Disaster in July: The City and Britain’s Decision for War

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Dissertation Abstract: My Overall Argument

My aim is to explain Britain’s sudden fall as the financial center of the world. I argue that Britain’s relative decline in the late nineteenth century as an industrial power was not the cause of its fall; on the contrary, an increase in world trade as a result of the rise of Germany and the United States as industrial powers had enhanced Britain’s role as the global financial center. It was an exogenous event – Britain’s entry into World War I in August 1914 – that precipitated the City of London’s decline.

It is astonishing, and not before examined, that the British government, at the moment of the nation’s greatest dependence on overseas trade and investment, chose to enter a war with complete disregard and contempt for the opposition emanating from the City’s banking elite – the agents for trade and investment – and its conviction that the war would bring financial ruin to Britain. The City of London did not die a natural death as the global financial capital – it was killed by the political decisions of the British cabinet.

In August 1914 the British cabinet took Britain to war. The cabinet chose to intervene in the war in Europe despite the pleadings of the City of London “to keep out at almost all costs.”

This chapter explores this critical disconnection between the financial and political elite as the country went to war. What makes this division striking is that in the immediately preceding years the dependence of the nation’s income on the overseas financial sector (the services of the City of London) was never greater – the earnings of this sector continued to grow as British export industries continued to decline stuck in “old” industries – and that the prime minister and the Chancellor of the Exchequer had clear warnings from financial leaders that catastrophic consequences would result if Britain intervened in the war in Europe.

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Britain had no formal obligation to enter the war.\textsuperscript{2} It chose to fight. It chose to fight with the knowledge that the financial leaders of the nation believed the war would bring financial disaster to the country.

\textit{As Vienna and Berlin Plan for War, All is Calm in Unsuspecting Britain}

Although in popular memory the First World War began with the murders in Sarajevo, for nearly four weeks after the event all appeared calm. In Britain the Balkans and the potential for war were far from the consideration of both the British Cabinet and the City of London. The cabinet had no discussions on foreign affairs until July 24 when the Austrian ultimatum to Serbia, widely understood to signal war in the Balkans, became known in London.\textsuperscript{3} In what his biographer Roy Jenkins called “a statement of epic mistiming” Lloyd George had told Commons that relations with Germany were “better than for years past.”\textsuperscript{4} The only time the Balkan Crisis was mentioned in Commons was on July 10, and then only in passing. Not until July 27 did the Balkans crisis gain the attention of Commons.\textsuperscript{5} Prime minister Asquith in his almost daily letters

\textsuperscript{2} Foreign Secretary Sir Edward Grey stated on August 3, 1914 in his speech before Parliament: “...We do not construe anything which has previously taken place in our diplomatic relations with other Powers in this matter as restricting the freedom of the Government to decide what attitude they shall take now or restricting the freedom of the House of Commons to decide what their attitude shall be.” \emph{Times}, August 4, 1914, 6. In a memorandum sent to the leaders of the opposition, prime minister Asquith wrote, on August 2, “We are under no obligation, express or implied, either to France or Russia to render them military or naval help.” Robert Blake, \emph{Unrepentant Tory: The Life and Times of Andrew Bonar Law, 1858-1923} (New York: St. Martin's Press, 1956). 223. Britain was a guarantor of Belgium’s neutrality under the Treaty of 1839. This gave Britain the right but not the obligation to come to Belgium’s defense if this neutrality was violated. Sir Robert Ensom, \emph{The Oxford History of England: England 1870-1914} (Oxford: The Clarendon Press, 1936) 491. The opinion of the Gladstone government in 1870 was that any obligation fell collectively on all five signatories rather than individually and therefore the cabinet decided in its meeting of 30 July 1914 that “the matter if it arises will be rather one of policy than of legal obligation.” Asquith to the King, July 30, 1914, J. A. Spender and Cyril Asquith, \emph{Life of Herbert Henry Asquith, II}, 81. Hew Strachan notes that “Britain was the only great power to debate its entry to the war in parliament; it was also the only state that did not see its own territorial integrity under direct threat.” Hew Strachan, \emph{The First World War Volume I: To Arms} (Oxford U. P., 2001) 93.

\textsuperscript{3} For the Russian Minister Sazonov it meant: “C’est la guerre europeene” . British Foreign Minister Grey called the note which demanded Austrian control of Serbian internal security “the most formidable document I had ever seen addressed by one to State to another that was independent.”

\textsuperscript{4} Jenkins, \emph{Asquith}, 324. Lloyd George made this statement on July 23.

\textsuperscript{5} Lindsay, J.E. “The Failure of Liberal Opposition to British Entry Into World War I.” Ph. D. diss., Columbia, 1969.
to his young confidante Venetia Stanley mentioned the assassination in Sarajevo in a letter of June 28 and did not bring up the Balkans again until July 24.  

Both the Liberal prime minister and the Tory opposition remained focused on the question of home rule for Ireland which the Liberal government had proposed and which the Tory opposition resisted with calls for popular resistance and support for the armed Unionists militias. In Britain, until late July, war meant civil war at home, not war on the continent.

An air of normalcy pervaded the City, the thought of a European war remote. As the British political elite fears centered on the consequences of the Irish debate, the City worried about events in Latin America. The House of Rothschild, renowned for its legendary intelligence service, barely concerned itself with events in the Balkans. In the constant communication between the Houses in London and Paris, the Balkans were mentioned in only five letters – their principal concern was the forthcoming loan to Brazil. On July 22, the eve of Austria’s ultimatum to Serbia, Lord Rothschild wrote his cousins in France:

As far as we are concerned at New Court, Brazil and Brazilian Finance absorb most of our attention .. So far as Austria and Serbia are concerned, nothing definite is known about an Austrian ultimatum, but I rather fancy the well founded belief in influential quarters that, unless Russia backed up Serbia, the latter will eat humble pie and the inclination in Russia is to remain quiet, circumstances there not favouring a forward movement.

The House of Rothschild was not alone in their concerns about events in Latin America. The Anglo-American firm Morgan Grenfell feared a “possible default of Brazil, which would be

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57; Jenkins, Asquith, 324.


7 See chapter TK for more on Irish home rule and politics in Britain on the eve of war.

very serious, not only on the holders of Government bonds, but on those of the smaller States, and the railroad and other securities.” They also worried about the “shortage of remittance .. for the service of the 1910 and 1913 Loans (to Mexico) and the seizure of the Mexican Customs at Vera Cruz by the United States.” In the Morgan Grenfell Archives and the daily letters to Morgan New York, their clients and to corresponding banks, there is no mention of the Archduke, Serbia or impending war until the crisis fully erupted during the week of July 27. At Barings, Gaspard Farrer, wrote on July 24 “Our preoccupation has again been Argentina.” The first mention of the Balkans and the crisis unfolding there was seen through the prism of Argentina. As Farrer noted in the same letter “The Germans [stated] that they could not contemplate any association with us in a funding operation for the present, and indeed since receipt of their letter it has become apparent that the Near Eastern question is too serious for anyone to think of entering into fresh engagements.”

After its initial comments on the murder, The Economist mentioned events in the Balkans only by way of explanation for the declines in the Vienna and Berlin stock markets. The July 18 issue declared “Happily for the peace of Europe, the excitement is cooling down, and in the last day or two there has been a recovery on the Vienna Bourse.” The featured article in the July 25 issue concerned the king, home rule (for Ireland) and The Economist’s view that the Times in prematurely revealing the king’s plans for a conference on the subject acted in an unpatriotic

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9 Edward Grenfell, Private Letters Book #11, June 25 1914 to Jack Morgan (re: Brazil); June 26 to Banque de Paris et des Pays Bas (re: Mexico), MG Archives, Morgan Grenfell Deutsche Bank.

10 Morgan Grenfell Archives at Deutsche Bank and Guildhall Library Manuscript Division.


12 The Economist, July 18, 116.

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There were hints in the financial pages about anxiety and selling on Continental exchanges but these comments take on significance only in retrospect. In the days leading up to the Austrian ultimatum the financial reports noted selling emanating from Vienna on the Berlin exchange. But the reports of German selling of Canadian railroads was counterbalanced by accounts of buying on Wall Street and by alternating good and bad news from London on the Ulster crisis.

In Britain, in the month after the murder in Sarajevo, the financial elite of the City of London continued to be concentrated on their overseas (transoceanic) trade and investment. The political elite in Britain preoccupied by the threat of civil war at home, but in Vienna and Berlin the murder provided an immediate jolt that focused plans for war.

**War in Europe: Austria and Germany Plan for War**

Within days of the murder of Franz Ferdinand on June 28 the Austria-Hungarian government secretly resolved to settle the Serbian question once and for all: they prepared for war and wanted it over quickly so as to present the world a *fait accompli*. They had sought and received the blessings and the unqualified support of their German ally. Within days of the assassination the Kaiser wrote emphatically on the margins of a Foreign Office memorandum that it was “now or never” — “the Serbs must be disposed of, and that right soon!”

By July 11 the Austrians had fixed the timetable for the actions against Serbia: as the French president Poincare was to visit Russia, the thought was that the *demarché* must be delivered either before or after his visit. Since the Austrian army was on leave for the harvest it had to be the later date. The German ambassador to Vienna telegraphed Berlin “It is advisable to wait until M.

