

Sensemaking and Financial Crises: Central Banks and the Austrian Crisis of 1931.

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Abstract – and a note to the reader

Despite much attention having been paid to the Austrian crisis and much blame assigned to central bankers (and the French), only few historians have examined central bank action in this twin crisis in detail, and no one have focused on how central bankers made sense of the crisis and how this sense-making shaped their responses to events as they unfolded. In this book project I aim to tell the story of how central bankers from the Bank for International Settlements, the Federal Reserve Bank of New York and the Bank of England struggled to make sense of, halt and learn from the Austrian twin financial crisis in May and June 1931. My approach is based on theories of sensemaking and narratives as means to understand and construe social reality and form the basis for decision-making. Methodologically, I aim to provide a thick description of the crisis from the perspective of the actors. The aim of thick description is to focus on the meanings assigned by actors to the events and context they try to make sense of. The project is based on archival material from the Bank for International Settlements, the Bank of England, the New York Federal Reserve Bank and the Rothschild Archive.

This paper focuses on laying out my theoretical and methodological approach and thinking about the project. The project has been under way for a very long time and have caused me some trouble. Any assistance and suggestions as to the viability of the project and the approach will be highly appreciated. In the oral presentation I will aim at presenting a little more of the empirical evidence in the context of the historiography, and sensemaking and narrative approaches.

“... the distinctive feature of this year was the confluence of all human affairs – national and international, economic and political, private and public – into a single turbulent stream ...”

(Arnold Toynbee, *Survey of International Affairs 1931*, p. v)¹

Introduction

in March 1931 George Harrison, Governor of the New York Federal Reserve Bank wrote to Governor Montagu Norman of the Bank of England, "... you must take care of yourself. ... This business of being a central banker requires much more than the average endurance and therefore much more than the average care."² If so, Francis Rodd must have been absolutely exhausted when, on June 20 1931, he finished a memorandum in his office at the Bank for International Settlements in Basle. As Director of the BIS' Central Banking Department, Rodd had spent most of his time since May 12 in Vienna working hard all of his waking hours to make sense of the Austrian Crisis. The crisis had begun with the announcement on May 11 that the Credit Anstalt had lost most of its capital and would be reconstructed with new capital. At times during the five weeks, Rodd had been a cautiously optimistic about stopping the crisis in spreading to other banks and countries, but the last week had been frustrating beyond his imagination, and much had been at stake. Hence the memo of which he had 12 copies made and sent to a select group of people in his network.

In late May, the BIS and a consortium of central banks had advanced a 100 million Schilling credit to the Austrian National Bank, and at a board meeting on June 8, it was decided to grant a second credit on the condition that an Austrian bond loan of 150 million schillings would be placed abroad. The placement of the loan had been an important but mostly ignored issue since the first days of the Austrian crisis. With the conditional loan, the BIS had sought once more to put pressure on the Austrian authorities to act on placing the loan, which was essential for the Austrian state's 100 million schilling contribution to reconstructing the Credit Anstalt. On June 9 an Austrian representative initiated negotiations with banks in Paris about French participation in the bond loan. A few days later, on June 14, negotiations in Vienna between the Austrian Finance Minister Dr. Juch and the representatives of the Credit Anstalt's foreign creditors, Sir Robert Kindersley and James Gannon, entered a critical phase. While the foreign creditors managed to get a guarantee for their claims on the Credit Anstalt in the 12th hour, the negotiations on the bond loan went sour. The potential repercussions were perceived to be dramatic but at the very last moment Montagu Norman stepped in with a loan that provided the necessary breathing space.

In his memo, Rodd recounted these facts and explained what had happened and why. "This memorandum covers the period since the date of the Board Meeting of the Bank for International Settlements held on June 8th", he noted in his 17-page memorandum.³ Rodd's memorandum was yet another act of sensemaking in a process that had been going on continuously since the first news

of Credit Anstalt's troubles had reached the BIS and the Bank of England on May 10. Sensemaking is not just interpretation. Sensemaking involves "the active authoring of events and frameworks for understanding, as people play a role in constructing the very situations they attempt to comprehend."⁴ That was exactly what Rodd had been doing since he arrived in Vienna on May 12 and what the memorandum was all about: to make sense of the breakdown of negotiations through a narrative plotting that constructed a particular understanding of the course of events.

According to Rodd "... while the negotiations with the bankers in Paris were reaching an impasse ... Sir Robert Kindersley and Mr. Gannon representing the International Creditors' Committee in London had left for Vienna, where they arrived at 5 o'clock on Sunday the 14th. The situation they found on arrival was that the delays in placing the bills abroad and the fact that the B.I.S. credit was coupled with the successful prospects of this operation, combined with the losses of foreign exchange by the Austrian Bank which between Monday, June 8th, and Saturday, June 13th, had amounted to 99 million schillings, produced a situation which could not continue."⁵

At a 9.30 pm meeting on Sunday June 14 attended by the management of the Austrian National Bank, Rodd and others, Kindersley declared "the proclamation of an internal moratorium would not only have a disastrous effect upon Austrian credit for some time, but would also bring about a collapse in neighbouring countries. He urged the postponement of a decision about the moratorium pending negotiations in Paris and London, but he added that if it were decided to proceed with a moratorium, the foreign creditors would undoubtedly take appropriate steps." It was not only the foreign creditors who warned against a moratorium. Francis Rodd, professor Bruins, an adviser to the Austrian National Bank appointed by the BIS, and the National Bank agreed and "had been urging for a fortnight" that the Austrian Government provided a "guarantee on the Credit Anstalt internal deposits" with the purpose of "stopping withdrawals from the Credit Anstalt and therefore further discounting."⁶

Despite the tense situation, Rodd, Kindersley, Gannon and Bruins were cautious optimists with regard to the bond loan, still believing that the French were interested. "We now come to Tuesday", Rodd began his narrative of the final, hectic day of negotiations. Tuesday June 16 was the deadline to find a solution, since "the Austrian National Bank's next statement was due to appear on Wednesday afternoon, or at the latest on Thursday morning, showing the figures as of Monday night. These figures included a loss of foreign exchange of 111 million schillings. The publication of the statement

in this form was in the opinion of everybody concerned calculated to produce a panic.”⁷ Everyone was caught in a web of interconnectedness. If the bond loan was not successfully placed before the end of Tuesday, the second BIS credit to the National Bank would not be released, and then the Austrian National Bank’s statement would show a drain of foreign exchange and necessitate an internal moratorium (in the view of the Government) or an internal guarantee (in the eyes of foreign creditors and central banks). And absent a guarantee, the foreign creditors would withdraw their money and in that case the Credit Anstalt and the National Bank would not have sufficient foreign exchange anyway – bond loan or not.

