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Introduction

The year 1931 was distinguished from previous years ... by one outstanding feature. In 1931, men and women all over the world were seriously contemplating and frankly discussing the possibility that the Western system of Society might break down and cease to work.[1]

Arnold J. Toynbee

This book is first and foremost about how central bankers struggled to overcome uncertainty and make sense of the worst financial crisis the world had ever seen. Over five dramatic months, they worked day and night to avert contagion and stop the European financial crisis of May to September 1931. It all began in Vienna.

By any standard, 1931 was already a bad year, when on Friday, May 8, it went from bad to worse. On that day, amid the Great Depression, the largest Austrian bank Österreichische Credit Anstalt für Handel und Gewerbe (Credit Anstalt) informed the Austrian National Bank and the government that it had suffered losses of almost 140 million schillings, leaving it close to insolvency with only about 25 million schillings or 15 per cent of its capital left.

The Credit Anstalt was not just any bank, *The Economist* explained to its readers. It had been a financial powerhouse since its creation in 1855. Promoted by the Austrian Rothschild banking house and the Austrian government, the Credit Anstalt grew steadily, and in 1931 its balance sheet amounted to 70 per cent of all Austrian bank assets. A so-called universal bank, the Credit Anstalt had become 'a central holding and finance company for Austria'.[2]

Typical of continental banking, this business model was the Achilles heel of all universal banks including the Credit Anstalt. It financed companies with long-term credits and capital, but it borrowed short-term, and could only 'keep going so long as the supply of short-term funds did not show any falling off'. That is exactly what happened from 1928 as financial markets in New York and London tightened, Wall Street crashed in October 1929 and was followed by American banking difficulties in 1930. As a result, not only Austria but the whole of Central Europe, including Germany, was increasingly deprived of an important source of money.[3]

The size and importance of the Credit Anstalt and its dependence on foreign short-term credits emphasized the seriousness and potential international significance of the bank's distress. The Austrian authorities realized that a solution must be found before Monday, and the weekend was spent in tense negotiations in Vienna between the Austrian government, the National Bank and the Austrian Rothschild banking house, the largest shareholder of the Credit Anstalt.

On Monday, May 11, the parties announced a reconstruction plan. The losses were to be covered by the shareholders, the Austrian state and the Austrian National Bank. In addition, the state, the Rothschilds and the National Bank would pay in new money, bringing Credit Anstalt's new share capital to 177.5 million schillings. More than 50 per cent of its capital was owned by foreign stockholders, leading to criticism that the rescue operation was a 'gift to foreign capitalists'.[4]

The National Bank and the Rothschilds each contributed 30 million in new capital, while the state covered the lion's share of 100 million schillings.[5] The only problem was that the government budget was in deficit and the money would have to be borrowed.[6] The Bank of England quickly realized this constraint and prepared a note on the 'Austrian Government Borrowing Powers'.[7]

The *New York Times* reported that the government loan would need to be a foreign loan, which required permission from the League of Nation's Control Committee. Adding a political dimension to the situation, Germany and Austria officially announced a plan for a customs union on March 21, unleashing 'the first true landslide of the Great Depression'.[8] The customs union would be a background theme throughout the crisis leading to frequent rumours about 'the withdrawal for political purposes of French short-term loans'.[9]

Nevertheless, at a press conference on Monday evening, the Austrian Finance Ministry announced that deposits were safe and that the Credit Anstalt would carry on business as usual.[10] The *Neues Wiener Tagblatt*, too, told its readers that the bank had ample liquidity and survival was not in question.[11] Unimpressed depositors withdrew their money anyway, and within the first four days after the announcement, a quarter of the deposits were gone. Two weeks later only half was left.[12]

Reassurances were made outside of Austria as well. The Credit Anstalt owed large sums abroad, primarily to American and British banks that had to be convinced to maintain deposits, loans and credit lines, lest a currency crisis develop. The Austrian National Bank cabled the Federal Reserve Bank of New York that 'Loans granted and other claims are in no way endangered and can safely be maintained'.[13]

At the Bank of England, Deputy Governor Ernest M. Harvey responded to a similar message, 'We were glad to receive such prompt and authentic information. I did not fail to let it be known in this market and I think it helped to form opinion here. My impression is that the market is taking a quiet and reasonable view.'[14]

It was not going to be that easy.

THE HOUSE OF CARDS

Even if the initial sentiment in 'the market' seemed calm, both the Austrian authorities and international central bankers realized that uncertainty about the future had just increased dramatically. On Monday morning, May 11, Harry Siepmann at the Bank of England's Central Banking Department received telegrams from Richard Reisch, the president of the Austrian National Bank, and Otto Juch, the Austrian minister of finance, urging him to 'come to Vienna as soon as possible in order to advise us in a matter of extraordinary importance suffering no delay'.[15]

Siepmann, already aware of the Credit Anstalt situation, preferred to 'wait until the central banking aspects appear more clearly in a few days' time and then deal with them not by direct association between London and Vienna but rather by association of Vienna with central banks gathered by that time in Basle'.[16]

'Basle' referred to the Bank for International Settlements (BIS) where central bank governors were to meet the upcoming weekend for the monthly board meeting. Siepmann's response stressed two important principles, strongly promoted by Montagu Norman, the governor of the Bank of England and first among central bankers. First, central banks should only concern themselves with the risk of currency flight that might threaten the gold standard, and, second, 'individual action by central banks . . . has been superseded by corporate action through Basle'.[17]

In fact, Reisch had also asked the BIS to send Pierre Quesnay to Vienna. Quesnay, a French economist and general manager of the BIS, was unable to leave Basle, and instead Francis Rodd, the British manager of the BIS's Central Banking Department, left Basle for Vienna on Monday, May 11.

