

Bail-in or bail-out? Revisiting the Credit Anstalt Crisis of 1931¹

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(Long) Abstract

The Credit Anstalt (CA) crisis of 1931 significantly impacted Austria's banking system, its public finances, and had the potential to spill over into other countries. In this article, our objective is to reexamine the crisis focusing on the various actors involved in resolving the crisis. While the extensive historiography on the crisis literature has debated the BIS's (in)ability to act as an international lender of last resort and the failure of central banks to cooperate, scholars have only made passing references to the role of private banks. From our perspective, their role was pivotal in mitigating the crisis. Their coordination within a major international committee was facilitated by the BIS's role as a crisis manager, enabling the ANB to strengthen its capacity as lender of last resort. This coordination emerged as a preliminary and vital step in establishing the standstill that halted the capital flight occurring in Austria. Furthermore, Austria served as a precedent for establishing subsequent standstills. Our research, based on a variety of historical archives and a new database on individual foreign banks' exposure to the CA, reveals that the initial agreement between Austria's government and the creditors of CA suffered from various flaws, leaving Austria's banking sector in a vulnerable position. Successive standstills in Austria and other Central and Eastern European countries addressed these shortcomings.

Our historical insights shed new light on the role of the IMF in promoting financial stability. Since the crises in emerging economies in the 1990s, a significant controversy has revolved around finding the most efficient way for the IMF to fulfill its dual role as an international lender of last resort (IOLR) and as a crisis manager. Bailing-in the private sector and fostering cooperation among creditors has been a challenging yet necessary task. The current dilemma faced by the IMF in balancing its IOLR and management roles mirrors the dilemmas of the BIS during the early 1930s. We conclude by drawing parallels between the financial crises of 1931 and those of recent decades.

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