

Habit Not Heredity

Central Banks and Global Order

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3.1 INTRODUCTION

This chapter shows how central banks' efforts to stabilize the international system gave them a pivotal role in the global order established after the First World War. Section 3.2 explores the emergence of new ideas and practices for global governance during and after the First World War. Section 3.3 asks why in 1919 bankers stood at a distance from the peace negotiations and the creation of the League of Nations, the world's first inter-governmental organization. This apparent absence merits explanation because of the crucial role financial networks played in orientating US neutrality towards the Allied powers and in determining the outcome of the war. Section 3.4 shows how, by the time of Brussels Conference of 1920, financial concerns and the disorderly, war-like character of the peace prompted central bankers to turn to the League of Nations in order to stabilize and facilitate financial markets. Section 3.5 explores how, thereafter, the League's new Economic and Financial Organization (EFO) became a valuable source of financial and economic intelligence. Overtime, the EFO's increased determination to offer a steer on policy, notably with regard to the operations of the gold standard, put it on a collision course with central bankers. The chapter concludes by reflecting on how the foundation of the Bank of International Settlements (BIS) in 1930 signalled an irrevocable break of relations between central bankers and the League. The outcome also marked a shift in the global ordering of capital markets, states, and civil society with long-term consequences for their institutional relations until the Second World War and its aftermath, which signalled a new phase of global disorder, and re-ordering.

3.2 IDEAS AND PRACTICES OF GLOBAL GOVERNANCE

With the end of the First World War in November 1918, the victorious Allied powers, led by Britain and France, alongside the Associated Power of the United States of America sought to establish procedural rules on which stable and legitimate international cooperation would depend. These rules, they argued, would safeguard the prospects for peace, and global stability. In US and British political circles, legal ideas about global order were especially influential, and these states took a prominent role in orchestrating the move from war to peace through the Armistice declared in November 1918.

US President Woodrow Wilson, lawyer and statesman Elihu Root, and Hamilton Holt, educator and journalist, argued that competition between nations would be positive and benign if protected and tamed by the rule of international law.¹ Taken together, their ideas were foundational to the ideology of Wilsonianism. In Root's words: 'American democracy stands for ... something that cannot be measured by the rate of exchange and does not rise or fall with the balance of trade ... The American people stand for a government of laws and not of men' (Root 2014 [1916]: 440–441). These ideas helped to frame the Paris Peace Treaties concluded with the new representatives of the defeated Central powers, and establish a new international organization, the League of Nations. They shaped elite and popular expectations of the peace around the world, and US leadership. Many of these aspirations were to be frustrated as early as 1919, notably when it came to the application of self-determination promised in the Fourteen Points, and when the United States rejected the Covenant of the League of Nations (Manela, 2007).

A great deal of comment at the time, and subsequently, focused on the role of the United States in global order. Some of it related to the impact of Wilson's ideas. It was also the result of the United States' move from being a debtor to creditor, and its emergence as the world's banker. The change was foundational to narratives of the American Century informed by a view of the nineteenth century that cast imperial Britain as the world's policeman. In 1919, Pax Americana replaced Pax Britannica (Kindleberger, 1973; Tooze, 2014).

Latterly this picture has begun to shift. It is now clear the United States was never an all-powerful hegemon even after 1945. Its commitment to international cooperation was often ambivalent, as it was

¹ On Wilson, see Notter (1937) and Skowronek (2006); for Root, see the compilation Root (2014 [1916]); and for Holt, see Holt (1917: 65–69).

in 1919. Moreover, this single-minded focus on the United States in history-writing obscured two equally significant developments for global order in the longer term that emerged in 1919. The first was the importance of multilateral coordination and cooperation (Eichengreen, 1992; Clavin, 1996). The second was the decline of European power in the rest of the world (Hurrell, 2018). This was not self-evident despite the disintegration of the Russian, German, and Austro-Hungarian Empires. The expansion of British and French imperial power, and the effect this had on global geopolitics, masked these trends for some time. Under the auspices of the new Mandates system administered by the League of Nations, Britain and France took charge of territories such as Palestine, Iraq, and Syria (Pedersen, 2015). Moreover, the continued importance of Empire in British and French politics enabled Germany, Japan, and Italy to question the quality of Anglo-French imperial governance on the one hand, and demand the realization of their own claims to empire on the other. The demands of what ultimately became the Axis powers set the world on course for a second world war within a generation of the first.

In 1919, the United States did not yet equate its national security with the security of the world. US naval power was ascendant, but it commanded neither the military nor global strategic assets at Britain's behest (McKercher, 1991). The United States' power was material. What heralded the United States' arrival on the global stage was its emergence as the world's banker in the war, the superior productivity of the US worker, the variety of its exports, and its abundant supplies of commodities (Nolan, 2012: 11–76).