According to Leon Fraser, the American vice president of the BIS, Francis Rodd's first task in Vienna would be to 'canvass situation and . . . discuss desirability of having available a central bank credit to counter-act effect of news and as second line of defense to reinforce existing satisfactory position of National Bank'.[18]

Fraser also wrote to George Harrison, the governor of the Federal Reserve Bank of New York, that it was too early to tell if an international credit would be needed, but 'we are prepared in principle to head and participate in any necessary credit, but first desire to secure data'.[19]

'I shall appreciate your keeping me informed', Harrison replied. Echoing Harvey's assessment for England, he reported that despite some uneasiness there was 'no real feeling of alarm' in New York.[20]

From his office at 33 Liberty Street in New York City's Financial District, Harrison was at a disadvantage as he was not familiar with the situation in far-away Vienna. He immediately had a staff member prepare a note on the history and current situation of the ailing Austrian bank. The note confirmed the international interconnectedness of Wall Street and the Credit Anstalt.

The bank did business with several large American banks and had been listed on the New York Stock Exchange since 1927. 'Issued at $80 per share, they were quoted on Monday at $48 5/8 and to-night (Tuesday) $12 bid, $37 ask with no sales transacted.'[21] The bid–ask spread left no doubt that uncertainty about Credit Anstalt's future had just increased dramatically.

The German Reichsbank, too, took notice of the news and cabled the New York Fed that Credit Anstalt's trouble had 'greatly surprised our market and heavily influenced rates of securities'. However, the Credit Anstalt did not have much business with Germany and vice versa. 'Therefore money market calm.'[22]

In a matter of a couple of days, then, the large central banks and financial markets in New York, London, Basle and Berlin were hard at work assessing the Austrian situation and potential effects in their own markets. Below the seemingly calm surface, there was an unmistakable sense among economic and political decision-makers that the situation was fragile, perhaps nearing a tipping point. Despite the 'quiet and reasonable view' in the financial capitals, central bankers feared contagion as they communicated across national and organizational borders.

Indeed, Harry Siepmann, the Bank of England official, imagined a wider economic and financial breakdown. On May 11, he called

Frederick Leith-Ross, a high-ranking expert on international finance at the British Treasury. 'This, I think, is it', Siepmann said, 'it may well bring down the whole house of cards in which we have been living.'[23] Two days later, Siepmann wrote another Treasury official airing his fear that everything 'seems to be boiling up now and I am mainly concerned in wondering where and when it will all boil over'.[24]

Siepmann, one of the protagonists and most well-informed actors in this story, worried that contagion would destroy the already fragile house of cards.[25] The world had never seen a year quite like 1931, and the financial crisis represented something new and unknown, an international financial panic with runs on both banks and currencies. Fraught with economic, financial and political problems and polarization stemming from the Great War and the Versailles Peace Agreement, many decision-makers already felt that Western capitalism was in dire straits. Would the Credit Anstalt crisis be the final straw?

Lacking any relevant historical analogies and experience, Siepmann imagined a future breakdown through fictional rather than rational expectations.[26] It did not look good. Like Francis Rodd, he was about to have a busy summer.

Siepmann's house of cards story imagined a future yet to be shaped and called for action in order to stop this future vision from becoming present. With what later happened, the house of cards story quickly came to identify, legitimize and empower central banks as 'fixers' in a 'particular causal framework'.[27]

What followed were five months of intense work trying to contain the Austrian crisis and preventing it from spreading to neighbouring countries, and Germany in particular. While apparently successful in mid-June, an even more serious emergency soon developed in Germany and in mid-July it crossed the Channel and led Great Britain to leave gold on September 21.

In their efforts to make sense of the situation and prevent an international financial crisis, the central bankers and other actors in this book aimed to shape an unformed future as they hoped for the best but feared the worst. The thoroughly interconnected transatlantic financial community was in for a bumpy ride over the summer of 1931.[28]

Their worst-case scenario was contagion from Austria to other countries, not least Germany. If that happened, they feared not only for the international financial and monetary system, but for capitalism itself.[29]

CENTRAL BANKERS, THE GOLD STANDARD AND DEALING WITH CRISES

'Now we know how to deal with' periods when 'internal panic and external demand for bullion ... occur together', Walter Bagehot wrote in *Lombard Street* from 1873. Bagehot, a well-known writer on economic and social issues, was the editor of one of the most influential business magazines of the time, *The Economist*, between 1861 and 1878.

