

Nathan Marcus, *Austrian Reconstruction and the Collapse of Global Finance, 1921-1931*. Cambridge, MA: [Harvard University Press](#), 2018. ix + 546pp., illustrations, figures, appendices, notes, bibliography, index. Cloth; ISBN 9780674088924, US\$51.50.

Before the First World War, Vienna was the magnificent and exciting capital of a great multinational empire of 52 million. By 1918, the war had been lost, the empire had collapsed, and the people were malnourished.

The post-war peace treaties left Vienna as the capital of a rump German Austria, population 6.5 million. Its problems were intimidating. The civil service and the army, built for an empire, were much too big for a small country. The successor states established in the former empire set up trade barriers which cut off Austria from the single market in which it had previously prospered. Vienna had been the financial centre of the empire, but its banks were now separated by national borders from many of the enterprises in which they had invested. A large budget deficit financed by money creation led to hyperinflation.

In the circumstances, the rehabilitation of Austria was extremely problematic, as Nathan Marcus relates in his interesting book. Austria became the first country whose financial reconstruction was overseen by the newly formed League of Nations. The League secured the active assistance of Montagu Norman, the Governor of the Bank of England, who understood the importance of restoring trade and prosperity in Europe and he wanted the Bank of England to play a leading role. Indeed, in 1922, the Bank of England became the owner of an Austrian commercial bank, the Anglo-Austrian Bank, though it failed to make a success of it.

As a condition of the League-sponsored and guaranteed loan, Austria was forced to accept a Commissioner who had certain powers over the use of the loan. He remained in Vienna from the end of 1922 until the middle of 1926. Markets were reassured by the government's acceptance of the League's oversight, and by the loan, which materialised in 1923. Austria thus had time to balance its budget, and its post-war hyper-inflation ended in 1922. A balanced budget was within sight by the middle of 1924, but the government did not shrink the civil service and the army by as much as the League thought necessary for sustainability.

The Commissioner was naturally unpopular in Austria, but Marcus believes that his presence contributed not only to economic stability but also to political stability. He acted as a kind of lightning rod which deflected the attacks of the political right and left away from each other. However, there was a widespread belief that the rump Austrian state was simply not viable on its own, and that the only way forward for German Austria was to join Germany proper – *Anschluss* - though that was expressly forbidden by the Treaty of Versailles and by the agreement with the League. It is hard to believe that the League Commissioner could have kept the lid on that issue. Violent conflict between left and right became increasingly frequent after 1927.

In the second half of the 1920s, problems in the banking system became apparent, and the largest bank, Credit Anstalt, having already taken over two weak banks, was induced to take over the ailing Boden-Kredit Anstalt in 1929. Credit Anstalt itself got into distress, as was revealed in May 1931.

It is sometimes forgotten that the Bank of England had two nominees on Credit Anstalt's board at the time of its distress – Peter Bark, a former finance minister of Russia, and Sir Otto Niemeyer. When they were asked in 1932 to return their directors' fees for 1928 and 1929 because it had become clear that the bank had made no profit in those years, they declined, on the grounds that their local representative Zoltan Hajdu had refused to sign the balance sheet for 1930 unless the method of drawing it up was changed.

The Credit Anstalt event is widely regarded as having been the trigger for the ensuing banking crisis in Germany, Britain's abandonment of the gold standard and the standard's ultimate collapse, and the spread of the Great Depression to Europe. Marcus, however, says that this is all wrong. The bank was supported by the Austrian National Bank, by the Austrian government, and by its owners, the Vienna Rothschilds. The Austrian National Bank, in turn, was supported by credits from other central banks, organised by the newly-founded Bank for International Settlements, and then by the Bank of England alone. The Republic of Austria tried to issue a loan to secure more foreign exchange, but was frustrated by French insistence that it renounce its intention to form a customs union with Germany. In the end, Austria imposed exchange controls. Marcus observes that the German and British crises did not begin until after Austria had regained a degree of stability. He attributes them not to Credit Anstalt but to budgetary problems and monetary policy mistakes in Germany and Britain.

As regards Germany, he has a point. Historians have failed to uncover a direct connection between Credit Anstalt and the German banking system. The principal explanation of the German banking crisis is surely that the German banks had made a lot of bad loans financed by short-term foreign deposits, and that when capital inflows dried up, their lack of liquidity was exposed. The panic following the Credit Anstalt *débauche* almost certainly made things worse, but it was probably not the main factor.

However, as regards Britain, the picture is more complicated than Marcus suggests. The Austrian, German and Hungarian crises imposed pressures on the London money market – withdrawals of deposits and non-payment of debts – and thus on the gold reserves of the Bank of England. The Macmillan report, published in June 1931, inconveniently revealed that those reserves were wholly inadequate. They were exhausted in September. Credit Anstalt was one of Britain's problems, but far from the only one. Marcus unquestioningly embraces an implausible theory that the Bank of England chose to leave the gold standard in September with the intention of influencing the outcome of the expected general election. The Bank could, as he suggests, have increased interest rates by much more than it actually did, and it might have been able to borrow more gold to support the pound, but it is hard to believe that either would have made any difference to the eventual outcome.

Austrian Reconstruction and the Collapse of Global Finance is, as I have suggested, sometimes tendentious, but it has the great virtue of putting the financial events of the period into their political context, which is essential to understanding them. And it provides a vivid practical insight into the problems of providing financial assistance to countries from outside.

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