“Events then began to follow one another with considerable rapidity” Rodd noted. A little past 1 pm on Tuesday June 16, the guarantee agreement was signed by Kindersley and Gannon and the Austrian Finance Minister Dr. Juch, but upon his return “to Parliament he discovered that the Cabinet, of which he was a member, had resigned at 3 o’clock.” To the relief of the Sir Robert Kindersley and James Gannon, the lawyers stated that the Finance Minister had the power to sign, and “therefore the foreign creditors’ position was apparently in order.”⁸

With the guarantee thus taken care of, the bond loan was next in line. Around the same time as the guarantee agreement was signed, the French Finance Minister in Paris handed over a note to the Austrian representative in Paris with his Government’s conditions for taking an unspecified share of the loan. First, the note required the Austrian Government to publicly declare that it would ask the League of Nations to appoint a commission to carry out an investigation of the Austria’s economic and financial position and to accept whatever recommendations that might be given by the commission. Secondly, the French demanded that Austria “pledges itself to refrain from taking any steps which might modify the existing political and economic relations of Austria ...”. This would mean that Austria could not enter the planned Austro-German customs union. As Rodd noted, “it seems doubtful whether any Government, Austrian or other could have accepted conditions presented in such manner” and with a time frame that meant that “it was the last possible moment for such money [the bond loan] to be received before at statement, which would have led to a panic and a moratorium, was published. The French note ... gave the Austrian Government only about four hours in which to decide matters of momentous importance ... [and] it was also sent at a moment when the pressure of financial circumstances had reached breaking point in Vienna. These circumstances were well known in Paris.”

Rodd was certain that the French knowingly sabotaged the Austrian loan by imposing political conditions and he connected the dots in a way that made sure that the reader would understand the point. Among other things, Rodd told how a large part of the withdrawals of foreign currency from the National Bank in the week between June 8 and June 15 came primarily from two Vienna banks “either under French influence or having French sympathies ... the Länder Bank and the large and active branch in Vienna of Zivnostenska Banka of Prague.” Rodd had information which he interpreted as showing that the Länder Bank’s withdrawals were “wholly improper” and that Zivnostenska Banka “had no business to call upon the Austrian National Bank for devisen.”

Since the Government had resigned, it was unable – had it wanted to – to accept the French conditions. This would have been the breaking point if Harry Siepmann of Bank of England had not placed a phone call to professor Bruins a few hours later at 5.40 pm and dragged the escalating crisis back from the brink. Siepmann informed Bruins about Governor Norman’s decision to advance for a week 150 million schillings in Sterling and US Dollar to the National Bank. “[B]oth the Finance Minister and the Chancellor were unaware that the money had been advanced by the Bank of England,” Rodd ended his memo.⁹

Narrating crisis

Rodd’s narrative of the events during the final week leading up to Bank of England’s credit to the Austrian National Bank thus ended with the heroic intervention of Montagu Norman. In Rodd’s narrative, the failure in placing the bond loan and the near failure of the guarantee for the foreign creditors both rested on the “dilatoriness of the Austrians” while the final breakdown of the Austrian-French negotiations was due to the scheming of the French Government with assistance of French banks. The story thus juxtaposes the French self-serving actions with the British focus on saving the world from economic disaster. Representing the French as the villain, fits well with the fact that a Bank of England officer a few weeks earlier, on May 9, had highlighted only one section in a four-page note on France, which represented the French as “... quite unconcerned with the general welfare ... without any conception of big business, international vision or of co-operation either with each other or anyone else – individually, commercially and politically they ask to be left alone.”¹⁰

Regardless of whether Rodd’s account of the dramatic week in June 1931 is correct or not, the memorandum deserves attention as an act of sensemaking through narrative emplotment. Rodd had worked hard for five weeks to understand and narrate the Austrian crisis. He had written numerous

notes, letters and memoranda, sent telegrams and made and received phone calls to and from Basle and London. His memorandum of June 20 put the final week of the Austrian crisis into narrative shape with cause and effects, villains and heroes. It was, in a way, Rodd's final say on the crisis, and he saw to it that others were made aware of his story. In a letter to the recipients of the memorandum, he self-consciously used the terms related to emplotment as he wrote about "the events which occurred in Vienna and culminated with the Bank of England credit on Tuesday night. I am afraid the style is not quite appropriate to the facts. It should have been written in the manner of the good 20th century political spy or detective stories. The facts are certainly sufficiently in keeping with such novels to justify their being re-edited in more appropriate language."¹¹

Among the people who received a copy of Rodd's memo were Sir Robert Kindersley, director of the Bank of England and chairman of the merchant bank Lazard Brothers & Co, and the American banker James Gannon with whom Rodd – as mentioned – had worked closely in Vienna. Both shared Rodd's frustration about the events described in the memorandum. Kindersley was still in Vienna when he received Rodd's letter, and he was unable to keep a stiff upper lip when he replied. "I ... shall be glad to say goodbye to this city and its people. As far as my experience goes here I find the Austrians to be not only lacking in backbone but also very unreliable and one has to waste an enormous amount of time in compelling them to implement their promises. ... I hope when next we meet the world may be in a better shape."¹²

To reiterate, in Rodd's story the Austrians and the French are the villains who out of incompetence or national political interests sabotaged the efforts of good (mostly British) people to rescue the world from financial disaster. This fairly elaborate narrative was the culmination of five weeks beginning on 11 May 1931 of making sense of a situation with extreme uncertainty and perceived high stakes regarding the future of the gold standard and, indeed, Western capitalism. That is what this book is about. I discuss the efforts of the Bank for International Settlement, the Federal Reserve Bank of New York and Bank of England to make sense of, to halt and to learn from the Austrian financial crisis in May and June 1931.

