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BANKERS' TRUST

How Social Relations Avert Global Financial Collapse

Aditi Sahasrabuddhe

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Abbreviations

Banxico	Banco de Mexico, or Bank of Mexico
BEA	Bank of England Archives
BIS	Bank for International Settlements
BISA	Bank for International Settlements Archive
BoE	Bank of England
BoJ	Bank of Japan
BSA	Bilateral Swap Agreement
ECB	European Central Bank
EME	Emerging Market Economy
EPU	European Payments Union
ESF	Exchange Stabilization Fund
FIMA	Foreign and International Monetary Authorities
FOMC	Federal Open Market Committee
FRASER	Federal Reserve Archival System for Economic Research
FRB	Federal Reserve Board
FRBNY	Federal Reserve Bank of New York (also New York Fed)
G7	Group of 7
G10	Group of 10
G20	Group of 20
GAB	General Agreements to Borrow
GFC	Global Financial Crisis
GFSN	Global Financial Safety Net
HBOS	Halifax plc and Bank of Scotland
HSBC	Hong Kong and Shanghai Banking Corporation
IFI	International Financial Institution
ILLR	International Lender of Last Resort
IMF	International Monetary Fund
NAFA	North American Framework Agreement
NAFTA	North Atlantic Free Trade Agreement
OEEC	Organisation for European Economic Co-operation
PBoC	People's Bank of China
RBI	Reserve Bank of India
RBML	Columbia University Rare Book and Manuscript Library
RCA	Reciprocal Currency Arrangement

Repo	Repurchase facility
SNB	Swiss National Bank
TAF	Term Auction Facility
WEC	World Economic Conference

Cast of Characters

Ansiaux, Hubert, Governor of the National Bank of Belgium (1957–1971).

Avenol, Joseph, Deputy Secretary-General (1923–1933) and Secretary-General of the League of Nations (1933–1940).

Baring, George Rowland Stanley, Lord Cromer, the Third Earl of Cromer, Governor of the Bank of England (1961–1966).

Bean, Charles R., Deputy Governor for Monetary Policy of the Bank of England (2008–2014).

Bernanke, Benjamin S., Chair of the Federal Reserve Board of the United States (2006–2014).

Blessing, Karl, President of the Deutsche Bundesbank (1958–1969); assistant to the Reichsbank President (1929–1934); at the Reich Ministry of Economics (1934–1939).

Bradbury, John S., Joint Permanent Secretary to the Treasury (1913–1919); and Principal British Delegate to the Reparations Committee in Paris (1919–1925).

Bradbury, Sir John (later Lord), with British Treasury (1913–1919); and British Delegate, Reparation Commission (1919–1925).

Bridge, Roy Arthur Odell, joined the Bank of England in 1929; later UK alternate director to the European Payments Union (1950–1952); Deputy Chief Cashier (1957–1963), Adviser to the Governors (1963–1965), and Assistant to the Governors (1965–1969) at the Bank of England.

Brunet, Jacques, Governor of the Bank of France (1960–1969).

Bruning, Heinrich, German Chancellor (1930–1932).

Bullard, James Brian, President and Chief Executive Officer of the Federal Reserve Bank of St. Louis (2008–2011).

Carli, Guido, Director General (1959–1960) and Governor (1960–1975) of the Bank of Italy; later Italian Minister of the Treasury (1989–1992); and President of the LUISS University of Rome, now LUISS Guido Carli (1978–1993).

Case, James Herbert, Deputy Governor (1917–1930) and Chairman of the Board, and Federal Reserve Agent (1930–1936) of the Federal Reserve Bank of New York.

Churchill, Winston (later the British Prime Minister), First Lord of the Admiralty (1911–1915); and Chancellor of the Exchequer (1924–1929).

Ciechanowski, Jan, Polish Minister to the United States (1925–1929).

Clemenceau, Georges, Prime Minister of France (1917–1920).

Cobbold, Cameron Fromanteel, Governor of the Bank of England (1949–1961).

Coombs, Charles, Vice President in Charge of the Foreign Department and Special Manager of the Federal Open Markets Committee, Federal Reserve Bank of New York.

Crane, Jay E., Manager, Foreign Department (1919–1927), Assistant Deputy Governor (1928–1929), and Deputy Governor (1929–1935), Federal Reserve Bank of New York.

Cunliffe, Walter, Governor of the Bank of England (1913–1918).

Dawes, Charles G., President (1902–1921) and Chairman (1921–1925), Central Trust Co. of Illinois; American Member and Chairman, First Committee of Experts on Reparations (1924); Vice President of the United States (1925–1929); and American Ambassador to Great Britain (1929–1932).

de Rothschild, Édouard Alphonse James (Baron), French aristocrat and financier, Regent of the Bank of France (during the Great Depression).

de Wendel, François, French industrialist and politician; Regent of the Bank of France (1913–1936).

Dewey, Charles, Assistant Secretary to the United States Treasury (1924–2917); and Financial Adviser to the Polish government (1927).

Dillon, Douglas, United States Secretary of the Treasury (1961–1965); and US Under Secretary of State (1959–1961).

Ferguson Jr., Roger W., Member of the Federal Reserve Board of Governors (1997–1999); and Vice Chair of the Federal Reserve (1999–2006).

Fisher, Richard W., President and Chief Executive Officer of the Federal Reserve Bank of Dallas (2005–2015).

Fowler, Henry Hammill, US Secretary of the Treasury (1965–1968).

Franck, Louis, Governor of the National Bank of Belgium (1926–1937).

Franks, Sir Oliver Shewell, British Ambassador to the United States (1948–1952).

Fraser, Leon, Director and Alternate President (1930–1933), and President (1933–1935) of the Bank for International Settlements.

Fukai, Eigo, Deputy Governor (1928–1935) and Governor (1935–1937), Bank of Japan; and previously Secretary to the Minister of Finance and Financial Adviser to the Japanese delegation at the Paris Peace Conference in 1919.

Geithner, Timothy F., President and Chief Executive Officer of the Federal Reserve Bank of New York (2003–2009).

George, David Lloyd, Prime Minister of the United Kingdom (1916–1922).

Harrison, George L., Deputy Governor (1920–1929) and Governor (1928–1936); and President of the Federal Reserve Bank of New York (1936–1940).

Harvey, Ernest Musgrave, Chief Cashier of the Bank of England (1918 to 1925), Comptroller (1925–1928), Director (1928–1929), and Deputy Governor (1929–1936), Bank of England.

Hautain, Fernand, Governor of the National Bank of Belgium (1923–1926).

Havenstein, Rudolf, President of the Reichsbank (1908–1928).

Hayes, Alfred, President of the Federal Reserve Bank of New York, and Vice Chairman of the Federal Open Markets Committee (1956–1975).

Holtrop, Dr. Marius, President of De Nederlandsche Bank (1946–1967).

Hoover, Herbert, Director of the United States relief program in Europe (1914–1919); Secretary of Commerce of the United States (1921–1928); and President of the United States (1929–1933).

Hull, Cordell, Congressional Representative (1923–1931) and Senator (1931–1933), Tennessee; and US Secretary of State (1933–1944).

Iklé, Max, Head of Department III, Swiss National Bank (1956–1968).

Ingves, Stefan Nils Magnus, Governor of the Sveriges Riksbank (2006–2022).

Inoue, Junnosuke, Governor of the Bank of Japan (1919–1923 and 1927–1928); and Minister of Finance (1923–1924 and 1929–1931).

Jacobsson, Per, Chief Economist at the Bank for International Settlements (1931–1956); and Managing Director of the International Monetary Fund (1956–1963).

Jay, Pierre, Chairman of the Federal Reserve Bank of New York (1913–1927).

Johnson, Lyndon B., Vice President of the United States (1961–1963); and President of the United States (1963–1969).

Kemmerer, Edwin W., Economics Professor at Princeton University (1912–1943); and adviser to many foreign governments (1917–1934).

Kennedy, John F., Congressional Representative (1947–1953) and Senator (1953–1960), Massachusetts; and President of the United States (1961–1963).

Keynes, John Maynard, Economist and Fellow at King's College, Cambridge University; Member of the Macmillan Committee (1919–1931); and author of *The Economic Consequences of the Peace* (1919), *A Tract of Monetary Reform* (1932), *The Economic Consequences of Mr. Churchill* (1925), and *The General Theory of Employment, Interest, and Money* (1936).

King, Lord Mervyn, Governor of the Bank of England (2003–2013).

Kohn, Donald L., Vice Chair of the Federal Reserve Board of the United States (2006–2010); later Senior Fellow at Brookings Institution and member of the Financial Policy Committee for the Bank of England.

Lacour-Gayet, Robert, Financial Attaché at the French Embassy in Washington (1924–1930); and Director of Economic Research, Bank of France (1930–1936).

Lamont Jr., Thomas William, Partner at J. P. Morgan & Co. (1911–1947).

Layton, Walter, Member of the British Liberal Party, Editor of *The Economist* (1922–1938).

Logan, James A., Unofficial American Delegate, Reparation Commission (1923–1925).

Luther, Hans, German Minister of Finance (1923–1925); German Chancellor (1925–1926); and President of the Reichsbank (1930–1933).

