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The Political Economy of Exchange Rate Policy-Making:

A Re-Assessment of Britain's Return to the Gold Standard in 1925

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Table of Contents

Acknowledgments	iii
Declaration	iv
Abstract	v
List of Abbreviations	vi
Introduction	: Exchange Rate Policy-Making...	...	...	...	...	...	...	1
Chapter 2	: The Gold Standard	...	...	...	...	...	...	47
Chapter 3	: The Crisis of the British State	...	...	...	...	...	...	70
Chapter 4	: The First Steps, 1920-22	...	...	...	...	...	...	99
Chapter 5	: The Return to Gold, 1923-25	...	...	...	...	...	...	127
Chapter 6	: The Golden Shield, 1925-28	...	...	...	...	...	...	163
Chapter 7	: The Collapse of the Strategy, 1929-31	...	...	...	...	...	...	203
Chapter 8	: The Search for a New Regime	...	...	...	...	...	...	235
Conclusion	: Exchange Rate Policy-Making Reconsidered	260
Appendix	: A Note on Source and Methods	279
Bibliography	282

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Declaration

I hereby declare that no sections of this thesis have been previously published or used as part of another thesis, that all the work contained therein is my own, and that the thesis has not been submitted for a degree at another university.

Abstract

This thesis examines the political economy of exchange rate policy-making from a theoretical and an empirical perspective. It argues that conventional means of understanding this subject are problematic, and it develops an alternative framework for analysis based on a Marxist methodology. From this perspective exchange rate policy-making is understood to be a component part of a wider governing strategy that is made by the core executive with a view to regulating class struggle, to providing favourable conditions for capital expansion, and for ensuring a sufficient degree of freedom for the pursuit of high political goals.

This theoretical framework is applied empirically through an examination of Britain's return to the gold standard in 1925. In contrast to conventional explanations for this policy decision it is argued that the return to gold was the central component of a governing strategy designed to address long-term economic and political difficulties in the British state through the imposition of financial discipline and the 'depoliticisation' of economic policy-making. Furthermore, in contrast to conventional assessments of the policy as having been a disaster, it is also argued that the return to gold was a relative success. Though failing to resolve Britain's economic difficulties, the policy was generally successful in containing class unrest and in enabling the core executive to displace pressures over economic conditions and policy-making away from the state.

The substantiation given to the alternative theoretical view of exchange rate policy-making by these empirical claims is also supported by an examination of the policy regime developed after the collapse of the gold standard, and by a brief examination of Britain's membership of the European Exchange Rate Mechanism from 1990-1992, which is shown to have direct parallels with the return to gold. On this basis, the thesis offers a firm foundation for drawing wider generalisations about the political economy of exchange rate policy-making in terms of an alternative Marxist perspective.

List of Abbreviations

ABCC	:	Association of British Chambers of Commerce
BE	:	Bank of England
BCU	:	British Commonwealth Union
BIS	:	Bank for International Settlements
CCBE	:	Chambers of Commerce of the British Empire
CPGB	:	Communist Party of Great Britain
CSMA	:	Cotton Spinners Manufacturers Association
EEA	:	Exchange Equalisation Account
EEF	:	Engineering Employers Federation
ERM	:	European Exchange Rate Mechanism
FBI	:	Federation of British Industries
FBIGC	:	Federation of British Industries Grand Council
FRBNY	:	Federal Reserve Bank of New York
IFTU	:	International Federation of Trade Unions
ILP	:	Independent Labour Party
LCC	:	London Chambers of Commerce
LRD	:	Labour Research Department
MAIE	:	Manchester Association of Importers and Exporters
MAGB	:	Mining Association of Great Britain
MFGB	:	Miners' Federation of Great Britain
MRC	:	Modern Records Centre
NCEO	:	National Confederation of Employers Organisations