Historians, contemporary observers, and the Austrian crisis

The failure in May 1931 of the large Austrian universal bank Credit Anstalt is often described as the event that triggered the breakdown of the Gold Standard and pushed the world into depression.¹³

For instance, Barry Eichengreen argues that the "volatile mix" in Germany "of economic depression,

political polarization, weak finances, and a paralytic central bank was clearly poised to explode. The spark was the failure of the Creditanstalt, Austria's largest bank."¹⁴ Not only have generations of historians agreed that the Credit Anstalt crisis was an event of monumental importance; they also claim that central banks and the Bank for International Settlements were at least partly to blame for the failure of the bank and, by implication, the Great Depression.¹⁵ For instance, Harold James has argued, "... the major failure of the BIS was the mishandling of the Austrian crisis".¹⁶ Eichengreen agrees, claiming that the BIS proved "singularly ineffectual"¹⁷

The harsh judgments of central banks in Austria stand in stark contrast to many contemporary opinions at the time of the crisis, including that of Francis Rodd. While contemporary observers and actors agreed on the seriousness and potential repercussions of the crisis, their judgments of the efforts of the BIS to assist the Austrian central bank and to halt the crisis were generally more positive. For instance, on June 20 1931, the day of the announcement of the Hoover Moratorium (and of Rodd's memorandum), *The Economist* commented, that Bank of England's credit to the Austrian National Bank, mentioned in Rodd's note, had provided "substantial relief" and continued, "When the history of this difficult period comes to be written, it may well emerge that the newly-founded BIS will have played a great role in staving off financial disaster."¹⁸ In a confidential memo to the US State Department, Merle Cochran, the American Consul in Basle, reported on June 1, 1931, "Some papers have already praised the part which the B.I.S. has taken in this matter ... If the whole story could be made public, the praise which the B.I.S. would be seen to merit would be even greater."¹⁹ And on August 30 1931 the American journalist and foreign correspondent for the New York Times, Clarence K. Streit argued that the "World Bank" had become a "clearinghouse for financial information" and was "continually engaged in promoting the cooperation of central banks in ... [an] unobtrusive but extremely useful way."²⁰

Of course, at the time these observers did not know that the Gold Exchange Standard would soon be gone. Even though it was part of the problem, not the solution, it was the agreed upon measuring stick among central bankers, and the break down of the Gold Standard in September 1931 was hardly considered a sound development at the time. However, even after Britain left Gold on 21 September many contemporary observers had a more positive view of the role of the BIS and central banks in 1931 than later historians. In her book on the first two years of the BIS, Eleanor Lansing Dulles, argued in 1932 that "the quick and efficient arrangement of credits" to the Reichsbank and the Austrian National Bank among others was an "outstanding contribution" of the BIS.²¹

The BIS management may have influenced these assessments. And, more importantly, they were made in the midst of the larger European and international economic crisis where a clear picture of the situation and of cause and effect were not easily construed. But that is exactly the point as these statements reveal a crack in the historical narrative told since Clarke and Kindleberger. This crack focuses on the strong contrast between contemporary observers' and actors' judgment and those made with hindsight by historians. How can we understand this contrast?

One way of thinking of this is the dominant historians' narrative exemplified by Stephen O. Clarke who in 1967 argued that the lender of last operation could only have been successful "if the assistance to Austria had been given in sufficient amount and with sufficient promptness to restore full confidence in the stability and convertibility of the currency and had thus prevented the crisis from infecting Germany."²² This assumption seems to be based on Walter Bagehot's "theory" of the lender of last resort.²³ The "Bagehot rule" is the position of most economic historians who have analyzed the Austrian crisis. "Now we know how to deal with" a twin crisis, Bagehot noted. First the external drain had to be stopped by raising the interest rate "as high as may be necessary ... [a]nd at the rate of interest so raised, the holders ... of the final Bank reserve must lend freely. Very large loans at very high rates are the best remedy for the worst malady of the money market where a foreign drain is added to a domestic drain." Bagehot added, "at this rate ... advances should be made on all good banking securities."²⁴

If only it was that easy. Clarke pointed to some of the problems, "as no comparable international financial difficulties had occurred before, the authorities had no previous experience by which to guide themselves. They were still only partly aware, moreover, of the magnitude of the potential trouble."²⁵ In the quote, Clarke first suggests that analogical reasoning (uses of history) is important in making sense of and dealing with crisis. Secondly, Clarke also alludes to problems of perception of the crisis and its consequences. More broadly, Eichengreen argues that "[i]ncompatible conceptual frameworks ... precluded a co-operative central bank response to the depression."²⁶

Though framed in terms of central bank cooperation, these quotes by Clarke and Eichengreen illustrate the dilemma central bankers faced – and face – in a financial crisis. There is a conflict between the nice and clean model of Bagehot and the real world as it unfolded with all its uncertainty, lack of information, coordination problems and actors with different motives and

perceptions of the world. In addition, the international financial crisis of 1931 was not an isolated liquidity crisis of the financial system. At the very least the Bagehot rule may not provide an adequate model of what to do in such a politically and economically complicated twin crisis as the one that broke out in Austria in May 1931.

Theory, approach and purpose

Economists Richard S. Grossman and Hugh Rockoff have analyzed a number of historical Lender of Last Resort operations and concluded, “perhaps there is no general rule to follow and central banking in financial crises will remain, as R.G. Hawtrey suggested, an art rather than a science.”²⁷ However, Hawthrey’s metaphor of central banking as an art may not be suitable to describe and understand what central bankers do when they try to avert a financial crisis from spreading to the real economy and other countries. The metaphor begs the question of how central bankers perceive and make sense of the situation, narrate that situation and make decisions on the basis of this narrative construction in a context that is always much more complicated and conflicted than any model of financial crises and the Lender of Last Resort can possibly accommodate. Thus, when Grossman and Rockoff argue “economists have begun, tentatively, to come up with guidelines based on the most recent crisis that will provide government officials with new and better ways to handle financial panics” they may be heading towards a bumpy road.²⁸ As already mentioned Colin Hay argues there is “... no hope of a predictive science of crisis resolution, capable of pointing prior to the onset of crisis to the path of institutional change – for the causal chain is incomplete until such time as the crisis has been successfully narrated.”²⁹ This raises the question of how we can understand the actual, empirical process of central banks trying to avert crises by acting as Lenders of Last Resort in a specific historical and institutional context?