MacDonald, J. Ramsey, British Prime Minister (1924, 1929–1935).

Martin Jr., Willian McChesney, Chairman of the US Federal Reserve and Member of the Board of Governors (1951–1970).

McGarrah, Gates W., American Member, General Counsel of the Reichsbank (1924–1927); Chairman and Federal Reserve Agent at the Federal Reserve Bank of New York (1927–1930); and President of the Bank for International Settlements (1930–1933).

Mereilles, Henrique de Campos, Chair of the Central Bank of Brazil (2003–2010); and Minister of Finance (2016–2018).

Mishima, Yatarō, Governor of the Bank of Japan (1913–1919).

Mlynarski, Felix, Vice President of PKO Bank Polski (1924).

Moley, Raymond, American lawyer; and Adviser to President F. D. Roosevelt (1932–1933).

Moll, Victor, Governor and First Deputy of the Sveriges Riksbank (1912–1929).

Monnet, Jean, Deputy Secretary-General of the League of Nations (1919–1923); partner at Bancamerica-Blair (1925–1929); and President of the High Authority of the European Coal and Steel Community (1952–1955).

Moreau, Émile, Governor of the Bank of France (1926–1930).

Moret, Clement, French Ministry of Finance (1908–1928); Deputy Governor (1928–1930) and Governor (1930–1935), Bank of France.

Morgan, J. P., Partner (1891–1940) and Senior Partner (1913–1940) at J. P. Morgan & Co.; Chairman of J. P. Morgan & Co., Inc. (1940–1943); and American Member, Committee of Experts on Reparations (1929).

Mynors, Humphrey Charles Baskerville, Deputy Secretary (1938–1949), Director (1949–1954), and Deputy Governor (1954–1964), Bank of England.

Norman, Montagu Collet (later Lord), Director (1907–1944), Deputy Governor (1918–1920), and Governor (1920–1944), Bank of England.

O'Brien, Leslie Kenneth, Governor of the Bank of England (1966–1973).

Oddsson, Davíð, Governor of the Central Bank of Iceland (2005–2009).

Ortiz Martínez, Guillermo, Governor of the Bank of Mexico (1998–2009).

Pallain, Georges, Governor of the Bank of France (1897–1920).

Parsons, Maurice Henry, joined the Bank of England in 1928, Private Secretary to the Governor of the Bank of England (1939–1943); Director of Operations at the International Monetary Fund (1947–1950); Deputy Cashier and Assistant to the Governors (1950–1957), Executive Director (1957–1966), and Deputy Governor (1966–1970), Bank of England.

Pierre-Koszul, Julien, Head of the Foreign Department at the Bank of France.

Plosser, Charles Irving, President of the Federal Reserve Bank of Philadelphia (2006–2015).

Pöhl, Karl Otto, President of the Bundesbank and Chairman of its Central Bank Council (1980–1991).

Quesnay, Pierre, General Manager and Head of the Economic Analysis Department of the Bank of France (1926–1929); and first General Manager of the BIS (1930–1937).

Raminsky, Louis, Governor of the Bank of Canada (1961–1973).

Reuff, Jacques Leon, French economist and adviser to the French government.

Rist, Charles, Professor at the University of Paris (1914–1926); Deputy Governor of the Bank of France (1926–1929); Financial Counselor of the National Bank of Rumania (1929).

Robineau, Georges, Governor of the Bank of France (1920–1926).

Roosa, Robert, Federal Reserve Bank of New York (1946–1961); Under Secretary for Monetary Affairs at the US Treasury (1961–1964); General Partner at Brown Brothers Harriman & Company (1965–1991).

Roosevelt, Franklin Delano, Governor of New York (1929–1932); and President of the United States (1933–1945).

Rooth, Ivar, Governor of the Sveriges Riksbank (1929–1948).

Rosengren, Eric S., President and Chief Executive Officer of the Federal Reserve Bank of Boston (2007–2021).

Sayers, Richard Sidney, Economist and historian specialized in the history of banking; Lecturer at the LSE and Oxford; and author of *Bank of England, 1891–1944* (1976).

Schacht, Horace Greeley Hjalmar, President of the Reichsbank (1923–1930 and 1933–1939).

Schwegler, Walter, Head of Department III (1954–1956), Chairman and Head of Department I (1956–1966) of the Swiss National Bank, and Member of the Board of the Bank for International Settlements (1956–1966).

Sheets, Nathan, Director of the Division of International Finance at the Federal Reserve (2007–2011), and Under Secretary of the Treasury for International Affairs (2014–2017).

Shirakawa, Masaaki, Deputy Governor (2008) and Governor (2008–2013) of the Bank of Japan; previously General Manager for the Americas for the Bank of Japan, and Professor at Kyoto University.

Siepmann, Harry A., Assistant to Finance Member, Executive Council of the Governor General of India (1922–1926); Head of the Central Banking Section (1926–1936) and Director (1945–1954), Bank of England.

Skinner, Ernest, Private secretary to Montagu Norman.

Sproul, Allan, President of the Federal Reserve Bank of New York (1941–1956).

Stewart, Walter W., Director of the Division of Research and Statistics of the Federal Reserve Board (1922–1925); Vice President (1926–1927), Chairman (1930–1937), and President (1937–1938) at Case, Pomeroy & Co.; Economic Adviser at the Bank of England (1928–1930).

Strong, Benjamin, Governor of the Federal Reserve Bank of New York (1914–1928).

Subbarao, Duvvuri, Governor of the Reserve Bank of India (2008–2013).

Trichet, Jean-Claude, President of the European Central Bank (2003–2011).

Triffin, Robert, Belgian-American economist, notable for his critique of the Bretton Woods system (later known as the Triffin Dilemma).

Tucker, Paul, Deputy Governor for Financial Stability of the Bank of England (2009–2013).

Tüngeler, Johannes, Director of the Foreign Department of the Bank of German States (1948–1953); member of the Board of Directors (1953–1976), Board of Directors and the Central Bank Council (1957–1976), Deutsche Bundesbank; Reich Ministry of Economics previously (1917–1945).

Van Hengel, Adrianus Johannes (Arie), Delegated commissioner at the Rotterdamsche Bankvereenining (1924–1927); International Committee (1931); and Director General of Credit Anstalt (1932–1936).

Vanderlip Sr., Frank Arthur, President of the National City Bank of New York (1909–1919).

Vissering, Gerard, Governor of De Nederlandsche Bank (1912–1930).

Wilson, James Harold, Prime Minister of the United Kingdom (1964–1970 and 1974–1976).

Wilson, Woodrow, President of the United States (1913–1921).

Yellen, Janet Louise, President and Chief Executive Officer of the Federal Reserve Bank of San Francisco (2004–2010); Member of the Federal Reserve Board of Governors (1994–1997); Vice Chair (2010–2014) and Chair (2014–2018) of the Federal Reserve.

Young, Owen D., Chairman of General Electric Co. (1922–1939); Chairman of Radio Corporation of America (1919–1929); American Member, First Committee of Experts on Reparations (1924); American Member and Chairman of the Committee of Experts on Reparations (1929); Interim Agent General for Reparation Payments (1924); and Director of the Federal Reserve Bank of New York (1923–1940).

INTRODUCTION

Because a man I do not trust could not get money from me on all the bonds of Christendom.

—J. P. Morgan Sr. (Money Trust Investigation, 1912)

"I wished you could have met M. Franck—so very different from Hautain. A gentleman, who speaks English beautifully + opens his heart as well as his head + states his case firmly without being dogmatic . . . and Flemish instead of Latin!"[1]

This is what Montagu Norman, governor of the Bank of England, wrote to his counterpart in New York, Benjamin Strong, in 1926. Louis Franck had just taken over the post of governor of the National Bank of Belgium (NBB) from Fernand Hautain, during Belgium's interwar currency stabilization efforts.

The previous year, Strong, Norman, and J. P. Morgan bankers had discussed the issue of currency stabilization of the Belgian and French francs following the temporary cessation of the gold standard system after the First World War. For this, Hautain and Strong had arranged a line of credit from New York, supported by similar credits from Norman and other European neighbors. A series of loans to Belgium had been agreed upon between a handful of central bankers led by Strong.

Soon, Strong learned that Hautain had failed to inform him that the Belgian central bank had not secured its autonomy. Strong was disheartened about his experience with the Belgian central bank. Strong's position was now "so materially altered" that Norman could no longer "count on [his] participation in the central bank credit." Strong believed that they must "hereafter be fully informed of the bank's condition."[2] The loan fell through.

Strong's concerns with Hautain were bigger than the issue of the NBB's autonomy. Strong's discouragement did not arise "as much out of the figures and the facts as out of the way the situation was being handled"—in other words, a breach of trust. An official at the Federal Reserve Bank of New York (FRBNY or New York Fed) noted that Hautain "couldn't speak much English" and did not strike him "as a man of much mental calibre." Strong confided, "Very confidentially, I haven't confidence in Hautain" because he "never carried out his promise" to keep the Fed informed. Strong did not trust that Hautain had given them "all the essential information, notwithstanding repeated requests for it."[3] Hautain had "antagonised everyone and they all have lost confidence in him."[4] As Hautain's term ended, it was important to policymakers in Belgium and abroad that they "must be satisfied as to his successor."[5] When Franck took up the post, they were.