NFISM	:	National Federation of Iron and Steel Manufacturers
NUM	:	National Union of Manufacturers
NUR	:	National Union of Railwaymen
PRO	:	Public Record Office
TUC	:	Trades Union Congress
TUCGC	:	Trades Union Congress General Council
TUCPC	:	Parliamentary Committee of the Trade Union Congress
TWF	:	Transport Workers Federation

Introduction : Exchange Rate Policy-Making

In simple terms an exchange rate is merely the price of one currency expressed in terms of another. In terms of political economy however, an exchange rate forms the principal means through which a national state is integrated into the global economic society. Exchange rate policy is therefore of far-reaching importance for a wide variety of factors in both national and international life, ranging from levels of economic output, employment, prices, and trade, to political relations within and between states themselves. One only has to look at events within the European Monetary System during the early 1990s for instance, or to more recent events during the 1999 Asian crisis and the moves towards European monetary union, to appreciate the political and economic impact that exchange rate policy-making can have.

The management of exchange rate policy therefore is not only a pertinent, but a central issue for analysis. At present however, the range of academic approaches to understanding this process suffer from a number of limitations and shortcomings. Primarily, these derive from the methodological problem that such explanations ignore the more fundamental question, upon which political economy itself rests, of why society itself assumes the various forms that it does. In neglecting this core concern, existing approaches present accounts of exchange rate policy-making based upon a social framework which is assumed rather than explained, and in which the relation between political behaviour and wider socio-economic conditions is derived in a purely exogenous and speculative fashion.

In contrast, this thesis argues that exchange rate policy-making can only be understood by viewing political and economic behaviour as integral parts of a social whole. The methodological difficulties of current approaches can, to some extent, be

overcome by the adoption of a Marxist perspective that begins precisely with the question of social form. On this basis, the process of exchange rate policy-making is derived from a prior analysis of the composition of capitalist society, and from an examination of the position of state managers within this wider context. Subsequently, the thesis argues that exchange rate policy-making should be seen as a key node of economic policy-making in general, which is formulated with a view to regulating the crisis-ridden process of capitalist production. Exchange rate policy-making is therefore understood as a component part of a wider governing strategy for the management of class relations and for the provision of favourable conditions for capital accumulation.

This however also needs to be shown empirically as well as theoretically. As such, this broad theoretical outline is applied to an in-depth empirical examination of Britain's interwar gold standard policy from the First World War until the 1930s, and also more briefly to Britain's membership of the European Exchange Rate Mechanism from 1990-1992. In so doing, this thesis provides evidence in support of both a new means of approaching the understanding of exchange rate policy-making in general, and for understanding these policy episodes in particular.

This introductory chapter highlights the main theoretical and methodological issues that are involved in the analysis of exchange rate policy-making. It begins by outlining the main themes and issues encountered under the various types of exchange rate systems, and examines their key benefits and disadvantages. This is followed by a critical examination of the existing literature on the issue of exchange rate policy-making, and by the development of an alternative approach to understanding this subject based upon a Marxist methodology.

Exchange Rate Regimes : A Brief Overview

An 'exchange rate regime' can be defined as a specific set of official institutional arrangements, mechanisms, and tools that are used to influence or control the value of the national currency on the international foreign exchange markets. Though classifications vary, a broad but useful means of categorising regimes is in terms of the degree of flexibility they accord to the movement of the exchange rate. On this basis, the range of possible regimes can be seen to lie along a continuum from completely flexible rates at one end to permanently fixed rates at the other. This section examines the operation of these regimes, and outlines some of the benefits and disadvantages they are seen to provide.¹

Under a flexible or 'floating' exchange rate regime the value of the national currency is determined principally by the market and is free to move on a daily basis according to changes in supply and demand. One of the main advantages of this kind of regime is often considered to be that these movements in the exchange rate serve to offset disequilibria in the balance of payments, thus freeing the domestic economy from the constraints of the international environment. A balance of payments deficit due to a decline in national competitiveness for example (such as rising inflation or an 'external shock') will cause a depreciation in the exchange rate.² This will make domestic exports cheaper and foreign imports more expensive, thereby stimulating exports, deterring imports, and helping to restore macroeconomic balance. A balance of payments surplus on the other hand is thought to work in the opposite direction, causing an appreciation in the exchange rate and serving to reduce exports and encourage imports. In this way, by accommodating changes in national economic conditions and performance, a floating regime is therefore

¹ On the various types of exchange rate regime see for example Williamson (1983), pp.56ff; Kenen (1988), Ch.3; Argy (1990); Frankel (1999); IMF (1999).