Despite much attention having been paid to the Austrian crisis and the blame assigned to central bankers, only few historians have examined central bank action in the Austrian crisis in detail.³⁰ And no historians have focused on the doubts, uncertainty, ambiguity, perceptions and conflicts confronting central bankers in Vienna, Basle, London and New York. Before they could decide on any action, central bankers needed to make sense of the crisis and their sensemaking in turn shaped their response to the events as they happened. In this planned book I aim to tell the story of how central bankers from the Bank for International Settlements, the Federal Reserve Bank of New York and the Bank of England made sense of and acted during the crisis as it unfolded in a particular historical context.

The approach is related to issues of decision-making, an area where mainstream economic theory and its assumptions of rational, atomistic agents and objective information do not shine – even under assumptions of asymmetric information. Based on the pioneering work of Amos Tversky and Daniel Kahneman, behavioral economists such as George Akerlof and Robert Shiller as well as economic historians such as Douglas North and Naomi Lamoreaux have noted that both framing, perception and context of a problem matters for perception of events and hence for decisions and action taken.³¹ In the field of central banking, sociologists Mitchel Abolafia and Neil Fligstein have analyzed central bankers' perceptions and decision-making processes. Abolafia argues that Karl Weick's concept of sense-making is a better approach to understanding central bankers' decisions than economic models while Fligstein and co-authors have shown how the FOMC dramatically misjudged the financial situation in the years up to and during the financial crisis of 2008 due to their macro-economic framing and resulting blind spots.³²

In contrast to the Austrian crisis, Abolafia and Fligstein both analyze the highly formalized and localized setting of the FOMC meetings in the undoubtedly nice meeting room of the Board of Governors of the Federal Reserve System. Hansen's analysis of sense-making and narrative construction in the case of the inflation of an asset bubble and the ensuing failure of the Danish *Landmandsbanken* in 1922 is based on a complex situation in a changing societal setting where context matters deeply. Taken together, Abolafia and Hansen show how the process of constructing narratives that frame actors' understanding and legitimize certain decisions and actions is an important part of the sense-making process, which ultimately lays the foundation for decision-making.³³ Another important difference between Abolafia's and Fligstein's studies and an analysis of the 1931 crisis is that access to information about actors' considerations, conversations, discussions, decisions and actions is different. In the case of the FOMC meetings each spoken word is recorded for posterity and the committee members' basis for discussion and decision is available. In May and June 1931, neither Francis Rodd, nor any other actor had such privileged access to data, which leaves the historian even worse off when trying to understand how Rodd and his fellow central bankers made sense of their world.³⁴

According to Abolafia central bankers – and policy makers in general – often take their part of departure from an institutionalized operating model of how reality works. Operating models are shared within what Abolafia calls “cultural communities”, but which may be more precisely described

by Haas' concept of "epistemic communities" defined as a network of professionals with "shared causal beliefs" and "recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain".³⁵ Central bankers constituted such an epistemic community and in 1931 their operating model must have been based on the Gold Standard and in times of crisis on Walter Bagehot's "model" for central banks as a lender of last resort. That this was, indeed, the case was shown in a talk by Pierre Quesnay, General Manager of the BIS, in February 1931: "Gold is truly the basis of our civilization, and life as we live it would be impossible without a stable standard of value."³⁶ A year later, when a friend asked him to recommend a few books about "your complicated and unknown world", Francis Rodd listed, among others, Bagehot's *Lombard Street* and Hawtrey's *The Gold Standard in Theory and Practice* as important books "on which I would recommend you to start."³⁷

Analytical strategy

As noted, operating models often fall short when confronted with the complexity and variety of real world situations, and this is where sense-making and narrative construction comes in. According to Abolafia, decision makers use a process of abduction to compare their situation to the operating model and its causal assumptions, and "narrative enables the interpreter to explain the misfit between facts and models."³⁸ Sensemaking takes place in an unstable and ambiguous context, which needs to be made sense of as well. Colin Hay argues that while actors are strategically pursuing certain "complex, contingent, and constantly changing goals" they are acting in a context that favors some strategies over others. Actors must, therefore, "... rely upon perceptions of that context, which are at best incomplete and which may very often prove to have been inaccurate after the event." Hay also argues that a crisis needs to be narrated, since the "causal chain is incomplete until such time as the crisis has been successfully narrated."³⁹

In general, therefore, making sense of the world through narrative construction that forms the basis for decisions and actions is a complicated and multi-centered process as was the case in the financial crisis of 1931. In this paper, I try to capture this process based on the framework put forward above. I do this through a process of "thick description" aimed at capturing the meanings assigned to events, actions and context by the various actors.⁴⁰ Without subscribing in full to a microhistorical approach, I have as a point of departure that when it comes to the 1931 crisis "phenomena previously considered to be sufficiently described and understood assume completely new meanings by altering the scale of observation."⁴¹ I focus mainly on Francis Rodd, who was the person with the task of

mediating between numerous actors in different locations and hierarchical positions. The analytical strategy, then, aims to use Rodd as a prism to understand the central banks' "lens" through which they saw the world and the "blueprint" according to which they acted within the constraints of the epistemic community they were part of.⁴² The aim is to identify the conflicts and cracks between their operating model and what they saw on the ground in Vienna, Basle, London and New York.

I aim to do this by telling the story of how Rodd and his fellow central bankers struggled to construct a narrative of the Austrian crisis that could guide their decisions in order to stop the crisis from spreading. My point of departure is that the misfit between the central bankers' operating model and what they found in Vienna in May must have been quite dramatic. To understand central bankers' decisions and actions in the summer of 1931 requires not only that we follow them closely from day to day, sometimes from one hour to the next, as they struggled to contain the crisis. It also entails that we inquire about the processes of signification involved in this endeavor, which lasted from May 11 to June 20 when the Austrian crisis seemed to some extent to be under control and focus was shifting to Germany.