Franck's assumption of the position turned Belgium's fortunes around, with regards to accessing credits from New York and London. After Franck assumed the governorship in October 1926, cooperation grew "closer and closer" with the Bank of England and, by extension, with Strong in New York, as well as his counterparts in Germany and the Netherlands. Quickly and collectively, they arranged a credit to stabilize the Belgian franc.[6]

Norman and Strong had developed "a certain proprietary feeling about Belgian stabilization" and subsequent currency stabilization efforts across Europe. Little was known outside this handful of banks about these large loans that had been "secretly made" to support Belgium.[7] Even the governor of the Bank of France, Émile Moreau, was kept in the dark until later.

Norman and Strong's control over the interwar European economy had implications for their continental counterparts. Invitations to participate in stabilization loans were extended by Norman, who limited any cooperative efforts to his friends. Moreau, who Norman disliked and distrusted, groused that "the order in which the invitations were extended was, at the very least, undiplomatic."[8] Any questions that required Moreau's cooperation were, in Arthur Turner's words, "bedeviled throughout by personal animosities, misunderstandings, and deeply ingrained suspicion" of one another's motives.[9] As Charles Kindleberger notes, this rivalry "over which should take the leadership in restoring independence to central banks and stabilization of currencies in Eastern Europe would be pathetic, had it not run risks of instability for the system as a whole."[10]

Personalities, personal relations, and trust matter. They matter even in contexts where social scientists have largely tended to accept that they don't: policymaking in international finance. This short, and admittedly arcane story puts a face to finance to illustrate who is behind these policy decisions and how they make them. It also highlights how personal relationships, trust, and confidence among policymakers—here, central bank leaders—can enhance a country's access to financial assistance in times of need. Personal rivalries and animosities, and a lack of personal trust and goodwill, on the other hand, can hurt a country's circumstances.

Why are some financial pressures met with extensive central bank cooperation, such as the ad hoc credit arrangements extended to Belgium, while other pressures are allowed to escalate? And why are such arrangements available to only some economies but not others? Scholars have tended to lean on a wide set of political and economic explanations, from the perspective of various levels of analysis, for varying patterns of cooperation: the balance of power in international politics,[11] formal and informal rules and norms that institutionalize and constrain behavior,[12] the financial and national interests of states and domestic publics,[13] existing interstate economic or financial ties,[14] the functional necessity of cooperative solutions to shared problems or aims,[15] or because shared policy preferences and intersubjective understandings among officials from different countries naturally lead to such outcomes.[16] The role of particular individuals and leaders, and their personal relations, have rarely featured in these explanations.[17] Instead, political scientists and economists tend to view such policymaking as automatic and mechanical, with little attention paid to the agents who enact it.[18] We lack a theory that links leaders and their own social and personal relations to their job of policymaking.

Bankers' Trust is about how central banks have cooperated when faced with system-threatening financial pressures and crises over the last century (roughly 1920–2020) and why they failed to do so during the Great Depression. I focus primarily on the role of central bankers, usually central bank leaders, in arranging some of the most extensive, but relatively underexplored strategies for crisis management: ad hoc, bilateral credits, loans, and central bank currency swaps in the last century. I argue that interpersonal ties of trust between central bank leaders facilitates ad hoc and bilateral cooperation around these arrangements in times of crisis and uncertainty.

The lack of attention to interpersonal relationships is an unfortunate oversight, given that global governance does not happen automatically: people make it happen.[19] In normal times, systems of rules and conventions prevent leaders from engaging in arbitrary governance.[20] But even in rules-based systems, some agents retain meaningful discretion and can circumvent these constraints. In monetary affairs, central bank leaders' discretion is heightened in moments of market disequilibrium, or shocks, such as financial crises.[21] Normal rules no longer suffice, and conventional metrics lose meaning as assets and balance sheets become impossible to value plausibly.[22] In situations of crisis and radical uncertainty, market actors, and for the specific purpose of crisis management, monetary authorities, must intervene by making rapid, subjective decisions that rely on personal knowledge, familiarity, and trust.[23]

The interwar years were not normal times. They were marked by hyperinflation, banking crises, and dramatic political change, atop the ravages of the First World War. While Strong and Norman's ability to lend was constrained by the rules of the gold standard, it was not these constraints that made the initial loan to Belgium fall through. It was a breach of trust, misleadingly incomplete information, and disheartening interactions that changed Strong's mind. Only when Norman, satisfied with Hautain's successor, vouched for him to Strong, was this loan floated. But Norman's assessment had nothing to do with material concerns. He was not swayed by Belgium's economic position and resources; Franck's character, communication, and even Flemish identity instilled trustworthiness in him. Norman's judgment was personal and subjective.

How can we have an international financial system without trust? Money, after all, is trust instantiated. Rules and institutions, policy regimes, and market signals all serve to instill trust in global finance. In normal times, this trust is "just there," it is habitual, and people do not really need to think about it. In conditions of uncertainty and upheaval, this trust needs to be reclaimed or created, and quickly.[24] I argue that in these conditions, interpersonal relations of trust between leaders, independent of economic resources and broader political and economic considerations, can grease the wheels of financial governance and crisis management.

The central claim of my book is that when central bankers share personal ties of trust with their counterparts, especially with the key issuer of liquidity support, this enables them to engage in extensive, ad hoc, and bilateral cooperation, in conditions of crisis and uncertainty. The strength of these personal ties will influence the terms of these arrangements: strong interpersonal trust among leaders will have the most favorable terms. Looser ties will entail limits and safeguards. Absent these ties, leaders must turn to costlier alternatives.

The Politics of the Global Financial Governance

Today, crisis management relies increasingly on an extensive network of bilateral swap lines between central banks that, at least initially, emerged in a rapid, ad hoc manner, during the global financial crisis (GFC). The ad hoc nature of these arrangements raises worrisome questions about the robustness and durability of the global financial safety net. Yet we know little of how these arrangements come about in the first place.

I develop a relational argument to explain three interrelated outcomes: why central bankers have been able to employ these strategies in some crises but not others; why some central banks can access these tools but not others; and, where the terms of these credits and swaps are explicit and known, why they vary among recipients. Before turning to the argument, I briefly describe the types of liquidity assurance and crisis management strategies available to monetary authorities.

The core principles of financial crisis management have been informed by the insights of Walter Bagehot, a writer and banker in Victorian Britain, who proposed the principle of "lending freely against good collateral at a penalty rate" to guide the central banks, acting as lenders of last resort (LLR), to guarantee the liquidity of the whole economy.[25] Because financial crises starting in one country can quickly spread to others, there is also a need for an international financial governance system to manage systemic crises as a global public good. So, Bagehot's dictum, while domestically oriented, also guides international lender of last resort (ILLR) functions.[26]

In a financial crisis, monetary authorities have a host of unilateral, multilateral, and bilateral options to put out the fire. Each poses economic and political trade-offs, costs, and benefits.[27] First, unilateral strategies include drawing on reserves, domestic bailouts, and rescue packages. Drawing on reserves carries significant costs: it relies on substantial self-insurance policies of accumulating these reserves in the first place. Self-insurance comes at the cost of holding large sums of foreign exchange reserves, which must be invested in liquid assets. They may also not suffice when needed. Bailouts to specific banks or other corporate actors are contentious policy choices, often generating substantial domestic political pushback. But these options are speedy and require no international negotiations to arrange and deploy.

Policymakers may also turn to a second option to meet liquidity needs: multilateral strategies such as reserve pooling or international institutional arrangements such as International Monetary Fund (IMF) loans or other intergovernmental negotiated adjustments. These multilateral options usually carry stringent conditions and encroach on borrowers' monetary sovereignty. They may also not be adequate and can take a long time to negotiate between international financial institutions and debtor countries.[28] In a crisis, when days and even hours count, negotiation time is a crucial weakness of this approach. For these reasons, among others, even in multilateral arrangements, formal rules may be suspended and substituted by informal, modified governance arrangements or may be influenced by unwritten rules. While such informal governance in international organizations (IOs) is undoubtedly an important element of crisis management efforts, this book is focused on a third liquidity assurance strategy: bilateral assistance between central banks.[29]

Bilateral liquidity assurance strategies, such as swaps and credits between central banks, are much less costly than unilateral and multilateral strategies.

They offer a flexible, ad hoc, and rapid means to inject massive amounts of liquidity into the financial system without arduous negotiations with multiple entities. Recipient central banks are free to lend this foreign exchange to domestic banks in their jurisdictions on their own terms. However, bilateral liquidity depends on the availability of another country being willing to take the risk of providing liquidity.

In this book, I argue that the availability of these instruments can be influenced by central bankers' personal relations. Despite significant changes in currency and monetary systems in the last century—the move from the gold standard to today's fiat money and the shift away from sterling to dollar primacy—the nature of liquidity assurance and financial governance has stayed very much the same. And despite the extensive investment in creating institutions, norms, and conventions for crisis management, central bankers, time and again, circumvent these traditional mechanisms in favor of ad hoc, bilateral approaches to managing financial pressures. Each crisis decidedly shows central bankers' preferences for bilateral strategies (over unilateral or multilateral strategies) to meet liquidity needs. This happened all through the 1920s to address financial challenges after the First World War. It was repeated in the 1960s to patch up holes in the Bretton Woods safety net and, again, during the GFC that began in 2007. In the very worst of times, despite extensive ad hoc cooperation in the 1920s, no financing option seemed up to the task of stemming the Great Depression as it escalated.

