Gale Primary Sources
Start at the source.

The *Financial Times*: Scandals and Debacles

Richard Roberts

King's College London

Various source media, *Financial Times Historical Archive*

Introduction

The 120 years since the establishment of the *Financial Times* has witnessed a succession of financial systems and numerous booms, busts, manias, panics and crashes. There is no better chronicle of these developments than the paper's reporting, or of the views of contemporary witnesses in its editorial columns.

1888-1914

The *FT* was launched in 1888 during a stock market boom that featured a surge of securities issues that generated healthy advertising revenues for the new newspaper. Fundraisers included a host of new domestic companies and overseas borrowers, notably Argentina and Uruguay whose bonds were introduced to investors by Barings, one of the City's most prestigious merchant banks.

With Barings bringing issue after issue to the market, earning fat fees for their services, investors became concerned about Argentina's ability to service its mounting debts. Thus they stopped buying Argentine bonds, which remained with Barings as underwriter. By November 1890 Barings had accumulated a mountain of unsold Argentine bonds, tying up capital and rendering the bank illiquid. On Saturday 8 November Barings secretly appealed for help to the Bank of England to tide the firm over its liquidity crisis. Over the following week the Bank organised a rescue fund £17 million (£1.4 billion today) subscribed by City firms.

'The Agony' ran the headline above an *FT* editorial of 15 November 1890, with rumour rife and a sense that a climax was imminent. 'The City is becoming enveloped deeper and deeper in a baleful, mysterious crisis. Day by day thick clouds gather over the Stock market, and where they come from, or who is responsible no one has a definite opinion. All who have financial interests at stake feel as if they were standing on the brink of a volcano which at any moment may open up and swallow them...A certain class of paper originating at the River Plate [Argentina] has been under severe discussion lately...The manufacturers of it [i.e. Barings] were no ordinary promoters, financiers or speculators. They worked on a gigantic scale and cared very little for the public...But as yet all is mere surmise. The public from whom such delicate secrets must be rigidly concealed can only stand trembling before the advancing cloud.'

'Saved,' was the *FT*'s headline two days later, Monday, 17 August, following the public revelation of the rescue by the Bank of England of 'the autocrats of Bishopsgate-street, Baring Brothers & Co... that has so grossly abused its position, its reputation, and its resources.' 'The "veiled agony" in the City which we wrote about in our Saturday issue has disclosed itself at last and heroic measures have been taken for its relief...had not Baring Brothers found the heroic help...scores, perhaps hundreds, of failures would have resulted...What might have happened on the Stock Exchange is a prospect too fearful to contemplate. If the mere indefinable dread of there being a screw loose in Bishopsgate-street could spread terror through every market and cause twenty, thirty or fifty per cent declines in even sound securities, what might not have followed the collapse itself? Not a living man in the

House has witnessed anything approaching the catastrophe which would have been inevitable.'

Catastrophe was averted, but overseas lending was subdued in the years following the Baring Crisis. The exception was the gold mining sector, a focus of speculative exuberance with punters gambling on getting rich from gold strikes in South Africa. By autumn 1895 the market was saturated with a vast quantity of distinctly questionable gold-mining properties and due for a correction. The sell-off began on 3 October 1895 and prices plummeted for two weeks, reaching levels at which Barnato Bros., the leading bankers to the sector led by the colourful Barney Barnato, entered the market and halted the slide. 'Barney to the Rescue' was the *FT*'s headline on Saturday, 19 October 1895, applauding him for having 'loyally and pluckily supported the market.'

The decades prior to the First World War were London's heyday as the world's foremost international financial centre, a pre-eminence reflected in the pages of the *FT*. The years from the mid-1900s witnessed a new wave of overseas lending in the London capital market, a final flourish of financial globalisation ahead of the deluge. These years also saw the listing of domestic electrical, chemical, automobile and other new technology companies. A 'speculative mania' developed in 1910 in the shares of oil exploration companies and rubber plantations. See the article 'A Speculative Account' 14 April 1910, 'In one respect the two "booms" had a common origin,' observed the *FT* on 9 April 1910, 'namely, in the sudden and enormous expansion in the use of internal combustion engines for driving motor cars etc. Just as in one case the demand sprang up for rubber for the manufacture of tyres so in the other the consumption of petrol spirit correspondingly increased.' Although the boom in oil and rubber shares experienced a 'set-back' in spring 1910 ('The Rubber Set-back,' 8 April 1910) the strength of the growth of underlying demand supported the sectors at reasonable valuations.