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Poincaré’s departure from St. Petersburg before carrying out the demarché at Belgrade [the Kaiser wrote in the margin: “A pity”]... It would also be a good thing if the toasts were all over before the note is delivered. Thus, the delivery will be able to take place on 23 July.”

The Austrian army believed it had to strike quickly to avoid the threat of mediation and to act before the vast Russian army had a chance to mobilize. The need to strike, with little warning, and an inability to do it at that moment led the Austrians and Germans to devise an elaborate smokescreen to lull the world into believing there would be no war. On the advice of the chancellor the Kaiser went on his holiday cruise to Scandinavia; the German chief of staff Moltke already on vacation was advised to stay there; his second in command went on vacation on July 8 but was “ready to jump” as soon as the attack was to begin and the German generals all returned to Berlin on July 25. The German chancellor urged the German press to keep anti-French polemics at a minimum. The ambassadors of Austria and Germany were told to remain in London, Paris and St. Petersburg even as the ambassadors from those countries were assured nothing was going to happen during the summer. In Vienna the Austrian Chancellor advised General Conrad “It would be a good thing if you and the Minister of War would go on leave for a while, so as to keep up an appearance that nothing is going to happen.”

The ruse worked for the British government continued their concentration on Ireland, the French president proceeded on his trip to Russia, and the Russians celebrated in St. Petersburg with their French guests.

15 (DD I, 50 in Albertini, II 177); see also Geiss 108-9 DD 34a and report of the German ambassador to secretary of state: “The question was now, at what time would it be best to deliver the note. He believed that it would not be advisable to deliver the note at the time when Mr. Poincare was in St. Petersburg, and thus give the French and Russians the opportunity of discussing their attitude together in St. Petersburg [before or after]. The latter date might perhaps be preferable on account of the fact that at that time the harvest work in the Monarchy would finished.”

16 Geiss, July 1914. The Outbreak of the First World War: Selected Documents 89-91.
When the Austrians sprung their surprise, it unleashed a financial storm that overwhelmed the international financial system, shutting down the London financial markets. It hit the City of London “like a bolt from the blue,” wrote a Barings banker adding, “No one was prepared. I do not see how it is possible to guard against such a general cataclysm as we have had, but it is none the less mortifying in the extreme to find how instantaneously the credit edifice which we have been building for generations could tumble to pieces in a night.” The London financial journalist Hartley Withers wrote a few months later, in the first book-length account of the collapse. “It came upon us like a thunderbolt from a clear sky.” 17 Writing decades later, renowned economic historian Sir John Clapham shared this judgment: “There is no reason to think that the Bank of England or anyone in it anticipated war in a fortnight, or indeed war at all, on 20 July 1914. Three days earlier the Chancellor of the Exchequer [Lloyd George] at dinner with the bankers, had told them brightly that there were ‘always clouds in the international sky,’ and that there were clouds ‘even now.’ But he was confident that we should ‘pull through the difficulties’, which were, he said, less serious than those of a year earlier. Bankers did not always trust that Chancellor; but every instinct and wish would encourage them to believe him. With its 3 per cent, the Bank remained in organization and spirit Victorian.” 18 When news of the Austrian ultimatum reached London the financial results, as *The Bankers’ Magazine* reported were “immediate and stupendous.” 19

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19 *The Bankers’ Magazine* (London), September 1914, 321.
The merchant bankers and brokers of the City were stunned. Edward Grenfell wrote “We are up against the most remarkable financial complications the world has ever seen and my senior colleagues at the Bank of England who remember the panics of 1857 and 1866, can give us no precedents as rules to work on, and all this for an insane quarrel between two countries both of whom we consider to be in the wrong.”

The *Economist* declared in its lead article on Saturday August 1: “Old men in the City declare that they have never seen anything to compare with this sudden chaos. The whole machinery of international credit has been dislocated, regular exchange operations are at an end, the discount market is in utter dismay, and the Bank of England after raising the rate to 8, was working at 10 or 10½ per cent. It was currently reported that an embargo had been placed on the export of gold. The closure of the Stock Exchange made securities unsaleable. To protect themselves the banks called in their loans to the discount market. The Bank was called upon to finance the brokers.”

Economic historians often pass over this crisis in their accounts of financial crisis. More often than not, histories of financial crisis go from the panic of 1907 to the stock market crash of 1929 skipping over the events of July 1914 entirely. One reason, perhaps, for the relative lack of interest in the events of July 1914 is that they are viewed as an extension of a political event – the beginning of World War I and not as an economic event with distinctly economic causes.

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21 *Economist*, August 1*, 1914, “8 Per Cent.”


23 The final transfer of financial leadership from Amsterdam to London, the *coup de grace*, was affected by the French Revolution. Like the fall of London as the capital of capital, so the final fall of Amsterdam is inextricably linked to political events.
Accounts of the July 1914 crisis as part of the war story are problematic in that they obscure relevant information by conflating the crisis with the beginning of the war. They ignore the exact chronology: the crisis crippled the global credit system before Britain was in the war, before Europe was at war, and even before British political leaders believed there would be a war in Europe or that Britain would be going to war. The financial crisis ran ahead of the diplomatic-military-political crisis. Did the markets really know something the political leaders did not? Hindsight confuses. We know, as the British did not then know, that within another week Britain would be at war, a war that would bleed Britain and transform it from the world’s largest creditor into the world’s largest debtor. In the historical accounts that conflate the financial crisis and the beginning of the war, the interesting question of why the markets collapsed in London before even the most pro-interventionist British leaders thought there would be a war is not investigated.24

Over the weekend, from Friday, July 24 when London learned of the Austrian ultimatum until Monday, July 27 the financial markets reacted to one reality – massive Continental selling of shares and panic in the market for bills of exchange (the transaction vehicle for international trade). The political leaders in Britain and the British press remained focused on the Irish crisis at home. Even those political figures most acutely aware of the danger of a war expanding from the Balkans to the entire Continent felt confident that Great Power cooperation could restrain the antagonists in the Balkans and, if not, could contain the conflict from spreading to the other Great Powers.

Whereas the full drama took a week to play out – the closing of all the major stock exchanges in the world and the collapse of international trade finance – the die was cast over this

24 A number accounts note that the full effect of the crisis hit the City before armies actually were fighting. The claim made here is broader: the crisis hit London before the British leadership believed there would be a war and before they believed, if there were a war, Britain would be in it. In this compressed time period, events moved quickly.
first weekend. All was “normal” in the London markets on Thursday, July 23 but the trouble began instantly when news of the Austrian ultimatum became known on Friday July 24. By Monday, July 27 international trade finance received a mortal blow, sterling bills were almost unattainable. The British political elite was calm in the face of the storm; the financial markets floundered on the rocks of bankruptcy.

The Political World Focuses on Ireland and Hopes for Great Power Mediation in the Balkans

What were the political leaders in London thinking and doing over that first weekend in reaction to the events in the Balkans?

On July 27, the big political news of the day continued to be Ireland and remained so well into the week. The attentions and the actions of prime minister Asquith belie the impression that the Austrian ultimatum immediately changed everything within the political world of Britain. The Balkans or the Near East turned the attention of the cabinet toward Europe but the surprise is how often Ireland kept coming up.

With the failure on July 24 to find a compromise on the question of home rule, King George V adjourned the Conference and Asquith went to meet with the cabinet. Afterward, Asquith went to the House of Commons to inform members about the failure of the Buckingham Palace Conference and to announce that the Amending Bill would be taken up on July 28. He did not mention the Austrian note or events in the Balkans.  

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25 Amending Bill. In an attempt to mute the vociferous (and potentially violent) opposition to Home rule by the Unionists (as described in chap. TK), the government introduced a bill in the House of Lords on June 23 providing that six counties in Ulster could opt out of Home rule (remain tied to Britain) for six years. The bill failed to quell Unionists’ opposition, hence the king’s call for a conference at Buckingham Palace. This conference ended in failure on July 24. At a cabinet meeting following the breakup of the Conference (at the meeting in which the cabinet learned from Foreign Secretary Grey of Vienna’s ultimatum to Serbia), the cabinet voted to introduce the Amending Bill in Commons on July 28. J. E. Lindsay, “The Failure of Liberal Opposition to British Entry Into World War I” Ph. D. diss., Columbia University, New York, 1969. 58, 60.

26 Ibid., 61.
After the meetings of Friday the cabinet dispersed to their country homes for the weekend. In Commons, Ireland, the question of Home rule, the terms of and passage of the Amending Bill continued to hold center stage. For the political world in London the possibility of Britain going to war was by no means front and center.

Edward Grey’s initial efforts were to limit the conflict by enlisting the aid of Germany to restrain Austria. Grey remained hopeful that even if Austria moved against Serbia it would still be possible to urge Austria to stop its advance and for Russia to stop its mobilization though it was “essential for any chance of success for such a step that Germany should participate in it.”