I focus on the use of ad hoc, bilateral instruments during crises—central bank currency swaps and other flexible interbank loans and credit lines—that have emerged at the core of the global economy and the international reserve currency, be it the dollar, sterling, or gold. The technicalities of how these bilateral instruments operate has varied over time. But a common feature unifying these differences is a long but patchy history of central banks coming to one another's assistance in times of need. They are all ad hoc, short-term, liquidity instruments arranged bilaterally between partner banks. They are flexible loans from central banks to one another at very favorable terms: no costly conditionality.

Crisis and Uncertainty

My argument is specific to situations of crisis and uncertainty. Crises "signal the obsolesce of the status quo in markets and policy regimes and inject deep uncertainty into agents' decision calculus."[30] This world of uncertainty is different to the world of risk, as most lucidly and eloquently explained by John Maynard Keynes:

> By "uncertain" knowledge, let me explain, I do not mean merely to distinguish what is known for certain from what is only probable. The game of roulette is not subject, in this sense, to uncertainty. . . . The sense in which I am using the term is that in which the prospect of a European war is uncertain, or the price of copper and the rate of interest twenty years hence, or the obsolescence of a new invention. . . . About these matters there is no scientific basis on which to form any calculable probability whatever.[31]

Crises generate volatility beyond structural shifts in the economy or in the distribution of capabilities. Uncertainty poses a pervasive constraint. It limits agents' abilities to meaningfully assess future trends.[32] In such a context, agents can no longer think and make decisions in probabilistic terms.[33] As Keynes reminds us, "Human decisions affecting the future, whether personal or political or economic, cannot depend on strict mathematical expectation, since the basis for making such calculations does not exist."[34] When economic conditions are inauspicious and conventional signals of credibility no longer reliable, we fall back on subjective reasoning, personal knowledge, and familiarity, to inform decisions.

From this view, constructivist scholars show that intersubjective understandings and shared beliefs can facilitate cooperation and policy choices.[35] Central bankers' career trajectories can influence monetary policies and levels of central bank independence.[36] Shared career backgrounds and "the revolving doors" among policymakers across governance institutions also shape outcomes in financial governance.[37] They are embedded in social relations, which produce trust in economic exchange that influence individual actions and economic outcomes.[38] However, these works tend to overlook the complementary role that social relations and interactions play in economic processes. They ascribe policy outcomes not to the agents themselves but instead to agent attributes, thus treating embeddedness itself as the explanatory mechanism.[39]

Bankers' Trust similarly questions and challenges the assumptions of risk and rationality but departs from an attributional focus to give pride of place to the agents themselves. It joins a small but emerging literature on relational international politics as well as the study of financial diplomacy.[40] Crisis and uncertainty create room for greater agency, raising questions for how agents respond to events and contexts that necessitate change and how they act to "give meaning to such material changes."[41] Crises, therefore, pose distinct questions about global governance to those of routine governance supported by arm's-length ties in an "asocial market sphere."[42] Evaluating decision-making in crises necessitates a closer look at how agents operate within their professional, personal, and interpersonal relations, with attention to the agents themselves.

The Argument

Personal relations among financial diplomats can shape outcomes of crisis management. Interpersonal ties of trust between central bank leaders facilitates ad hoc and bilateral cooperation using currency swaps. Differentiated personal ties by degree—stronger, looser, or absent—of interpersonal trust can influence the likelihood of accessing ad hoc, bilateral liquidity assistance from partner central banks and the terms of the arrangement. Central bankers with the closest personal relations and trust to the core issuer of the reserve currency will be more likely to receive more favorable terms on credits or swaps. Where ties are looser, liquidity may still be extended but with some limits and conditions to hedge against risks. Leaders outside these circles, who do not enjoy personal ties of trust with the provider, may be forced to turn to more costly alternatives. Such cooperation, which is highly interpersonal and exclusive, is most easily conducted in secret.

Interpersonal Trust and Personal Relationships

In global financial governance, Paul Volcker and Toyoo Gyohten note that central bankers are "uniquely able to deal with each other on a basis of close understanding and frankness."[43] Their actions are not structurally determined solely by positions and roles but are comprised of histories and subjective preferences.[44] This is most crucial in the context of crisis and radical uncertainty, when normal functions and operations are set aside, calling for new interventions to manage crises.

Exploring the intersection between intimate relations and monetary transfers among individuals in various physical, familial, and other social relations—a context very different to central banking—Viviana Zelizer moves "beyond embedding." She notes that "producers are not just embedded in a market" but "actually constitute the market's interface in, and as a set of, their perceptions and choices";[45] economic transactions are thus shaped by meaningful interpersonal transactions. At the intersection of intimate relations and monetary transfers among individuals in social relations, in all economic activity, "people engage in the process of differentiating meaningful social relations."[46] It is not just the individual but, as Zelizer suggests, the "negotiated interpersonal transactions . . . that become the starting point for social processes."

The unique understanding and frankness of which Volcker and Gyohten speak is not available to all, and this has significant effects on outcomes of crisis management. Central banks negotiate the interface between national economies. In a crisis, how they do this is increasingly at the discretion of central bank leaders. The "differentiated ties" framework thus allows us to understand how people, here, central bankers, differentiate meaningful social relations by erecting boundaries, marking and distinguishing relationships with different practices, and designating specific economic transactions as appropriate to relationships.[47] Leaders distinguish interpersonal ties with varying and preferential economic transactions, which has important implications for central banks' options for meeting liquidity needs when faced with financial pressures. Through their relationships and cooperation, central bankers shape the landscape of global governance and reinforce hierarchies and inequalities in the global financial system.

In 1921, Strong wrote to Norman, "I suppose it is a fact that in none of our business relations has the personal relation played so large a part as in banking."[48] Their partnership transformed interwar central bank cooperation into a formal agenda. In the policy realm, Karl Otto Pöhl, a former Bundesbank president, also notes how interpersonal relations shape institutions: "It is the close friendships, not financial resources, that are the real strength of this institution. Different personalities could mean a different BIS."[49]

Central to the substance of these personal relations is interpersonal trust. By trusting we act under the belief that the other will not harm us or our welfare. We accept being vulnerable to risks, and do so in the absence of third-party supervision.[50] Actors who share *interpersonal* trust do not experience that vulnerability and indeed make themselves vulnerable as they do not expect to be exploited in their decision to trust.[51] Here, trust is thus a personal bond that enables risk-taking. It is especially important under conditions of uncertainty when conventional signals become unreliable, as it enables actors to undertake risky endeavors by relying on subjective cues and judgment.

Trust is also an emotional belief that indicates confidence in the goodwill and competence of another.[52] Feelings of goodwill, made up by the structure and the content of the actor's social relations, strengthen the interpersonal aspects of these trust ties. Such ties are rooted in friendship and a sense of obligation, and actors can rely on the support of those with whom they share such relations. Such ties have long been integral in international diplomacy, in questions of conflict, cooperation, and crisis. The influence of policymakers' personal relations in shaping outcomes in international politics is also certainly not limited to the monetary sphere.

For example, David Lloyd George and Woodrow Wilson's personal relationship differed from their ties with Clemenceau in France, and this mattered for diplomatic relations and cooperative efforts in the years following the First World War. Lloyd George and Wilson frequently dropped in on each other and met for lunches or dinners during the Peace Conference, while Clemenceau kept to himself. This social and personal distance was disadvantageous for the French during negotiations. The social element of Wilson and Lloyd George's working relationship was especially important, as Lloyd George noted: "If you meet for social purposes, you can raise a point. If you find that you are progressing satisfactorily, you can proceed, otherwise you can drop it."[53]

Such ties allow individuals to establish norms of frankness and reciprocity and then benefit from these relationships in times of stress.[54] Instilling a personal bond and a sense of obligation in trusting relations affords greater weight to the interpersonal element of these ties. Such bonds emerge from regular interaction and communication, both personal and professional, that allow central bankers to get to know their counterparts' personalities, beliefs, and temperaments and thus know how to engage with one another most effectively.

Trust can be built in several ways: incrementally, through collective identity-formation, by individuals with trusting dispositions, or a leap in the dark.[55] In diplomacy, trust as an *interpersonal* bond relies on positive identification of interests and humanization.[56] Interests must be internalized as collective interests, and through face-to-face interactions, leaders begin to view the other as not only a representative of cold state interests and relations but as human. Personalized diplomacy can break down formal barriers, allowing leaders to meet and engage with one another on a human level. Sharing meals that involve sharing personal-level conversations play a key role in breaking formal barriers; letter writing, email, and phone calls can reinforce interpersonal ties. These personal relations can enable cooperation between actors who share them, allowing them to cooperate over experimental, ad hoc efforts in times of uncertainty, bilaterally, and through personal and informal channels rather than more formal, institutional ones.