The Norwegian-speaking American-born economist Thorstein Veblen identified the display power of US capital. For a short time, he was a member of The Inquiry, the think-tank established by Wilson in 1917. The President charged it with preparing any future peace settlement after US entry into the war (Gelfand, 1963). By the time Veblen became involved, he was on the way to establishing his reputation as an outlander, an iconoclast ... more than a little mad.² He soon parted company with The Inquiry, and published part of his contribution to these debates as an *Inquiry into the Nature of Peace* (Veblen, 1964 [1917]; Herman, 1969). In it, Veblen – in contrast to Wilson, Root, and Holt – was pessimistic regarding the prospects of a stable international order based on the primacy of law and state sovereignty. He was sceptical of easy slogans regarding the innate superiority of

² Chase, Foreword to Veblen (1934 [1899]: xii).

democratic governments, arguing that even at the widest democratic departure from that ancient pattern of masterful tutelage they still bore features of the old-fashioned patrimonial state (Veblen, 1964 [1917]: 11). He rightly anticipated that the imperial impulse underlying the operations of major states, notably democratic ones such as Britain, France, and Italy, threatened the future prospects of a pacific league of nations.³

Veblen was an important, non-Marxist critic of capitalism. For him, the circulation of money that fuelled the processes of globalization, and the unprecedented expansion of the international economy was not based on reason alone. It was also as an expression of power. In *The Theory of the Leisure Class* published in 1899, Veblen outlined how capital had display-value in a global context, with archaic, barbaric qualities, as well as progressive ones. For Veblen the processes of globalization were neither uniformly progressive, nor ones that could be readily overthrown (Diggins, 1999: 41–57, 111–135).⁴

Veblen's focus on the operations and character of global capital implicitly criticized the state-centric view of Wilson, Root, and Holt. The latter had much less to say about how states related to – or were affected by – global exchanges of capital, goods, or communicable disease. These were all phenomena that exploited (or disregarded) state borders. Veblen's stress on states' limitations recognized the challenges these transnational currents posed. For all state leaders the realm of foreign relations was where they had least control, and where power was mutable. His sober ruminations on new world order led Veblen to conclude, 'powers answer to an acquired bias, not to an underlying trait ... a matter of habit, not of heredity' (Veblen, 1964 [1917]: 11).

Veblen's stress on the habitus of government offers us a useful way of thinking about the relations between the state, markets, and people – the constituent elements of global order (Hurrell, 2007). These evolved during the First World War and had important consequences for global governance. The economy was the decisive weapon of the First World War. States had developed ever-more sophisticated bureaucratic practices intended to manage the movement of people and goods. Britain led this transformation by orchestrating the Allied blockade of the central

³ Veblen was prescient on the pressure exerted by the continuity of empire, arguing without the definitive collapse of the Imperial power no pacific league of nations can come to anything much more than armistice. Veblen (1964 [1917]: 239).

⁴ Capital behaved rationally for both Marx and Weber, although it had negative outcomes for society.

powers. The blockade was a wholesale intervention into international trade with lasting effects. It comprised a series of political, bureaucratic, military, and naval manoeuvres, administered and guided by the British Foreign Office, to convince Allied and neutral countries to cease trading with the Central Powers.

During the war, the belligerent powers suspended membership of the gold standard. Nevertheless, financial cooperation with the United States underpinned the Allied war effort. In 1915, the British and French governments asked J. P. Morgan in New York to float a loan in the United States to facilitate the Allied war effort (Burk, 1985; Horn, 1995). The move helped orientate the neutral United States towards the Allied powers. Subsequently, Morgan Grenfell in London facilitated British credit operations, and by the end of the war, the New York and London firms together constituted the most important merchant bank in the world (Burk, 1989: 133–134; Pak, 2013). In 1920, governments, central bankers, and the League of Nations would call on them to take a lead in the reconstruction of Europe too.

More broadly, prosecuting the war led to the deepening of multilateral ties between the lead Allied powers of Britain and France, and key neutral states, notably the United States, Belgium, the Netherlands, Sweden, Norway, Denmark, Portugal, and Spain. The operations of the Allied blockade, in particular, marked a graduated departure from traditional state-to-state diplomacy to include bureaucratic relationships. The shift towards administration was significant for the future of global order (Clavin, 2020). The work of the Allied Maritime Transport Council (AMTC) was foundational. Managed by a British civil servant and a French businessman – James Arthur Salter and Jean Monnet – the AMTC secretariat set up in 1917 coordinated twenty separate inter-allied committees to organizing shipping and supply lines between the allied powers of Britain, France, Italy, and the United States.

The experience of the AMTC had important consequences for the evolution of global order in the decades that followed. Salter, and others, used the AMTC to make the case for some sort of international administration in the new League of Nations. The League of Nations appointed both Salter and Monnet to leading administrative roles in its secretariat, a significant innovation in the practice of international administration (Decorzant, 2011: 111–141).