Grey told the Germans that only Britain, Germany, France and Italy – working together with Austria and Russia could stop a war between the Great Powers. If the ultimatum did not lead to a conflict between Austria and Russia, he had no concerns. Yet given the nature of the ultimatum Grey told the German ambassador, he doubted Russia could resist the pressure to come to Serbia’s aid. Germany and Britain had cooperated in limiting the wars in the Balkans in 1912 and 1913; the earlier Balkan wars were the template for Grey’s action now, thus “until the end of July 1914 Grey was waiting for Berlin to solve the crisis ...relying on Germany to restrain Austria.”

The only other cabinet member directly reacting to the news from Vienna was Winston Churchill, First Lord of the Admiralty. Churchill sprang to action, meeting on Saturday with the First Sea Lord Prince Louis. During the previous week the fleet had assembled and held

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27 British Documents on the Origins of the War 1898-1914, edited by G.P. Gooch and Harold Temperley, London, H.M. Stationary Office, 1926)XI, Foreign Office Documents, June 28 -August 4, 1914. Hereafter BD ,XI , Grey to Bertie, No. 98, 24 July, p. 77. Grey was not alone in expecting the assistance of Germany in restraining Austria. In its first comments after the murder of the Archduke, July 4, 1914, the Berlin Correspondent in The Economist stated: the moderating counsels of Germany, which were of such importance during the Balkan War, are certain now to have even greater weight than before.


maneuvers. As the king watched from his yacht a procession of warships 22 miles long sailed past. It was the largest fleet ever assembled in British waters.\(^{30}\) On Saturday July 25 the reservists were already on their way home but the First and Second Fleets were complete and concentrated in Portland where they were to remain until Monday morning at which time they would begin dismissing their crews at their various home ports. That night Churchill believed Serbia would accept the Austrian demands and the entire crisis would blow over. The next morning he learned this was not the case. Churchill told Prince Louis that he would meet him in London at nine that evening but in the interim do whatever he thought necessary. When Churchill arrived at the Admiralty he learned that orders had gone out telling the fleet not to disperse. Churchill acted, as he later wrote, “to make sure that the diplomatic situation did not get ahead of the naval situation, and that the Grand Fleet should be in its War Station before Germany could know whether or not we should be in the war, and therefore if possible before we had decided ourselves.”\(^{31}\)

On Sunday evening, July 26, word came to London of a shooting incident in Dublin. The British army, returning to Dublin after attempting to intercept arms being smuggled into Ireland was stoned by a crowd. In response the army fired on them killing three and wounding thirty-eight. The Unionists were outraged by the gun-running, the Republicans by the shootings. The Republicans charged lenient treatment, even encouragement by senior officials in the British army to arm the Unionist militias in Ulster. In the cabinet meeting on Monday, Ireland was the first order of business, but the war had become the main topic. Discussions about the war in the cabinet meant, at this stage, exploring ways that Britain could act as a mediator and spur talks among the Great Powers to alleviate war, and failing that, the spread of war. The bitter feelings

\(^{30}\) “The Naval Might of Britain” *Times*, July 21, 1914,

\(^{31}\) Churchill, *World Crisis*, 211 his italics.
between the two political parties had not abated. In Commons that evening Asquith wrote that he had “never known B. Law more offensive or the Tory rank & file more ill-mannered & irritating.”

Also on July 27 Sir Arthur Nicolson, Permanent Under Secretary of the Foreign Office, sent out formal proposals for the four-party conference. That same day Grey in the House of Commons had stressed the danger of the conflict expanding; if it spread, he hoped that the Great Powers could again mediate the situation. He feared that if a war “becomes one in which another Great Power is involved, it can but end in the greatest catastrophe that has even befallen the Continent of Europe at one blow.” But when asked if “the German Emperor accepted the principle of mediation which he [Grey] proposed?” Grey responded, “…the German Government are favourable to the idea of mediation” but he had not yet heard if they are favorable to the particular proposals.

Even more compelling evidence that British political and military leaders discounted the probability of war was the opinion of General Henry Wilson, Director of Military Operations, the architect of secret Anglo-French military plans (secret that is from the British cabinet). Wilson and Grey had the most detailed involvement in these plans so if a British investor were privy to Wilson’s opinion, that investor would have gotten it all wrong. Wilson wrote in his diary that day; “A lot of dispatches all day, but no sign of Germany mobilizing, so I think there will not be any war.”

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32 Letters, no 107, July 28

33 Parliamentary Debates, House of Commons, July 27, 1914, in BD, #190, 131-2

34 C.E. Callwell, Field-Marshall Sir Henry Wilson: His Life and Diaries, v.1 (London: Cassell, 1927). As events moved quickly, so did General Wilson’s opinion. The next day he noted the Russians mobilizing 16 Corps but that the Germans still were not moving. Not until the thirtieth did he write “The news is all bad to-day and war seems inevitable.” But, war on the Continent did not mean war for Britain. Wilson suspected that “the Cabinet is going to run away.” 152.
On July 27 Lloyd George told C.P. Scott that “there would be no question of our taking part in any war.” Scott was the editor of the strongly anti-interventionist *Manchester Guardian* and it is not clear if he just heard what he wanted to hear or if Lloyd George told him what he wanted to hear.

Not until Wednesday, July 29, did the prime minister’s attention shift from Ireland to Europe. It was then that the cabinet had its first meeting devoted entirely to the war crisis. Although that did not mean the issue of Ireland had been totally displaced. As late as Thursday Asquith was in the cabinet room going over maps of Ulster and working on his speech on the Amending Bill (amending the Home rule Bill). The Unionist-Tory leadership also remained focused on Ireland. At the end of the week, even as all the armies of Europe were massing for war, the future Lord Beaverbrook spending the weekend in the country with Bonar Law and Edward Carson (Unionist and Tory party leaders) was struck by “a reluctance to turn from Ireland to confront the realities of war.”

Asquith wrote daily or twice-daily letters to Venetia Stanley. These letters chart Asquith’s changing sense of the likelihood of war. The letters are odd, the tone belying his words as he warns her of great danger and then backs off to move onto other subjects. On July 24, he writes “We are within measurable, or imaginable distance of a real Armageddon, which would dwarf the Ulster & Nationalist Volunteers to their true proportion. Happily there seems to be no reason why we should be anything more than spectators. But it is a blood-curdling prospect – is it not?” The next day, he notes, “There was a curious lack of excitement in the political atmosphere: the only

35 Lindlsey, 65, n. 11.

36 *Letters*, July 30, 110, 135-6.

agitated person seemed to be Winston, who is meditating either a speech or a letter (I don’t know which) on the situation.” On Sunday, July 26, he writes about home rule and Ireland and adds that “Russia is trying to drag us in.” Even when alluding to the dangers of war, it is seen as a relief from Ireland, the problem that really plagues him: “Anyhow it is the most dangerous situation of the last 40 years, and may have incidentally the good effect of throwing into the background the lurid pictures of ‘civil war’ in Ulster.” Unfortunately for Asquith “the shocking news from Dublin” later that day returns Ireland to the center of his attention. On Monday, July 27, he writes “when things looked rather better, Winston exclaimed moodily that it looked after all as if we were in for a ‘bloody peace.’”

Actions matter and over this particular weekend only two members of the Cabinet took actions in response to the potential for war, Grey and Churchill. In the cabinet meeting July 27, Grey reported on his attempts for a four-power conference and the cabinet approved Churchill’s action in postponing the dispersal of the fleet. In anticipating a general European war the cabinet agreed to consider at its next meeting “our precise obligations in regard to the neutrality of Belgium.”

Asquith’s mixture of apocalyptic and glib comments must be considered in the context of his conviction, until the very last that he could not bring his party and his government into a war in Europe, if in fact there were to be a war. On August 2, after war had been declared by the Continental major powers and Britain stood aside Asquith still believed that “a good 3/4 of our own party in the H. of Commons are for absolute non-interference at any price.”

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39 Asquith to King, Memo on July 27 meeting, dated July 28, reprinted in J.A. Spender and Cyril Asquith, Life of Herbert Henry Asquith, vol. 2., 80-1

40 Letters, # 146.
Liberal political leaders did not believe their cabinet would approve of war; the Foreign Office, at least in the first few days, believed they could, once again, gain Germany's cooperation in restraining the antagonists and failing that, limiting the conflict; and Ireland continued as a prime focus for the leaders of both parties.

As telling as any actions – or lack of actions on the part of the government, or attitude of government officials as to the possibility of war – was the attitude of the most prestigious pro-intervention, anti-German newspaper of London, *Times*. Forever bellicose and thundering for war, the *Times* did not feature the European situation in its principal news column until July 27, under the head, “Peace in the Balance.” 41 When, finally, the *Times* recognized the possibility of war, the markets, as we shall describe below, were already careening toward disaster.

So the puzzle is why did the London markets act in as violent fashion to the threat of war when those in power discounted that possibility or displayed little sense urgency? (That is, with the exception of the highly energized Winston Churchill). To further elaborate this puzzle there is the contrast with July-September 1911 and the ‘leap of the Panther to Agadir’ a war panic that did not result in a financial panic.