In finance, the company that states keep can signal their stability and risk profiles to investors.[57] The company that leaders keep has a similar effect. If leaders share trusting and sympathetic relations with counterparts where broader political and economic ties are looser, we may still see ad hoc cooperative efforts. In these instances, leaders will fall back on personal and subjective reasoning to justify decisions and, again, come to agreements through private, interpersonal discussions. However, risk concerns will call for safeguards such as through conditions, limits, or collateral requirements.

In conditions of crisis and uncertainty, interpersonal trust will enable actors to engage in experimental, bilateral cooperation through free and open personal exchange. The logic of my argument is best articulated by Strong in a letter to Norman in 1927:

> The point he makes about cooperation is, of course, of the greatest significance, but raises the question which you and I have discussed so frequently and fully. How can such a situation as the present one be met by any scheme or device, automatic or mechanical? Must it not be dealt with by this species of management and cooperation such as we have been attempting to give it, and if so, must not people generally trust someone, and therefore, does it not resolve itself to the simple question, "*Do they trust us?*"[58]

Individual, Political, and Economic Sources of Interpersonal Trust

While my analysis is focused on how interpersonal trust among central bankers matters for crisis management, by facilitating ad hoc and bilateral cooperation, it is still important to discuss the various sources of central bank leaders' interpersonal relations and illustrate how personal and interpersonal dynamics interact with political and economic factors.

Two broad categories of factors influence the patterns of leaders' personal relations and, consequently, their options for meeting liquidity needs in a crisis. The first set of factors are leader attributes: reputations, personalities, and perceptions of prestige.[59] Often, and especially in crises, central banks' final decisions need to be made quickly; this authority lies with the head of the central bank.[60] Milton Friedman even warned of the major impact that individual central bankers have on policy, especially in a crisis when leaders have the ultimate authority over policy decisions. Individual central bank leaders' economic philosophies have so significantly influenced the success or failure of economic policies in recent decades that a Fed chair can very likely fashion policy according to their views.[61] Leaders can also influence outcomes through their ability to create and maintain close-knit personal relations with their foreign colleagues. Their reputations, prestige, and personalities can affect their interlocutors' inclination to cooperate with them and even their willingness to engage in risky experimentation during uncertain times.[62]

Second, interpersonal trust is orthogonal to the broader political and economic explanations for cooperation discussed above. I do not refute these alternative facilitators of cooperation as they variously operate to bring leaders together to build interpersonal relationships and camaraderie and allow leaders to learn one another's personalities, temperaments, and dispositions toward trust, risk, and experimentation. But these factors neither systematically generate or explain interpersonal trust, nor do they systematically predict outcomes of cooperation. They do, however, offer important insights into questions of when and why cooperation emerges.

Traditional international relations theories suggest that the balance of power and state interests explain outcomes in world politics, which set critical baseline answers to the questions of when and why cooperation emerges and offer important insights into these questions.

The distribution and balance of power can shape economic activity, such as trade, cooperation, and lending.[63] Charles Kindleberger observed that "for the world economy to be stabilized, there [had] to be a stabilizer, one stabilizer." In international finance, this stabilizing role is played by the state that manages and issues the global reserve currency. Prior to the First World War, sterling had top billing, so to speak, and the Bank of England was the primary manager of coordination and cooperation to support the gold standard system. Since the end of the Second World War, the US dollar has been king.[64] The United States now plays this key function, either directly through the bilateral swaps and credits through the Fed or indirectly through the Bretton Woods institutions when that is more politically convenient for the United States.[65] The absence of this necessary stabilizing influence in the interwar period explains why the Great Depression was so long and so deep.

The power and willingness of leaders to play this role is undoubtedly a function of their national interests and preferences.[66] Currency power allows states to advance their foreign policy and security interests.[67] It also allows states to secure their national financial interests in an interdependent system. Obviously, then, central bankers and other monetary authorities have an incentive to assist foreign countries as a way of protecting their own financial interests from overseas pressures.[68] Given the international and systemic nature of these crises, not doing so would imply that leaders did not do their job.

But it raises the question of a leader's willingness to play its stabilizing role, especially when not playing this role has major ramifications for a state's national interests and material position, and why the United States was unwilling to play this stabilizing role in the 1930s. After all, the Fed willingly extended credits to its counterparts in Europe in the 1920s, as the opening anecdote in this book illustrates. Curiously, the slowdown of this cooperation led by New York and London predates the Great Depression, and the 1929 stock market crash, at a time when neither state's economic positions had changed.

And indeed, policymakers don't always do their job. Looking back, Benjamin S. Bernanke made this point in a speech honoring Friedman on his ninetieth birthday, saying, "Regarding the Great Depression. You're right, we did it. We're very sorry. But thanks to you, we won't do it again."[69] As chapter 4 shows, one area where Bernanke lived up to this promise was at the global level. With the support and cooperation of a handful of partner central banks, Bernanke's Fed engineered the currency swap program, the Fed's single largest program during the GFC, to provide liquidity to several large economies across the world.

The 1960s experience of a faltering Bretton Woods system points to another instance in which central bankers did not do their job, in the delayed extension of swaps and credits to the Bank of England due to the opposition of Bank of England associates to manage sterling pressures early on in the decade. This example also shows that preexisting economic and financial ties between states does not necessarily ensure cooperation in the face of shared problems. Despite the risks of sterling woes to dollar stability, and a long-standing partnership between the United States and Great Britain, interpersonal relations and mistrust delayed the US-UK swap line in the 1960s. In short, neither US monetary power nor financial ties between the two countries sufficed to speed up any cooperative efforts on their own.

Some might respond that domestic politics and interest-group preferences may explain these patterns.[70] In the late 1920s, the expansion of the franchise and the growth of labor movements undermined political and monetary leaders' abilities to pursue internationally oriented policies, thereby undermining central bank credibility and cooperation that were vital to gold standard stability. The period marked a shift away from domestic political and government stability and inactive labor movements that had previously supported international monetary cooperation to political and social instabilities that ultimately worked to undermine it.

Others would argue that the absence of formal and informal rules and norms, institutionalized in IOs to promote and facilitate cooperation, might explain the collapse of cooperation in the Great Depression.[71] Since the mid-twentieth century, the IMF and the Bank for International Settlements (BIS) have undeniably been important players in global financial governance.[72] But if that is the case, we should see that post-1945 crises met with a widespread multilateral, institutional response. Instead, these IOs could not overcome the unwillingness of the Bank of England to cooperate with the Fed in 1961, despite such assistance supporting domestic and interdependent financial interests. Recent crises also highlighted IMF inefficiencies and lack of resources to meet global needs.[73] IOs provided opportunities for face-to-face interactions and communication among monetary authorities. But in a crisis, engineering and deploying multilateral responses can be time-consuming and limited.[74]

In turn, scholars have suggested that in these situations, policymakers rely on their shared economic beliefs to guide decision-making in uncertainty. These shared beliefs are rooted in similar training and educational backgrounds, typically in economics departments in high-ranking US institutions.[75] Others suggest that similar career backgrounds generate common worldviews that guide policy decisions.[76] Certainly, it is also more likely that policymakers with similar training may already know one another before entering their central banking careers. However, leaders of some central banks that received bilateral assistance from the Fed during the GFC were not trained as economists at all. And in the early twentieth century, while some central bank leaders shared similar prior careers in private banking, they did not all hold the same views on how to manage the financial troubles at hand. More generally, shared careers or educational backgrounds do not necessarily prescribe the types of arrangements that central bankers have taken in the face of grave crises. Rather, the bilateral and ad hoc arrangements emerged out of cooperative experimentation among some bankers but not others.

The reality is that institutional rules and norms often cannot guide behavior in a crisis. State power, national interests, domestic preferences, economic ties, and shared beliefs among policymakers may inform agents' evaluations, and suggest important baseline answers to the question of when and why cooperation emerges, but they are incomplete. Functionalist explanations explain why cooperation emerges, that is, out of necessity in response to common problems, but not necessarily the form that cooperation takes. But these accounts cannot explain the chronic reliance on ad hoc, bilateral approaches to liquidity assurance. My argument supplements and strengthens our general understanding of cooperation that these accounts afford us; introducing interpersonal trust is *an* explanation for ad hoc central bank cooperation but not the *only* explanation for it.[77]

Differentiated Ties

In addition to the role of shared beliefs and intersubjective understandings discussed above, while these accounts can tell us why cooperation came about at all, they cannot explain particular patterns of ad hoc and bilateral cooperation over alternative approaches to crisis management. As such, my argument speaks to the existing discourse on the problem of international cooperation, broadly construed, and public goods provision of global financial governance.

No doubt, leaders in more interconnected economies, with strong financial ties, interact more frequently and so may be more likely to build trusting relations. Leader attributes and experiences interact with this larger set of variables that can shape patterns and outcomes of cooperation and crisis management.[78] While these variables neither determine chances of receiving a swap nor trust, they help explain the hierarchical and preferential nature of bilateral cooperation and reinforce differentiated personal ties that insulate the inner circle from outsiders.

