

Barry Eichengreen, Andreas Kakridis (eds.), *The Spread of Modern Central Banking and Global Cooperation, 1919-1939*, Cambridge, Cambridge University Press, 2023

In 1933, the British thinker Harold Laski observed that the crisis of capitalism “has naturally made a particular impact on the political institutions of the modern State”. Laski pointed to the structural socio-economic changes occurred from the late 19th to the early 20th century, arguing that the political and economic challenge of the moment was “to adapt institutions suited to one set of purposes to conditions in which those purposes cannot freely operate.”¹ Ninety years later,

¹ H. Laski, *Democracy in Crisis*, Chapell Hill, London, 1933, p. 95.

another British author, Martin Wolf – chief economics commentator at the *Financial Times* – has revisited the discussion on the crisis of capitalism and its institutions with the book *The Crisis of Democratic Capitalism*,² which interestingly echoes Harold Laski's 1933 volume. The resonance is not coincidental. Despite their differences, the parallels between the present and the interwar years, in fact, cannot be overlooked. Both periods exhibit significant similarities in terms of the evolution of economic institutions, specifically regarding the historical object explored in the volume: the central bank – certainly one of the key institutions of the 20th century. In this sense, recent experiences of global financial crises, the Covid-19 shock, and inflationary trends, have put central banks around the world under pressure once again. Since surging prices stoke fears of inflation, central bankers – who, as in the 1920s, see themselves as the guardians of price stability – feel forced to react. To do so, they once more pull out their favorite weapon, the interest rate, to take steam out of the economy, lowering inflation but risking recession and rising unemployment. In this sense, the interwar years analyzed in the book were not so unlike the present. They were tense and challenging times. A fear and then the consequences of financial collapse, the threat of social uprising, and the emergence of authoritarian regimes dominated the period.³ In this complex game, central bankers – “some mystery men [...] dimly visible through a fog of baffling evasions and misstatements,” as H.G. Wells' dusky described them⁴ – played an extremely important role.

To gain insight into present-day problems by exploring those of the past, the book under review investigates the emergence of modern central banking between the two world wars, reading it as crucial economic, social and political stabilizing factor of the capitalist system. In

² M. Wolf, *The Crisis of Democratic Capitalism*, Penguin, New York, 2023.

³ Interestingly, also the theme of authoritarianism is nowadays crucial. Following a significant series of transitions from authoritarian regimes to democracy occurred in the second half of the 20th century, it seems that transitions in the opposite direction are occurring more frequently today. What matters the most, especially from the perspective of the balance of international relations, is that major potentially hegemonic powers are being dominated by forms of authoritarianism – consider, for example, Russia or China – but others could be included in the list, such as Hungary, Turkey, North Korea, the Gulf countries. See J. Gandhi, *Political Institutions Under Dictatorship*, Cambridge University Press, Cambridge, 2008 and S. Levitsky, L.A. Way, *Competitive Authoritarianism. Hybrid Regimes After the Cold War*, Cambridge University Press, Cambridge, 2010.

⁴ H.G. Wells, *The Shape of Things to Come*, Hutchinson, London, 1933, p. 83.

this regard, the book is more than welcomed as history, as stated by Youssef Cassis ten years ago, although unable to predict the future, can and must inform debates about the future.⁵ Thus, the research presented in the book would be of interest to economists, political scientists, and historians – but also to opinion makers and politicians, in the belief that understanding the past is crucial both for comprehending the present and for imagining the future. The volume builds upon an already rich and well-known historiography on the history of central banks, which has yielded numerous contributions and interpretations. Overall, historians and economists agree that the interwar period marked a watershed in the history of central banking.⁶ The period between 1919 and 1939 was characterized by a very fragile and instable cooperation between central banks and national governments. Overall, the chief weakness of the system originated from the fact that central bank cooperation was frustrated by domestic political constraints and international political disagreements, as proven by the sterilization of gold in the United States, the intense competition between the central banks of France and Britain, and the overall focus on domestic prices. In this sense, Flandreau defined interwar central bankers' attitudes toward each other as oscillating between "hatred, neglect, and indifference,"⁷ while, already in 1967, Clarke had highlighted the fact that central bankers "disagreed continually [...] and usually gave priority to domestic objectives over external ones."⁸

The book is structured into two sections. The first section delves into overarching themes, beginning with the comprehensive overview – the tour d'horizon – provided by editors, which offers the reader a complex and multifaceted synthesis of interwar central banking. It then proceeds to examine the underlying ideology behind central banking during the interwar period, as analysed by Harold James in

⁵ Y. Cassis, *Crisis and Opportunities: The Shaping of Modern Finance*, Oxford University Press, Oxford, 2011, p. 1.