In *Lombard Street*, which became required reading for generations of central bankers, he noted that an external drain of gold could be stopped by raising the interest rate 'as high as may be necessary ... And at the rate of interest so raised, the holders ... of the final Bank reserve must lend freely. Very large loans at very high rates are the best remedy for the worst malady of the money market where a foreign drain is added to a domestic drain'. Bagehot added, 'At this rate ... advances should be made on all good banking securities.'[30]

In the interwar period, Bagehot's prescription was the operating model for a central bank's role as a lender of last resort, and in many ways it still is.[31] Bagehot was concerned with the Bank of England, but the idea could be applied elsewhere. The Austrian National Bank could create money to lend to the Credit Anstalt and other Austrian banks in financial distress. But, like other central banks, it could not create gold or foreign exchange such as dollars and sterling, so the only remedy to contain such a drain would be to borrow abroad and to raise the discount rate. If a high interest rate failed to stop the drain, sooner or later the central bank would run out of free gold and foreign exchange, 'one of the most difficult situations for a central bank to be in'.[32]

In that situation, the central bank would need assistance from an international lender of last resort, a concept that only arose out of the 1931 crisis.[33] It would have to borrow dollars and sterling, but how and where from? This was uncharted territory for central banks in 1931. Beyond the Bagehot model, they had no blueprint to act upon and few, if any, relevant experiences and historical analogies for their decision-making and actions. The crisis of 1931 was the first truly international financial crisis.[34]

What they did have was the BIS created the year before, in 1930, as part of the Young Plan to administer German reparation payments and facilitate central bank cooperation. Siepmann had referred the Austrians to the BIS, but it lacked experience, resources and, most significantly, the ability to create credit and issue notes like national central banks.[35]

Gates McGarrah, the American president of the BIS, envisioned the BIS to be 'the Central Bank of Central Banks' but as long as it could not create money, there were limits to this vision.[36] Still, the BIS provided a new venue for central bankers to meet and discuss common issues, and to develop a social network, trust and shared knowledge.

In February 1931, McGarrah argued that 'in addition to the meetings of the board, contact was maintained by repeated visits of central bank officials to Basle and return visits of the officers of the bank and by a "practically continuous series of gatherings of experts to study problems of common concern"'.[37]

These meetings included the exchange of views on 'how the world works and on objectives of central bank policy'.[38] During the financial crisis of 1931, as it became increasingly unclear how the world actually worked, the *New York Times* reported that the BIS became a clearing house and a nerve centre of financial information. Telegraph and telephone bills quadrupled from April to July, and the 'World Bank began to acquire an airplane bill and lose all notion of banking hours'.[39]

While central bankers in the 1920s and 1930s were familiar with and subscribed to the Bagehot model, they acted in a troubled world very different from what Bagehot and they themselves had known before the Great War. Indeed, the 'generation, to which the heads of the major central banks owed their basic outlooks, had known a world economy that was unified to a unique degree. . . . To this orderly, integrated, and expanding system, the world of the 1920's bore only a superficial resemblance'.[40]

Still, central bankers shared enough basic assumptions and practices to constitute a nascent transnational epistemic community with 'shared causal beliefs' and 'a set of common practices associated with a set of problems towards which their professional competence is directed'. The central bankers' primary policy goal was to maintain the gold standard, and that required financial stability. Epistemic communities such as the central bankers I follow in this book, take on increased importance during crises, such as the one that broke out in 1931, where uncertainty peaks.[41]

Personal characteristics, national identity and belonging as well as blueprints occasionally interfered with the assumptions and practices of this developing epistemic community of central bankers. Cohesion was certainly challenged at times as the community split over national and central banking logics. Still, despite these occasional signs of diverging visions, central bankers still shared worldviews, knowledge and specific core assumptions and causal ideas construed through mutual socialization at the BIS and during the crisis. Core assumptions like the Bagehot model and the commitment to gold acted as a blueprint that helped actors plot 'their course in uncertain conditions'.[42]

The concept of epistemic community is open to criticism. Any cultural community experiences occasional deviations and disagreements, and in the context of the interwar period's political and economic polarization it should not be surprising that this was the case in 1931 as well. Central bankers like everyone else belonged to and identified with both professional and national communities, but like identities national interests were not objective or given. In fact, they were construed and shaped on an ongoing basis while the identity and profession of being a central banker was a hallmark of Montagu Norman's vision of central banking in the 1920s.

The changes to the central banking community culture after the Great War illustrate how epistemic communities and their shared assumptions and knowledge were context dependent. The anthropologist Grant McCracken argues that members of a community act in 'conformity with the blueprint of culture . . . so that the world they create is made consistent with the world they imagine. In a sense, the members of a culture are constantly engaged in the construction – the constitution – of the world they live in'.[43]

That applies to central bankers as well. In 1924 Harry Siepmann wrote to Norman about the world he imagined, where the 'traditional and political means of associating nations' were substituted by other means including 'the association of central banks . . . supplemented by some kind of spiritual association'.[44]

Siepmann viewed central bankers like himself as a community apart, united by 'the idea of a professional and corporate responsibility, and of service to general interests which transcended those of national particularities', and other government officials.[45]

A mainstay of the identity and community of central bankers was shared causal beliefs and practices related to their strong commitment to the gold standard.[46] Linking currencies and exchange rates together, the classical gold standard from 1870 to 1914 was seen as more or less automatic in regulating the economy according to perceived 'rules of the game'. However, the outbreak of the Great War caused most countries with the exception of the United States to suspend the gold standard. The result was widespread inflation, and hyperinflation in Germany and Austria.[47]

After the war central bankers and policymakers had one goal; to beat inflation, get back on gold and re-establish the global economy they had known before the war. It was a nostalgic but widely shared dream.