Financial Crisis of 1914

The assassination of Archduke Franz-Ferdinand, heir to the Emperor of Austria, in Sarajevo, Serbia, was sombrely reported in the *FT* on Monday, 29 June 1914. However, that far away event had no discernable impact on London's financial markets. But Austria's ultimatum to Serbia, delivered on Thursday 23 July 1914, demoralised the Continental bourses. 'On the Paris Bourse as on all other European Exchanges,' the *FT* reported on 25 July 1914, 'the day's business can be summed up as all sellers and no buyers.' The suspension of Continental exchanges made London the focus for sellers, the *FT* reporting that 'the London market had become the dumping ground for all sorts of stocks which were unsaleable elsewhere.' On Wednesday, 29 July 1914, a day on which seven Stock Exchange firms failed, dealers responded not only by marking down prices 'severely' but by refusing to quote prices at all effectively suspending the operation of the market, an 'unprecedented state of affairs.' 'The crisis in the City came to a head yesterday morning,' observed the *FT* on the front-page on Saturday 1 August 1914, reporting that the Stock Exchange authorities had taken the unprecedented step of closing the market indefinitely and that business in the money market was 'completely disorganised.'

Although Britain had not yet decided to go to war, the City's financial markets were paralysed as were those of the rest of Europe and beyond. A four day Bank Holiday, the longest ever, allowed Treasury and Bank of England officials and ministers time to work out what to do. Their package of emergency measures was outlined by the *FT* on 6 August 1914 in an article headlined 'Adjusting the Financial Situation.' The measures, which included the creation of an emergency paper currency issued by the government and a moratorium on debt recoveries, successfully forestalled a feared run on the banks. Subsequent measures facilitated the reactivation of London's financial markets. With the re-opening of the Stock Exchange on 4 January 1915 the financial crisis was over. The re-opening was attended by a large number of members who celebrated the occasion 'by singing the national anthem.' See the front page of the 5 January 1915 edition. 'It may fairly be said,' reported the *FT* on 5 January 1915, p.2, 'that the first day's working of the Stock Exchange under the new conditions imposed as a necessity of war was a decided success.'

The 1920s and restoration of financial stability

The First World War disrupted the long-standing pattern of international financial flows. The City's role as a supplier of international trade finance and capital to the rest of the world was suspended, promoting the emergence of New York as a major international financial centre and the dollar as an international currency. The end of the war was followed by financial turmoil in many countries with post-war booms and recessions, currency gyrations and hyper-inflation in Germany and central Europe in 1923. The stabilisation of the German mark, the currency of the world's second largest economy, was a key requirement for the restoration of order in the international economy and international finance. October 1924 saw the launch of the Dawes Loan, a huge international reconstruction loan for Germany with tranches issued simultaneously in London, New York, and seven other centres. 'This loan is no ordinary operation,' observed the *FT* on 15 October 1924, the launch day. 'With this loan obtained, and the currency deliberately stabilised, the way will be open for the revivification of German industry, and it is on that that European prosperity in the future depends to a substantial extent...In the interest of Europe as a whole, we wish it well.' International philanthropy, plus a 7 per cent coupon, proved an attractive combination for investors. 'It would be impossible to over-emphasise the value and significance of the wonderful reception accorded by British and foreign investors,' declared the *FT* the next day, 16 October 1924, reporting that the loan had been immediately fully subscribed.

The final step in the post-war restoration of international financial stability was the return of sterling, the world's foremost trading and reserve currency, to a fixed exchange rate through the re-adoption of the gold standard as in its pre-war heyday. The move, which was widely supported in the City and business, was announced by the Chancellor of the Exchequer, Winston Churchill, in the April 1925 budget. 'The restoration of the free gold market had been anticipated and will bring far more permanent good than possible temporary inconvenience. It is, indeed, the most important provision of all in the Budget statement so far as the position of this country as a great international monetary centre is concerned,'

enthused the *FT* on 29 April 1925. 'The decision is the best thing that could have happened in the interests of British credit and prestige.'