There are important scope conditions to the argument. Per the Fed's criteria, banking and financial interconnectedness and economic size delineate the universe of possible swap partners.[79] In the contemporary context, larger emerging markets tend to be systemically important and have deeper financial and banking ties with the United States. While they meet the Fed's economic threshold for a swap, they are more fragile and riskier than advanced economies. In these instances, risk calculations will be moderated by subjective reasoning such as personal ties and trust. Smaller and lower income economies do not meet this threshold and are not borderline cases for swap lines. Even if interpersonal trust doubles the chances of receiving a swap, it would be doubling a near-zero probability to begin with. Personal trust cannot overcome risk nor can it alone bring smaller economies into the set of possible swap recipients.

Interpersonal trust also partially mediates the influence of institutional trust in establishing swaps. That is, the relationship between institutional trust and signing swaps remains operative when interpersonal trust is absent. Moreover, institutional trust does not guarantee interpersonal trust. Institutional ties are sustained through routine cooperation and may influence a bank's credibility to uphold arrangements. They influence which central bankers will more likely forge personal ties with counterparts as leaders in more interconnected economies will interact more frequently. Longer histories of interbank cooperation may instill trustworthiness in partners. However, in this book, I show that while institutional and other material considerations *can* shape the formation of personal ties, they do not do so necessarily or systematically. And even where institutional ties facilitated cooperation, central bankers still used informal channels and personal appeals to establish these arrangements, rather than formal institutional channels.

Different configurations of these factors help explain the hierarchical and differentiated nature of the swap network. Combined, they generate and reinforce differentiated ties among trusting actors, insulate the inner circle, and generate a set of testable implications of my argument. The strongest ties emerge where there is greatest convergence of the variables discussed above, to build personal ties or strengthen existing ones. In the contemporary context, these ties are most apparent among the G7 central bankers (and Switzerland), whose economies share strong financial ties and align with broader power and material configurations in the global economy. This largely reflects the historical balance of power, with Britain and the United States at the center of the financial system and Western Europe and Japan making up the core. Leaders in these economies likely interact with one another more frequently, formally, and informally and can build trust incrementally. While any type of cooperation among these economies is less surprising, I expect these ad hoc and bilateral arrangements to be made informally at the interpersonal level and without hedging beyond minimal collateral.

Outside the core, fewer factors will converge, and risk considerations may enter decision-making calculations. Here, interpersonal trust can moderate risk calculations and carry greater weight under conditions of uncertainty. Opportunities for interpersonal interactions allow trust to emerge among leaders, such as invites to BIS dinners and other social gatherings. If leaders, especially liquidity providers, share trusting and sympathetic relations with counterparts where political and economic ties are looser, we will still see ad hoc cooperative efforts to signal trust, obligations of reciprocity, and support. Leaders will use subjective personal and interpersonal reasoning to justify decisions and, again, come to agreements through private, interpersonal channels. However, risk concerns will call for safeguards in any resulting agreement.

The biggest gap in the hierarchy is between those inside and outside these trust communities.[80] Here, too, political and economic variables may loosely converge. These economies may also be emerging as systemically important economic actors. However, leaders who are less embedded in close-knit professional and social circles may be seen as outsiders, meet less frequently, and are thus less likely to build interpersonal trust relations with the core. Because the key liquidity provider has neither the trust necessary to engage in bilateral, ad hoc cooperation nor the personal bonds and goodwill that facilitate cooperation even with safeguards, they will not feel obligated to enter into agreements with these counterparts. These leaders may then be forced to turn to more costly liquidity assurance options. Where interpersonal bonds are absent, material conditions on their own are insufficient to offset risks.

Secrecy

Secrecy and privacy are essential for this type of cooperation, as in many other areas of global governance. It is an effective tool for eliciting information and encouraging cooperation in economic- and security-focused international organizations, where actors can provide sensitive information without fear of wider release of repercussions.[81] Security and military policymaking can be very controversial, so cooperation related to such issues is often secretive.[82]

Likewise, central banks' activities can have enormous market implications and distributional consequences for society, so their policies are likely to be economically and politically controversial. In dealing with such sensitive issues, working in exclusive settings and behind closed doors allows for more open and frank discussion to generate solutions. Secrecy can allow a handful of individuals to develop stronger bonds within the inner circle than with those outside it. Secrecy also allows policymakers to avoid the inefficiencies that may arise from these constraints imposed on negotiating parties that can affect their bargaining power.[83] Finally, it also helps prevent major market reactions from even hints of major monetary and financial policy decisions. To minimize further financial disruptions, it is necessary that major policy announcements be choreographed and orchestrated carefully.

Identifying Interpersonal Trust

At the heart of my argument are two key claims. Central banking is *highly personal*, and central bank leaders' influence is significantly heightened in a crisis, when leaders have the ultimate authority over policy decisions.[84] Changes in leadership in central banks should change the trajectory and policy stance of their banks.[85] Central banking is also *highly interpersonal*: leaders are also influenced by their foreign colleagues. Changes in leadership can change the form of liquidity assurance strategies available to a central bank based on their interpersonal relations with their counterparts overseas.

While most studies focus on trust between enemies and in conflict situations, I argue that interpersonal trust is necessary even among friends, in times of radical uncertainty. In such a context, actors will fall back on subjective reasoning, personal knowledge, and familiarity to inform their judgment. Global financial crises offer fertile ground to explore these dynamics of interpersonal trust and differentiated ties in international monetary affairs. I focus on the role that interpersonal trust plays in explaining varying outcomes of cooperation and crisis management.

International relations scholarship identifies three indicators of trust relations—"the incidence of cooperation; discourses expressing trust; or the calculated acceptance of vulnerability."[86] Keating and Ruzicka suggest that the act of adopting or removing existing hedging strategies may provide better strategies to identify trust relations; Wheeler identifies absence of risk calculations in decision-making as an indicator of *interpersonal* trust.[87]

I argue that interpersonal trust need not imply an absence of risk calculations. Rather, agents who share interpersonal trust will work to help trusted partners, despite risks, while also hedging against them. Interpersonal trust

TABLE 0.1. A framework for identifying interpersonal trust

	THEORETICAL EXPECTATION	EVIDENCE OF EXPECTATION
Why rely on interpersonal trust	Absence of system trust	Crisis and radical uncertainty
	Policy experimentation	Limited and selective cooperation
	Preference to avoid institutionalized governance system and costs	Bilateral and ad hoc liquidity provision
How it is executed	Use of personal and/or informal channels	Discursive interview account, personal and formal correspondence, official records of decision-making
	Private, closed-door discussions	Discursive evidence, absence and/or avoidance of official records of decision-making
	Ad hoc cooperation absent material and functional conditions	Discursive evidence of social, subjective, and personal-level justification for bilateral assistance
Evidence of absence	Absence of cooperation *despite* meeting material and functional conditions	Preference to send requesting counterparty to formal, institutional channels of liquidity provision

will carry greater weight in risk calculations in conditions of uncertainty. Trust cannot substitute for risk calculations, but it can moderate how central bankers evaluate their counterpart's credibility as borrowers who will honor the arrangement. In the absence of interpersonal trust, concerns of country and economic risks cannot be overcome.

I add to these observable indicators (see table 0.1): first, by showing that it is not system trust—defined as "trust in the continuity of the overarching, shared sociopolitical order"—that is doing the work.[88] Crisis and radical uncertainty may suggest the absence of system trust to start. The choice of ad hoc responses over institutionalized strategies already in place in the system suggests an absence of trust in the system. And if we attribute cooperation to the environment of either system trust, or crisis and uncertainty, we should see more widespread cooperation within the system than selective, bilateral assistance that has emerged repeatedly, in the gravest crises.

Moreover, if interpersonal trust is an operating variable, *how* it is acted upon is key. We should see that in establishing bilateral arrangements during a crisis, trusting leaders do not conduct negotiations through formal channels but make direct, personal appeals to their trusted counterparts. Mutual trust is important for a central banker to request a swap. But given the power asymmetry between the borrower and liquidity provider in any lending agreement, it is important that providers trust borrowers, especially where country risks are prominent. Discussions will occur privately, among trusting counterparts, and precede domestic deliberations—leaders will come to agreements before involving their institutions.

We should also see actors allude to their personal relationships and conversations, and the importance of trust, reciprocity, and goodwill (such as helping risky but trusted counterparts to avoid less attractive policy options), in justifying decisions: personal and interpersonal reasoning will complement material considerations. Contra Wheeler, I suggest that interpersonal trust need not imply an absence of risk calculations. Trust is looser where risk concerns are higher. However, actors who share interpersonal trust will go the extra mile to help trusted partners, *despite* significant risks, but will take steps to hedge against them—interpersonal trust will factor into risk calculations and carry greater weight in conditions of uncertainty; where interpersonal ties are absent, such efforts will not be made. Interpersonal trust can open the possibility of ad hoc and bilateral cooperation in undertaking risky actions, even if political and economic factors do not support it. Where interpersonal trust is absent, these factors alone will not suffice.

Research Design: Evidence and Case Selection

Interpersonal trust is an affective bond that relies on personal perceptions, judgment, and inclinations to trust. While interpersonal trust can be observed through the indicators discussed above, it can neither be predicted ex ante nor can it be quantified or measured. Instead, I rely on personal, subjective assessments of leaders and their perceptions of their counterpart's trustworthiness, friendship, and goodwill. I therefore chose to support my claims with qualitative evidence from the archives and twenty-nine elite interviews that I conducted with current and former central bank leaders and officials.