² All assumptions are of course subject to the condition of *ceteris paribus*.

believed to free policy-makers from the constraints of the external environment and to enhance their autonomy for the pursuit of domestic objectives such as high employment and economic growth. Allowing the market to set the value of the exchange rate is also often thought to be more likely to produce a rate more in line with the underlying ‘fundamentals’ of the national economy, such as its level of competitiveness and productivity, thus providing less risk of misalignment and helping to ensure macroeconomic stability and efficiency.³

Critics of floating regimes however argue that they do not necessarily liberate national economic policy-making or provide these macroeconomic benefits. Large or rapid movements in the exchange rate for example may conflict with less flexible variables such as domestic prices and wages, with serious implications for levels of national output and employment. An appreciation of the exchange rate can erode export competitiveness, leading to bankruptcies and rising unemployment, whilst a depreciation may lead to rising inflation through the effects of higher import prices and rising export demand. Furthermore, with the market itself being primarily concerned with making profits and minimising exposure to risk, a floating regime may also fail to conform to national economic fundamentals and may in fact lead to misalignments and exchange rate volatility as a result of changes in market sentiment. As such, the national economic impact of a floating rate may be far from costless, and policy-makers may not therefore be able to ignore its consequences.⁴

³ Argy (1982), pp.27-8; Williamson (1983), pp.37ff: On floating exchange rate regimes see for example Sohnen (1969); Brittan (1970); Williamson (1983); Kenen (1988); Melamed (1988).

⁴ Black (1979), pp.176-7; Williamson (1983), pp.37ff; Kenen (1988), pp.19-2; Minford (1989), p.212: The empirical record concerning floating regimes has been the subject of much dispute. See for example Kenen (1988); Argy (1990); Flood and Rose (1995); Caramazza and Aziz (1998).

These points have led some commentators to argue in favour of more restrictive regimes in which the authorities undertake to actively regulate the exchange rate. This can take the form of a ‘managed’ regime, under which the authorities may simply seek to mitigate against excessively sudden or sharp fluctuations in the rate (known as ‘leaning against the wind’, or ‘dirty floating’), or may take a more stringent form, with the authorities seeking to maintain the rate within a certain range (rigidly specified, pre-announced or otherwise), by ‘fixing’, or ‘pegging’ the national currency to another currency, or a weighted basket of currencies. This itself can also take various forms, such as an ‘adjustable peg’ in which the rate may be periodically realigned if and when it is deemed necessary, or a ‘crawling peg’, in which gradual and incremental movements in the rate are themselves built into the system. At the most extreme, the authorities may even abandon the national currency altogether and fix the exchange rate irrevocably by entering into a monetary union with other currencies.⁵

A major benefit that is often claimed in support of restrictive regimes is that they can ensure a steadier and more appropriately valued exchange rate than a floating regime, thus enabling greater macroeconomic stability and certainty.⁶ This is also buttressed by the discipline imposed by the exchange rate itself. In contrast to a floating regime in which changes in national economic conditions and policies are offset by an adjustment in the exchange rate, under a more restrictive regime it is national economic conditions and policies themselves that are confined within the necessity of having to maintain the rate.⁷ A decline in economic competitiveness and a balance of payments deficit leading to a depreciation in the rate for example, will compel the authorities to impose deflationary

⁵ Sohnen (1969), pp.184ff; Argy, (1982; 1990); Williamson (1983), pp.56-76; Kenen (1988), pp.24-9.