It was also a costly dream. In Austria the League of Nations organized a stabilization loan at the price of a deflationary policy that cost almost 100,000 government workers their jobs. In Germany, the Dawes Plan in 1924 involved foreign intervention on a large scale with the American Seymour Parker Gilbert Jr. appointed Agent General for German reparation payments. These interventions left no doubt that some powers, first and foremost the United States and the UK, were more powerful than others.[48]

In Britain, the dream meant returning to gold at pre-war parity of $4.86 to the pound in 1925. In 'The Economic Consequences of Mr Churchill', John Maynard Keynes scorned the Chancellor for going back at a 10 per cent overvalued rate. France, in contrast, went back to gold in 1928 at 20 per cent of the pre-war level. The result was an overvalued pound and an undervalued franc giving France an advantage in trade and a steady inflow of gold.[49]

The re-established gold exchange standard had a built-in asymmetry forcing deficit countries to deflate their economy as surplus countries like France and the United States failed to inflate their economies according to what Keynes called the 'rules of the gold standard game'.[50] The problem was that there were no agreed-upon rules or enforcement of the game. Instead, these 'fixed ideas on money' were part of a worldview that Kenneth Mouré called the 'gold standard illusion'.[51]

While central bankers viewed the gold standard as natural as sunrise and sunset, monetary policy was in fact determined by 'political influences, economic ideas, and by institutions and individuals deciding policy within intellectual constraints they adopted willingly'.[52] Put differently, the gold standard was a cultural construct. Its 'rhetoric was deflation, and its mentality was one of inaction. Central banks stood ready to withstand financial panics . . . but not to preserve output and employment'.[53]

That, however, was certainly not the view of most contemporaries who saw the gold standard as the guarantor of prosperity and stability and not subject to discussion. Shortly after Britain had left gold in September 1931, Russell C. Leffingwell, a J.P. Morgan & Co. partner, stated that 'the gold standard is not something that economists, politicians and bankers have thought up and devised as a convenient expedient for the welfare of mankind. The gold standard is something deeply rooted in the appetites of men. The love of gold is instinctive in men like their love of land and women'.[54]

In the case of Britain, policy- and decision-makers had made their experiences under the pre-war gold standard that 'appeared to operate successfully for Britain and the international economy'. Montagu Norman himself, Bank of England's governor since 1920, came from a long line of bankers who had lived through 'three generations of gold-standard-dominated City life'.[55] This was the world they knew.

Francis Rodd, Montagu Norman, George Harrison, Harry Siepmann and their central bank colleagues in other countries shared a set of assumptions of how the economy and the monetary and financial system worked, and was supposed to work. Within specific areas, they subscribed to the same worldview, routinely enacting and re-shaping this system through their shared assumptions and daily practices and routines.[56]

There was a 'strong commonality of aims and objectives among central bankers, particularly when it came to the contribution of the gold standard to economic well-being'.[57] Part of that orthodox financial and economic worldview insisted on the sanctity of a balanced budget, which 'represented the surest guarantee for a better future'.[58]

Based on this blueprint, the community of central bankers, along with some private bankers and economic experts, could be termed 'money doctors', forming a 'remarkably cohesive social group'. During the 1920s, they advised and often worked as brokers between foreign investors and authorities in countries in need of money. Money in exchange for reforms was part of the process, and it was no coincidence that money doctors came primarily from the United States, Great Britain and France. After all, that was where the money was.[59]

Walter Stewart, an American economist and money doctor, believed that America's rise to prominence in international finance after the War had shifted disinterestedness from Britain to America whose 'representatives are usually the ones who are truly independent and neutral'.[60] This idea of the neutral expert economist gained momentum in the early twentieth century. The money doctors' job was to keep politics out of the economy. In fact, none of them were neutral or without interests; 'at the very heart of money doctoring is an inseparable combination of economics and politics'.[61]

As central bankers struggled to keep up with the Austrian, German and British crises, their orthodox worldview and Bagehot's operating model served as a default blueprint for how they made sense of, and made decisions and acted in the radical uncertainty about, the future that so strongly characterized 1931.

In 1927, Ralph Hawtrey, a British Treasury official and expert on the gold standard, noted the allegiance to Bagehot arguing that 'long and varied experience of financial crises has shown that it is very undesirable that the Central Bank should absolutely refuse to lend. That way lies panic'.

To avoid a panic, the central bank should 'continue to lend. It may insist on good security and may charge a very high rate for its loans'.[62]

Bagehot's model was still state of the art, based on both experiences of past financial crises and expectations for the future. It presented a blueprint for action in times of crisis and uncertainty, but knowing what to do and what to expect was not a simple thing for central bankers. There was nothing familiar about what they were witnessing in 1931.[63] Like so many others during the Great Depression, they were often struggling to make sense of the economy, and dominant economic theory including the Bagehot model often seemed of limited use if not useless.