Archival sources provide the bulk of my evidence, triangulated with secondary texts, for my analyses of the interwar period (chapters 1 and 2) and the Bretton Woods era (chapter 3). These materials were collected from the Federal Reserve Archival System for Economic Research (FRASER, online), the Columbia University Rare Book and Manuscript Library in New York City, the archives of the Bank of England in London, and the Bank for International Settlements in Basel. I consult the personal papers of central bank leaders at the Bank of England, the New York Fed, and the Bank for International Settlements, including their correspondences with their colleagues in Germany, France, Japan, and other concerned central banks. These files offer firsthand details and insights into how central bankers approached the crises that they faced, their relations with their foreign and domestic colleagues, and how they arrived at solutions to these issues through open and friendly deliberations. I also consult historical texts, biographies, autobiographies, and memoirs written about or by the key individuals around whom each narrative is focused.

My analysis of central bank cooperation during the GFC (chapter 4) is substantiated primarily with evidence collected from elite interviews that I conducted with current and former central bank leaders, most of whom were in office in leadership positions during the crisis. My interview pool includes Benjamin S. Bernanke, chairman of the Fed; Mervyn King, governor of the Bank of England; Masaaki Shirakawa, governor of the Bank of Japan; Jean-Claude-Trichet, president of the European Central Bank (ECB); Duvvuri Subbarao, of the Reserve Bank of India (RBI); and their deputies, including Charlie Bean and Paul Tucker (Bank of England), Donald Kohn (Federal Reserve), and twenty-one bank officials in foreign departments or at the Bank for International Settlements, who asked to remain anonymous. These accounts offer important details and insights into how central bankers approached the crises they faced, their relations with their foreign and domestic colleagues, and how they arrived at solutions to these crises.

Given the opacity around the initial swap arrangements during the GFC, to understand these dynamics better, I chose to interview individuals at the center of these policy decisions. I interviewed officials from the Fed, the key provider of dollar liquidity, from recipient countries, and from India and Iceland, whose requests were denied, to achieve variation in my interview pool. Many asked to remain anonymous. I was unable to secure interviews with central bank leaders from some Fed swap counterparties—namely, Mexico—and some whose swap requests were denied, such as the Central Bank of Iceland. However, this does not challenge the integrity of my analysis as, given concerns of currency or financial risk in these countries, the burden and need to trust falls on the provider, who did share insights on some of these cases in interviews. I triangulate these materials with official meeting reports and transcripts from the Federal Open Market Committee (FOMC), and the Federal Reserve's Oral History Project interviews, as well as journalistic and scholarly accounts of the crisis written both during and after the crisis. My analysis is novel in that I identify the personal and interpersonal underpinnings of ad hoc and bilateral cooperation for crisis management with insights from the perspective of central bank leaders themselves.

Case Selection

The particular evidence necessary to illustrate and support my argument influences my case selection, as well as the treatment of the point on the "terms" of bilateral arrangements. I discuss the latter point first. Specifically, that the issue of differentiated terms on bilateral arrangements is addressed in depth in chapters 1 and 4. The variability of the terms of bilateral arrangements does not feature in chapter 2, on the Great Depression, as it is focused primarily on the collapse of ad hoc, bilateral cooperation on the eve of and during the crisis. With regards to chapter 3 on central bank assistance under the Bretton Woods system in the 1960s, the issue of the terms of these arrangements did not really even feature in the discussions of these loans during this period, as per the archival and secondary record. However, this does not negate the element of how stronger or weaker trust influences the differentiated arrangements altogether. I show how weak ties between key American and British central bankers influenced the watering down of the amount of the Anglo-American swap line, as well as the speed of arranging this line in the first place.

I present four chapters on the 1920s, the Great Depression, the 1960s, and the GFC. I develop and deploy narrative analyses of why and how moments of financial shocks and crises are met with ad hoc, bilateral cooperation among central bankers. My selection of the first, third, and fourth cases follows the most different systems design, following the logic of causal inference through case studies.[89] I show why such cooperation emerged more frequently within these periods and explain the variation in access to liquidity assurance strategies for different central banks. In the second case, I evaluate the early years of the Great Depression and show how leadership changes across key central banks weakened personal relations between central bank leaders at the cost of crisis management. The comparison of the 1920s and the 1930s follows the "most similar" case logic.

Each case advances the argument and empirical analysis in a distinct way. The cross-case variation between these periods allows for controlled comparisons to establish the correlation between my independent variable—interpersonal trust—and outcome of interest—ad hoc, bilateral cooperation—to answer the question of *why* such cooperation is possible sometimes but not always. Close examinations of each period allow me to demonstrate *how* it emerges through interpersonal channels. My goal is to look deeply into these distinct periods to identify and distill what is common about crisis-time cooperation within disparate institutional and economic settings. These cases allow me to assess whether interpersonal relations in facilitating cooperation are independently influential in shaping outcomes or not. The universe of potential cases is limited to systemic, or system-threatening, financial pressures that warranted liquidity assistance that did or possibly could occur.

The 1920s present a "most likely" case for my argument. At this time, central bankers, which were then private institutions, were less constrained than their successors. The institutional apparatus for financial governance was also nonexistent at this time. We should therefore expect ad hoc and bilateral cooperation to emerge more easily in this less constraining context. My analysis of the Great Depression demonstrates the converse—weak interpersonal ties among a changing cast of characters, and low levels of trust among central bank leaders, hindered interbank lending to arrest the Depression and closed all possible avenues for any type of cooperation at the 1933 World Economic Conference in London.[90]

The crises of the 1930s were not exogenous shocks but endogenous to the economic and political climate of the decade before. The political and economic environments right before the 1929 Wall Street crash had not changed markedly from that of 1927–1928. What changed before the Wall Street crisis and the Great Depression was not the structural context but the leadership that operated within it, when Strong died in 1928.

The 1920s case is vital for theory-building and illustrating the mechanisms and dynamics central to the argument, to link personal relationships to outcomes of liquidity assistance. Although the mini cases in this chapter are not directly akin to all-out crises like the Great Depression, each presents a problem of financial instability and shocks from wartime hangover that are related to the departure from the gold standard parity and stumbling efforts to return to it, which emerged alongside banking crises, hyperinflation, and political upheaval. The Great Depression is a critical counterfactual case that shows how in the absence of personal relations (central to which is Strong's sudden demise), this mode of crisis management is severely hindered.

The case studies on propping up the Bretton Woods system in the 1960s, and the creation of the Fed swap program during the 2007–2010 GFC, allow me to evaluate the generalizability of the argument. These periods present "hard cases" for my argument. The postwar institutional environment is marked with established rules and institutions to manage financial pressures and the problems of liquidity, adjustment, and confidence. Central banks today are also more constrained by domestic institutional and legal structures, limiting individual bankers' influence in these institutions. Finally, the academization of central banking may generate ideational homogeneity that lends itself more easily to cooperation. These contexts do not translate easily to an interpersonal argument of trust facilitating ad hoc and bilateral cooperation. Still, central bankers engaged with one another on a person-to-person level with their trusted counterparts overseas to get bilateral, cooperative arrangements off the ground.

The Bretton Woods case is important to show that even when central banks faced growing political, institutional, and legal constraints and evolved into highly technocratic and bureaucratic institutions, interpersonal dynamics played a core function of supporting governance efforts and generating bilateral solutions to systemic problems. The GFC case is important for extending the insights of this paper to the contemporary period. In addition to growing constraints on central banks, they are now increasingly also guided by groupthink through the academization of the profession—or so the existing research suggests. My analysis here shows that in fact this was not the case; interpersonal cooperation facilitated the crisis management effort where central bankers across countries initially disagreed on the causes and resolution of the crisis.

There are also notable absences in this book, namely the emerging and developing economy crises of the 1980s and the 1990s. Indeed, these cases are not completely distinct from the periods of uncertainty considered in the book, and so I explain why they are not included in the text. These absences speak to a broader methodological comment about research limitations in doing archival and interview work and how the data-generating process and evidence necessary to substantiated arguments also determine case selection.

By the 1980s, policymakers were past the point of letter-writing, with increased use of telephone correspondence and, many years later, email and cell phones. This changed the nature of recordkeeping and truncated the availability of the types of data and historical materials that the archives may keep or make public. This points to a key aspect of historical research and archival silences—not only what archives choose not to keep but also what they cannot keep and how these records shape the inferences we can make.[91] While transcripts from FOMC meetings during these crises are now available, they are limited in what they can tell us on their own.

Interviews for this period are also difficult as many policymakers involved in this period are no longer around, unavailable to speak, or poorly recall these distant memories. While transcripts from FOMC meetings in the 1980s are available, they are limited in what they can tell us on their own. There is also a lack of additional primary and secondary material to generate the type of evidence to support the arguments I make in this book—firsthand accounts triangulated with real-time discussions and secondary reports on the same period.

My analysis of the GFC is focused on just the Fed swap program, not swap lines provided by the ECB. The kind of evidence necessary to illustrate and support my argument in the context of the ECB swap network—interview accounts from recipients of ECB swaps or real-time transcripts of the ECB's negotiations and decisions to extend these lines—as I provide in the Fed case, are unavailable. There is therefore a substantial gap between what is in the written record and what is being asked in the book, which makes similarly detailed inference for this period difficult.