**1911: War Scare: Stock Market Declines but No Global Financial Crisis**

On July 1, 1911 Germany sent a warship, the *Panther*, into Moroccan waters precipitating an international crisis of such gravity that historians generally agree the event marked the closest Germany and Britain had come to war before August 1914. In 1911 the war scare focused on Anglo-German tensions in 1914 the (initial) war scare centered on the Balkans and the possibility

discounted by many – that it could spread to the Great Powers.

Volker Berghahn, in his history of Germany leading up to World War I, states: “By the end of August and the beginning of September 1911 the [German] press was full of reports that war with England was imminent. The war-psychosis reached a climax.” A. J. P. Taylor in his classic The Struggle for Mastery in Europe wrote “The crisis of Agadir was a more serious affair than either the first crisis over Morocco in 1905 or the Bosnian crisis in 1909. Preparations for war had been made by England, though none by the continental Powers... . The conflicts of 1905 and 1909 had been crises of diplomacy; in 1911 nations faced each other in a ‘pre-war’ spirit.”

In the midst of this crisis Lloyd George made his widely noted speech at Mansion House (City Hall in City of London) in which he shed his mantle as an opponent of British military expenditure and adventure and issued what was widely viewed as a threat and an appeal to national honor. He said “If a situation were to be forced upon us in which peace could only be preserved by...allowing Britain to be treated where her interest were vitally affected as if she were of no account in the Cabinet of nations, then I say emphatically that peace at that price would be a humiliation intolerable for a great country like ours to endure.” Lloyd George kept flogging the war threat. The next month he invoked the threat of war when he ended a railroad strike. In 1912 the Committee of Imperial Defence preparing for the possibility of war invoked August 1911 as

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43 The Bankers’ Magazine (London) vol. 92, pp 403-4, largely quoting the Times. Recent historians [cite] have dissented from the then contemporary view that the speech was directed at Germany. Even if true, the fact is, for our purposes, war was on the tongues of British leaders not heretofore identified as bellicose.

44 Taylor, Mastery, p. 473.
its example of a war crisis between Britain and Germany. The fear of war was so profound in Britain that at one point the South-Eastern Railroad was patrolled.

The war scare of 1911 had its financial consequences. Some historians credit the withdrawal of short-term French credits in precipitating a financial crisis in Germany that forced a German retreat. September 9, 1911 in Germany is referred to as “black Saturday” because of the sell-off in Berlin as a result of the war scare. What the “leap of the Panther” in 1911 did not do was cause a global financial crisis – its effects spread across Europe only as a downturn in the share prices and did not extend to the global trading system.

The London stock markets declined 2 percent from July 21 to August 21 with a focus on domestic and not foreign affairs. During the next month, at the height of the war scare and the financial pressure on Berlin, the market declined 1.5 percent. The July-August decline was blamed, as per a report in Bankers’ Magazine on domestic British events. In Parliament, the fight between Commons and Lords over the uses of the Lords’ veto power had reached a critical point in July. At the same time labor unrest caused an unprecedented number of strikes across

Note by Lord Esher, Appendix 26, Report and Proceedings of the Standing Sub-Committee of the Committee of Imperial Defense on Trading with the Enemy, 1912 (Printed for the Committee of Imperial Defense, 1913) 427-30. PRO CAB 16/18A.


Fritz Fischer, War of Illusions: German Politics from 1911 to 1914, 1969, trans. Marian Jackson (New York: W. W. Norton, 1975). Sir F. Oppenheimer, Britain’s astute consul in Frankfort, made reference to the 1911 German panic in a dispatch to the F.O. in the midst of the July 1914 crisis. He notes the traumatic effect the panic in 1911 had on the German authorities and that “Since the Morocco crisis (the middle of 1911) the whole financial policy of this country has been guided by only one consideration, viz., Germany’s financial preparedness in case of war.” BD. XI, p. 205.

July-August: The Bankers’ Magazine (London) 1911, 398; August-September, 534.

The Parliament Act of 1911 – see Chapter TK xxx. In short, the Liberal government passed a revenue bill in 1909 which was vetoed, against accepted norms, by the House of Lords. A crisis ensued in which there were back to back elections in 1910, both of which returned the Liberals to power. The Liberal government in 1911 revealed that if Lords did not approve the Parliament Act which would limit the ability of Lords to veto bills, the King would appoint a sufficient number of peers to the House to swamp the Tory opposition. A small group of Tories, the ‘die-hards’ organized to vote against the Act and further the

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Britain, first on the London and Liverpool docks and then against railways across the nation. At the high point of the political crisis and a point of maximum toll on the Berlin exchange, the London exchange declined, but less than it had the previous month. At no point was there fear or panic in the financial system.

In 1911 the political rhetoric of the British leaders was more inflammatory than their utterances over the first weekend of the war crisis in 1914. The puzzle is that in 1911 the British markets did not panic in reaction to the German actions or the British rhetoric; in 1914 with seemingly less threatening provocation, the markets collapsed. Why the markets ignored the war scare in 1911 but reacted with panic in 1914 has no crystal-clear answer. A partial explanation is that after the scare in 1911 the possibility of war between Germany and Britain seemed more real. In 1911 the political shock of the near war jolted joint war planning between France and Britain.

E.M. Forrester in his 1910 novel *Howard’s End* provides another clue. One of his characters says: "The remark would be untrue, but of the kind which, if stated often enough, may become true; just as the remark ‘England and Germany are bound to fight renders war a little

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51 The literature on these discussions is vast. The principal primary source is Committee of Imperial Defence, Minutes of the 114th Meeting, August 23rd, 1911, PRO 38/19. At the same time the Committee held hearings on the economic consequences of war with Germany and took testimony from leading bankers, insurance company officials and various economic agencies of the government. See PRO: Report and Proceedings of the Standing Sub-Committee of the Committee of Imperial Defense on Trading with the Enemy, 1912 (Printed for the Committee of Imperial Defense, 1913).
more likely each time that it is made, and is therefore made the more readily by the gutter press of either nation.\textsuperscript{52} In 1914, more so than in 1911, threats of war, so endlessly repeated in some sections of the press, lent credibility to the idea that war might happen.

Lastly, in 1914 the Germans intended or at least were prepared for war whereas in 1911 they pulled back from confrontation. Although the British did not know of German intentions in 1914, perhaps German financiers knew or intuited something. In a section below we will examine how Continental selling contributed to an avalanche that put fear into the City’s heart and caused City bankers to take actions that created the financial meltdown.

\textit{Financial Panic Paralyzes the City Before the War}

Whereas the Austrian ultimatum to Serbia, the trigger for the beginning of the World War, was made on July 23, the British Foreign Office remained hopeful that Great Power intervention would again, as in 1912 and 1913, avert a wider war in the Balkans and British political leaders concentrated on the great domestic issue of home rule for Ireland and averting civil war in Ulster. With this background we turn to financial events in London from July 24 to July 27 and a description of how the markets reacted with alarm while the British political leaders did not.

On Thursday, July 23, the day before London learned of the Austrian ultimatum all was normal in London. Interest rates had tightened with concern about the political situation at home and abroad, but the markets functioned without problems, and the pound was within its historic range.\textsuperscript{53} On July 22 Lord Rothschild was still focused on Brazil; on July 24, after word of the


\textsuperscript{53} On June 22 before Sarajevo, bankers’ deposit rates stood at 1 ½% and the deposit rate at discount houses at 1 ⅔% ; on July 23\textsuperscript{rd} the day before the world learned of the Austrian ultimatum, these respective rates were at the same level as before Sarajevo but day to day loans had risen to 2%. Cable traded at $4.88 ¼ - ¾% before Sarajevo (on June 20) and a month later, on July 22, cable traded at $4.88 ¼. On July 23 it had risen to $4.88 ¼ 4.89 and it remained at level for Friday and Saturday (a half day on the Exchanges). By Monday, July 27 it was at $4.91 ¼ bid. the \textit{Times}, “Money Market”, respective dates.
Austrian ultimatum was received he was still rather sanguine since he did “not suppose that Russia could obtain a loan if peace were disturbed. The Austrian government has presented its demarche or ultimatum and is to be hoped that Sevia will give every satisfaction.” If Russia could not come to Serbia’s aid the worst that could be expected was a local war between Austria and Serbia. By Monday, July 27 he had written his cousins “No one [in the City] thinks and talks about anything else but the European situation and the consequences which might arise if serious steps were not taken to prevent a European conflagration.” 54

For Edward Grenfell the response was immediate. He wrote on July 24 “To-day has been one of the most depressing days in the Markets here, Berlin and Paris that I can remember.”55 In its Saturday weekly, *The Economist* reported from Berlin “The Austrian Note has disorganized markets, and heavy falls have occurred, despite intervention from the banks. Some Russian and Austrian stocks have fallen 12 per cent, and many home stocks 10 per cent.”56 The financial panic had already cut across the City. Gaspard Farrer, a leading merchant banker at Barings recalled a fortnight later, “The 25th was a Saturday and by chance I came to the City and learned that some of the foreign bill brokers were offering large lines of the finest bank acceptances at 3 1/8 without finding buyers; obviously someone had taken alarm.” 57

On July 27 Barings told its associated bank in New York, Kidder Peabody & Co. “Do not buy long bills for the present will keep you advised.” The next day it reported “business

54 Rothchilds Archives London, XI 130A/8, to his Cousins, respective dates.


56 *Economist*, July 25, 1914, 158.