⁶ J. Singleton, *Central Banking in the Twentieth Century*, Cambridge, Cambridge University Press, 2011; Goodhart, 1995; CL. Holtfrerich, G. Toniolo and J. Reis (eds.), *The Emergence of Modern Central Banking from 1918 to the Present*, Aldershot, Ashgate, 1999; C.P. Kindleberger, *A Financial History of Western Europe*, George Allen & Unwin, London, 1985; B. Eichengreen, *Golden Fetters. The Gold Standard and the Great Depression, 1919-1939*, Oxford, Oxford University Press, 1992.

⁷ M. Flandreau, Central Bank Cooperation in Historical Perspective: A Skeptical View, in *The Economic History Review*, n. 50, 1997, p. 737.

⁸ S.V.O. Clarke, *Central Bank Cooperation: 1924-1931*, Federal Reserve Bank of New York, New York, 1967, p. 29.

the chapter “The Ideology of Central Banking in the Interwar Years and Beyond.” Moreover, Patricia Clavin’s chapter on “Habit Not Heredity: Central Banks and Global Order” explores the intertwining elements of national development of modern central banking and the construction of world order after World War I, investigating the role of central bankers in advocating national practices aimed at preserving a particular global order. Lastly, Piet Clement, in the chapter “Institutionalizing Central Bank Cooperation,” investigates the perspectives of Montagu Norman and Hjalmar Schacht on international cooperation among central banks leading up to the establishment of the Bank for International Settlements in 1929-1933, an important piece in the history of the “meddlers,” as recently told by Jamie Martin.⁹ In the second section, titled “Specific,” a range of national and regional case studies are presented. These cases – ranging from the classic Austrian case to more under-researched topics such as Bulgaria, Hungary, India, Latin America, and the British Dominions – offer nuanced insights into specific geographical and political contexts, allowing for a deeper exploration of the broader issues introduced in the first section. Overall, the authors strongly emphasize the relevance of historical, social, economic, political, and cultural change and the arduous process of transformation of economic institutions in general – and central banks in particular – to adapt to such a change. In this regard, the crucial relevance of the global economic crisis of 1929-1931 is confirmed, marking the beginning of what Singleton has termed the “first central banking revolution,”¹⁰ which triggered a wave of central bank nationalizations. Therefore, as Harold James recalls in his chapter on ideology and central banking, the interwar wave of central banking initiated a new phase, which was different from the previous cycles – identified by the author with the foundation of the Bank of England (1689) and of the Reichsbank (1873) – because of a deeper awareness regarding the double risk of fiscal dominance and financial dominance. This awareness was crucial in shaping the role of central banks both in relations to the government and to the credit system, as well as the profound transformations in central banking structures and objectives occurred in the 1930s and after the Second World War.¹¹ As Eichengreen and Kakridis

⁹ J. Martin, *The Meddlers. Sovereignty, Empire, and the Birth of Global Economic Governance*, Harvard University Press, Cambridge (MA), 2022.

¹⁰ Singleton, *Central Banking in the Twentieth Century*, pp. 110-127.