⁶ Sohnen (1969), ps.74, 188; Williamson (1983), pp.60-1; McCallum (1996), p.224.

⁷ Black (1979), pp.9-10.

measures in order to raise its value. In turn, these will also serve to put pressure on domestic costs and prices, thus ensuring that competitiveness and macroeconomic balance is regained. In contrast, a balance of payments surplus leading to an appreciation of the rate will induce the authorities to adopt an expansionary economic policy, causing domestic prices to rise and the rate to fall. In this way, a restrictive regime can provide an 'external anchor' for the national economy, helping to prevent the governing authorities from pursuing excessively inflationary or deflationary economic policies, and helping to ensure that domestic economic conditions remain internationally competitive.⁸

Managed and pegged exchange rate regimes however do not necessarily resolve the problems of misalignments and instability. Difficulties can arise for example if economic conditions in the country to whom the national currency is pegged themselves change and force an alteration in the exchange rate. This may force the governing authorities to adopt economic policies with a detrimental effect on national economic and political conditions, producing an internal-external policy conflict. A looser economic policy stance in the country to whom the national currency is pegged may compel the adoption of policies leading to rising inflation, whilst a tighter stance may force the imposition of deflationary policies leading to domestic economic contraction and rising unemployment. In the event of this policy conflict becoming acute, doubts over the resolve or the capacity of the authorities to bear the social burdens necessary to maintain the rate may lead to mounting speculative pressure against the national currency itself, and may even lead to the collapse of the regime. Moreover, official influence over the exchange rate also raises the possibility of miscalculation or even the deliberate abuse of this power, with similar

⁸ Sohnen (1969), *passim*; Black (1979), ps.28-9, 179; Williamson (1983), pp.46-56; Giavazzi and Pagano (1988); Kenen (1988), p.36, 45; Giovannini (1993), pp.111ff.

results. A mistaken or deliberate undervaluation for instance, such as an attempt to stimulate export growth, may lead to inflation, while an overvalued rate may produce excessive deflation and speculation. Officially determined exchange rates may also become under- or overvalued over time as national economic conditions themselves change, and also contain the possibility of creating wider international tensions should their effects impact adversely upon other countries.⁹

One way of resolving some of these difficulties is to adopt an even more restrictive regime in the form of a monetary union. By establishing a single currency with other nations a powerful signal can be sent to the market that there will be no future change in the rate or in the policies needed to maintain it. By curtailing the potential for a speculative attack, monetary union may therefore offer all the benefits of certainty and stability provided by managed or pegged regimes whilst avoiding the associated risks of disruption. On the other hand however, should a single currency itself become misaligned in relation to national economic fundamentals, then serious economic and political difficulties can result as the ability to offset such changes with an alteration in the rate is no longer available.¹⁰

Theories of Exchange Rate Policy-Making

Having outlined some of the key themes and issues associated with various exchange rate regimes, this section now surveys the existing literature on exchange rate policy-making. In broad terms, it is possible to distinguish between three main approaches

⁹ Sohnen (1969); Brittan (1978), pp.51-76; Black (1979), ps.8-9, 193; Lamfalussy (1981), p.47; Williamson (1983); Kenen (1988), pp.30-6; McCallum (1996), p.225.

