the classical gold standard, the interwar period, and the Bretton Woods regime,

and conclude that a global monetary order is hard to realize, especially when institutional, political, and social forces influence markets (pp. 2-3). Some of the following book chapters, such as the essays by Flandreau, Skidelsky, Kindleberger and Ostrander, and Pauly underline this key hypothesis more than others. In its overall structure, the book follows a historical progression with two articles focusing on the classical gold standard, two entries on the interwar gold exchange standard, four articles on the emergence and operation of the Bretton Woods regime, and two concluding essays on the more general question of how to design an international financial order and what lessons can be drawn from history for today's international monetary order.

The first two articles by Marc Flandreau and Mira Wilkins, respectively, address the period of the classical gold standard, focusing on sovereign risk as well as the conduits for long-term foreign investment under the gold standard regime.

Flandreau's paper, entitled "Caveat Emptor: Coping with Sovereign Risk under the International Gold Standard, 1871-1913," describes the

development of a systematic framework of financial analysis in the late nineteenth century. Based on the example of Credit Lyonnais, Flandreau shows how a bank that evolved to be the largest European financial institution by the turn of the century managed risk and tried to overcome information problems. The classical gold standard provided no formal rating system, no official data was published, and no official bailouts would assist financial institutions in the event of a crisis or default. Triggered by the information revolution in the mid nineteenth century, Credit Lyonnais developed an internal research department, the *Service des Etudes Financieres* (SEF). The SEF was staffed with young economics graduates from HEC and Sciences Po and focused primarily on data collection. Though understaffed and underfunded at the beginning, SEF had developed to be the market leader in data collection on credit risk and international affairs by the late 1880s. The collapse of the *Comptoir d'Escompte* in 1889 and the failure of Baring Brothers in 1890 prompted the enlargement of the SEF with the development of a sovereign risk analysis department, the *Section des Fonds d'Etat*. With the sovereign debt rating system based on fiscal health of a country, Credit Lyonnais thus contributed to the market mechanism by ranking which sovereigns of the gold standard periphery could be trusted. The assessment of public finance played a crucial role for the investors' willingness to lend. Flandreau concludes that economics, not politics, were the key factor in allocating French export capital under the classical gold standard.

Mira Wilkins's article, "Conduits for Long-Term Foreign Investment in the Gold Standard Era," highlights the role of foreign investment under the classical gold standard regime. The bulk of all foreign portfolio investment consisted of government bonds, railroad bonds, and other securities traded in foreign markets (for example, large foreign companies such as steel, telephone, telegraph, and mining). It included payments in own currencies as well as bearer bonds. To this day,

most research on foreign investment under the classical gold standard regime has focused on these types of investment. Wilkins, in contrast, suggests that direct investment by freestanding companies and multinational enterprises took an important share of gold standard investment. In addition to providing finance, direct foreign investors furnished a bundle of tangible and intangible assets, such as modern infrastructure, new technologies, and managerial supervision. The chapter thus provides a more comprehensive and realistic understanding of international finance flows during the gold standard.

The next two articles, entitled "The Gold Exchange Standard, a Reinterpretation" by Stephen Schuker and "The Bank of France under the Gold Standard, 1914-1928" by Kenneth Moure, address policy problems and overall organization of the interwar regime.

A wide range of political and economic arguments have been cited to explain the breakdown of the interwar gold exchange standard. The core of the argument outlined in Schuker's essay pertains to the idea that the international political controversies and the domestic distribution issues that dominated economic policy in the interwar years led to the ultimate demise of the system. To that extent the interwar regime and its instabilities reflect the political, cultural, and economic circumstances that determined the policies of the time. The article contains a very succinct summary of the main economic and political arguments that led to the gold standard's decline. Without bringing new historical evidence, the article reiterates the importance of the changing political structures in the post WW I period. In Schuker's view, the monetary arrangements and institutions represent an implicit bargaining framework for the organization of international economic relations.