Ordinarily, scholars exclude central bankers and their financial networks from the making of a new global order in 1919. This chapter, by contrast, sets out to explore how central bankers sought to build

good national habits by promoting key aspects of global governance. Currently, the history of international relations after the First World War is related through three, linked narratives. The first focuses on the failings of US leadership and the 1919 Paris Peace treaties (Steiner, 2005; Ikenberry, 2019). The second, on national comparative histories, recounts governments' decisions to move from economic management and social engagement and allow markets to self-right after a period of greater state intervention during the First World War.⁵ The third narrative covers financial histories of the 1920s and focuses on financial reconstruction after hyperinflation, and on the shortcomings of the re-established gold-standard regime (Eichengreen, 1992). Alongside, is a new body of work on the history of internationalism. It explores the formulation and contestation of communal rights for ethnic groups, women, children, and colonial subjects. It also looks at the creation and operations of the League of Nations, and associated institutions such as the International Labour Organization, written from the hitherto largely neglected archive of the institutions themselves.⁶

3.3 CENTRAL BANKS AND THE LEAGUE OF NATIONS

The recovery of the League's institutional archives revealed the wide-ranging international networks that engaged with the new institution. These help expose how central banks and central bankers were a core constituent of the post-1918 global order. The focus on Wilson in general, and his Fourteen Points in particular, hid this from view. The Fourteen Points famously said little about economics and finance, aside from a general commitment to equality of trade conditions expressed in Point III. Even on this, ideas were comparatively underdeveloped. For Wilson, free trade related primarily to two important desiderata: open diplomacy and freedom of the seas (Clavin and Dungy, 2020). It was Wilson's Point XIV that announced a general association of nations. Its purpose was to afford mutual guarantees of political independence and territorial integrity, thereby stressing the traditional aspects of international security: the protection of borders and territorial sovereignty in his programme of world peace.⁷ For the Big Three in Paris – US President Woodrow Wilson, Britain's Prime Minister David Lloyd George, and

⁵ For example, Soutou (1989).

⁶ For example, Miller (1994), Pedersen (2015), and Maul (2019).

⁷ See https://avalon.law.yale.edu/20th_century/wilson14.asp

the French Premier Georges Clemenceau – the League’s focus should be the mediation of geopolitical conflict, as and when it arose (Macmillan, 2003; Yearwood, 2009).

The absence of central banking engagement with the new organization was not, as Rosenberg has suggested, the result of disinterest, or indeed hostility to the League of Nations *per se* (Rosenberg, 1999: 99). The correspondence of Benjamin Strong, Governor of the Federal Reserve Bank of New York, and Montagu Norman, Governor of the Bank of England, reveals their close interest in the Paris Peace Conference and the League.⁸ Norman became Governor in 1920, having been an active and internationally prominent Director of the Bank through the war. The central bankers monitored developments regarding the peace settlement and the new institution closely.⁹ The new body would incorporate and be responsible for upholding the new body of international law generated by the peace treaties, managed by individuals in the secretariat, such as Salter, Monnet, and its General Secretary, Eric Drummond, who had also held an important administrative role during the war. Central bankers were closely connected to the networks institutionalized in the League. The body came to serve as a platform to facilitate introductions, as well as connections, and the exchange of information and practices.

The bonds between the bankers and the League of Nations were not purely social and practical. They were ideological. Central bankers may not have seemed like natural bedfellows with humanitarian activists or rights campaigners who also looked to the League to advance their own agendas, but all of them wanted to challenge and, where necessary, limit the agency of the imperial or nation state in relation to their own concerns. The League of Nations, the world’s first inter-governmental organization, was founded in 1920. The first few years after the end of the First World War witnessed a great flowering of new international institutions, of differing scale and ambition.¹⁰ Many still exist today. They include the International Union

⁸ Memorandum by Strong, 30 July 1919, Archives of the Federal Reserve Bank of New York (hereafter FRBNY), FRBNY, 1000.3 2 Foreign Countries – Trips to Europe, 1919, July 20, 1919. The document stresses the importance of leadership both to realize the project of the League of Nations, and the institution’s importance to the prospects of peace. See, also Strong to Leffingwell, 21 Aug. 1919, and 30 Aug. 1919, FRBNY, Papers of Benjamin Strong Jr. I.I.I.I.I.

⁹ See, for instance, the League reports on the Austria situation sent via Arthur Sweetser to Strong, 31 May 1921, FRBNY, Papers of Benjamin Strong Jr. I.I.I.I.I.

¹⁰ See the scores of organizations recorded in the League of Nations Search Engine (LON-SEA) database, accessible on www.lonsea.de/.

Against Tuberculosis and Lung Disease, which was instrumental in creating the League's Epidemic Commission, and the International Chamber of Commerce – today the self-styled world business organization boasting over six million members in more than 100 countries.

Despite these initiatives, central bankers and financiers remained aloof from efforts to institutionalize their networks immediately after the war. In key respects financial questions had become more, not less politicized after the war in ways that repelled central bankers and leading private banks, notably J. P. Morgan and Morgan Grenfell. In 1919, war debts due between the Allies and to the associated power of the United States became caught up in Anglo-French determination to impose reparations on the vanquished. The United States opposed this step. Wilson, Lloyd George, and Clemenceau disagreed about the relationship between war debts and reparations; the new nation states that emerged from the former empires, notably Germany, Hungary and Austria, disputed whether they were liable for reparations and whether they would pay them. The peacemakers decided to keep the League of Nations out of these deeply divisive and intensely political discussions.