In contrast to the FOMC of the Federal Reserve Board decision-makers examined by Abolafia and Fligstein et al. central bankers were not assembled in one room in the summer of 1931. Quite the contrary, the actors I focus on in this paper were spread around the world in the offices of the Federal Reserve Bank of New York, the Bank of England and the Bank for International Settlements in Basle. And ever so often they were travelling between Basle and Vienna or London and Basle. As early as May 12 the key figure in this paper, Francis Rodd, arrived in Vienna by train from Basle. His first task was to figure out what was really going on. Even though he was not alone and not the one who would make the final decisions, Francis Rodd was sensemaker in chief. He was the one who had to separate the wheat from the chaff or, in the words of Abolafia, "policy makers begin by establishing the 'facts'."⁴³

Sensemakers

While Francis Rodd was a central figure in the sensemaking and emplotment process, others were part of the process as well and higher placed in the hierarchy or hierarchies – and located at varying distances from Vienna, the eye of the storm. In London, Governor Montagu Norman and his advisor Harry Siepmann of the Bank of England were the most central people, while George Harrison, Governor of the Federal Reserve Bank of New York, and Gates MacGarrah and Leon Fraser, President

and Vice-President respectively of the BIS were Americans, but based New York and Basle respectively. MacGarrah had been chairman of the Federal Reserve Bank of New York, before being appointed president of the BIS, and Fraser was partner in a New York law firm. The international political problems over war debts and reparations at the time had made the appointment to the senior positions at the new Bank controversial.⁴⁴

The contentiousness of the appointment to the various senior positions was borne out by the fact that reporting lines were influenced by the national origins of the BIS officers. Francis Rodd was appointed director of the Central Banking Department and liaison officer with the Bank of England, and he frequently reported back to Harry Siepmann in the British central bank. This direct line of communication apparently bothered McGarrah who had questioned Rodd's allegiance. At the Bank of England both Siepmann and Norman were upset, leading Norman to warn MacGarrah that relations between the BIS and the Bank of England might suffer from such a lack of trust.⁴⁵ In any case, access to information was not a guarantee against uncertainty or problems of making sense of whatever information was available. Nor was it a guarantee that the various groups involved in the rescue operation would cooperate towards a common purpose. For Francis Rodd this was the greatest challenge – and the most important task. As soon as he arrived in Vienna on May 12, Rodd embarked on the process of making sense of the situation and communicating it back to Basle – and sometimes London.

Francis Rodd, geographer and central banker

Travelling to new places in order to make sense of what he saw was by no means new to Francis Rodd who had been a fellow of The Royal Geographical Society since 1921. According to an obituary from 1978 Rodd was “a distinguished explorer in his younger days, and his Saharan journeys among the Touareg in 1922 and 1927 gained him the Founder's Medal.”⁴⁶ Rodd was a friend of “Lawrence of Arabia” and his book *People of the Veil*, on the Touareg published in 1926 was well received. The Daily Telegraph noted that Rodd had a “captivating literary style”.⁴⁷ Rodd was out of a privileged family and educated at Eton and Balliol College in Oxford. He “belonged to the British aristocracy”, and his father, a diplomat, had been ambassador to Italy, and Rodd spoke fluent Italian along with French and German. He served in World War One and then followed his father's footprints into the Foreign Service.⁴⁸ However, in 1924, at the age of 29 he changed career track and took up a position at a stockbroking firm, becoming a member of the Stock exchange two years later, and in 1929 he

came to Bank of England, which seconded him to the BIS in 1930. He was 35 years old when he arrived in Vienna on Tuesday May 12.

Rodd was reported to have been shy and reserved but also confident and perhaps even brusque in public matters but also with a “great capacity for affection.”⁴⁹ A later biographer described Rodd as “toughminded and unsentimental” with “leadership qualities. Francis Rodd himself felt that he had an ability to see “the other chap’s point of view” and that his role as a traveller had been to “try and understand people who live in other places”.⁵⁰ He would certainly have had to make use of all of those personal characteristics over the next six weeks. But he also acted within a relatively new organizational setting created in 1930 in connection with the Young Plan. The Bank for International Settlements had little experience and no organizational memory in relation to how to live up to the expectations of becoming the central bank of central bankers. In Basle they were in for a steep learning curve.

“Tomorrow will be critical day”⁵¹

On 17 May 1930 the president of the Bank for International Settlements, the American Gates W. McGarrah, informed its member banks as well as other central banks that the Bank was now open for business. Soon after the BIS began preparing for a crisis situation. In August the Frenchman Pierre Quesnay, the general manager of BIS, visited the Swedish central bank, Sveriges Riksbank. In a conversation with Governor Ivar Rooth Quesnay stressed that the BIS expected to be able to perform small lending operations to central banks in need but in more serious cases the Bank would have to co-operate with central banks in order to raise the necessary amount. Quesnay was interested in learning whether there was an interest in organizing such a program to be used in case of urgency.⁵²

Quesnay’s questions made it clear that the BIS would not rule out an outbreak of financial panic somewhere in Europe, and they worried that they might not be prepared. Apparently, Bank of England shared this view, and in January 1931, Harry Siepmann at the Bank’s Central Banking Department had contemplated a scenario that involved the BIS and a twin crisis in a European debtor country:

‘Though it is rather unpleasant to deal with future dangers which, as one hopes, may never materialise it may still be worthwhile to consider what would be the attitude of the B.I.S. if it

*were approached by central banks in cases of serious trouble with private credit institutions within their area.*⁵³

Quesnay's inquiry the year before had clearly not yet led to a strategy and a plan for what to do in the case of an international financial crisis. The note implies that Bank of England still played an important strategic role also after the establishment of the BIS. Siepmann continued along the lines of the Bagehot operating model,

"... difficulties of a single more important credit institution might easily induce the bulk of foreign lenders to withdraw their short term credits if distrust was spreading from one bank to the other, so that under these conditions a central bank might well be forced to intervene in order to avoid serious dangers. ...