The 1920s was a decade of prosperity and economic growth in the US. On Wall Street share prices rose and rose, soaring in the market frenzy from summer 1927 to autumn 1929. The London Stock Exchange also saw a bull market in the late 1920s. But the spectacular collapse of the business empire of Clarence Hatry on 20 September brought the boom in London to an abrupt end. The *FT* called for calmness on 21 September 1929, asserting that 'it is desirable in the highest degree to realise that the ramifications and consequences of an isolated breakdown justify no general adverse reflection upon the business of the City as a whole.' But matters soon went from bad to worse.

The falls in London following the Hatry debacle contributed to a darkening of market sentiment in New York. Prices fell sharply on October 3, but then rallied. Friday 18 October saw another lurch. The *FT* reported that 'the disposition has become more general to regard the five years' bull market as having terminated' on 22 October 1929. But then on Thursday 24 October - "Black Thursday" - Wall Street prices collapsed. 'Whether the worst immediate effects of the derangement of the market have been witnessed is the question which everybody concerned would like to have answered,' observed the *FT* on 26 October 1929. 'In the nature of things, actual panic conditions cannot last very long, and on that ground there is room to hope that the reply is in the affirmative.' But this was hopelessly optimistic and on Tuesday 29 October came the crash.

'The crash has come with dramatic suddenness,' observed the *FT* on 31 October 1929. 'Stocks of many established companies have had one-half or more lopped off the highest of their inflated market prices, amid scenes of excitement to which Wall Street has known no parallel...the full effect of the slump on American industry, and therefore the confidence which formed the basis of the boom remains to be seen...a curtailment of consuming power seems inevitable.' The depression was on it way.

The Great Depression

Worsening economic conditions in the US, which saw rapidly rising unemployment, a banking crisis and a protectionist tariff, had contagion effects in central Europe whose banks were highly dependent on funds provided by American banks. On 13 May 1931, the *FT*'s correspondent reported from Vienna that financial circles were 'staggered' by the news that Credit-Anstalt, Austria's largest bank, was in 'serious financial difficulties.' Substantial losses due to bad lending were compounded by the withdrawal of international inter-bank facilities, necessitating the nationalisation of Credit-Anstalt.

The financial crisis spread to Germany in July with the suspension of payments by Darmstadter Bank, one of Germany's 'Big Five' banks, reported in the *FT* on 14 July 1931. The collapse was due to a run on the bank by both domestic and foreign creditors. The *FT* correspondent in Berlin reported on 1 August 1931 that the Government had guaranteed the bank's liabilities to current and savings account holders and had suspended the repayment of short-term foreign credits

to prevent the further flight of funds aboard. The latter measure had serious implications for London's merchant banks that specialised in the finance of international trade and were owed substantial sums by German debtors. Some required special assistance from the Bank of England. Anxiety about the banking sector combined with other factors to bring the financial crisis to Britain.

The depression led to a gaping budget deficit in Britain. The Labour Party government commissioned a committee of experts, the May Committee, to report on potential government expenditure cuts to balance the budget. The report, delivered in July 1931, recommended cuts in unemployment benefit. 'The country is called upon to face all-round financial sacrifice to restore the balance of the national accounts,' declared the *FT*, 1 August 1931, p.4. 'There has never been a more challenging document.' Prime Minister Ramsay MacDonald, and the Chancellor, Philip Snowden accepted the need for cuts, but colleagues resisted and the cabinet reached an impasse. 'A National Government is in being,' reported the *FT* on 25 August 1931 'Mr MacDonald has found it impossible to carry the Labour Cabinet with him far enough along the path of retrenchment, and has accepted the leadership of a Government composed of representatives of all three political parties...[an] indication of the attitude with which the nation as a whole is prepared to face the crisis and to overcome the obstacles in the way of the country's return to a fuller prosperity.'