57 Correspondence Book Gaspard Farrer, Barings, 1914, to Robert Winsor, Esq. Messrs Kidder Peabody & co., Boston, August 7, 1914  My emphasis.
is confined to very narrow limits. Discount nominally 4% to 4 ½% but not freely working.” By Wednesday, July 29 Barings reported to Kidder “Stock Exchange by common consent refuses to make prices or press sales especially on orders from the Continent. (Stop).” And later they telegraphed: “Strictly confidential. do not sell cable political news very grave.”

It was not that the markets were clairvoyant or perfect. As the crisis was building on the Continent, London bankers were as sanguine as British political leaders. Only on that fateful weekend did their perceptions diverge on the possibility of war and severe disruption.

Why, then, did panic hit the City of London even as their political and military leaders in Britain were not only convinced that Britain would not participate in the war but were still hopeful there would be no war? With hindsight, one can see the buildup of selling on the Continent in the days before the Austrian ultimatum. The attitude and fears in Europe were obviously different than in Britain and the selling began earlier and heavier abroad, in Europe. A Manchester Guardian headline reported on July 27 “Continent Floods London with Selling Orders.” Continental speculators were selling Canadian railroads, Rio Tinto copper, Peruvian Corp, and Brazilian Traction. The story went on to say “It may seem strange to those with no knowledge of the Stock Market that South American bonds and English industrial shares should fall heavily because of the threat of war in Europe, and stranger still that prices fall in face of the fact that few shares change hand.” More problems were anticipated “as settling day is close at hand and bill losses will have to be met.”

Although the British papers reported financial distress on the Continent for at least ten days before the Austrians revealed their intentions, the market reports were generally confined to

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58 Barings, Special File, July 1914: War, European Situation, etc., (Baring ref. no. 200821)
the sections of foreign bourses, with little comment or attention to the impact it might have on London.

The foreign stock markets declined, roughly, in the order in which their nations went to war with Vienna leading the way down, followed by Berlin and then Paris and St. Petersburg.

On July 13, ten days before Vienna delivered its ultimatum, the Times reported from Berlin, a “heavy slump” on the Vienna exchange had depressed the Austrian specialities on the Berlin market. The next day the paper reported a bad session in Berlin owing to a break of Canadian Pacific. The sell-off in the Canadian rail stock was alternatively explained in coming days by reports of a poor Canadian harvest and as a result of German selling given their heavy ownership in that stock. By July 20 reports from Berlin noted that “a flood of selling orders, mainly from the provinces, gave markets a panicky appearance in the opening hour. The Vienna Bourse was reported to be thoroughly demoralized in view of Austro-Servian contingencies, and the usual Vienna favourites touched new low ‘records.’” The July 25 Economist had reports from Berlin and Vienna datelined earlier in the week before London felt the panic. A dispatch from Vienna, dated July 21, told of falling prices on their exchange: “The newspapers are largely responsible for the nervousness of the financial world. In a Sunday leader the Neue Freie Presse depicted the incalculable consequences of war in colours of Oriental brilliancy.” It went on to note “A few days ago the Bourse was pacified by the announcement that both the War Minister and the Chief of the General Staff had started on their summer holiday. To-day we are informed that both have returned to Vienna, almost on the very day when they arrived at their destination in the

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60 The heaviness of the Vienna Bourse, in consequence of the strained relations between Austria and Servia, had an unsettling effect on other Continental bourses, and there were rumours of financial difficulties in Berlin and Brussels...Berlin operators offered Canadian Pacific shares with great freedom, with the result that the quotation fell to the lowest level recorded for several years past; the late rally in these shares was due to American buying.” Times, July 15, 1914, Stock Exchange, 21.

Tyrol.” From Berlin a dispatch dated July 23 declared that financial panic spread from Vienna to Berlin with “securities dependent on Vienna ... have been the chief suffers since Sarajevo.”.  

The secret planning of the Austrian and German governments for a military surprise spilled over into the financial world in Vienna and Berlin as the stock market watched the comings and goings of the leading generals. The question was, how much of the information spilled out directly from the military to the financiers – were the German and Austrian capitalists given fair warning? One does not have to believe the assertions of the American ambassador to Turkey Henry Morgenthau Sr. (I do not) that the Kaiser specifically granted German financiers two weeks in which to sell their stocks in order to accept that there was a leak and some were moved to panic. Other scholars with far better knowledge of Germany and Austria must address this question.

The Continental selling took on added significance in that the fortnightly settlement was on Wednesday, July 29. That is the day when funds borrowed to purchase stock had to be repaid. Leverage or buying on margin was of a different order of magnitude in 1914 than is common or legal today – press accounts refer to speculators being given loans on their shares of between 80 and 90 percent of their value. Therefore it did not take great price declines to transform an asset, owning the stock on margin, into a liability. By the end of the week the London stock exchange,

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63 A modern reader must wonder, particularly after the most recent Lebanon war in which the IDF chief of staff paused to sell his stocks before ordering the bombing campaign against Lebanon. I do not know enough about the relations between the Austrian and German military and their financial holdings to venture a guess about a “Halutz” effect – that is the military front running their military plans with sales in the markets.


measured against its level ten days before on Bankers’ Magazine’s 387 representative stocks, had fallen 5.6 percent for a net depreciation of £187,992,000. The decline in those ten days from July 20 to July 30 (the Exchanged never opened on July 31) exceeded that of any single month in its history. The magnitude of the fall must be viewed through the prism of the leverage used. At some point the Continental sell-off, particularly with the prospect of the settling day so near, went from a slide in Europe to an avalanche in London.

John Maynard Keynes had an explanation, which he articulated in Economic Journal in September 1914. This article was his first, or among his first, published on a liquidity crisis, the subject for which he is known today, and it provides an interesting footnote in the history of Keynesian economic thought. Many of his themes, and even his phraseology, have become part of the standard accounts of the July 1914 financial crisis. He states that the “first blows of the crisis fell upon the Stock exchange.” He argued against the idea that foreign selling caused the crisis and the ultimate closing of the Exchange, rather attributing its problems to the inability of foreigners to meet their liability for past purchases and on the action of the joint-stock banks. Keynes argued that it was not sales by foreigners that created the crisis but the prior purchases that they were unable to pay for because of “complete or partial moratoria declared in foreign countries.”

His account on the breakdown of trade finance followed the same tact, namely the inability of foreigners to meet their financial obligations to London. In the most oft-quoted section of his article he describes the consequences of the breakdown of the remittance system:


The Banks, we have seen, are depending on the Accepting Houses and on the Discount Houses; the Discount Houses are depending on the Accepting Houses; and the Accepting Houses are depending on foreign clients who are unable to remit. The aggregate value of the outstanding bills in London is of huge amount, estimated by some at £350,000,000, of which many pounds’ worth fall due every day; and for a substantial part of this foreigners are ultimately responsible.\textsuperscript{68}

At the time he wrote this Keynes worked as a consultant to the Treasury. He is fulsome in his praise for the Chancellor and the Treasury and upbeat in his assessment for the longer financial health of Britain. There is, however, a villain in this piece and it is not the foreigners who cannot meet their obligations but the British joint-stock bankers, the big banks (as opposed to the elite merchant banks) whose actions display a “lack of courage” and as “selfish” and “short-sighted”. Their culpability lay, in his view, in the big banks failure to give their customers more cover by rolling over their margin debt. He accused the banks of prematurely cutting off credit in order to cripple their merchant banking and trade house rivals. \textsuperscript{69} He attacked them for their “lack of courage, in the early days of the crisis .”\textsuperscript{70}

What is odd about Keynes’s description is that the merchant bankers, no friends of their rival joint stock bankers, did not, in public or private, heap this calumny on the banks. Lord Revelstoke (Barings) , for example, observed in a private letter “The factor primarily responsible for the present dislocation of credit is, without doubt, the almost total cessation of arrival of remittances from abroad.”\textsuperscript{71} Keynes in his first description of a liquidity crisis did not attempt a systemic analysis but rather put considerable weight on the personal failings of a few individual

\textsuperscript{68} \textit{Op. cit.}, pp 460, 462, 466.

\textsuperscript{69} Keynes, "War and the Financial System," 466-7.

\textsuperscript{70} \textit{Ibid}. 461.

\textsuperscript{71} Barings, Special File, July 1914: War, European Situation, etc., (Baring ref. no. 200821)
bankers. Furthermore, blaming the Banks skews the chronology of the crisis by placing emphasis on the settlement date of Wednesday July 29 (Problems in the bills’ market surfaced as early as Saturday, July 25 and by Monday acceptance houses had pulled back from rolling over credits) and over emphasizes the relative importance of the stock exchange as opposed to the breakdown in the bill market that underlay the world’s foreign trade. The emphasis on the settlements on the stock exchange underscores the importance, in his story, of the banks pulling back margin credit and therefore their culpability for the crisis.

