INTERNATIONAL BANKING AND FINANCE IN TROUBLED TIMES:
REFLECTIONS FROM THE PAST

Leibniz Institute for Financial Research SAFE, Goethe University Frankfurt
29-30 June 2022

International Finance, Bilateral Cooperation and the World Silver Crisis, 1871-1879

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Imperial Germany's monetary union in the wake of the Franco-Prussian War (1870/71) necessitated the liquidation of vast quantities of German silver stocks on world markets. Between 1871 and 1879, the German Chancellery engaged an international network of banks and refiners to acquire gold-backed assets in return for selling its silver in Europe and in South and East Asia. This paper reconstructs the Chancellery's network of financial agents and presents the most comprehensive picture yet of the transcontinental bullion flows that underpinned Germany's monetary reforms. Based on a wealth of banking and government records, the paper's new data yields a more nuanced understanding of the geographic outlets and strategy of Germany's bullion trade and its impact on the global silver glut that set in from 1872. The ensuing macroeconomic disruption that accompanied Germany's demonetization gave rise to both prolonged uncertainty in bullion markets and growing diplomatic tensions across Europe.

Germany's currency reforms not only released significant bullion and capital flows between the financial centres in Europe; the Chancellery's secretiveness about its monetary operations also strained its economic relations with Britain, India, and the Latin Monetary Union. Bismarck's government, as this paper argues, pursued a selling tactic of deliberate ambiguity to exploit its first-mover-position in the silver market. But its tactical advantage proved short-lived, and the government's official silence about its remaining silver stocks skewed market expectations and amplified concerns over German 'silver dumping'. Growing Anglo-German tensions over the Reich's handling of its demonetization eventually culminated in the London 'silver scare' of 1875–76, an episode that fuelled international reproval of Germany's currency diplomacy. This paper finds that the Chancellery's strategy during the 1870s unintentionally stoked uncertainty around a global silver crisis and reveals how British diplomats and their German counterparts ensured that information asymmetries were gradually mitigated. It further shows that silver's prolonged depreciation motivated tentative steps towards bilateral cooperation between London and Berlin, with the aim of reducing market volatility in the early period of the classical gold standard.

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