¹⁰ Giovannini (1989); Goodhart (1995).

to this issue. These can be described as the ‘rational choice’ approach, the ‘country characteristics’ approach, and the ‘interest group’ approach.¹¹

The ‘Rational Choice’ Approach

By far the most common means of addressing the question of exchange rate policy-making, the ‘rational choice’ approach is founded upon an econometrical analysis of policy-making behaviour based on a series of interactions between equally rational, self-maximising groups of public and private actors.¹² Consistently, the substance of this approach is drawn from the debate over ‘rules versus discretion’ in economic policy-making, concerned with whether a policy regime based on discretionary management or fixed rules will produce the most optimal outcome in terms of economic performance and citizen welfare. Traditionally, the main conclusion of this debate has been to assert the superiority of a ‘rules-based’ regime, and to view discretionary policy-making as containing an inherent predisposition towards inflation and macroeconomic instability.¹³

The main thrust of this argument is premised upon the ‘time-inconsistency problem’. This is the apparent paradox that a discretionary regime in which policy is constantly adjusted in order to maintain an optimal position will lead to less optimal outcomes than a rules-based regime under which the same policy is consistently followed

¹¹ For alternative typological reviews of the literature on exchange rate policy-making see Eichengreen (1995); Hefeker (1997). Several areas of the literature on exchange rate regimes such as those concerned with optimal currency areas and those engaged in prescribing optimal regimes for developing, transitional, small and/or open economies are discounted here on the basis that they deal with technical and/or normative issues rather than the specific question of exchange rate policy-making itself. For examples see Tower and Willett (1976); Miller *et al* (1989); Argy and de Grauwe (1990); Claassen (1991); Åkerholm and Giovannini (1994); McKinnion (1996).

¹² Examples include Friedman (1968); Helpman (1981); Cukierman and Meltzer (1986); Hamada (1987); Giavazzi and Pagano (1988); Levine *et al* (1989); Minford (1989); Miller and Sutherland (1992); Panić (1992); Bordo and Kydland (1995); Bayoumi and Bordo (1998).

¹³ See for example Simons (1936); Fischer (1990); Guitián (1992); Keech (1992); Schaling (1995); Hefeker (1997).

in every circumstance regardless of whether or not it is optimal under those particular conditions.¹⁴ The reasoning behind this is that private actors are assumed to tailor their economic behaviour in terms of price and wage formation according to their expectations as to the future level of inflation. Whilst expectations of a stable inflation rate will lead to stable price and wage formation, expectations of rising inflation will lead to ever higher levels of prices and escalating wage demands as private actors seek to compensate for declining real incomes. The determination of these future expectations however is seen to be the policy-making record of the authorities, who are believed to face an inherent temptation to create just such a rise in inflation in order to stimulate economic activity and electoral popularity.¹⁵

In order to be successful though, an inflationary expansion must be at least partially unexpected, as anticipated inflation will lead private actors to revise their economic behaviour accordingly by pushing up prices and wages in advance. The central dilemma for the authorities then, is that an increase in economic activity and electoral popularity resulting from unexpected inflation is necessarily short-lived. Whilst the expansion initially encourages economic growth, as labour becomes increasingly scarce wages and hence also prices are driven up, causing the economy to contract and output and employment to fall. Eventually, the level of real economic activity will return to its pre-expansion levels, only this time with a higher level of inflation. Unless the authorities are now prepared to accept this state of affairs they must once again seek to produce a surprise expansion. However, with private actors now aware of this strategy, inflationary expectations will have risen, and successive expansions will therefore need to be of an ever

¹⁴ See Kydland and Prescott (1977); Barro and Gordon (1983).

¹⁵ Lamfalussy (1981), p.48; Keech (1992), pp.267-9.

greater magnitude in order to produce the desired effect, thus leading to escalating inflation and macroeconomic instability. In addition, the public may also now be inclined to exact punishment upon the authorities by refusing to re-elect them.¹⁶

From a rational choice perspective the solution to this problem for the authorities is considered to be the adoption of a policy 'rule' that binds their future economic policy behaviour, such as a constraint on the future growth of the money supply, inflation targeting by an independent central bank, or a fixed exchange rate regime. By entering into such commitments, the authorities can influence the expectations and hence the economic behaviour of private actors, thereby checking and perhaps even reducing inflationary price-wage rises. In this way, although a policy rule itself may not be optimal for the particular economic conditions faced, the adoption of a rule is therefore thought likely to lead to greater optimal economic and electoral outcomes than a discretionary regime.¹⁷