The new government quickly introduced an emergency economy budget. 'Britain is prepared to take its medicine without wriggling,' declared the *FT* on 12 September 1931. 'The nerves of the country are steady.' But just a few days later, unrest in the Royal Navy about wage cuts undermined foreign confidence triggering a wave of selling of sterling that drastically depleted the Bank of England's gold reserves. On Monday, 21 September 1931 sterling left the gold standard, meaning that the Bank of England would no longer exchange sterling notes for gold. 'After playing the gold standard game according to the best tradition for six years, Great Britain has been forced to call a halt,' observed the *FT* and sought to reassure bewildered readers. 'Now that the course has been determined it is above all desirable that wrong conclusions should not be drawn from it. We shall return, so far as the gold standard is concerned, to the position of the post-war years preceding 1925. If the general public bears that in mind it will realise there is no cause for undue pessimism...Internally there is not the slightest cause for despair.'

The US was also beset by financial crises in the early 1930s. President Franklin D. Roosevelt assumed office in March 1933 in the midst of a banking crisis. 'Virtually the whole of the country's banking system had ceased to function,' observed the *FT*, 6 March 1933, p. 6. 'Mr Roosevelt has to deal with a nation which to a very great extent has lost its belief in its banking system and even to some extent in the national currency, as is indicated by the commencement of a gold hoarding movement.' 'Immediately after taking the oath,' the *FT* reported on 6 March 1933, p.7 'President Roosevelt told the nation that he would ask [Congress] for war-time powers, if necessary, to meet the national emergency.' In the meantime, on 6 March 1933 the President

proclaimed a four-day 'national bank holiday' - the closure of every bank in the country pending emergency banking legislation to ensure stability. 'The work falls naturally into three divisions,' the *FT* explained on 10 March 1933. 'The first essential is to secure the reopening at the earliest possible moment of all banks which are in a position to resume business...The second need is to clarify the position of the dollar vis-à-vis foreign currencies...The third phase consists of a general revision of the whole banking organisation of the country.'

'Twelve Reserve Banks to Reopen', announced a headline in the *FT* on 11 March 1933, marking the beginning of the resumption of activity by the US central banking system. Over subsequent weeks, commercial banks were inspected and individually licensed to reopen, though 4,000 stayed permanently shut. Discussion of the separation of commercial and investment banking to safeguard depositors was underway as Roosevelt was inaugurated. The *FT* reported on 10 March 1933 that Wall Street was 'frankly "flabbergasted"' at the statement by the chairman of Chase National Bank, one of America's biggest banks, that "I am entirely in sympathy with the divorcing by law of securities affiliates from commercial banks." The transformation of American banking on these lines was enacted by the Glass-Steagall Banking Act that became law in June 1933, one of Roosevelt's whirlwind of 'New Deal' reforms.

The clarification of the position of the dollar vis-a-vis other currencies was resolved in April when the US abandoned the gold standard - the fixed value of the dollar against gold and its convertibility into gold. 'The results of the destruction of the world's strongest remaining anchorage to gold are incalculable,' warned the *FT* on 21 April 1933. 'A buttress against wild speculation has been removed...Quenching the beacon showing the way to shelter seems a strange way of helping the navigators on a dangerous sea.' A World Economic Conference convened in London in June 1933 with the aim of forging a new economic and financial world order, but it had no significant outcomes. Political and economic nationalism were on the march in the 1930s, meaning tariff barriers, competitive currency manipulations, the collapse of international financial flows, and, ultimately, the Second World War

The Bretton Woods Decades

In July 1944, less than a month after the D-Day Allied landings in France, 730 delegates from 45 countries met at Bretton Woods, a New Hampshire resort, to draw up a new economic and financial order for the world after the war. The British delegation was led by John Maynard Keynes and the Americans by Harry Dexter White, who jointly sketched the blue-print discussed by delegates. The outcome of the conference was the establishment of the Bretton Woods system of fixed but adjustable exchange rates and the Bretton Woods institutions; the International Monetary Fund, overseer of the exchange rate system, and the World Bank, charged with the promotion of economic development. 'The Bretton Woods Conference,' declared the *FT* following the end of the gathering on 24 July 1944, 'has achieved a notable measure of success in formulating the most far-reaching monetary measures ever attempted.'