*... a central bank might be driven to interfere in order to prevent the spreading of ... distrust which might lead to a general withdrawal of funds. Whether it could do so without asking for assistance from abroad would depend mainly on the amount of foreign exchange at its disposal as compared with the private banking system's total short term indebtedness abroad which the central bank might be called on to repay.*⁵⁴

Siepmann stresses the destabilizing effect of large scale withdrawals of foreign short term debt from Europe a problem particular to Central Europe at the time as American and British banks had lent huge amounts to Austria and not least Germany. However, Siepmann did not expect any problems in Austria because

*according to a private estimate I have heard, the total short term indebtedness of banks and bankers amount to about 600 million schillings, whereas the central bank holds gold and foreign exchange serving as legal cover up to 395 million schillings, and other foreign exchange assets up to 513 million schillings; in this case, therefore, even the largest withdrawal of foreign funds could, apparently, be easily dealt with by the central bank. As, however, the situation might not be equally favourable in other countries it might be worthwhile considering what might happen in these cases.*⁵⁵

Despite this optimism regarding Austria's situation, less than four months later the Credit Anstalt crisis would ignite a financial twin crisis that has been considered by most economic historians to be the

spark that set in motion the European financial crisis that made the Great Depression great. There was, in fact, considerable anxiety in Europe and the United States about the economic depression and these concerns had only increased as 1930 turned into 1931. In April Montagu Norman expressed his concerns to the US Secretary of State Henry L. Stimson and George Harrison that "... the capitalist system ... is being put to a strong test in these days of depression."⁵⁶ On his return trip to Europe Norman wrote, on April 20, to Harrison "conditions are perplexing, abnormal and beyond understanding", a sign how difficult it was even for Norman to make sense of the world economy.⁵⁷ Harrison was well aware of these problems himself. Less than a week later Randolph W. Burgess in a report to Harrison stressed the severe economic depression and "political and economic unsettlement". The Federal Reserve System, Burgess argued, should "... put forth every possible effort within its power towards maintaining a measure of credit stability throughout the world and towards eventual business recovery."⁵⁸

In short, uncertainty was pervasive and the two most important central bankers in the world were unable to shape a narrative that could put the many disturbing signs into a coherent and logical order with cause and effect properly accounted for. The Bank of England and the Federal Reserve Bank of New York both had a pessimistic view of the future and no clear idea what to do about the economic and political trouble, all emanating one way or the other from the repercussions of World War One, the Versailles peace agreement and the Gold Exchange Standard.⁵⁹ At the Bank of England, Harry Siepmann and his colleagues were no less gloomy. On May 1 Siepmann complained "In the last few weeks the general tone and temper both in this country and elsewhere seem to have suffered a relapse ... A year ago, I suppose most of us suspected that we should be looking towards America by now. But the market there still seems to be going from bad to worse and the prospect of restarting international lending on a grand scale looks remote."⁶⁰ Siepmann also noted the political problems of the proposed Austro-German customs union, and more specifically he was worried about Germany, which was on "very thin" ice.⁶¹

However, while central bankers were well aware of the seriousness of the general world economic outlook and the related political problems, there does not seem to have been a sense that Central Europe was about to "explode". Even fewer expected the first eruption to happen in Vienna, Austria rather than Germany. Nevertheless, it appeared that the ice was even thinner in Vienna than in Germany. On Saturday, May 8, the Credit Anstalt had announced losses of 140 million Schillings, and over the weekend the Austrian Government, the Rothschild banking firm and the Austrian National

Bank arranged a reconstruction with new capital. The National Bank assured that “by these measures the matter is settled ... Loans granted and other claims are in no way endangered and can safely be maintained thus giving valuable support to the realization of the programme.”⁶² That was wishful thinking; it was not going to be that easy.

On Monday, May 10 at 9.30 am Harry Siepmann received a telegram from the Austrian minister of finance, Dr. Juch, urging him to “come to Vienna as soon as possible in order to advise us in a matter of extraordinary importance suffering no delay.”⁶³ It soon became clear that the urgent matter was the Credit Anstalt crisis, and the following day Siepmann sent a telegram to Dr. Reisch in the National Bank that he was unable to advise the Austrian Government and suggested “to wait until the central banking aspects appear more clearly in a few days’ time and then deal with them not by direct association between London and Vienna but rather by association of Vienna with central banks gathered together by that time in Basle.”⁶⁴

Next, Siepmann called Frederick Leith-Ross at the Treasury, saying, “This, I think, is it. ... it may well bring down the whole house of cards in which we have been living ...”, yet another sign that expectations for the future were not optimistic.⁶⁵ Siepmann’s choice to refer the Austrians to Basle was in accordance with Governor Norman’s policy that the BIS was to be the locus of future concerted central bank action, and the very same day, on Tuesday May 11, the BIS sent Francis Rodd and his colleague Hans Simon to Vienna in order to “... canvass situation and to discuss desirability of having available a central bank credit to counter-act effect of news and as second line of defense to reinforce existing satisfactory position of National Bank.”⁶⁶ According to Leon Fraser at the BIS it was still too early to say if an international credit would be needed, but he noted to George Harrison “we are prepared in principle to head and participate in any necessary credit, but first desire to secure data.”⁶⁷ In a follow up message Fraser informed Harrison that the situation was calm, and that the Austrian National Bank did not think it would need a credit unless there were to be serious withdrawals from abroad.⁶⁸ “I shall appreciate your keeping me informed”, Harrison replied to Fraser and asserted that despite some uneasiness in the US over the situation, there was “no real feeling of alarm.”⁶⁹

In London Siepmann wrote to Dr. Juch that Rodd was now on his way to Vienna and that “Any service I might have been able to render will now be better, and more properly, rendered by someone acting and speaking for central banks in their corporate capacity.”⁷⁰ Siepmann also wrote the Governor of

the Austrian National Bank, Richard Reisch, that Bank of England was ready to co-operate but that since the establishment in 1930 of the BIS the situation had changed. "Individual action by central banks ... has been superseded by corporate action through Basle ... I feel quite sure that it would have been a mistake for us to be personally represented in Vienna, for it might well have disturbed your relationship with others as well as our own."⁷¹

Francis Rodd was now the point man in Vienna. It was he, who was to "establish the facts" on which the BIS, Bank of England and the Federal Reserve Bank of New York were to decide on appropriate action. When he arrived in Vienna on May 12, Rodd checked in at the Hotel Sacher in Philharmoniker Strasse and then he went to the Austrian National Bank at Otto Wagner Platz, where he settled into an office. Rodd set out to analyze the situation based on the few facts available and he identified three main issues related to the Credit-Anstalt crisis: first he needed to assess Credit Anstalt's condition, secondly he needed to figure out the foreign exchange position of the Credit Anstalt, the other commercial banks and the National Bank, and, lastly but not least, based on his operating model, it was his task to figure out what to do about it.⁷²

To be continued ...

