

When Washington Shut Down Wall Street: The Great Financial Crisis of 1914 and the Origins of America's Monetary Supremacy. *By William L. Silber.* Princeton: Princeton University Press, 2007. xi + 217 pp. Index, notes, bibliography, figures. Cloth, \$27.95. ISBN: 0-691-12747-6.

Reviewed by Maury Klein

This short volume tells the intriguing tale of how the financial crisis wrought by Europe's plunge into World War I opened the door to America's emergence as the world's dominant financial and economic power. "America would have dominated world finance during the last half of the twentieth century even if it had abandoned gold in August 1914," writes William Silber. "However," he continues, "the 1920s and the 1930s would have evolved quite differently had William G. McAdoo not enhanced American financial credibility at the outbreak of the Great War" (p. 5).

The war caught the United States at a difficult time. European investors began cashing in their American securities for gold during the last week of July 1914, and the rush threatened to become a stampede. The Federal Reserve Act had been passed only seven months earlier, and the system had yet to become organized or operational. The drain of gold overseas would prompt interior banks to seek gold just as the season for moving crops—always a source of tight money supply—approached. To head off the looming monetary crisis, Treasury Secretary McAdoo took bold action: he closed the New York Stock Exchange on July 31 and kept it shut until December 12. The foreign-exchange market ground to a halt as well. To avert a monetary crisis, he arranged for the issuing of emergency currency under the provisions of the Aldrich-Vreeland Act, passed in 1908 after the financial crisis of the previous year.

McAdoo's bold moves did more than slow the flight of gold to Europe. They set in motion a chain of events by which the dollar replaced the pound sterling as the preferred currency buoying the gold standard in international markets. Having staved off the immediate crisis with a series of moves, McAdoo worked diligently to get the Federal Reserve banks up and running. His goal was to drive the pound sterling below \$4.90; any

exchange rate above that point fed the outflow of gold. The key to balancing the drain lay in agricultural exports, especially cotton. McAdoo arranged for sufficient ships and insurance to carry such cargoes. His patient and persistent efforts were rewarded on October 23, when the British government announced that it would not seize cotton exports as contraband. Three days later, sterling finally dipped below the gold export point. Rather than declare victory, McAdoo continued to work at restoring confidence. On November 11 the discount on the dollar disappeared permanently.

Silber argues that the United States rose to financial supremacy by becoming the only nation not to suspend gold payments. He reasons as follows:

The outbreak of war . . . highlighted U.S. monetary vulnerability. The combination of gold outflows and maturing obligations in Europe taxed America's ability to pay. The discount on the dollar in the foreign exchange market measured the loss in credibility. A suspension of payments in 1914 coming seven years after the embarrassment of 1907, could have delivered a knockout punch to America's international financial dreams. . . . [By the winter of 1915, the dollar] had replaced sterling as a safe-haven currency. (pp. 156–57)

This summary does scant justice to Silber's interpretation. He depicts these events as, among other things, a "blueprint for crisis control" (p. 173). He makes a plausible case for the process by which the United States supplanted Great Britain as the monetary superpower of the world. The research is solid, the argument persuasive, and the style pleasantly clear for so technical a subject. Silber excels at explaining in lucid terms such complex subjects as the monetary system and the gold standard. Although not a historian, he pays close attention to the historical context of events. The major flaw of the book is its organization. Silber struggles to keep the narrative flowing in a clear line and too often allows it to double back on itself. The result is an undue amount of repetition and occasional jarring jumps in the chronology of events.

Despite this shortcoming, Silber has portrayed a critical moment in American financial history. Few writers have paid much attention to the closing of the Exchange, except as a curiosity exemplifying the shock experienced by Americans when the war came. Silber has done historians a favor by placing that event in a context that reveals its broader significance. The war transformed the United States from a debtor to a creditor nation and elevated it to the position of dominant industrial power in the world. The gold

standard returned to haunt the tangled web of international relations during the 1920s and 1930s. Several scholars have pointed to gold as the root source of the depression that blighted the economies of different nations at different times. All these complex events take on a greater clarity when illuminated by Silber's portrayal of their starting point.

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