Why does shift in the chronology and in blame matter? It matters because the liquidity squeeze first hit the acceptance houses, the elite merchant banks within the City and from their ranks came the governors and court of the Bank of England. Stock brokers, bill brokers and even the financially strong joint stock bankers were excluded from this magic inner circle. As this is the story of the clash of elites – the financial elite of the city and the political elite – it illustrates how early and how strongly was the financial elite demoralized. In the decidedly unequal fight over the question of war, the financial elite were crippled before the battle had begun.

The closing of the world’s stock exchanges that occurred over the course of the week culminating, on July 31 with London and then New York closing, is the headline event, something the reading public today can relate to since market values are far more present in contemporary consciousness than the intricacies of trade finance. Yet the keystone event of the crisis was the breakdown in foreign exchange that reflected and caused the breakdown in the credit system and that become manifest on Monday, July 27. The size of the bill market far outweighed credit for margin on the Stock Exchange (as Keynes estimated the vast size of credits as £350,000,000; the estimated size of margin debt outstanding in London was £80,000,000;
acceptance credits to Germany amounted to between £60 to £70 million) 72. The banks were the ultimate source of credit for both the bill market and the loans to brokers on the exchange.

As the political leaders in London continued to focus on the domestic crisis of Ireland or to hope that the greatest of the great powers (Britain working with Germany) could still control events, the pound sterling broke out of its historic range rising to a level never before seen. 73 On July 27, cable (sterling/dollar) was quoted as closing in London at $4.91 ¼. 74 Although the exchange system was open, quotations in the newspapers by midweek noted “all rates nominal” with extraordinarily wide spreads indicating the reluctance by dealers to trade. The Times reported cable at $4.92-98 on July 29th and $4.90-$5.00 on July 30th. 75

The Bankers’ Magazine recounted the events: “The financial results following Austria’s ultimatum, therefore, were immediate and stupendous. On Saturday, July 25, both the money and the stock markets in London became demoralized. Consols went down to 72 1/4, and everything else was lower in proportion. On the following Monday, July 27, panicky conditions became still more pronounced. Dealings in the foreign exchanges were almost impossible.” 76

A leading American monetary economist O.M. Sprague observed that on July 27 “the foreign exchange market was completely disorganized.” The system that evolved over years of peaceful practice “collapsed like a house of cards... [It] went to pieces the moment the outbreak

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74 Times, 28 July 1914, 19.

75 Times, 31 July 1914, 17.

76 The Bankers’ Magazine, September 1914, 321.
became at all probable.” 77 “The exchanges went in our favour,” wrote a leading financial journalist in London, “so violently that they broke the machinery.” 78

What is striking is how suddenly the crisis overwhelmed the financial system and how the problem it presented was so different – indeed the very opposite – of the problem the banks anticipated in the face of war. What was expected was a run on the pound (and on Britain’s gold) but what happened was a run to the pound. 79

The rise of the pound or the breakdown in the (foreign) exchanges indicated the unavailability of sterling bills of exchange. The bill on London, the international bill payable in sterling in London when guaranteed (“accepted”) by a reputable bank in London was the transaction vehicle for international trade. Whereas gold could be substituted for pounds and was substituted when the pound rose above its gold export point as it did on July 27, gold was not a substitute as a credit instrument; gold was a substitute for cash, not credit. Bills or acceptances performed a twofold function: they were short-term credits – usually 90 day credits – giving time for the importer or exporter to get cash for goods as quickly as possible and just as importantly enabling global trade among parties that did not know one another. When the trade finance system imploded, trade stopped.

London’s problem (and the global financial system’s problem) was London’s powerful position at the center of the global credit system. It “was so strong and so lonely in her


78 Withers, War and Lombard Street, 41.

79 For example, the principal financial concern addressed by the Committee of Imperial Defence’s subcommittee on Trading with the Enemy was the fear of a raid on British gold reserves. See PRO CAB 16/18A: Report and Proceedings of the Standing Sub-Committee of the Committee of Imperial Defense on Trading with the Enemy, 1912 (Printed for the Committee of Imperial Defense, 1913) France did withdraw its gold from London, but the greater problem, was the rise of the pound against nearly all other exchanges which created insurmountable obstacles for debtors to repay London.

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strength that her strength overcame her. She held the rest of the world in fee with so mighty a grip that when she said to the rest of the world, ‘Please pay what you owe me,’ the world could only gasp out, ‘But how can I pay you if you don’t lend me the wherewithal.’”⁸⁰ The virtuous circle that had enriched London, created a world market in grains and raw materials, built canals and railroads and steamships and telegraph systems that had made the world a global economy, had suddenly, over one weekend turned vicious.

The crisis intensified over the course of the week as the war news revealed that in fact there would be a European war. By July 31 Germany and Russia were mobilizing to fight. Within one week of the world learning of the Austrian ultimatum to Serbia on July 24, 1914, every major stock market in the world closed down. The reaction was sudden and simultaneous. The iconic stock market crash is 1929, but unlike that crash, in 1914 every stock market reacted, and reacted quickly to the same event and in the same way at the same time. Prices did not merely decline, markets closed. Trade stopped. Acceptance houses closed their windows and refused new business. The spiral downward in the last week of July 1914 revealed the dark side of global interdependence – global meltdown. It also revealed a disjuncture between the needs of the City as the hub of a multi-lateral trading network and the needs of a nation-state attempting to balance power in Europe. It proved difficult to be both middleman and top dog.

On July 31 it was not yet clear if Britain would be intervening in the European war. In their state of shock, the bankers and merchants of the City now had to confront the possibility of an even greater crisis than the one of liquidity that had paralyzed them. All of a sudden the merchant banking elite, supreme in its financial sphere, found itself without a voice in the councils of government on the question of war and peace.

Liberal Government Dismisses Fears of the Bankers

Liberal Party leaders brushed aside the concerns of the bankers on the most critical question the City of London had faced in its hundred years as capital of the global economy.\(^1\) Although party leaders had no doubt that the City clearly believed intervention in the European war would be financial suicide, they proceeded without any discussions with key City figures or consideration of the financial concerns they raised. The City was without any voice, dismissed as whiners.

Prime minister Asquith received news of the conditions in the City, made note of it, and then moved on. There is no hint of any effect of this news on his diplomatic or military plans. On Tuesday, July 28, Lord Rothschild brought Asquith news which the prime minister described as “ominous.” Rothschild reported he had received a secret message from his Paris house to “sell a vast quantity of Consols here for the French Govt & Savings banks, which he refused to do.”\(^2\) (In his letter to his French cousin and partner, Rothschild explained “what a deplorable effect would be produced if we were to send gold to a Continental Power for the purpose of strengthening itself at a moment when the word War is in the mouth of everyone.”). On July 30 Asquith noted “The City, wh. is in a terrible state of depression and paralysis, is for the time being all against English intervention.”\(^3\)

\(^1\) For a hundred years after Waterloo, the British Navy had rule the waves and the City of London had functioned as the capital of capital. A British statesmen is reputed to have said at the Congress of Vienna in 1815, in reply to a comment by a Prussian General “[Britain] is mistress of the sea and neither in this dominion or in world trade has she now a single rival to fear.” to which British statesman replied “we used to be first, now we are alone.” Quoted in Patrick Karl O’Brien, “The Pax Britannica and American Hegemony: Precedent, Antecedent or Just Another History?” in Two Hegemonies: Britain 1846-1914 and the United States 1941-2001, ed. Patrick Karl O’Brien and Armand Clesse (Aldershot, England & Burlington, Vt.: Ashgate, 2002) 9.

\(^2\) Letters, no. 108, p.131.

\(^3\) RAL XI/130A/8, 28 July 1914.

\(^4\) Letters, no 110. P. 136.
Asquith wrote to Venetia Stanley on July 31 that the attitude “particularly strong in the City -- is to keep out at almost all costs.”

Lloyd George’s supporter Lord Riddell noted in his diary on that same day that he had been told by the chancellor “All the bankers and commercial people are begging us not to intervene. The Governor of the Bank of England [Lord Cunliffe Governor 1913-18] said to me with tears in his eyes ‘Keep us out of it. We shall all be ruined if we are dragged in.’ Writing in his War Memoirs many years later, Lloyd George confirmed being told of the City’s opposition to British intervention: “On Saturday the Governor of the Bank of England called on me, as Chancellor of the Exchequer, to inform me on behalf of the City that the financial and trading interests in the City of London were totally opposed to our intervening in the War.” Lloyd George as Chancellor of the Exchequer was in closer contact with the City than any cabinet member. He was also the pivotal figure in assuring that Britain did enter the war – the remonstrations of the bankers and commercial interests notwithstanding.

A corollary of the political leaders’ lack of interest in the financial arguments of the financial leaders was the isolation of the City leaders from the political deliberations. Lord Rothschild, once the confidante of Prime ministers, was reduced to quoting newspapers or

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85 Letters, no. 111, pp.138-9


88 David Lloyd George, War Memoirs, Vol. I. (London: Odhams, 1938) 65 He goes on to say that by Monday, after the invasion of Belgium became known, there was a complete change, but he cites no banker in making this claim.

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referring to speeches in Commons, when giving his cousins news of events in England in the critical days of July.