A Safety Net with Gaping Holes?

As Jeffry Frieden observes, a striking feature "of the political economy of the crisis is just how similar it looks to previous" crises.[92] What I show is that its resolution was also similar, in that it reminds us that the global financial governance system frequently does not work. Contrary to arguments that the system worked during the GFC, and successfully prevented a second Great Depression, financial governance, time and again, has relied on improvised stopgap fixes for a system that is ill-equipped to deal with the troubles it generates.[93] When rescue efforts have prevented the worst from happening, the underlying problems inherent in the financial system have remained largely unaddressed.

This pattern is reminiscent of the past and is thus a recurring theme in this book: the global governance system's record has always been patchy, and this reliance on ad hockery is suboptimal economically. In the last century the system has sometimes worked; at others, crises have spiraled out of control. When trouble struck at the end of the 1920s in the years before the Great Depression, those in charge of the system were unwilling or unable to provide the fixes necessary. So, since 1945, states have invested tremendous amounts of time and resources toward building a more robust framework of rules and best practices for global financial governance. And still, when crises hit, the system suffers from political infighting, tedious negotiations, and inadequate resources.

What holds the international financial system together is often an ad hoc patchwork of arrangements grounded in leaders' interpersonal relations. While a second Great Depression was prevented between 2007 and 2010, it was not to the credit of a robust and reliable "system" but to the credit of central bankers who were willing and able to engage in experimentative and ad hoc governance to provide the necessary measures. This constant feature of global financial governance has three broader theoretical and empirical implications that I highlight in this book: the need for more work on interpersonal ties in international relations, hierarchy in global governance, and the tensions between crisis management and the norms of democratic governance.

First, I challenge the political science "assumption of motivational homogeneity" that individuals merely carry the interests or characteristics of states, institutions, or attributes.[94] The extension of liquidity has historically relied not only on the coffers of great powers but their willingness to provide them. This willingness depends greatly on the leaders of these banks and their personal ties with their counterparts across the globe. *How* power and resources determine patterns of crisis management often depends on the leaders who animate them. Technocratic global governance is not immune to policymakers' personal preferences and relationships. So, to better understand the robustness and durability of global governance arrangements it is essential to understand the individual and interpersonal dynamics underpinning them.[95]

Second, I identify another channel through which agents shape and reinforce hierarchies in the playing field. My case studies demonstrate that diplomatic agency influences both exceptional and improbable outcomes and more routine and predictable ones. The reliance on temporary governance is not only suboptimal economically, but it is also suboptimal politically.

The actions of the most powerful central banks do not affect their domestic economies and markets alone; they also have a dramatic influence on their foreign counterparts.[96] This is an almost unavoidable by-product of central banks' positions at the intersection of national economies and international markets. For some countries, the hierarchies of this interconnectedness are contractual relationships.[97] For those disadvantaged in their international competitiveness, facing high barriers in accessing the support in a crisis, these hierarchies are imposed upon them.[98]

In financial governance, central bankers, through their personal relationships, agents can construct and reinforce hierarchies in the global economy through the transnational reach of their power and discretion. These concerns are even more troubling than we think. The inordinate power of central banks during crises is so concentrated in the hands of a few leaders within them. In a crisis, one, maybe two, unelected, domestic institutions decide who sinks and who swims.

While valuable in a crisis, interpersonal ties pose significant political tensions. They can serve as mechanisms for gatekeeping; notions of prestige also play a role in how individuals perceive their counterparts, in terms of their intelligence or intellect, or in the idea that "people like us" should be in certain places and are worthy of certain things. These close-knit networks are deliberately exclusionary and extremely hard to enter. Only those few who have access to the connections, position, pedigree, and resources to enter them are allowed in.[99] In doing their job, central bankers can replicate hierarchies and inequalities in global financial governance.

Finally, this book speaks to debates on the rationale of central bank independence based on concerns of its legitimacy and its undemocratic nature.[100] After the GFC, several financial experts, critics, and political actors called out the Fed for overstepping its mandate and acting with little transparency and political accountability. The outsized role of central banks has generated considerable political and public pushback since the crisis.[101] Central banks world over have been called out for independently expanding, or overstepping their domestic mandates, and acting in a manner that is at odds with key democratic principles.[102]

Crises highlight the inordinate power of central banks and have brought public attention to their contentious positions in democratic societies.[103] In viewing monetary policymaking as a technical activity and removing it from the hands of politicians, the roles and activities of central banks have been justified as depoliticized.[104] Delegated authorities rely on their autonomy from political interference. But by acting as international lenders of last resort, powerful central banks' unique ability to govern interdependent economic relations and influence policymaking abroad raises new questions about the international acceptability of this role.[105]

Plan of the Book

To show that individuals matter, Michael Horowitz notes, "There have to be reasons to think that having a particular leader in power at a particular period of time mattered."[106] A change in leadership should lead to different outcomes. At the relational level, having particular leaders, *plural*, in power at the same time also matters. A change in leaders should change the nature of interpersonal relations between counterparts and therefore lead to different forms of crisis management.

In the rest of the book, I take this argument on a historical tour to reexamine key periods of economic uncertainty in the twentieth and early twenty-first century to substantiate my argument. I start with the first half of the interwar years, focusing on the 1920s in chapter 1. I explain patterns of central bank cooperation and discord over postwar reparations, reconstruction, and the return to prewar parity in the early interwar years. I highlight the decisive roles that Strong and Norman played managing the 1920s postwar economy. I show how their varied relationships with Hjalmar Schacht at the Reichsbank, Inoue Junnosuke at the Bank of Japan, Emile Moreau at the Bank of France, and several private bankers in New York helped or hindered the arrangement of the bilateral and multilateral loans and credits to manage four interconnected economic problems of the decade: financing German reparations; banking crises in Japan; the return to prewar parity in Britain; and currency stabilization in Poland, which followed that of Belgium, discussed in the opening of the book.[107]

In chapter 2, I show that this breakdown of the ad hoc cooperation coincides with the sudden death of Strong in October 1928, and a new cast joins Norman: George L. Harrison takes over the governorship at the New York Fed, Schacht is replaced by Hans Luther, and Clément Moret takes over from Moreau. Weakened relations between Norman and his new counterparts in New York and Berlin after Strong's death, and Schacht's departure from the Reichsbank, hindered key attempts to rescue the global economy in the early 1930s. I evaluate the failure of central bank liquidity assistance to rescue the Austrian and German banking systems, Britain's abandonment of the gold standard, and the tripartite meetings alongside the 1933 World Economic Conference in London.

Chapter 3 considers the creation of the "Basel Arrangements," the Reciprocal Currency Arrangements (also known as the Fed swap network), and the sterling arrangements of 1964 and 1967. I show that differentiated personal ties among key players—Charles Coombs in New York, Max Iklé at the Swiss National Bank, Julien-Pierre Koszul in the Bank of France, Guido Carli of the Bank of Italy, Johannes Tüngeler at the Bundesbank, and Lord Cobbold and his successor, Lord Cromer, at the Bank of England—shaped central bankers' responses to the troubles brought on by the Bretton Woods monetary system in the 1960s. I illustrate how interpersonal trust facilitated the creation of the swap networks by the Fed and by central bankers in Basel in the 1960s. Moreover, despite favorable economic and political conditions for bilateral cooperation, weak trust between Bank of England associates and Charles Coombs at the New York Fed in 1961 hindered cooperation between their banks.

Chapter 4 leaps forward to the twenty-first century, with an evaluation of the emergence of the Federal Reserve's swap network in the wake of the GFC. I show that the creation of the Fed's swap network by Ben Bernanke would not have been possible without the support of Mervyn King, Jean-Claude Trichet in Europe, and Masaki Shirakawa in Japan. I also offer two brief analyses of why two important and highly interlinked economies, India and Iceland, did not benefit from privileged access to the Fed's swap network. I demonstrate how differentiated ties among leaders influenced access to liquidity arrangements during the GFC: unconditional swaps to the G7 economies and Switzerland, limited swaps (including additional authorization requirements and limits on drawings) to four emerging markets with a focus on Mexico, and the Fed's rejection of swap requests from India and Iceland.

Moving chronologically through these canned histories, my case studies emphasize that with the dramatic changes in the structure of the international monetary system, the distribution of monetary power, and the institutional governance apparatus over the last century, one constant remains. When crises hit, central bankers, time again, shed these systems of rules, norms, and conventions and turn instead to one another, relying on their interpersonal ties to get cooperative arrangements off the ground with trusted counterparts.

To conclude, I return to the theoretical and political implications of my argument and findings. First, the outsized influence of individuals and interpersonal interactions in creating what may evolve into central features of the global financial governance framework. Second, that technocratic global governance is not immune to personal preferences and affinities influencing policy. I consequently draw attention to the fickleness and sensitivity of financial management and policymaking to the "who" of global governance. Finally, I return to the tensions at the core of my argument: the need for a nimble and flexible central banking system as part of a larger robust and reliable international governance system and the norms of democratic governance that guarantee and enforce the public and political accountability of the actors guiding our economies and our politics through future financial turbulence.