Stable exchange rates and the increasing liberalisation of international trade during the Bretton Woods era from the mid-1940s to the early 1970s led to world economic growth and increasing prosperity for many countries. However, some countries, notably Britain, found it difficult to maintain their agreed exchange rate parities because of relatively high inflation and balance of payments problems. Britain devalued the pound from $4.03 to $2.80 in 1949. By the 1960s, sterling was once again overvalued and a sterling crisis became an annual event, much to the discomfort of governments and the financial authorities. On 18 November, with the reserves exhausted, Harold Wilson's Labour government bowed to the inevitable and sterling was devalued from $2.80 to $2.40. 'The ball is over,' observed the *FT* on the 20 November 1967 'The Government has finally been forced to devalue the pound. The Prime Minister may claim that nobody forced it to act in this way, that it was blown off course by a gale that nobody could have foreseen and that it then freely chose devaluation as the best means of getting back on. Nobody will pay the least attention to such a claim. Maintenance of the sterling exchange rate has been the overriding aim of the Labour Government's economic policy since it took office in 1964. Devaluation is an open and humiliating admission that the policy has failed...The ball is over. This is where we must all begin to face reality.'

The Nixon Shocks

By the late 1960s the US was running a large current account deficit due substantially to overseas military expenditure including the Vietnam War. There was growing concern about a devaluation of the dollar and fears about the impact this might have on international financial stability and co-operation. President Nixon decided to forestall any future dollar crisis that might blow up during the 1972 presidential election campaign by acting unilaterally. On 15 August 1971 he announced on prime-time television his decision to suspend the convertibility of the dollar into gold, effectively suspending the operation of fixed international exchange rates. 'President Nixon's broadcast marks, as he himself acknowledged, the formal end of an era - an era which began after the last war with the establishment of a new international monetary and trading order and the provision of massive aid by the United States to its allies and former enemies,' commented the *FT* on the 17 August 1971. 'Now, however, that the Administration has set out an international economic policy which is the essence of hard self-interest, it is important that America's partners should respond in an equally realistic spirit.'

The US measures led to months of international negotiations that culminated in the Smithsonian Agreement of December 1971 by which America's trading partners accepted a 12 per cent devaluation of the dollar while the US abandoned its 10 per cent surcharge on imports. 'There is every reason for satisfaction with their success,' declared the *FT* on 20 December 1971. 'Mr Nixon himself was aware that he might be accused of over-statement for describing it as the most significant monetary agreement in the history of the world, yet it is a considerable achievement which brings to an end four months of growing uncertainty.' However, the restoration of fixed exchange rates soon began to break down, with Britain floating the pound in

June 1972 when faced by yet another sterling crisis. A second devaluation of the dollar and the system's disintegration in February-March 1973 came as little surprise. However, many, including the *FT*, believed in an eventual return to an international system of fixed exchange rates observing on 13 February 1973, 'that this is only a temporary solution and that the negotiations on international monetary reform must now be pushed ahead as fast as possible.'

The OPEC Oil Crisis

An international committee of experts, the Committee of Twenty, was appointed to draw up a plan for a New Bretton Woods. Differing national interests and perspectives as well as a disjunction of views between, on the one hand ministers and monetary officials, who favoured fixed rates, and on the other academic economists, who mostly supported floating rates, bedevilled its work. Then in October 1973, purportedly in support of Arab nations fighting the Yom Kippur War with Israel, OPEC oil producing states doubled the price of oil, and on 23 December they doubled it again. 'The violence of this change is dangerously provocative,' declared an *FT* editorial the following day, 24 December 1973 'but the producers are probably safe in assuming that the great power deadlock gives them a solid guarantee of security. The more practical challenge is the baffling problem of financing oil imports, and of offsetting the additional 2 per cent of imported inflation which will be imposed during the next year on an already dangerous situation.' The oil price hikes tipped the developed world into recession, along with soaring inflation and current account and budgetary deficits, a toxic combination captured by the new term 'stagflation.' These factors rendered the reform plans of the Committee of Twenty as surreally irrelevant; by the time of its report in June 1974 floating exchange rates were de facto the international monetary system.