Kenneth Moure's chapter represents an interesting and very detailed discussion of the policies of the Banque de France towards gold in the years

between the abandonment of the gold standard at the advent of WW I to the eventual return in 1928. The Banque de France was one of the most ardent proponents of the gold standard in the interwar years and fiercely opposed the gold exchange standard idea. Nevertheless, its policies contributed to the onset and the severity of the Great Depression and were most disruptive to the international financial regime. The detailed discussion of the Banque de France's disposition to the gold standard and its struggles to return to gold provide an important piece of the puzzle in trying to understand the interwar policies towards gold. Moure pays very detailed attention to the political and ideological discussions in France at the time. The author broadly divides France's experience off gold in three dominant policy episodes, the first being the wartime years and the immediate postwar period, 1914-1924, the second the crisis episode from 1924-1926, in which policies were dominated by the *Cartel des Gauches*, and the last period, symbolizing the actual return to gold from 1926-1928. In the first episode, policies were dominated by a commitment to restore convertibility immediately after the war. But the wartime inflation and the continued borrowing by the government led to a falling franc that made a return to gold increasingly difficult. Until 1928, France was in no position to exchange the paper currency back to gold. France's strong commitment to gold from 1928-1936, where gold would stand as a safeguard against inflation and currency depreciation, was primarily determined by the experience off gold in the years 1914-1928.

The next four articles address the evolution and design of the Bretton Woods regime, the monetary reform in Germany in the post WW II years, and the determinants for foreign policy in the 1950s.

Robert Skidelsky's article, "Keynes's Road to Bretton Woods: An Essay in Interpretation," compares the different objectives, incentives, and ideologies brought forward by the British and the

U.S. delegations at the emergence of Bretton Woods. The two opposing ideas at the emergence of the Bretton Woods regime were the White Plan by the U.S. Treasury, which was governed by liberal internationalism, and the Keynes Plan supported by the British Treasury, which lobbied for creditor adjustment and increased monetary autonomy. These two proposals were firmly rooted in the different experiences of both countries during the interwar years. The interwar experience with unemployment had taught Britain that it was indispensable to be able to choose its own rate of wage inflation. Britain strived for freedom from the international monetary regime, mainly to pursue full employment and other social policies. In the United States, in contrast, the interwar gold standard was not blamed for the Great Depression. In this chapter Skidelsky draws heavily on detailed descriptions of Keynes's interwar discussions and writings. Prior to the U.S. entry into WW II, Keynes's view of a new monetary order was influenced by Hjalmar Schacht's scheme of bilateral clearing accounts. Keynes's exchange clearing system was based on British leadership in Europe and eventual cooperation with Germany, and did not foresee a U.S. centered world system.

The actual operation of the Bretton Woods regime was predominantly based on the White Plan, with limited concession to the British. Nevertheless, the central objective of the Bretton Woods regime--convertibility at fixed yet adjustable rates--was not restored in Europe until the end of the 1950s. The U.S. disbursement policies guaranteed the success of Bretton Woods in the early years and made it relatively easy for others to follow the rules of the game. But even on the outset of the Bretton Woods regime, there was not enough agreement between the United States and Britain to make the regime the new golden age of financial history. The system collapsed in the face of growing U.S. deficits and lack of cooperation.

Jacob Tanner's article, "Bretton Woods and the European Neutrals, 1944-1973," focuses on the emerging roles of Sweden, Switzerland, Portugal, Spain, and Turkey in the years following WW II. These countries were not invited to Bretton Woods and therefore took only a limited role in influencing the new world order. In particular Switzerland, the country most thoroughly discussed in this chapter, was not looked upon favorably by the Allies. The Swiss tradition of strong banking secrecy provided numerous possibilities for the Axis Powers to use the neutral countries as an operational basis for arms dealing, foreign exchange, and capital flight. All five neutral countries were only allowed to enter the new international financial system after 1946. They were small players on the European scene, but the outcome of negotiations affected their economic health profoundly. In the early 1970s the group became more heterogeneous, and neutrality as concept lost its explanatory power.