The central bankers confronting the plethora of problems in the summer of 1931 would soon experience the contrast between their operating model and the situation on the ground in Vienna and Central Europe, where the 'crucial decisions had to be taken by the authorities under conditions of extreme uncertainty'.[64]

Siepmann, Rodd, Norman, Harrison and their colleagues had to deal with all the messy real-world characteristics of uncertainty, ambiguity, lack of information and coordination problems, as well as the various actors' conflicting motives, perceived interests, worldviews and perceptions. Still, as a nascent epistemic community, they shared some basic assumptions and knowledge, including the Bagehot model that enabled their struggle to contain the Credit Anstalt crisis.

If anything, economic and financial crises are characterized by and contribute to radical uncertainty and emotional stress. They change our outlook, our imagined futures, our hopes and anxieties, oftentimes with dramatic economic, cultural, social and political consequences following in their wake. Not to mention personal implications. 'Crises are the domain of multiple realities and conflicting cognitions.'[65]

Dealing with the financial crisis in the summer of 1931 was not for abstract rational agents. It was for humans of flesh and blood with a shared vision. It called for sensemaking and narrative emplotment by an epistemic community of concrete actors in a radically uncertain world.

The international financial crisis of 1931 was grounded in an international context of structural, economic and political problems that had grown bigger by the day since the end of the Great War in 1918 and the Versailles Peace Treaty of 1919. In early 1931, the world was already in a political and economic crisis that went far beyond financial issues.[66]

Historians and contemporary actors alike have agreed that the financial crisis of 1931 was a turning point in the Great Depression.[67] That year unemployment reached 25 per cent in the United States, 21 per cent in Great Britain and 34 per cent in Germany. Still, as one historian puts it, in 'the midst of the deepest deflationary crisis in modern history, the German people continued to worry about inflation!' Industrial production, prices and trade seemed on a never-ending downward slide, while banking systems in most countries grew ever more fragile. Protectionism was on the rise as well, exemplified by the American Smoot-Hawley tariff of 1930.[68]

As a strong undercurrent beneath everything that happened in 1931 lay political, economic and financial issues. Ever since the Versailles Treaty, security issues, war debts and reparations had poisoned international relations and given rise to nationalism and polarization within and between nations. France and Germany in particular were at odds over security, reparations and geo-politics.[69]

France was a strong defender of the Versailles Treaty and reparations, while Germany wanted to get rid of it altogether, and Britain supported a revision of the terms. The break-up of the Austro-Hungarian empire left a political and economic vacuum in Central and Eastern Europe that both Germany and France sought to fill and dominate. Relations between Europe and the United States in turn were strained by war debts, not least because the United States disputed any links between reparations and war debts.[70]

It was in this context, fraught with structural problems and national and personal tensions, that central bankers stepped up in the summer of 1931 and struggled to save capitalism from itself. Before I enter the world of Montagu Norman, George Harrison, Francis Rodd and Harry Siepmann in 1931, I want to elaborate on my conceptual framework and analytical strategy.

If you just want to read the dramatic story about how a group of central bankers struggled to rein in the financial crisis of 1931, you can skip this section and go directly to Chapter 2, without too much harm done.

THE FOCUS OF THIS BOOK

A perceived failure of central bank cooperation has been the dominant frame among historians for explaining the international financial crisis of 1931.[71] In this book, I deliberately shift focus away from a backward-looking analysis of a perceived failure of central bank cooperation to how a community of central bankers dealt with the 1931 crisis on a forward-going basis. This shift in framing is necessary in order to consider anew and understand what happened in 1931.

I study the roads not taken and the roadblocks encountered by contemporary actors as they went along in their effort to halt the crisis. I provide a detailed historical narrative of a group of central – and some private – bankers of flesh and blood with different tempers, prejudices, allegiances and vantage points as their world turned upside down in the fateful year of 1931.

I show how they followed well-known blueprints for dealing with financial crises, and how they struggled to make sense of the situation under radical uncertainty when the blueprint failed to guide them, and it became clear that not all involved shared their views of what to do.

This book provides a new narrative of central and private bankers' response to the European financial crisis, and to our empirical and theoretical understanding of how decision-makers go about and deal with radical uncertainty, constraints and opportunities in crises.[72]

While the Bagehot model and the ideas of how the gold standard worked may have appeared readily applicable, neither actors nor events fit easily into this generalized blueprint. The future often unfolded differently than the actors imagined and expected, and they were often in the dark as to the future outcome of their actions. In addition, (in)actions and (in)decisions by other central actors occasionally seemed incomprehensible and irresponsible to them – and vice versa.

Moreover, perceptions and the relative power of various groups had changed, since Bagehot wrote his book in 1873. It was realized that an increase in bank rate would increase unemployment, and with unemployment at record height in 1931, that was politically sensitive.[73]

In writing the history of the 1931 crisis forwards, chance, contingency, ambiguity, coincidence, good luck and bad luck, doubts and fears about what would happen next, in short radical uncertainty, must be front and centre. I pay attention to how actors' worldviews, stories and practices as well as their emotions, hopes, fears and anxieties all influenced their sensemaking, their decision-making and their actions. At the same time, these very actors also shaped the crisis and events through their emplotment of events and actors into a narrative with chronology, cause and effect, heroes, villains and a moral.