¹¹ H. James, “Ideology in the Interwar Years and Beyond”, in B. Eichengreen, A. Kakridis (eds.), *The Spread of the Modern Central Bank and Global Cooperation, 1919-1939*, Cambridge University Press, Cambridge, pp. 40-44. However, it is worth considering that central banking functions – on which there is still dis-

affirmed, in fact, “few central banks successfully met the challenge” presented by the Great Depression and, once nationalized, they “became key agents in the Polanyian transition from unfettered market system of the nineteenth century to the managed economy of the twentieth,” running the economy “in cooperation with other branches of government.”¹²

As the reader dives deep into the pages of the books, and especially into the various chapters of section II, the significance of the political aspect of central banking transformation clearly emerges. In this sense, the volume represents a great example of how economic history needs to engage with political, social, ideological, and cultural history in order to acquire a deeper understanding of complex economic dynamics and, in this case, of the changes in the structure, role and goals of modern central banks. As the editors rightly stated, in fact, central banks represent objects of analysis that are always “embedded within a broader network of institutions, political and societal relations, shared experiences, and ideas that shape their actions and effects.”¹³ Political economy, therefore, gets back to the centre-stage of the historical investigation, bringing to the surface its main characteristic as a never-ending battleground. Political choices have always to be made in terms of taxes, tariffs, commercial or banking regulations, and so on and so forth. These political choices are never neutral but affect in different ways different social groups and national governments. Consequentially, interest groups and national governments engage themselves in the political arena, both at a national and international level, to ‘acquire’ favourable laws from legislators as ‘products’. Overall, then, institutional transformations, also in relation to central banks, follow political channels.¹⁴

agreement among scholars – have also been carried out in earlier times by credit institutions that were not defined as central banks. Examples include the Taula de Canvi bank, founded in Barcelona in 1401, or the Banco di San Giorgio, established in Genoa in 1407. Similarly, institutions like the Banco della Piazza and later the Banco di Giro, founded in Venice in 1587 and 1619 respectively, along with the deposit bank of the Monte di Pietà in Naples, which was transformed into a public bank in 1584, performed functions akin to central banking. See S. Ugolini, *The Evolution of Central Banking: Theory and History*, London, Palgrave, 2017 and G. Toniolo, *Storia della Banca d’Italia*, vol. 1. *Formazione ed evoluzione di una banca centrale, 1893-1943*, il Mulino, Bologna.

¹² B. Eichengreen, A. Kakridis, “Interwar Central Banks: A Tour d’Horizon”, in Id. (eds.), *The Spread of the Modern Central Bank and Global Cooperation, 1919-1939*, Cambridge University Press, Cambridge, p. 5.

¹³ Ivi, p. 23.

¹⁴ This is an old idea that can be found in T. Veblen, *The Theory of the Leisure*

It is in this sense that the reader can appreciate the role of the chapters devoted to the study of national or regional experiences of central banking. The case studies presented, in fact, are crucial as they include nuances and different visual angles to a historical path of central banking development that, although sharing important elements at a global level, also presents local differences and deviations, as well as a series of intense transnational relations – one naturally thinks of the actions of the ‘money doctors’. Regarding, for example, the Hungarian case explored by Gyorgy Péteri, it is shown how the distinction between the two decades has been somewhat exaggerated in the past, observing what the author defines “the sneaking nationalization of monetary management”¹⁵ carried out by a central bank of a peripheral country like Hungary. In this way, another idea emerges, that is that the main problems of maintaining the monetary order built in the 1920s by Norman and Strong were more entrenched in peripheral countries than in the centre, as already argued in 1933 by Pier Francesco Asso in relation to fascist Italy.¹⁶ Other cases, however, such as that of Bulgaria, confirm how, even in the European periphery, the development of the central bank was in line with that of the central banks of the major countries, caught in a pendulum oscillation between the liberal reforms of the 1920s and the opposite tendencies of the 1930s. It also seems interesting to trace, in some chapters of the book, to what extent the own history of individual countries mattered in determining the evolution of central banking. Consider, for example, the influence of public debt management of the Ottoman governments on the particular type of public intervention applied in Turkey in the 1930s; or, as explicitly recognized by the protagonists of the time, the criticisms of Richard Reisch, the first president of the Austrian National Bank, who considered the Bank of England’s interpretation of Austria’s inflation in 1924 as a result of an excessive increase in the money supply as “too one-sided”.