"The 1948 Monetary Reform in Western Germany" by Charles Kindleberger and Taylor Ostrander provides a fascinating account of the German post-war monetary reform. Their essay carefully describes the details of the German monetary reform and analyzes the question to what extent the monetary reform can be credited with the speedy German recovery after WW II. It embeds this into the broader question of how monetary reforms need to be designed to be effective, addressing the importance of the timing of monetary reform, the necessary ancillary steps that support a successful reform, and the very timely question whether a reform would have been possible without the presence of the allied powers. The chapter gains historical relevance and interest as Taylor Ostrander himself was heading the price control section of the Office of Military Government of Germany in Berlin at the time. The chapter concludes that the monetary reform kick-started the German recovery, but that the Marshall Plan provided substantial help for recovery, and that the West German free market economy

was a desirable adjunct for success. An important lesson for today is that in Kindleberger and Ostrander's view the monetary reform would not have been possible without the military occupation, which lent credibility and helped operations.

In "The Burden of Power: Military Aspects of International Financial Relations During the long 1950s," Werner Abelshauser considers the importance of military and strategic incentives for economic developments in post WW II Europe. The monetary pressure on international relations stemming from the burden of security had far-reaching and unintended consequences on international politics and the process of economic integration in Western Europe. The origins of Europe as manifested in the founding of the European Economic Community (EEC), European defense cooperation, EURATOM, and the Treaty of Rome are inseparably linked to a hidden security policy agenda. Many of the financial problems after the war are closely related to the security-induced expenditures and cost of maintaining troops abroad. The realization that the Americans were not willing to defend Europe at all costs spurred a French-German nuclear alliance, which despite its failure provided a basis for further cooperation. The timing of the emergence of the EEC can thus be explained with military incentives. Ironically, the economic cooperation survived the military cooperation, which provides a challenge for Europe to this day.

The last two essays draw together some of the general themes of the book by asking whether the world is moving towards a global currency and by analyzing the new coordination schemes that dominated the international financial order in the twentieth century.

Eric Helleiner's essay, "Denationalizing Money? Economic Liberalism and the National Question in Currency Affairs," addresses the denationalization of money as proposed by Hayek, and places it in historical and political context. In Helleiner's perspective, there is a link between

the nationalization of money and the creation of the gold standard, as the gold standard could gain support only in an era of nation building and nationalism. The gold standard helped consolidate the state-controlled national currencies. In Hayek's perspective, the reevaluation of the national question stems partly from an underlying individualism and cosmopolitanism in liberal thought. The triumph of liberal ideas today is comparable to the era before the 1930s. But today currency substitution has become popular in many countries not because of enthusiasm for Hayek's ideas, but because of their powers to reduce weak state controls and limit capital flight.

In the last chapter, Louis Pauly suggests that finding a new international order today is not that different from the reconstruction efforts that the international financial system underwent in the period following both World Wars. The key challenges faced by the International Monetary Fund, as the presently dominant international financial institution, are the continuing criticism of conditionality and the looming challenge of reform. In his article "International Financial Institutions and National Economic Governance: Aspects of the New Adjustment Agenda in Historical Perspective," Pauly suggests that the key to success for the current reforms might be to return to the ideals of the Bretton Woods regime, in particular concerning creditor and debtor adjustment. It would be important to establish symmetry in the distribution of adjustment burdens, before accelerating the movement to international standards of industrial organization and business practice (pp. 262-263).

In summary, *International Financial History in the Twentieth Century: System and Anarchy* provides a rich set of historical examples that invite readers, economists, and economic policy makers of today to draw analogies and learn many lessons from history. The themes introduced in the book, such as risk assessment, as well as political and strategic determinants of eco-

nomics policy, are as current today as they were in the respective historical episodes.

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