The world economy was in recession in the mid-1970s, but by the latter years of the decade inflation had fallen and growth had resumed. But then in 1979 the Iranian Revolution triggered a second oil price shock that sent inflation spiralling once again. Paul Volcker, the newly appointed chairman of the US Federal Reserve Board, was determined to act decisively to counter inflation in contrast to the response to the first oil crisis. On Saturday 6 October 1979 the Fed announced an increase in its key interest rate to an unprecedented 12 per cent - the 'Saturday night massacre' as the move was called in the government bond market because of its devastating effect on bond prices. 'The Federal Reserve Board, with the explicit support of the Carter Administration, has launched a new attack on U.S. inflation which is expected to push U.S. interest rates above already record levels and, it is hoped, help revive waning international confidence in the dollar,' reported the *FT*'s front-page on 8 October 1979. Inside, an editorial observed on 8 October 1979, p. 14 that: 'There can be little question of the boldness of the new measures introduced by the Federal Reserve Board to tackle the domestic causes of the dollar crisis; they add up, indeed, to a considerable revolution in U.S. monetary policy.'

Black Monday and Black Wednesday

The adoption of an active anti-inflationary monetary policy in the US, as well as Britain and elsewhere, led to a recession at the beginning of the early 1980s. Growth

resumed in 1982 and accelerated in following years. The good times were marked by the most powerful bull market in share prices on Wall Street and in the City since the 1920s. By summer 1987 share prices on Wall Street had left touch with normal bases of valuation and August saw a correction, but then September saw a rally. 'Rout on Wall Street Leads Stocks to Record Falls,' announced the *FT*'s headline on 20 October 1987. 'The New York stock market suffered a rout yesterday as a bout of panic selling brought falls almost double those seen on October 28, 1929, the worst day of the stock market crash...the selling far exceeded anything seen in the worst days of the 1920s and 1930s and the fall in the Dow at 22.6 per cent was almost double the 12.82 per cent drop seen in the worst day of the stockmarket crash which preceded the great depression.' 'Black Mondays rarely live up to the description so dramatically,' noted a reflective *FT* editorial captioned 'Coming Down to Earth' on 20 October 1987, p.16. 'The message of the past few days may be that modern markets are too narrowly obsessed with pre-digested opinions. They have tremendous technological capacity for gathering global information, but the process of analysis turns out to be clumsy and even alarming. We still have to live with Black Mondays.'

Black Wednesday was the tag for 16 September 1992, the day of sterling's ignominious exit from the European Exchange Rate Mechanism (ERM) at a loss of £3.3 billion in foreign exchange reserves. Britain had joined the ERM in 1990 to align its currency and economy more closely with its EEC partners. But with relatively high UK inflation the pound became substantially overvalued and by September it was under attack by currency traders. 'Sterling is Suspended Within ERM. Government Forced to Retreat,' declared the *FT*'s front page on 17 September 1992. 'Mr John Major's government was last night forced into a humiliating climbdown...The reversal came after an unprecedented 5 percentage point rise in interest rates to 15 per cent failed to avert a full-scale sterling crisis.' 'The end was both swift and expensive,' commented an inside editorial on 17 September 1992, p. 24. 'With base rate up to 15 per cent and perhaps as much as £9bn of foreign exchange intervention thrown in too, the UK government put the public's money where its mouth has long been. But it was not enough. The ERM policy became unsustainable because no British government can defend a parity at the price of a slump...This is a defeat. It is a defeat for the British government's economic policies, just as it is a defeat for European co-operation. But life goes on. The British government will have to find new ways of achieving non-inflationary growth. It will also want to renew co-operation in Europe. Despair cannot be afforded, still less envenomed recrimination.'

The tribulations of the ERM fortified the resolve of European finance ministers and officials to go beyond supposedly locked exchange rates to the creation of a European single currency. This came into being on 1 January 1999. 'More than 30,000 people yesterday joined a party on the lawn in front of the European Central Bank in Frankfurt to celebrate the launch of the euro and the first economic union in Europe since the Roman Empire,' reported the *FT* on 2 January 1999. The article was accompanied by a photograph of a smiling ECB president toasting the single currency with French and Luxembourg finance ministers. Britain was not a

participant in the project and while people partied in Frankfurt the paper pointed out that a 'fresh row between the UK on one side and France and Germany on the other over the decision-making power of euro-zone countries and tax harmonisation.'