I strive to leave hindsight aside and aim instead to understand and show in as great detail as possible how Harry Siepmann and Francis Rodd and their colleagues in London, Basle and New York struggled to impose order and direction on their perception of the crisis, of cause and effect, and of right and wrong.[74] I show how they worked 24/7, across borders and time zones, as events unfolded in real time, to deal with and halt the Austrian crisis from spreading to neighbouring countries in general, and to Germany in particular.

The European financial crisis of 1931 played out over five hectic months from May 11 to September 21. I tell the story of this period from the Credit Anstalt failure in May to Great Britain abandoning gold in September, in effect leaving the gold standard dead and gone.

While I zoom in on a group of central bankers from the Bank of England, the Federal Reserve Bank of New York and the BIS, many other actors are part of the story. They include central bankers from France and Germany, private bankers in New York and London as well as the occasional politician, civil servant and many others.

It matters what kind of persons these actors were, how they saw the world they lived and worked in, and how they perceived, categorized and assigned meaning to events and their counterparts. What kind of future did they imagine in the months and weeks up to, during and after the crisis? How did their past experiences and future expectations influence their thinking and practices as they had to deal with the next financial hotspot?[75]

In order to capture these elements, I take a thick description approach where 'phenomena previously considered to be sufficiently described and understood assume completely new meanings by altering the scale of observation'.[76] I am not only altering the scale of observation, but I am also changing the point of observation, following the actors, the human beings, as closely as my empirical material allows for.[77]

Yet, despite my claim to be writing history forwards, there's no denying that it is my conceptual framework and my selecting, ordering, reading and emplotting the empirical material that guides the story from beginning to end. While the empirical material – my sources – certainly sets limits to possible interpretations, it did not emplot itself into a – hopefully – coherent narrative. I did that.

In a way, I am an actor, too, in this history of the financial crisis of 1931 you are about to read. I see nothing wrong with that. If the role of humanistic historical research is to understand how humans in the past made sense of themselves and their world, is the historian – with their emotions, empathy, curiosity, blind spots, prejudices, abilities and limitations – not part of this process?[78]

At the end of the day, like everyone else, I cannot escape Clifford Geertz' description of the process where 'what we call our data are really our own constructions of other people's constructions of what they and their compatriots are up to'.[79]

My focus, or lens, is shaped by the concepts I have chosen and mentioned above. To repeat, they are radical uncertainty, sensemaking, imagined futures, narratives and epistemic communities. I use these concepts as an analytical and heuristic framework to understand the central bankers and their actions, as they struggled to save the gold standard and capitalism in 1931.

SENSEMAKING AND UNCERTAINTY

Before returning to the financial crisis of 1931, I want to briefly discuss the main concepts and my analytical strategy for understanding what Ralph Hawtrey in his 1932 book called *The Art of Central Banking* as it played out in practice in 1931.[80] The central bankers who struggled to stem the financial crisis faced a deeply uncertain future that challenged their operating model and practices, based primarily on Walter Bagehot's work and their own past experiences.

As an emerging epistemic community, the central bankers involved in halting the financial crisis from spreading shared the operating model based on Walter Bagehot. I build, among others, on sociologist Mitchell Abolafia's work. He argues that 'operating models are intersubjectively shared within cultural communities. In policy-making groups, they often take the form of causal propositions. For example, if we do A, then B will happen'.[81]

Under radical uncertainty, the outcome of decisions is unknown as perceived causal relationships break down, leaving actors with a meaning loss that challenges their operating model. In 1931, this uncertainty called for sensemaking through narrative emplotment that outlined an imagined future outcome. In the words of Rosenhek, a 'fundamental facet in these processes is the ways in which influential actors make sense of the situation, formulating diagnoses of current conditions and causal accounts for explaining them. This is particularly important in highly uncertain and volatile times of crisis, when the taken-for-granted status of dominant institutional blueprints, as well as of their ideational foundations, is potentially jeopardized.'[82]

The central bankers in this story feared that the crisis would lead to a future radically different (worse, that is) from what they knew and hoped for. Ultimately, they feared the fall of the gold standard and capitalism. In fact, that was the essence of their idea of crisis.[83] Like Harry Siepmann, they imagined a future where the house of cards would come tumbling down, and they worked to shape a narrative that could make sense of and help navigate these unknown, unformed and scary futures. It was all about dealing with uncertainty and enabling action.

Sociologist Jens Beckert and economist Richard Bronk argue that actors navigate radical uncertainty through narrative emplotment of fictional expectations that imagine an as yet non-existing future. Narratives point to possible futures through the emplotment of selected elements into an ordered and meaningful explanation that enables decision-making and serves as a blueprint for action. No matter how much data they have, without narratives, actors have no basis for decision-making and action, let alone legitimizing their decisions and actions.[84]

Narratives and uncertainty are also central concepts in sensemaking, a social process in which people 'when confronted by discrepant events seek … to negotiate and sustain meanings which permit coordinated, (putatively) rational action'.[85] In this process, members of an organization construct 'accounts that allows them to comprehend the world and act collectively.'[86]