Indeed, debates about how to pay for war debts and reparations burdened financial relations after the war. The problem had not been of the bankers' making. They had no say in the decision to go to war, yet became responsible for the financial consequences of the conflict because belligerent states resolved the question of how to pay for the war by kicking the problem into the international. Rather than increase taxes nationally during the war, the Allied governments borrowed from one another, and from the Associated Power, the United States. Once the war was over, the victorious European governments sought reparations in the aspiration that these would tame German power, help pay off the costs of reconstruction, and some of the attendant political-social consequences of the war (including widows pensions that were promised to keep conscripted men in the field of battle), and the debts owed to US bondholders (Kent, 1991).

There was the risk that bankers' involvement in the League would politicize financial relations yet further. As Strong put it to Arthur Salter, '[he] was not at all convinced that [in] a ... common organisation of central banks the policies of certain banks would not be dictated by the interest of their respective banks rather than by purely monetary considerations'.¹¹

¹¹ Record of conversation between Strong and Arthur Salter in Paris, 25 May 1928,4, Papers of Benjamin Strong Jr., FRBNY, 1000.9, Foreign Countries – Trip to Europe, (May 21–July 8, 1928).

Central bank operations in the war offered some prominent examples. The *raison d'être* of the Bank of England and the Norges Bank may have been to support the fiscal policy of the state or to refinance sovereign debt in ways that were alien to the Banque of France until the First World War. As Bignon and Flandreau have reminded us, the First World War effectively created a dual mandate for the Bank of France: it had to hold huge amounts of sovereign debt while sustaining its commitment to support private agents hit by liquidity shocks. The tensions in this obligation took time to work out, and at some cost to the banks' authority and power (Bignon and Flandreau, 2018: 19–24). This is one example of the way in which the war triggered a recalibration of long-established central-bank obligations within states that would also shape their international behaviour.

In November 1919, after a lengthy tussle with Wilson, the US Congress rejected the Treaty of Versailles with Germany, and with it the covenant of the League of Nations. The development marked a rapid evolution in US foreign policy, further cemented under the subsequent Presidencies of Warren G. Harding and Calvin Coolidge. The year 1920 signalled a new phase in the alignment of the relationships between states, civil society, and markets that would give central-bank relations a renewed prominence.

3.4 THE BRUSSELS CONFERENCE 1920 AND FINANCE ORGANIZED

Like the backward step in a waltz, the retreat of the US state from the international stage created the space for US financiers to step forwards, to recover and redesign their late-nineteenth-century role as financial missionaries to the world (Costigliola, 1984; Rosenberg, 1999). Under Republican Presidents Harding and Coolidge, the White House and State Department denounced foreign entanglements. With stakes in the global markets for capital and goods, financial and business operations stepped into the breach. Financial and business actors also offered connections to, and a window on, the world for successive Republican administrations.

The notion of saving souls associated with missionary work took on a new meaning in the warlike context of the post-war world. The spectacle of communist revolution gripping Russia and threatening Hungary and Germany, was obviously unsettling to capitalists. Strident nationalism was on the rise in central Europe, while Italy succumbed to a new Fascist movement. More directly in the purview of central bankers was the danger posed by the spectacle of hyperinflation licking at the feet of the new republican states of Austria, Germany, Hungary, and Poland.

The situation in Austria was especially acute. As the Austrian Krone slid into hyperinflation, communist revolution in Red Vienna threatened to engulf the republic in civil war, as the politics of the surrounding countryside were resolutely nationalist and catholic. Hunger and disease reached such endemic, life-threatening proportions it triggered a huge international programme of humanitarian aid (Bane and Lutz, 1943). The Swiss government was a close and acute observer. Like other bordering states, it was conscious of the implications of the risk an Austrian implosion posed for its own security. As the Head of the Swiss Army, Major General Emil Sonderegger put it: 'some sort of Putsch would lead to a form of civil war ... it would disrupt economic exchanges; forcing us to significantly increase border controls for an extended period, and then there was risk of Swiss volunteers getting mixed up triggering greater, and unwelcome, involvement from the Swiss government'.¹²

Governor Strong had extensive knowledge of the desperate conditions of central Europe, including Austria. He travelled to Europe in the late summer of 1919. His diary recounted his admiration for the work of the American Relief Administration led by Herbert Hoover: 'a magnificent piece of work which could only be conducted successfully by a bold and adventurous spirit with limitless courage'. Strong's arrival in Europe in July coincided with Wilson's failure to win support for article X of the Treaty of Versailles, which pertained to the covenant of the League of Nations. It meant US state actors withdrew from Paris as well as from the Supreme Economic Council of Supply and Relief. This short-lived body had been set up in February 1919 by the governments of Britain, France, Belgium, Italy, and the United States to advise on economic measures pending the peace negotiations. In June 1919, Hoover argued for a discrete continuing 'economic body ... in connection with the granting of private and public credits and in the supplying of raw material and food to various countries in Europe'.¹³ Hoover's stress on practical cooperation appealed to Strong. The Fed Chairman contrasted it with Wilson, who 'became subject to the influence of a lot of college professors and theorists and idealists who were lacking in practical ideas'.¹⁴

¹² Emil Sonderegger to Head of the Military Department, K. Scheurer, Bern 21 January 1921, Records of the Swiss Foreign Ministry, E 2001 (B)3/10, Diplomatic Documents of Switzerland.

