Book Reviews

When Globalization Unravels

A vivid history shows how financial crises, deflation, and populism disrupted globalization's first age.

Harold James

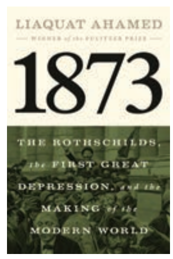
LIAQUAT AHAMED'S thought-provoking history starts with two 1873 financial crises that shook the world and set off the great depression in the book's title. Ahamed, a Pulitzer Prize winner for his history of the 1929 depression, *Lords of Finance: The Bankers Who Broke the World*, traces the global repercussions from Vienna to New York to the crumbling Ottoman Empire in a beautiful narrative with a compelling cast of characters.

After a great expansion of worldwide commerce, driven by the steam engine in railroads and transoceanic shipping and coordinated by the telegraph, the twin crashes stoked political and economic discontent and led to an upsurge in populism, nationalism, racism, trade tariffs, and political corruption—all very familiar to readers today.

The first crash came as the Habsburg monarchy was launching the Vienna Universal Exhibition, a magnificent spectacle to celebrate the 25th anniversary of Francis Joseph's reign as emperor and showcase Austria-Hungary's economic and political success in the newly interconnected world. His reign, which began inauspiciously amid the great revolutionary wave of 1848, saw a surge in real estate and railroad speculation, similar to that unfolding in the post–Civil War United States. "It does not actually take enormous prescience to spot when a market has entered bubble territory," Ahamed remarks; "what is difficult is predicting when, exactly, it will burst." It's hard not to read this also as commentary on the AI-centered stock market surge as the US marks its 250th birthday.

The second crash was set off by the abandonment of the bimetallic silver and gold monetary order and the adoption of the pure gold standard. The economic chaos that followed this monetary mistake, often characterized as the "Crime of '73," brought back protectionism and so altered the course of globalization's first age. In Ahamed's telling, two figures played a starring role.

John Sherman, chairman of the Senate Finance Committee (and younger brother of William Tecumseh, who torched Atlanta during the Civil War), was in Paris for the 1867 International Monetary Conference, a proto–Bretton Woods conference convened by French Emperor Napoleon III. The meeting debated a plan to rationalize money in the same way France had imposed a metric system of weights and measures. The plan went nowhere, but Sherman returned home convinced that he should demonetize silver.



1873
The Rothschilds, the First Great Depression, and the Making of the Modern World

Liaquat Ahamed

Penguin Press

New York, NY, 2026, 346 pp., $32

The second figure was President Ulysses S. Grant, who saw the misery caused by a lack of money but who, according to Ahamed, "lacked confidence in his own economic judgment and was unwilling to challenge the conventional wisdom of the financial establishment." This "loss of nerve" meant he vetoed a Senate bill that would have increased the money supply.

Perhaps this argument is too contingent. The true cause of the deflation and misery for farmers on both sides of the Atlantic was a (positive) supply shock from globalization. The steamship lowered agricultural prices, made life better for urban consumers and factory workers, and drove industrial development.

Contemporaries, Ahamed reminds us, found it convenient to blame the Rothschild bankers, and Jews in general. The 19th century debates were a pre-echo of today's discussion of deflation brought about by the global extension of industrial manufacturing. Disruption can produce new prosperity, but also new demands—including for scapegoats. F&D

HAROLD JAMES *is a professor of history and international affairs at Princeton University and an IMF historian.*