Business Analyst, ISSN 0973-211X, 37(1) 235-237, © SRCC

SAVING THE CITY: THE GREAT FINANCIAL CRISIS OF 1914

Author: Richard Roberts, **Year of publication:** 2013, **Publisher:** Oxford University Press, **Pages**: 490, Hard bound, **Price:** Rs. 1295

Aasheerwaad Dwivedi*

This book is one of its kind. It has delved into this extraordinary event, virtually unknown to all, i.e. the Financial Crisis at the time of First World War in 1914. This financial crisis got overshadowed in the wake of diplomatic crisis and the war.

This book has explained the forgotten financial crisis with great detail starting from shutting down of London stock market, failure of discount market, collapse foreign exchange market, gold shortage and pressure of inside and outside drain of gold from London. Every event that happened during the course of that year is elaborated in the book. It further goes on to discuss how the containment of crisis happened and what steps were taken for further revival of the economy.

It is worth mentioning that in spite of writing a technical book, the author has explained all the concepts mostly in layman's language. It is also significant to note that he has explained all the things without using much data and it is still very lucid and easy to understand. But an understanding of the discount market, economics in general, stock markets, and foreign exchange market is helpful for making the understanding of the crisis a comprehensive one. Another good feature of the book is that it is structured very well. It has the entire chronology written properly with the coming of crisis, how it affected the country and then how it was controlled.

The author starts with explaining the supremacy of London stock market having the same position as the New York counterpart has today and why so. Then he goes on to narrate about how the news of declaration of war leads to a chaos in the stocks wherein everybody wanted to sell off the stocks and the market dipped drastically which finally lead to closing down of the stock market on July 31, 1914. Not only this, further there was collapse of the discount market when the rates shot up like never before in history. The story did not stop there and it disturbed the foreign exchange market and there was complete breakdown (Chapter 2).

The author then proceeds to discuss how the banking sector was adversely affected due to closing of stock markets as their savings were locked in the stock market and the collateral that had been given on loans was also locked up (p.44). Most importantly, there was a rush for hoarding of gold in expectation of crisis and hence there was gold shortage in the country that once again came in limelight. The threat of inside drain of gold due to hoarding by countrymen

* Assistant Professor, Department of Economics, Shri Ram College of Commerce, Delhi.
E-mail: aasheerwad.bhu@gmail.com

and outside drain due to depositories of other countries trying to withdraw their money is highlighted in detail in the book at many places.

Then the author talks about the banking system of London including use of bank rate and Bank Charter Act of 1944. The Act prescribes Ratio of Gold Reserve and note issue limits. It is discussed as to how this Charter created problem during the time of crisis (p.56). Then the history of gold standard is explained and how it has led to London emerging as the most powerful international banking centre (p. 74). The reasons attributed to this are the free market of gold in the city and London acting as principal banker to the world (p.78). This caused increased deposits of foreign countries which increased the exposure to international fluctuations (p.81). The author further goes on to discuss the importance of gold reserves in that period and their scarcity, discussed many times in history, once again cropping up in 1914.

One of the differentiating features of the book is the individual focus. The book explicitly mentions the names of different Governors (e.g. Walter Cunliffe), Chancellor and all others who were involved in all the developments (p.55, p.80, and p.81). Even their physique, comments, ideology and specific actions made by them are mentioned. This gives rise to a very concrete flavor of the entire problem and gives a step by step marking and understanding of the issue.

The author additionally says how the country was not having any crisis plan and not finance-ready as the war was thought to be impossible. But when faced with the crisis threat, different discourses came into existence. A remedy that was debated concerned having silver as a medium of exchange but it was dropped (p.84). Another solution disucussed was “Bankers Scheme” in which banks will not give gold but instead they will give bank notes that they can exchange from the Bank of England (p.90). Then different schemes like submitting of gold reserves to Bank of England by different joint stock banks were contemplated.

The author then elaborates the position of the famous economist John Maynard Keynes and his role as a currency expert. He was against the “treasury views” of paying this gold to Bank of England and not to the general public arguing that it may create a panic (p.109). After all this, the final strategy that was decided to combat crisis is discussed. Historically, gold sovereign was used instead of 1 sterling notes so as to protect unnecessary credit expansion in the country. Now in light of increased demand of gold reserves instead of gold sovereign, government currency notes were paid (p.119). Also, 1 sterling notes were issued and the bank rate was reduced to 6% from 10% (pp. 122-123). But the view that species payment to people must be stopped was not followed (p.125).

Further to protect the risk of run on banks some other measures were taken like Bank Holiday for 5 and half days. To fix discount markets, banks bought the bills and issued some treasury bills (p.154). When the situation was under some control, the Stock Market was opened in January after a long layoff over 157 days.

Then at last the author says how this turned into Global Financial Crisis and affected all the countries that were involved in war and even in non-participating countries. All of them faced

Gold Scramble, trade crisis, stock exchange crisis and bankruptcy of banks. Because of all these problems, financing of war became difficult (Chapter 11).

The author explains how the crisis stopped short of a catastrophe as there were no insolvent firms in the market, there were threats for banks but there were no bank runs or no major institutional failure. It is unlike the crisis of 2008-09 where the Lehman brothers collapsed and there was a banking sector failure further (Chapter 12). It is worth noticing how the author elucidates the role of government in stopping this crisis. The reaction of government was very quick and remarkable and it stopped this from becoming gigantic. Some measures were similar to the crisis of 2008 like increased liquidity by issuing notes of 1 Sterling and lowering of bank rates.

Then there is focus by the author on some additional superior points about crisis containment in conclusion of the chapter. Bank Charter Act, despite being contemplated upon, was not suspended so that the trust of the public was not disturbed. And Bank of England acted as the last resort to the public of London. The Bank got outstanding bills in the market which strengthened the market again. It was these efforts which led to the opening of stock market (pp. 235-237).

To conclude, this book is a perfect study for anyone who has interest in history and the financial problems in the year 1914. It is a must read for one who needs any explanation about that crisis time and details of the financial situation during 1914. The only ‘downside’, however, is that this is a heavy book and cannot be read smoothly at one go!