¹³ Hoover to Wilson, June 27, 1919, Hoover Institution, Stanford, CA., Supreme Economic Council and American Relief Administration Documents Project, Box 9.

¹⁴ Journal, July 21 to September 20, 1919, 22, Papers of Benjamin Strong Jr, FRBNY, 1000.3.

Over the next few months over a hundred other bankers, economists, and humanitarians joined Hoover's call for more effective economic and financial cooperation. It resulted in a financial conference to be held under the auspices of the new League of Nations (Clavin, 2013). They included representatives from J. P. Morgan, Morgan Grenfell, and Lloyds banks, who were joined by Gerard Vissering, the President of the Bank of the Netherlands, economists Gustav Cassel and John Maynard Keynes and Arthur Pigou, and Gustave Ador, the Swiss President of the International Committee of the Red Cross. Held in Brussels in 1920, it became the world's first ever international financial conference, setting the template for many more such conferences spanning the twentieth and twenty-first centuries. The first resolution passed by delegates at the conference determined 'the first step is to bring public opinion in every country to realise the need for re-establishing public finances on a sound basis as a preliminary to the execution of those social reforms which the world demands.' (League of Nations, 1922: 7)

The reconstruction of the gold standard was at the heart of this programme. Although Britain would not re-join the gold exchange standard until 1925, and France until 1926 (formally 1928), the British and French governments championed the international gold standard as a tool of global order much earlier. Their dominance in the League of Nations was a key part the strategy. They were the leading powers in the institution. The League's machinery for public engagement, established to promote publicly accountable foreign policy in 1920, also put its weight behind sound money. As part of the Brussels conference preparations, League members agreed to the creation of a new Economic and Financial Section in the Secretariat, under Arthur Salter's direction. This body was an evolution of the League's Economic Intelligence Service. Now the League was not just empowered to gather intelligence, but also to take practical steps to facilitate communication and cooperation regarding world markets (Clavin, 2013: 15–33).

The shape of the League's practical steps emerged in the context of central and eastern Europe's continued turbulence, and the faltering global economy (Ansell et al., 2016). What happened on the ground contradicted talk of reconstruction – what was underway was construction. It also contradicted the expressed aspiration to recover the transnational flows of capital and goods independent of the types of state intervention that had characterized the Allied war economy. It soon became clear that new states in central Europe would not be able to secure the capital they needed by a simple approach to the international capital markets,

via J. P Morgan, for example. There followed the attempts by the Dutch banker, K. E. Ter Meulen to market Austrian state-guaranteed bonds in London through an office opened by the League of Nations. This, too, failed. In the meantime, during 1921 into 1922 Austrian inflation began to slip into hyperinflation as levels of economic and social distress went up. Studies by Marcus, and Flores Zendejas and Decorzant, stress market conditions as the reasons why financiers at first held back (Marcus, 2018: 78–111; Flores Zendejas and Decorzant, 2016).

Politics also explains why tinkering with established practices of financial diplomacy was not enough in the Austrian case. In a series of moves coordinated via Geneva between Vienna, London, Paris, and New York, in the summer and autumn of 1922, Prime Minister Ignaz Seipel approached the Council of the League of Nations asking for its assistance to bring financial stability to the country. The resultant Geneva Protocol, negotiated through the League Council in October 1922, established an independent central bank in Austria. The new republic became the first former belligerent to return to the gold standard. Throughout, the Bank of England and the Federal Reserve Bank of New York were regularly briefed on the progress of the League's intervention directly from Geneva.¹⁵

Politics also helps to explain the move to the League of Nations. It is often forgotten that one outcome of the Geneva process was that Austria was spared financial reparations, although it still had to pay reparations in kind, notably commodity supplies to Italy. While reparations were unresolved, it was impossible to determine which national assets could serve as security for the international loan. The Geneva protocol also reinforced the prohibition of *Anschluss* (union) with Germany. The agreement reinforced the boundaries around (and the unequal international treatment of) Austria and Germany. Austria, like Hungary, was admitted as a full League member in 1920; Germany, and for that matter Russia, were not. The financial security afforded to foreign investors was also delivered by political action: a series of extraordinary political guarantees that handed financial oversight of a nation state to an intergovernmental organization. State expenditure, notably in relation to pensions and food subsidies was slashed; and exports, notably in tobacco, were offered as collateral. The League appointed a Commissioner General, Alfred Rudolf Zimmerman. As Marcus has underlined, international control of Austria was 'a measure

¹⁵ See, for example, Arthur Sweetser to Benjamin Strong Jr., 31 May 1921; Benjamin Strong to Arthur Sweetser 19 June 1921, and Basil Blackett to Benjamin Strong Jr., 29 June 1921, and FRBNY 1111.1.

that all sides came to see as necessary and even beneficial after alternative routes to raise money had repeatedly proven ineffective'. (Marcus, 2018: 80) Based in Vienna, Zimmerman soon took on the appearance of an effective Governor-General of an occupying colonial power. In the context of the time, when anti-colonial arguments were rooted in debates about poor colonial governance (rather than the immorality of colonialism in absolute terms) the description was not necessarily negative.