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Bank for International Settlements, Basle

Bank of England, London

Federal Reserve Board Archive, National Archives, Maryland

Harrison Papers, Columbia University, New York

Lord Rennel of Rodd Archive, Bodleian Library, Oxford

New York Federal Reserve Bank, New York

Rothschild Archive, London

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¹ (Toynbee 1932, v)

² Letter of March 26, 1931 from Harrison to Norman, BEA, G14-23 Governor's File. Correspondence between Norman and Harrison.

³ Memorandum, Basle, June 20, 1931 by Francis Rodd. There are two versions of this memorandum, a draft including a list of recipients deposited in BIS, HA, "A25 Documents. RODD, Confidential papers on Austria and Hungary – by Mr Rodd." and the version sent to Rodd's network in BEA, OV28/69, Credit Anstalt Reconstruction, 20.6.31 - 31.12.31.

⁴ (Maitlis and Christianson 2014, 58 and 109). See also (Weick 1995)

⁵ Memorandum, Basle, June 20, 1931 by Francis Rodd.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Memorandum, Basle, June 20, 1931 by Francis Rodd. BEA, OV28/69, Credit Anstalt Reconstruction, 20.6.31 - 31.12.31, pp. 15-16.

¹⁰ Copy of a note "France", dated 9 May, 1931. BEA, OV45-4 FRANCE COUNTRY FILE, 6 Jan 1931 - 31 Oct 1931. It's difficult to read who wrote the note, but it may say "by Ingrams, ... Chemical Bank", which means that the note was not produced by a Bank of England officer.

¹¹ Letter of June 22, 1931 from Rodd to Gannon. BIS, HA, A25 Documents. RODD: "Confidential papers on Austria and Hungary – by Mr Rodd."

¹² Letter of June 26, 1931 from Kindersley to Rodd. BIS, HA, A25 Documents. RODD: "Confidential papers on Austria and Hungary – by Mr Rodd."

¹³ The most thorough analysis of the Credit Anstalt crisis from an economic perspective remains (Schubert 1991). For more historical perspectives, see for instance (Clarke 1967), (Stiefel 1989), (Cottrell 2001, 1995), (Aguado 2001) and (Toniolo 2005, 84-114). For the role of the Austrian crisis in the contagion to other countries, see also (Oliver 2007, 204-205), (Eichengreen 2015, 142-143), (Boyce 2009, 300-304). In contrast to most other narratives, Boyce is more understanding of the role of the French and the demand that Austria should reject the plans for an Austro-German customs union. Peter Temin sees the Austrian crisis as a precursor, not the cause of the German crisis, (Temin 2016, 469)

¹⁴ (Eichengreen 2015, 140). See also (Ahamed 2009, 404).

¹⁵ The perceived significance of the Credit Anstalt crisis is emphasized by the many references to it since Lehman Brothers' failure. This serves as a good example of how history is being used to make sense of current events. See, for instance, (Economist 2011) (Coy 2011) For a more general discussion of references to the 1930s, see (Samman 2012), (Bordo and James 2010) and (Eichengreen 2015)

¹⁶ (James 2002, 165)

¹⁷ (Eichengreen 1992, 259)

¹⁸ (1931b). In all fairness it should be noted that in the very same issue, *The Economist* also argued that the delay "in international assistance to the Credit-Anstalt ... allowed the fire to spread ..." to Germany, see (1931a)

¹⁹ "International Bank Notes (Letter No. 14)", June 1, 1931, from Merle Cochran to Undersecretary of State, William N. Castle, Junior. NARA, RG39, Box 104, Entry 145, Folder: "G783.5 Special Report Confidential Letters (1-24)"

²⁰ (Streit 1931)

²¹ (Dulles 1932, 477-479)

²² (Clarke 1967, 186)

²³ (Bagehot 1873)

²⁴ (Bagehot 1873, 27-28 and 97). See also (Grossman and Rockoff 2016, 246-250) for a discussion of the Bagehot rule.

²⁵ (Clarke 1967, 185)

²⁶ (Eichengreen 1995, 100)

²⁷ (Grossman and Rockoff 2016, 273)

²⁸ (Grossman and Rockoff 2016, 273)

²⁹ (Hay 2006, 68)

³⁰ See (Aguado 2001), (Cottrell 2001) and to some extent (Toniolo 2005), (Kernbauer 1982), (Schubert 1991)