As the most energetic “pro-Boer” opponent of the Liberal imperialists a decade before and the co-leader of the cabinet faction opposed to increased naval estimates (budgets), Lloyd George was the one cabinet minister who could organize and galvanize the anti-interventionist forces. At the critical moment, on August 2 and 3rd he chose not to do so. 89 Foreign Secretary Sir Edward Grey, on the other hand, was the most outspoken spokesman and the promoter of the alliance with France and the view that Britain must not “desert” France. 90 Yet, in all the writings of the inner cabinet – both their correspondence at the time and their memoirs published years later – only Grey expressed serious concern for the financial consequences of Britain getting drawn in. On July 31 he wrote to the British ambassador in Paris that the financial crisis “was exceedingly serious; there was danger of a complete collapse that would involve us and everyone else in ruin; and it was possible that our standing aside might be the only means of preventing a complete collapse of European credit, in which we should be involved. This might be a paramount consideration in deciding our attitude.” 91 Sir Eyre Crowe, the undersecretary of state in the Foreign Office, immediately upbraided Grey (in what Crowe described “as rather crude words”). Crowe minimized the financial crisis stating “At the opening of any war in all countries there is a commercial panic.” He deprecated the bankers’ counsels of caution “Commercial opinion is generally timid, and apt to follow pusillanimous counsels.” Crowe claimed that “the panic in the city has been largely influenced by the deliberate acts of German financial houses ..who are

89 The political deliberations within the British government on the question of intervention is the subject of the next chapter.

90 Churchill, World Crisis, I, 212.

notoriously in daily communication with the German Embassy."92 Francis Oppenheimer, the British consul in Frankfurt, had written a dispatch describing in detail the financial preparations the German government had made to avoid a repeat of the financial panic of 1911. Crowe added in a minute appended to the report that it was “a great contrast to the panic here. Germany is organized and the Government gives guidance and help.”93 The irony being that despite the elaborate plans of the British Army for the defense of France and the large sums spent on the naval arms race with Germany the government of the world’s leading financial power did not make any preparations for war and when problems arose blamed others for its failure. As historian John Claphan observed “The Committee of Imperial Defence had prepared that ‘War Book’ of which ex-ministers write; but there was no War Book at the Bank.”94

Grey did not mention the economy again until his fateful speech before Commons in which he argued successfully for British intervention in the war. (In a subsequent chapter I examine the accuracy of his statement – or prediction – that “we are going to suffer, I am afraid, terribly in this war whether we are in it or whether we stand aside.”95

Lord Rothschild attempted to get the *Times* to tone down the war drums. When the London stock exchange closed (for an indefinite period), on July 31, the same day Crowe complained about the “German financial houses,” Rothschild sent a request to the financial editor to visit him in his office where he implored him to stop the bellicose editorials. “These articles, ...were hounding the country into war. The City of London, he declared, was on the brink of a


93 Minute by Crowe, July 31, 1914, attached to Oppenheimer Dispatch, July 29, 1914, *BD XI*, No. 322.

94 Clapham, 32.

catastrophe such as the world had never seen. The only way to avert it would be for England to maintain strict neutrality.” The financial editor repeated Rothschild’s message to his editor and to the publisher Lord Northcliffe who asked the editor his opinion of it. He replied, “It is a dirty German-Jewish international financial attempt to bully us into advocating neutrality, and the proper answer would be a still stiffer leading article to-morrow.”

Both the Liberal press and the financial press argued against intervention. The *Manchester Guardian*, with ties to many in the Liberal party leadership, declared in its editorial of July 30 “We care as little for Belgrade as Belgrade does for Manchester.” City opinion – that of the economically significant cluster of merchant bankers, shippers, marine insurers, and stock brokers whose interests lay in overseas trade and investment – was reflected, two days later, on August 1, in an editorial in *The Economist* that declared the war in Europe “is no more of our making and no more our concern than would be a quarrel between Argentina and Brazil or between China and Japan.” *The Economist* argued that: “If a great war begins Russian mobilization will be the proximate cause. And we fear that the poisonous articles of the *Times* have encouraged the Czar’s government to hope for British support.” It stated that the drive for war was “utterly opposed to the feelings of the business community and to the instincts of the working classes.” And, it “deplored” Churchill’s “sensational orders to the Fleet” not to disband but to be put on alert.

The problems that a European war would create for the global financial system were predictable and predicted. The Committee of Imperial Defence had held hearings and solicited testimony on the question of the effect on the British economy of an Anglo-German war. Lord

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97 *Manchester Guardian*, July 30, 1914, 8

Revelstoke (Barings) testified before the committee in December, 1911, to the effect that a declaration of war between Germany and Britain “would create such chaos as would result in the ruin of most, if not all, accepting houses.” By “accepting houses” he meant all financial institutions that issued acceptances “the houses that accept the bill; those accepting houses now comprise nearly all the joint-banks.” Furthermore, he stated that “A war between any two European countries would have such an effect all over the globe that dealings would be just as difficult in Valparaiso as they would be in Peking.”

Every fiber of City life argued against intervention in the European war because as banker to the world and as middle man of world trade the City had everything to lose and nothing to gain from a war among its customers, its business partners, and literally its own family. The City did not oppose war from any pacifist or sentimental view, the City had been conceived and matured in war in the eighteenth century. It had not grown war weary, its business had changed. In the eighteenth century, as the next section elaborates, the City was banker to the military-fiscal state, its function was to finance the wars against the French. In the post-Napoleonic period the City had turned outward and became the hub of a multilateral trading network that encompassed the globe.

Economic motives and family connections underlay the instinctive reaction of the merchant bankers against intervention and created a world view that saw, in the age of laissez faire, peace and prosperity as intimately connected. The merchant bankers at the heart of a multilateral trading system had every material and ideological reason for opposing a European war. They opposed intervention for the reasons that Cunliffe stated to Lloyd George: “It will ruin
us all.” The bankers feared for both their own fortunes and for the world of trade and investment across boundaries in which they prospered. They shrank from intervention in a war that would divide their families.

Were they prescient about the costs – in money, lives, and political capital? There is little evidence that merchant banking elite had any particular insight about the duration or the cost of the war. In fact, one of the difficulties in writing about the merchant bankers’ attitude toward British intervention is the dearth of writing and speaking by the bankers on this subject. The divergence between the bankers’ dependence on peace and their relative inaction in the political sphere to insure the continuation of the world in which they had thrived in is striking. A world without boundaries was the world in which they lived and worked; in economic terms they worked at the hub of a multinational trading system that transcended nation states and therefore it was not foresight about the consequences of the war but sheer instinct that propelled their immediate opposition to Britain joining a Franco-Russian bloc in a fight against Germany and Austria-Hungary.

The merchant bankers focused on ... banking. The strength of the city was its links to the world by commerce and family connections, links that were nurtured over decades. War was bad for business; they were not industrialists, their bread and butter came from financial transactions and overseas investments. The city’s strength was also its greatest weakness – it was an island on an island – it connected more to Hamburg and New York and Buenos Aires than to most of England. As cosmopolitan capitalists they were as isolated from the provincial Liberal constituency that opposed intervention as they were from the nationalist political elite. A reasonable proportion of the City firms had hyphenated nationality – Anglo-German, Anglo-American; as a global financial center claims of national supremacy ran counter to its transnational business.
The ties between the City and Germany transcended the rivalry between the nations. Germany was Britain’s largest market outside the empire and its largest supplier after the United States. Acceptance credits to Germany approximately amounted to £60m to £70m, second only to loans to the United States.\textsuperscript{100} Anglo-German merchant banks were leaders in trade finance. Kleinworst and Schroder were both the leaders in acceptances and the fastest growing firms in the City. The Anglo-German firms were the most aggressive and far flung. “Anglo-German houses did not restrict themselves to European trade or sponsoring rising German firms. Indeed, it was only the most conservative of them, Rothschilds, that retained their preponderant interests in Europe.”\textsuperscript{101} Anglo-German trade and investment were critical strands in the web of the global economy and personal and family ties as well as business partnerships bound them together. Whereas the royal heads of Europe were cousins, Tzar Nicholas, Kaiser Wilhelm and King George sharing royal blood with Queen Victoria they were not partners. Among the merchant bankers, family ties reinforced business connections. The well known story of the Rothschilds and their cousins across Europe is illustrative of the dominant pattern. Baron Schröder the chief partner in the second largest acceptance house was born in Hamburg, the nephew of the childless previous partner in the firm. His wife was born in Germany and he maintained a residence and regular contacts with his family in Germany. When the war broke out his son was in Germany, called into the army, and died on the Russian front. When questioned about his loyalty he said “I feel as if my father and my mother have had a quarrel.”\textsuperscript{102} Cooperation was the lifeblood of the merchant banking family national competition the habit of royalty.

\textsuperscript{100} Chapman, \textit{The Rise of Merchant Banking}. 107. The figures are Chapman’s best estimates but they are, as he warns, at best estimates.

\textsuperscript{101} Ibid.,132.