League officials took great pride in the way it helped facilitate Austria's stabilization, using the scheme as the basis for similar stabilization and loan programmes extended to Hungary, Greece, and Bulgaria (Clavin, 2013: 11–48; Peterecz, 2013). The process informed the stabilization of Germany (Fraser, 1924) too. The stabilization initiative became the means to show the League could deliver tangible achievements to sceptical member states (Walré de Bordes, 1924: ix). Financial markets developed a positive view of the League's role as an external, multilateral agent, solving the credibility problem of borrowing countries and facilitating a process of domestic reform (Fraser, 1924). Crucially, history would show that this multilateral solution performed better than the bilateral arrangements adopted by other countries in central and eastern Europe, such as Poland. It offered lower borrowing and transaction costs (Flores Zendejas and Decorzant, 2016). The organization readily translated the narrative of Austria's successful stabilization into an account of success for the great experiment in Geneva. Subsequently, this experience would be foundational for the work of the International Monetary Fund after 1945 (Pauly, 1997).

Austrians remembered this early history of their republic's encounter with the new global order very differently. Social Democrats and communists in Vienna were vociferous opponents of the budget cuts (Ausch, 1968). German nationalists and Catholics, who dominated the politics in rural areas, complained about Austria's loss of sovereignty, and insults to its nationhood (Berger, 2000). The Geneva Protocol doubled down on the peacemakers' 1919 prohibition of union with Germany. An increase in antisemitism throughout the region was an overt result. Salter came to understand the risks to the League, and Liberal internationalism, if not to central Europe's Jewish populations. Already by the time of the League efforts to stabilize Hungary in 1923, he worried about more intense national feeling, with a sterner and less pliant population.¹⁶ By the time he advised China on how to tackle its own inflationary challenges, in

¹⁶ The Reconstruction of Hungary, address by Salter to Chatham House, 22 May 1924 in League of Nations (1924) 2–5.

1931, Salter no longer regarded the Austria case as a model. Its political effects had been too severe.¹⁷ In the case of Austria, the republic was never able to heal the wounds of defeat, nor overcome the local perceptions of a marked deterioration of its people's living standards or prospects after the end of Empire. Over time, the responsibility for the region's decline was transferred from Austria-Hungary's failed imperial leadership to the treaties drafted by the victorious powers at the Paris Peace Conference and to the institution of the League of Nations (Bischof et al., 2010). *Anschluss* with National-Socialist led Germany – in violation of international law – was the outcome.

What endured unquestioned in the 1920s, 1930s, and 1940s was the League's growing and unparalleled global role in gathering information and exchanging knowledge. This had begun with the advertisement of Austrian conditions on the international capital markets, and had snowballed. In the 1920s alone, the League investigated the causes and remedies of international protectionism; the operations of commodity markets and cartels; double taxation and fiscal evasion. In 1927 and 1933, the League hosted two major World Economic Conferences – templates for the Bretton Woods Conference of 1944. States that formally never joined, such as the United States, or left in umbrage, including Germany and Japan, consulted and referenced this League-generated data (Burkman, 2008; Herren, 2009: 74–79). Today, it continues to be the primary historical data source of the operation of the global economy in the period from 1914 to 1946 – the year the League was dissolved officially.

Mining and curating this information continued throughout the organization's lifetime, even during the Second World War. In 1940, safeguarding the economic and financial intelligence garnered by the League, and defining the lessons of twenty years of institutional experience, informed the League's Mission to Princeton. Based at the Institute of Advanced Study in Princeton, the mission acted as an international focal point for the exchange of ideas and practices for post-war planning and reconstruction. Even E. H. Carr, one of the most forceful and vociferous critics of the League's operations in its lifetime, acknowledged and praised the quality of this work (Carr, 1939: 102).

¹⁷ Mission to China, January–April 1931, draft report by Arthur Salter, Papers of Arthur Salter, SALT 1/10, Churchill Archives Centre, Cambridge. I am indebted to C. H. Lucas Tse for this comparative connection.

3.5 THE BREAK WITH THE LEAGUE OF NATIONS

None of these activities was value neutral. The League inquiry into the operation of the gold standard launched in 1928 set leading central bankers on a collision course with one another, and with the League. The League's special Sub-committee on the Purchasing Power of Gold – which became known as the Gold Delegation – brought together more than twenty-five monetary experts from around the world in a series of meetings. Together, they published three substantial reports, a variety of supplementary commentaries, and wealth of statistical information (Clavin and Wessels, 2004).

The inquiry was focused on two tightly drawn, technical concerns that emerged from debates between the League's inter-governmental Financial Committee and bureaucrats of the Economic and Financial Section. The first was the uneven distribution of gold reserves around the world. The war and post-war inflation had caused a massive outflow of gold to the United States, and after 1926 to France, following its return to the gold standard at a markedly undervalued rate. The second issue was that, for various reasons, the price of gold was falling, making it less profitable to mine, which reduced the overall level of supply. All this at a time when the League of Nations was actively encouraging states to become responsible members of the gold standard club. It increased the demand for monetary gold, notably US dollars, in ways that increased global deflationary pressures.