The Dot-com Bubble

The second half of the 1990s saw the creation of a host of new companies that focused on the provision of Internet services. A few dot.com companies made fortunes for their founders, though many more closed before they turned any profit at all. But investors were bedazzled by the success stories and chased after Internet stocks which they believed could only go up in price. Between January 1996 and March 2000, the stock price index of the technology heavy NASDAQ market rose from 1,000 to 5,000, with the bubble at its most frenzied in late 1999 and early 2000. 'Regulators Alarmed Over High-Tech Mania,' stated the *FT* on 16 March 2000, reporting that 'financial regulators yesterday joined a mounting chorus of public warnings about the dangers of investing in high-technology stocks. The latest warnings reflect rising international concern about the threat to financial stability of the rush into internet shares, particularly by small investors trading on "margin accounts" with borrowed money.' In fact, the dot.com bubble was on the point of bursting and the concerted warnings helped to prick it. "It's been clear that people see the strategic long-term value of these sectors," a bank analyst told the *FT* on 16 March 2000, p.21, "but at some point there has to be some realism about valuations." By the end of the year the NASDAQ index had slumped to 1,600. The 2007 Banking Crisis The 2000s saw yet another financial bubble. It had its origins in two factors, the huge international financial imbalances that resulted in an abundance of funds seeking higher yields plus a wave of quantitative model-based financial innovation. Both developments led to the assumption of greater risks by banks, though they were not aware of doing so since many assets were misrepresented and mispriced. In particular, US 'sub-prime' mortgages that were packaged as investment grade securitised assets and sold in the market.

In August 2007, banks took fright and refused to lend to each other because they were fearful that the poor quality of investments held by counter-parties might make them unable to repay. The onset of the credit crunch was disastrous for the British mortgage bank Northern Rock whose business model relied on short-term borrowings in the inter-bank market to fund long-term home loans. In desperation, echoing Barings in 1890, Northern Rock turned in desperation to the Bank of England for help with its liquidity crisis. 'Confidence in Northern Rock Collapses,' reported the *FT* on 14 September 2007. 'The mortgage lender said in a statement on Friday that the Bank of England had agreed to provide it with as much funding "as may be necessary" as it warned that it would otherwise be incapable of refinancing maturing liabilities...The unprecedented move by the Bank of England, which was approved by the Chancellor of the Exchequer, is the most dramatic illustration to date of how the British banking sector is being hit by the wave of turmoil that has paralysed the money markets.'

'The banks, we used to think, are as safe as houses,' observed the *FT*'s Philip Stephens a week later. 'The

trials of Northern Rock have left neither looking especially secure. After years in the stratosphere, house prices now look set to succumb to the force of gravity. And the choice between the bank vault and the mattress no longer looks quite so one-sided...What made this crisis special was television: the hour-by-hour images of anxious and angry depositors crowding the branches of Northern Rock the length and breadth of the land. When Britain last witnessed a run on a bank, the menfolk still dressed in top hats and tails...Mr King [Governor of the Bank of England] concedes that those outside the financial services industry must have watched recent events unfold with "utter bemusement". A bemusement, he might add, that fully explained the anxieties of those in the queues outside Northern Rock. I'm not sure, though, that bemusement is quite the right word. Justified suspicion might be better. Perhaps the crowds sensed that nothing is straightforward any longer...The squall became a hurricane because the risks of subprime lending had been carefully concealed in the mortgage securitisation market and then scattered to the winds. No one knew where they had come to rest...it is too late even if we wanted to, to roll back the frontiers of financial innovation. The integration of global economies and markets may feed our insecurities, but it also makes us richer. But plainer folk, and I include myself here, are likely also to draw another conclusion. Why should we trust anyone?'

As it turned out, the credit crunch of summer 2007 and the collapse of Northern Rock were just the beginning of the most serious financial crisis since the 1930s. There were further and much bigger bank failures and rescues in Britain and around the world to come, and a desperate quest for reforms that would ensure that it would never happen again. There is no better ringside seat to these on-going developments and debates than the *Financial Times*.

CITATION

Roberts, Richard: "The *Financial Times*: Scandals and Debacles." *Financial Times Historical Archive*: Cengage Learning, 2010