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- ³¹ (Shiller 2015, 2017), (Akerlof and Shiller 2009) and (North 2005). See also (Lamoreaux 2001) for an interesting discussion of framing, decision-making and leadership. For a discussion of sensemaking, narratives and perception and business history, see (Hansen 2012c, a)
- ³² (Abolafia 2005) (Abolafia 2010) and (Fligstein, Brundage, and Schultz 2014). For blind spots, see (Geiger and Antonacopoulou 2009)
- ³³ (Abolafia 2010, Hansen 2012c, a)
- ³⁴ This is, of course, a paraphrasing of (Geertz 1973, 9): "... what we call our data are really our own constructions of other people's constructions of what they and their compatriots are up to ..."
- ³⁵ (Haas 1992, 3)
- ³⁶ "Summary of an Address by Mr. Pierre Quesnay at the Ecole de la Paix, Paris" February 18, 1931. FRBNY, 797.3 Bank for International Settlements, Jan – Mar 1931
- ³⁷ Letter of June 7, 1932 from Rodd to R.H. Hadow. Archive of Francis Rennell of Rodd, box 146/4 Mr. Rodd's Personal Correspondance. Bodleian Library, Oxford.
- ³⁸ (Abolafia 2010), the quote is from p. 355.
- ³⁹ (Hay 2006, 63 and 68)
- ⁴⁰ For thick description, see (Geertz 1973)
- ⁴¹ (Levi 1991)
- ⁴² See (Hansen 2012a) and (McCracken 1986)
- ⁴³ (Abolafia 2010, 353)
- ⁴⁴ (Baffi 2002, 65-84)
- ⁴⁵ (Baffi 2002, 78-79)
- ⁴⁶ (1978)
- ⁴⁷ (Boobbyer 2016, 14)
- ⁴⁸ (Boobbyer 2016)
- ⁴⁹ (1978)
- ⁵⁰ (Boobbyer 2016, 15 and 24-25)
- ⁵¹ Telegram no 2, 12 May 1931 from Rodd to Fraser. BIS, HA, 6/30. II/1 Granting of Credit of 100,000,000.- Schilling to Austrian National Bank. General information.
- ⁵² NA, Supplement no. 2642, 'Konfidentielt. Samtal med monsieur Pierre Quesnay vid hans besök i Stockholm den 4., 5. og 6. augusti 1930', sent from Rooth to Nationalbanken on 14 August 1930. See also, (Hansen 2012b)
- ⁵³ Bank of England Archive, Country Files: Austria OV28. File No. 3, Supplement 1: Note dated 22 January 1931 prepared by 'CB'. The note is unsigned but it is most likely that Harry Siepmann was the author. See also (Cottrell 1995, 96)
- ⁵⁴ Bank of England Archive, Country Files: Austria OV28. File No. 3, Supplement 1: Note dated 22 January 1931 prepared by 'CB'. The note is unsigned but it is most likely that Harry Siepmann was the author.
- ⁵⁵ Bank of England Archive, Country Files: Austria OV28. File No. 3, Supplement 1: Note dated 22 January 1931 prepared by 'CB'. Unfortunately the note ends abruptly, and a search in the Bank of England Archive has not been able to locate the remaining part.
- ⁵⁶ Copy of letter of 21 April, 1931 from Harrison to Stimson. Harrison Papers, Box 51, Norman, Montagu Collet, Governor of the Bank of England, I (May 1926 – December 1931)
- ⁵⁷ Letter of 20 April, 1931 from Norman to Harrison. Harrison Papers, Box 51, Norman, Montagu Collet, Governor of the Bank of England, I (May 1926 – December 1931)
- ⁵⁸ Letter of 27 April, 1931, from Burgess to Harrison enclosed the "Report of the Chairman of the Open Market Conference to the Governors Conference April 27, 1931". FRBNY, FR credits '31, United States. Federal Reserve, memos on, Credits for Foreigners + Other American Comittees ... 1931-1932, 1936, 1939.
- ⁵⁹ For this general point, see for instance, (Eichengreen 1992), (Ahamed 2009) and (Boyce 2009)
- ⁶⁰ Letter of May 1, 1931 from Siepmann to E.L. Hall-Patch. BEA, ADM25-5, Papers of Harry Siepmann Correspondence, 1 Jan – 20 Jun 1931.
- ⁶¹ Letter of May 1, 1931 from Siepmann to E.L. Hall-Patch. BEA, ADM25-5, Papers of Harry Siepmann Correspondence, 1 Jan – 20 Jun 1931.
- ⁶² Telegram of May 11, 1931 from Austrian National Bank to Federal Reserve Bank of New York. FRBNY, C261.1 National Bank (Austrian Nat'l Bank) Credit, May 1931 – Dec 1932, 1 of 2.

⁶³ Bank of England Archive, Austria OV 28, no. 3: 1931 1st Jan. - June 15th. Telegram dated 10 May from Dr. Juch to Siepmann.

⁶⁴ Bank of England Archive, Austria OV 28, no. 3: 1931 1st Jan. - June 15th. Telegram dated 11 May from Siepmann to Dr. Reisch.

⁶⁵ (Leith-Ross 1968, 133) and (Ahamed 2009, 404).

⁶⁶ Telegram of 11 May from Fraser, BIS to Harrison, FRBNY, Harrison Papers, Box 16, binder 36, Personal Cables, 1930-1935 (McGarrah & Fraser while at BIS).

⁶⁷ Telegram no. 4501 of 11 May from Fraser, BIS to Harrison, FRBNY. Harrison Papers, Box 16, binder 36, Personal Cables, 1930-1935 (McGarrah & Fraser while at BIS).

⁶⁸ Telegram no. 4502 of 11 May from Fraser, BIS to Harrison, FRBNY. Harrison Papers, Box 16, binder 36, Personal Cables, 1930-1935 (McGarrah & Fraser while at BIS).

⁶⁹ Telegram of 12 May from Harrison to Fraser. Harrison Papers, Box 16, binder 36, Personal Cables, 1930-1935 (McGarrah & Fraser while at BIS), and telegram of 12 May, 1931 from Harrison to Austrian National Bank. FRBNY, C261.1 National Bank (Austrian Nat'l Bank) Credit, May 1931 – Dec 1932, 1 of 2

⁷⁰ Bank of England Archive, Austria OV 28, no. 3: 1931 1st Jan. - June 15th. Letter dated 11 May from Siepmann to Dr. Juch.

⁷¹ Ibid. supplement 13: Letter dated 13 May from H. Siepmann, Bank of England to R. Reisch, Austrian National Bank. At the board meeting in Basle a week later, Norman also told Reisch that the establishment of the BIS, had made "... concerted action not only possible but also obligatory." See, "Note on the meeting of governors held in Basle on Sunday, the 17th May 1931", Bank of England Archive, Austria OV 28/3, 1931 1st Jan. - June 15th. It may have influenced Bank of England's decision that, allegedly, Norman did not trust Reisch as the Governor of the Austrian central bank; a problem that dated back to the reform of the Austrian monetary system in the early 1920s, see (Ahamed 2009, 404)

⁷² Letter no 1, 12 May 1931 from Rodd to Fraser. BIS, HA, 6/30. II/1 Granting of Credit of 100,000,000.- Schilling to Austrian National Bank. General information.