Publicly, the League Council, made up of leading member states, linked the investigation to its long-standing commitment to the financial stability of Austria and Hungary (League of Nations, 1928: 1031). Privately the inquiry had a much bigger remit, which enabled some members to question the effects of the gold standard on the operation of the global economy, and ultimately its viability.

The history of life behind the scenes of the Gold Delegation revealed that Strong and Norman were happy to hitch their star to the League when it came to promoting the gold standard as part of the move to a rules-based global order in 1919. But they changed their mind when the League officials and some state representatives began to ask questions about how well the system was working in general, and examining the operations of the Federal Reserve Bank and the Banque de France, in particular. In May 1928, Salter sought Strong's support for the Gold Delegation, describing it as 'the second phase of post-war monetary reconstruction ... to determine whether or not there was likely to be an insufficient supply of gold to meet the post-war world, and if so to find out what were the best means

of meeting the situation.’ Strong was forceful in his rebuttal, making clear his long-held and deep-seated animosity of the League’s incursion into this policy-space.¹⁸ Strong’s successor in 1928, George L. Harrison, was only moderately less hostile. He would tolerate the inquiry, he told League officials visiting him in New York, only if ‘the most responsible people’ served on the Sub-committee; proceedings were slow; there was no publicity; and no reports or interim reports ‘as to substance’. Even then, Harrison refused to supply a delegate from the Fed. Choosing his words carefully, Salter did not agree but promised to ‘make the study as unobjectionable as possible to the banks of issue’.¹⁹ The central banks of France and Germany made similar protests.²⁰

From the League’s vantage point imbalances and risks to the global economy, and the stabilization project which it sought to support, were becoming readily apparent. The Wall Street crash in October 1929 underscored that the world economy faced major problems. The challenge was agreeing what these were and how to tackle them. League data pointed to the increasing divergence between US and French monetary and economic fortunes, and British and German performance. British dominance in the League, and Salter and Lovedays close ties to Whitehall, where they had worked in the past, to the City of London and to British academic circles meant they were all too aware of mounting pressures on sterling. Behind the scenes, the Bank of England was prepared to use the League as an alternative forum to central bankers’ meetings to discuss challenges facing the international gold exchange standard.

At the start, Norman was a covert but interested supporter of the Gold Delegation’s work. He was in close contact with key players in it. They included Sir Otto Niemeyer, the British representative to the Financial Committee, and Sir Henry Strakosch, an important confidant of Norman’s who was then serving as chairman of the Union Corporation, a South African mining company. Norman told Strong and Moreau he did not approve of the League looking into the operation of the gold standard while at the same time encouraging the secretariat to pursue the

¹⁸ Strong Conversation with Arthur Salter, Paris, 25 May 1928, 4–5, Papers of Benjamin Strong Jr., FRBNY, 1000.9, Foreign Countries – Trip to Europe, (May 21–July 8, 1928).

¹⁹ Memorandum by Harrison, 26 February 1929, and conversation with Avenol, 26 April 1929, Papers of George L. Harrison, FRBNY, C798/1st File/1927-Dec 1929 – League of Nations.

²⁰ Summary of a letter by Siepmann, 20 November 1928, Bank of England Archives (hereafter BOEA), OV48/2; Norman to Schacht, 13 December 1928, and Schacht to Norman, 21 December 1928, and Moreau to Norman, 28 December 1928, BOEA, GI.

enquiry (Clavin and Wessels, 2004). It was a risky strategy for Norman, for the central bankers of Belgium, the Netherlands, Poland, and Czechoslovakia, lined up to take part. It also carried reputational dangers for the League given its fledgling authority in the field of economic and financial affairs. It was now moving more overtly in the direction of offering policy advice, which risked alienating powerful private financial interests, and incurring hostility from leading member states, notably France, which was strongly committed to the gold standard order.

The real intellectual heft of the committee came from its expert members, notably the Swedish economist Gustav Cassel and Strakosch. While in April 1929, Harrison warned that the delegation's work could endanger future American cooperation with European central banks, Strakosch urged the group to move quickly: 'an all-round contraction of credit, with an all-round tendency for falling prices' looked inevitable. For Cassel, too, grave economic danger lay ahead.²¹ Both men were right. They identified the problem in the delegation's private meetings, and in its published materials.

The League proved a useful vehicle to exchange data and to disseminate and exchange expert interpretations (League of Nations, 1930a–d; 1931; 1932). But it was the wrong institution to facilitate central banking cooperation. The organization also attempted to rise to the challenge of coordinating national responses to the global challenge posed by the Great Depression with preparations for a World Economic Conference after 1931. It met in London in the summer of 1933 and failed because of the lack of political will to cooperate by all the key players (Clavin, 1991).