Sensemaking involves 'the active authoring of events and frameworks for understanding, as people play a role in constructing the very situations they attempt to comprehend'.[87] Narrative constructions are acts of sense-making, but they do not start from scratch. When actors assign meaning that shapes a specific understanding of a situation and what needs to be done, they use history as well as personal and institutional memory, and build on an existing framework for perceiving the world – an operating model such as the Bagehot model and the gold standard narrative.[88]

Within an epistemic community, the narrative that results from the sensemaking process will reflect, shape and frame the worldview and practices of this community. This means that narratives both reflect actors' perception of an already existing social reality and re-shape this social reality on an ongoing basis. Narratives are, in short, performative as they assign causality and blame, legitimize, silence or de-legitimize interpretations, actions and actors, heroes and villains. They shape worldviews and serve as a blueprint for actions, practices and decisions. And they represent and exercise power.[89]

In short, 'narrative provides a typical means of constructing the world without which we would be left "lost in a murk of chaotic experience".'[90] As such, the gold standard narrative was performative in that it shaped and legitimized the perceptions and practices of central bankers and policymakers.[91]

I use these concepts and ideas as a heuristic framework for understanding the various actors' points of view, practices and actions. It is this focus and the micro and forward-looking perspective that contribute to making the present study different from the abundant earlier research on the 1931 crisis.[92] Central bankers and other actors did not have direct and privileged access to an already established understanding of what was going on in Austria, Germany and Great Britain in the summer of 1931, and in contrast to historians they had no way of knowing how it would all 'end'.

Instead, central bankers and other actors in 1931 made sense by 'considering as much available information as they can, giving it meaning and relevance, applying a causal model of how they imagine things will evolve and then acting'. In fact, this is how 'actionable knowledge' is established in a context of radical uncertainty.[93]

Someone had to go to Vienna to figure the situation out for themselves and to construct a narrative that enabled them to produce 'actionable knowledge' needed to navigate massive uncertainty, imagine future consequences, and offer a blueprint for actions and remedies. This process does not happen in a vacuum. The central bankers I tail in this book were both helped and constrained by their broader social and cultural context and their experiences and worldviews as central bankers.

The way they made sense of events and cues framed the crisis in a specific way that may also have created blind spots. Colin Hay argues that decision-makers are acting in a context that favours some strategies over others. Actors must, therefore, 'rely upon perceptions of that context, which are at best incomplete, and which may very often prove to have been inaccurate after the event'.[94]

ANALYTICAL STRATEGY AND MY SOURCES

How can I capture and understand how a group of central bankers from several countries worked to avert what they feared might well be the end of the world as they knew it? My approach is to follow these actors and the people they met, interacted and communicated with as closely as the empirical material allows. Through 'thick description' and using my conceptual framework as a heuristic lens, I seek to capture in the narrative that follows the meanings Rodd and Siepmann and their fellow central bankers assigned to events, their actions and their context.

My analytical strategy, then, focuses on the central bankers and their communications with and relations to each other and to groups outside of their community. I follow them as they worked to make sense of the crisis as it spread from Austria to Germany and then to Britain. I deliberately downplay the traditional frame in the historiography of central bank cooperation and focus instead on how these central bankers saw their world and how they made sense and acted as they worked on the ground in Vienna, Basle, London and New York.

I am telling the story of how Francis Rodd, Harry Siepmann, Montagu Norman and George Harrison and their fellow central bankers strived to piece the puzzle together and construct a narrative that could guide their decisions and actions in order to stop the crisis from spreading. To understand central bankers' perceptions, decisions and actions in the summer of 1931 requires not only that I follow them closely from day to day, sometimes from one hour to the next. It also entails that I inquire about the processes of signification involved in their endeavour. How did they explain their experiences and actions to themselves and to others?

The protagonists in this book lived in cities in Europe and America. Most of them worked in the offices of the Federal Reserve Bank of New York, the Bank of England in London and the BIS in Basle. They used whatever form of communication available depending on the expediency and urgency of the matter at hand. They communicated by letter, telegram, telephone and in person, and they wrote a large number of memos and notes for internal use. They were travelling between Basle and Vienna, London and Basle, or even between New York and Europe by train, aeroplane or ship as they attended meetings, or needed to assess the situation for themselves on the spot. And they relied on each other as well as on newspapers and magazines to keep updated about the situation as it developed.

As early as May 12, Francis Rodd arrived in Vienna by train from Basle. His first task was to figure out what was going on and to what extent there was a central banking issue at all. Though he was not alone and would not be making the final decisions, occasionally Francis Rodd was sensemaker-in-chief. He was the one who had to separate the wheat from the chaff.

There are many limits, however, to what I can know and show. I would have loved to know the many actors' thoughts and emotions, and to have been a fly on the wall during their many conversations, meetings and talks over a beer or dinner and a glass of wine. But all I have are the written traces they and the archives left behind, and my imagination properly constrained, I hope, by the historian's craft.

Thus, the book is based on the traces of the past, my empirical material, left in the archives of the BIS, the Federal Reserve Bank of New York and the Bank of England among others. It is on the basis of this material I have constructed a new narrative of how a relatively small group of central bankers sought to understand and narrate the crisis as they were trying to save the monetary and financial system and capitalism from itself.