The cosmopolitan merchant bankers inhabited a different universe from the British political elite. Lord Esher, the quintessential man of the political establishment, a confidant of King Edward, a prominent member of the Committee of Imperial Defence, an architect of the reorganization of the army after the debacle in the Boer War, expressed this difference clearly. He said of Ernest Cassel a prominent Anglo-German banker “Of course he takes the German and Semitic point of view of it all. That is only natural. After all, we are fighting for our lives, for our Imperial and possibly National existence, which will be at stake ere long. The Cassels are at home in all lands – equally rich, equally composed.” 103

The nationalists were in command and not just in England. Rothschild in his daily letter to his cousins and partners in Paris beseeched them to use their influence to get the French government to restrain the Russians, presumably not yet knowing that the Russians had mobilized their army in defiance of a German declaration that to do so would mean war. The Russians mobilized and the Germans declared war. Even as Lord Rothschild was writing, the Continent had declared war on itself. 104

As for Germany, a former German chancellor wrote in his memoirs later, “The very worst of all the errors of those four or five individuals who led their country [Germany] to disaster was that of having taken such grave decisions in a hermetically sealed room in the Foreign Office, without once consulting a diplomat of experience or any intelligent business man informed


104 “…whatever the result may be, the sacrifice and misery attendant upon it are stupendous and untold. In this case the calamity would be greater than anything ever seen or know before. 2) France is Russia’s greatest creditor, in fact the financial and economic conditions of the two countries are intimately (?) connected and we hope you will do your best to bring any influence you may have to bear upon your statesmen, even at the last moment, to prevent this hideous struggle from taking place, and to point out to Russia that she owes this to France.” RAL XI/130A/8, July 31*, 1914.
on international economics. Albert Ballin, Arthur Gwinner, Emil Rathenau, Max Warburg, Karl Fürstenberg, Paul von Schwabach might all have been asked. **105

When the crunch came as the British Cabinet decided on war the fears of the merchant bankers sounded to the political leaders as just so much special pleading from panic stricken men. In Lloyd George’s words “Financiers in a fright do not make an heroic picture. One must make allowances, however, for men who were millionaires with an assured credit which seemed as firm as the globe it girdled, and who suddenly found their fortunes scatted by a bomb hurled at random from a reckless hand.” **106

The financial crisis reached a climax on July 31, the day the London Stock Exchange refused to open for the first time in its history. Trade finance – the bread and butter of the great merchant bank houses – had already ceased flowing. Insurance and shipping had slowed to a trickle – a cause and a casualty of the financial crisis. Announcements and actions in Berlin and St. Petersburg signaled the start of the Continental war among the Great Powers.

July 31 was also when City opposition to Britain’s entering the war crested. Indeed, it is the last day one can find any reference to actions or statements by City leaders to political leaders against Britain intervention. The war on the Continent had already begun; now began the political fight within Britain over the question of intervention. And at this moment the City fell silent. At the very moment that the debate began about British intervention the City lay crippled and dependent on the government whose actions it opposed.

Although Asquith had noted the City’s opposition to intervention on July 31, on

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August 1, when calculating the relative forces for and against intervention, no mention is made of the City. The focus of the political leadership turned to the debate within the Cabinet. Asquith writes to his confidante about the Cabinet meeting to say “We came, every now & again, near to the parting of the ways.” The next day he notes “A good 3/4 of our own party in the H.of Commons are for absolute non-interference at any price.” The central figure in the Cabinet at this moment is Lloyd George since he alone can organize the opposition to Asquith and Grey. The political struggle is the subject of the following chapter but what is relevant here is that in these days when Britain’s course hung in the balance and Lloyd George’s finger was the one who could tip the scales, he was in regular communication with leaders of the City in his position as Chancellor of the Exchequer. On August 1 the Bank of England needed the Chancellor to suspend the Bank Act of 1844 which limited the money supply, the clearing banks also petitioned the Chancellor on the question of the money supply. On August 2, the government instituted the first of a number of moratoriums that sheltered debtors (in the first instance merchant banks sheltering merchant banks from meeting their obligations on the bills of exchange). This moratorium was the subject of negotiations between the government and the bankers. On August 3, the merchant bankers and the clearing bankers had a joint meeting under the chairmanship of the governor of the Bank of England urging the government to extend the bank holiday (the first Monday in August was the traditional Bank holiday) for three more days. All of these recorded interchanges between the City and the government concerned appeals by the City to the government for some form of aid – suspension of the Bank Act, a moratorium on debt payments, or a Bank Holiday. The financial crisis had forced the City into a dependent position on the

107 Letters, August 1st, # 112, August 2 # 113.
108 PRO T 170/ 28 Clearing Banks, 1st Memorandum August 1
109 MRO T 170/ 24
The collapse in the last week of July 1914 precipitated a sea change for the City of London. The systemic crisis demanded an appeal to the government for protection from its financial obligations—the collective threat of bankruptcy and ruin focused the attention of the City bankers on immediate survival. As the cabinet met to consider intervention and Prime minister Asquith worked to overcome the anti-interventionist majority of his party and cabinet, the City held meetings with the Chancellor of the Exchequer Lloyd George—sponsor of the People’s Budget of 1909 that had made many in the City tremble with rage.

The devastation and disruption to the global trading system was of such magnitude that government aid was needed in many areas, not only in Bank Holidays, expanded money supply, or moratoriums on debt. The financial crisis created a crisis in the real economy and threatened the food supply of Britain.

**The City and the State: Financial Crisis and the Real Economy**

The financial crisis disrupted the payment mechanism whereby Britain paid for its imported food. But it worked both ways: the beginning of the war also disrupted the real economy in a manner that fed further problems into the financial system.

Britian depended on Argentina to provide beef. The director of the British and Argentine Meat Co. wrote in an urgent appeal for government assistance “1913 River Plate supplied the UK over 4,400,000 quarters of beef which represented over 80% of total beef imported more than the total of the English Beef marketed here but because the exporters could not sell their drafts to Argentinean banks, they could not buy beef. The desperately needed British government guarantees. If this Guarantee or other means is not forthcoming I am afraid that shipments will
have to cease altogether, which we all consider would be a very serious thing form the point of view of the General British public. The amounts that all the Companies require are approximately £1,500,000 sterling a month, so that if the money was obtained by means of sight draft.”

Britain and the City needed the aid of the government in a manner quite foreign to their world before July 1914.

Before the crisis, the New World shipped cotton, wheat and other foodstuffs and raw materials to Britain and Europe. The proceeds from these exports were used to pay interest and dividends on loans to finance these products, to pay for the necessary transportation infrastructure, and to pay for industrial imports from Europe. It was a virtuous circle of goods and money, from Britain and Europe to the New World and back to the Old World. In August 1914 Edward Grenfell outlined for Jack Morgan in New York the degree to which the war had disrupted the trading system. As Grenfell saw the problem, the demand for American exports had declined, limiting American receipts and making it impossible to remit for all the maturities (on loans) coming due. Even if the Atlantic were kept open ‘the Continent will not take cotton and the Lancashire mills will only work half time, as so many of their customers abroad will not buy the finished product.” Decreased demand for American exports meant the ability of Americans to repay their loans to Britain also decreased.

Insurance was also a problem “Owing to the closure of the Stock Exchange, Lloyds might not be able to pay losses, being unable to realize securities.” Government insurance was necessary to get the process restarted. 

110 British and Argentine Meat Co., Limited by Managing Director 7 August Barings, Special File, July 1914: War, European Situation, etc., (Baring ref. no. 200821)

111 Edward Grenfell to Jack Morgan, August 28, 1914, Private Letters Book #12, Morgan Grenfell Archives.
By August 1 the City was actively transacting with the government for salvation. This systemic problem was far grander that the Barings crisis in 1890 which principally concerned one firm or the other credit crisis of the prior century in which suspension of the Banking Act cured the problem.

In early August the City also surrendered its undisputed position as banker to the world, the banker whose window was always open, whose credit was sterling and solid. The Stock Exchange closed, for the first time in its history, on July 31. Within days the government had moved to protect the Acceptance Houses from meeting their obligations; those guarantees they had given exporters to cover the payments by importers if the importers did not pay up. This was the second surrender by the City.

The British raised the white flag of surrender in accordance with their age-old promise that the “bill on London” would always be honored. Emerging countries might renege on its financial promises but London, as the capital of capital, would never do that. “The crackle of a bill on London with the signature of one of the great accepting houses was as good as the ring of gold in any port throughout the civilized world.”

Just as the closing of the London exchange marked a unique event in British financial history, so the acceptance houses’ announcement to the holders of bills that they would have to wait to be paid, was also unique. Tarnishing of the City’s word never before broken diminished London as the financial capital of the world. In a flash, the record of solidity and dependability so careful nourished over the previous century vanished. The walls protecting London as the global financial center had, at this moment, one gaping hole: London’s sterling reputation to honor the “bills on London.”

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112 Lloyd George, _War Memoirs, Volume 1_, 101.
The question now became if this was a temporary setback in which the worst effects could be alleviated by the government’s rescue plans or was there a bigger price to be paid for intervention in the war? And who was correct Lord Cunliffe who warned that “we shall all be ruined if we are dragged in” or Sir Edward Grey who in his speech to Commons to rally support for British intervention stated “If we are engaged in war, we shall suffer but little more than we shall suffer even if we stand aside.”