When it came to facilitating central banking cooperation, the Fed's opposition to the gold inquiry on political grounds was an insuperable obstacle. Fed officials disliked the implicit criticism by the League of American monetary policy, however obliquely Geneva expressed it. The Fed also pointed to domestic hazards. The League's activities drew attention to the Fed's international activities, risking increased domestic opposition to its international activities as a whole; not least because the United States was not formally a member of the League.²² Although a comparatively obscure, technical investigation, the Gold Delegation nevertheless drew unwelcome public attention to the international operations of US finance broadly conceived.

²¹ First Session, Minutes of the Sixth Meeting of the Gold Delegation held in Geneva, 29 August 1929, 16, Archives of the League of Nations, LON R2964, 10E/14089/5196.

²² Norman to Harrison, 29 August 1930, BOEA, G 1/30. For the French reaction to the Interim Report see Mouré (2002: 191–193).

Britain was the League's main backer. But in 1929, with pressure mounting on sterling, the Bank of England placed greater weight on preserving its gold standard membership, however problematic it was proving to be. Relations with the Fed and the Banque and France came first; supporting the wider operations of the League's economic and financial agenda came second. Norman fell in behind Harrison's call to transfer some of the delegation's work to a less public forum, the newly established BIS. Central bankers could do nothing to suppress the Gold Delegation reports entering the public domain. Technically and politically they were a landmark. It was the first time an international organization had asked trenchant questions about financial policy and demanded answers from the world's leading monetary authorities. On a practical level, the Gold Delegation's work was less successful. The League's hands were tied by its official commitment to present a scientific, impartial, and collective view. Its final report contained a huge and varied amount of statistical material; its Covenant prevented it from offering clear policy prescriptions. Individual, expert reports, notably the one by Strakosch, condemning the 'excessive accumulation of gold' by the United States and France, and shortcomings in central bank coordination were closer to the mark. They were useful discussion points, but no roadmap to action.

Strakosch identified the problem, but tellingly when Britain came off the gold standard a year later, the British government and the Bank of England largely abandoned the League of Nations as a site for inter-governmental coordination and cooperation on monetary questions. For contemporaries, the change was made visible by the failure of British leadership at the World Economic Conference of 1933. This League-sponsored conference was held in London, because the League of Nations hosted the long-anticipated International Disarmament Conference at the same time. In Geneva, planning for the event had begun in 1930. By the time it convened in the summer of 1933, Britain and the United States had left the gold standard, and the 'fetishes of so-called international bankers' were roundly denounced by US President Franklin D. Roosevelt. The break between central bankers and the League was now complete and irrevocable (Clavin, 1991; 1992).

3.6 CONCLUSION

This history of the central bankers' engagement and subsequent disenchantment with the League of Nations demonstrated their interest in institutionalised cooperation. It underscored their commitment to what they described as 'technical' aspects of financial cooperation, although the

history of central bankers' early engagement with the League and the case of Austria's stabilization revealed a clear ideological component. As the financial world of the League took shape, and bankers turned away from it, they did not turn away from efforts to institutionalize global order.

In 1930, at the point when central bankers' relations with the League ruptured thanks to the work of the Gold Delegation, along came the BIS. Established as part of the Young Plan loans to Germany, the BIS was charged with responsibilities hitherto carried by the Agent General for Reparations in Berlin. The BIS name derived from this role. But reparations payments stalled within a year, and the BIS instead developed some of the same functions of financial coordination and intelligence gathering pioneered by the League. Indeed, early BIS members greatly admired the data-collection aspects of the League's gold inquiry and hired some of the Economic and Financial Sections former staff members. They included a future and highly regarded director of the IMF, Per Jacobsson. Only a scenic train-ride away from Geneva, with offices in Basel, the BIS underscored its difference from the technical work of the League. It described itself as a 'club for central bankers'. In contrast to the League's stress on open diplomacy, and its wide-ranging brief, the BIS's contribution to the emerging architecture of institutionalized governance stressed the importance of exclusivity and confidentiality (Toniolo, 2005).

The habits of institutionalized financial cooperation that developed during and after the First World War left deep tracks. Central bankers consistently stressed the primacy of sound money, and the importance of rules to manage monetary exchange. The rules-based habits of the gold exchange standard matched the wider move to establish a rules-based order in 1919. Throughout the twentieth-century, social networks and institutionalized cooperation remained vital as central banks became a core pillar of new, nation-states set up in a post-colonial world. Here, habits set by the creation and stabilization of the first Austrian Republic helped create the template. As then, after 1945 international recognition of a new central bank was a key condition for new states seeking access to the global capital market.

In 1919, the Paris peacemakers and the League of Nations sought primarily to bring order to European affairs. Capitalism, imperialism, and 'rights talk' shaped the League's global reach. During the course of the twentieth century, this Western system of governance assumed global dominance. One hundred years later, relations between states are changing with the emergence of 'Superpower China' and 'Rising India'. It seems likely, however, that the history of the twenty-first century will not

be determined solely by China any more than the twentieth century was determined by the United States. With the structures of global capitalism in flux and new forms of communication creating a disruptive, open diplomacy of their own, the need to imagine and realize a new future for global order is more pressing than ever. The history of global order after 1919 shows us that the challenges the world faces are common ones that lie beyond the boundaries and sole control of states. And it reminds us of the key role played by central banks and institutionalized cooperation.

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