Class: An Economic Study in the Evolution of Institutions, Macmillan, New York, 1899; M. Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*, Yale University Press, New Haven, 1982; D. North, *Institutions, Institutional Change, and Economic Performance*, Cambridge University Press, Cambridge, 1990; and D. Acemoglu, “Why Not a Political Coase Theorem? Social Conflict, Commitment, and Politics”, in *Journal of Comparative Economics*, n. 31, 2003, pp. 620-652.

¹⁵ G. Péteri, “Sneaking Nationalization: Hungary and the Liberal Monetary Order, 1924-1931”, in B. Eichengreen, A. Kakridis (eds.), *The Spread of the Modern Central Bank and Global Cooperation*, p. 139.

¹⁶ P.F. Asso, “L’Italia e i prestiti internazionali”, in *Ricerche per la storia della Banca d’Italia*, vol. III. *Finanza internazionale, vincolo esterno e cambi, 1919-1939*, Laterza, Rome-Bari, 1993, pp. 3-342.

The following year, Reisch also offered a valuable lesson for economic historians regarding the significance of local and national histories: “the comparatively peaceful development of English economic life and the well-known conservatism of the English people makes it difficult to understand the fundamental upheavals which the revolution and the period of inflation brought to Austria.”¹⁷

The dedicated focus on extra-European geographical areas – Latin America, India, and the British dominions – is particularly interesting as it brings out, with even greater force, the central idea of the volume regarding the necessity of analysing central banking and its evolution considering the political agendas of the dominant social and economic forces, both at a national and international level, influenced in their choices by their specific space-time contexts and international relations. The Indian case is emblematic in this regard. As recalled by Balachandran in his essay on India, central banks had to be analyzed “as political projects rather than, or merely as, institutions to be examined through the lens of economic and monetary history.”¹⁸ Therefore, the history of the Reserve Bank of India – and of the political project behind it – clearly reveals the “metropolitan efforts to maintain colonial forms of control beyond direct colonial rule.”¹⁹ On the other hand, the history of central banking in the British dominions seems to be characterized, as Singleton writes, by their being “central banks in waiting,”²⁰ buoyed by Montagu Norman’s “empire of letters,”²¹ without experiencing forms of indirect colonialism as seen in the case of India. Moreover, as recalled by Flores Zendejas and Nodari, Latin America showed another specific path of central banking evolution. If during the 1920s Latin America central banks were shaped by the actions of ‘money doctors’, such as the British Otto Niemeyer and the American Edwin Kemmerer, the authors noted that central banks managed to maintain, for a short period of time, a certain monetary stability even at the beginning of the 1930s while adhering to the new development model of industrial import substitution.

¹⁷ See H. Kernbauer, “Central Bank Policy under Foreign Control: The Austrian National Bank in the 1920s”, in B. Eichengreen, A. Kakridis (eds.), *The Spread of the Modern Central Bank and Global Cooperation*, p. 131.

¹⁸ G. Balachandran, “Central Banking and Colonial Control: India, 1914-1939”, in B. Eichengreen, A. Kakridis (eds.), *The Spread of the Modern Central Bank and Global Cooperation*, p. 403.

¹⁹ *Ibidem*.

²⁰ J. Singleton, “Central Banks in the British Dominions in the Interwar Period”, in B. Eichengreen, A. Kakridis (eds.), *The Spread of the Modern Central Bank and Global Cooperation*, p. 377.

²¹ *Ibidem*.

In conclusion, the volume will certainly become a reference point in the historiography of the evolution of central banking and, more broadly, of economic history between the two world wars. That is mainly because the book manages to cleverly blend different levels of analysis – national, regional, and international – interweaving them with multiple layers of interpretation, encompassing economic, social, political, and ideological dimensions. Moreover, it offers a detailed examination of a multiplicity of case studies of peripheral countries that rarely take centre stage in the narrative of economic events of the time, placing them in dialogue with the structural economic, social, and political changes of the time. Overall, therefore, the direction taken by economic history investigations on the topic of central banking, as exemplified and synthesized in this volume, seems more than promising as it tells the history of central banking on the backdrop of what Charles Tilly defined as “the two interdependent master processes of the [modern] era: the creation of a system of national states and the formation of a worldwide capitalist system.”²²

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