These three organizations and their highly trained officials were front and centre in the first truly international lender-of-last-resort operation in history. My focus is on these organizations and individuals, and their interactions, with each other, and with other groups, firms, governments and individuals involved in the crisis. I also use contemporary newspapers and magazines, and other archives such as the Morgan Library, the Rothschild Archive, and Francis Rodd's archive.

What I do not use are archives from the Austrian National Bank, the Banque de France and the German Reichsbank or from, say, finance ministries. I also do not use archives of the Credit Anstalt or the Danatbank. The reason is, as stated already, that my interest, my research question if you will, lies with the perceptions and actions of the most important central bankers who worked to contain the crisis.

I cannot rule out that there may be relevant material in the archives not frequented. But I think it is fair to argue that, given the focus of this book, using these archives would not have changed the narrative that follows in any decisive way.

The BIS, the Federal Reserve Bank of New York and the Bank of England were without doubt the most important organizational actors. Therefore, I focus on them and their interactions with actors from other central banks such as the Banque de France and the Reichsbank. To the extent other authorities and actors played a role, and they did, I rely on the work of a great many colleagues.

To be clear, I am far from the first historian who has used one or parts of these archives to understand some aspect of the Austrian, German and British crises.[95] However, to my knowledge, I am the first who has combined such extensive use of the three central bank archives to study in a systematic way how central bankers made sense of and narrated the crisis on a forward-going basis. This book is also the first to include important private bankers from J.P. Morgan and the Rothschilds in London.

My claim to novelty, then, is not only based on the detailed narrative of the European financial crisis of 1931, though I do consider that an important new contribution. It is also based on the purpose, forward-looking and cultural approach of this book – to understand sensemaking and decision-making during crises and radical uncertainty in depth.

I do not pretend to tell the final truth about the financial crisis of 1931. In fact, I do not believe there is one. I also do not analyse or test in detail various cause and effect claims such as why the Credit Anstalt or Danatbank failed, or why the gold standard broke down. Many historians have dealt with these questions, and will continue to do so, but that is not what I am interested in. I am interested in human beings and how people act when they think their world is falling apart. I am interested in the 'natives' point of view' even though this time around, the natives were central bankers.

I am also not testing theories or hypotheses, and I am not operationalizing the conceptual framework in order to prove it right or wrong. I am using it as part of my analytical strategy, as a lens to select, order and read my empirical material, and narrating the story of the European financial crisis of 1931. The conceptual framework is embodied in the narrative that follows, not necessarily explicitly announced in every instance. This book is a humanistic and cultural analysis of central bankers in the hectic summer of 1931.

I have found it important, even necessary, to allow the actors to speak for themselves. Throughout the book, I therefore rely on many and extensive quotes to let their voices be heard. This does not mean that I take their statements at face value or to be true or to necessarily reveal what they were thinking. That is not my concern. My concern is to show the actors' sensemaking process from fictional expectations to imagining futures, to narrative emplotment, to actionable knowledge and decision-making as it unfolded during five hectic months from May to September 1931. The many quotes show sensemaking, meaning construction and narrative emplotment under radical uncertainty in action. They do not necessarily tell us what the actors believed or what was 'true'.

The result, which you are about to read, is a narrative. It is my story about what Francis Rodd, Harry Siepmann and their many colleagues and counterparts were up to in the summer of 1931. The resulting historical narrative is not an anecdote or the basis for further analysis and conclusions.

The narrative *is* the analysis.

STRUCTURE OF THIS BOOK

In Chapter 2, I introduce some of the important actors and their perception of the world they lived in up to and as the financial crisis played out in 1931. In Chapters 3–10, I tell the detailed story of how central bankers prepared for a crisis somewhere in Europe and how they worked hard to deal with the outbreak in Austria in May and June 1931. This part is largely organized chronologically, which enables me to follow the actors closely in their daily interactions and deliberations.

In Chapter 11, I briefly change the perspective together with the actors, as they shifted from prospective to retrospective sensemaking. I show how Francis Rodd, Pierre Quesnay and others sought to emplot and narrate the Austrian crisis from their vantage points. In Chapters 12–14 I trace how central bankers' worst-case imagined future came to life as Germany was hit by a serious financial and exchange crisis in June and July. Finally, Chapters 15–17 trace the battle for sterling and Britain's departure from gold in September 1931.

Throughout this book, I try to show how Francis Rodd's, Harry Siepmann's, Montagu Norman's and George Harrison's and their colleagues' hopes and anxieties, prejudices, prior assumptions and blind spots as well as the available information shaped their decisions – decisions that may well have felt the most important ones they would ever have to make. I show how they worked together and sometimes against each other, and how different perspectives and conflicts influenced their tempers, actions and decisions.

I end the book by discussing the implications of writing history forwards from a micro-level perspective. I have deliberately left out of this introduction a discussion of the extant historical literature on the crisis of 1931. You can find much of it in the endnotes, and in the final chapter where I discuss the book's empirical and theoretical contribution to the historical scholarship into the European financial crisis of 1931. Finally, I briefly consider parallels with the Great Financial Crisis and discuss if there are any lessons to be made with regard to decision-making under radical uncertainty in other past and future crises.

But first, let's get to know some of the main actors and the world in which they lived.