In order for this to occur however, private actors must believe that the policy rule is credible and that the authorities will not renege on their commitment. If credibility is not ensured then inflationary expectations and economic behaviour will remain unaltered or become even more unstable, and the cost of reducing inflation in terms of economic contraction and unemployment is likely to be high. If on the other hand credibility is ensured, then changes in expectations and behaviour are more probable, thereby making the reduction of inflation easier to achieve.¹⁸ In order for a rule to be credible however it must possess certain characteristics. Simplicity and visibility are both necessary so that private actors can understand the rule and observe when it is being broken, whilst the more costly a rule is to break for the authorities the more likely it is that the commitment will be

¹⁶ Friedman (1968); Sayer (1982), pp.243-4.

¹⁷ Friedman (1968); Kydland and Prescott (1977); Willett and Mullen (1982); Giavazzi and Pagano (1988); Fischer (1990); Keech (1992).

¹⁸ Kenen (1988), p.51; Argy (1990), p.72; Giovannini, (1993), p.111.

believed.¹⁹ As such, it is therefore also often argued that ‘externally based’ rules enmeshed in wider international commitments possess greater credibility than ‘domestically based’ rules, as the costs of breaking such a commitment in terms of international recriminations can be higher than those incurred by annoying one’s own populace.²⁰

On this basis it is frequently stated that where it involves international agreements, the most credible and hence the most optimal rule is that of a fixed exchange rate. This it is argued, enables the authorities to legitimately claim that there is more at stake in adhering to the rule than merely the exchange rate regime itself, and thus to help convince private actors that the rule will be obeyed.²¹ Others though argue that due to the speculative dangers inherent in such a regime, more optimal rules are provided by monetary union or by a rule that incorporates an ‘escape clause’ (a so-called ‘contingent rule’). Under this latter regime it is recognised from the outset that the rule can be legitimately abandoned in the event of severe strain on the unwritten understanding that the authorities will remain actively committed to working towards its resumption as soon as possible. In this way, the imposition of such a rule is thought to be less likely to lead to detrimental and destabilising outcomes as the authorities are free from the necessity of having to impose damaging policies to maintain the rule in difficult circumstances, and because the punishment costs of breaking the rule itself will be less severe.²²

The rational choice argument that the authorities will prefer a rules based regime, and that a pegged exchange rate might constitute an optimal rule is however of limited explanatory utility for the question of exchange rate policy-making generally. As

¹⁹ Kydland and Prescott (1977), p.487; Argy (1990); Giovannini, (1993), p.111; Ruge-Murcia (1995).

²⁰ Lamfalussy (1981), pp.42-44; Kenen (1988), pp.45-6; Minford (1989), p.208; Giovannini (1993), pp.110-14.

²¹ Black (1979), p.182; Goldstein (1990); Giovannini (1993), p.110.

²² Aghevli and Montiel (1991); de Kock and Grilli (1993); McKinnion (1996).

Giovannini points out for example, the conclusion that such a view inevitably leads to, namely that floating exchange rates are temporary responses to severe strains and will be exchanged for a restrictive regime as soon as possible, is inconsistent with both the prevalence and the longevity of floating regimes.²³ Moreover, a fixed exchange rate is not the only possible exchange rate rule, and floating regimes can themselves also be viewed in this manner. Indeed, with the market free to speculate against currencies not backed by sound economic policies it is even possible to argue that a floating exchange rate provides a more optimal rule than a fixed regime, by offering a clearer, quicker, and more forceful signal to private actors as to when the authorities are pursuing inflationary policies, thus providing more incentives for the authorities themselves to maintain a sound policy stance. As such, with both floating and restrictive regimes understood in terms of a policy rule, and with no necessary reason for the authorities to prefer one over the other on the basis of rational choice, the value of this approach for interpreting exchange rate policy-making behaviour must therefore be doubted.²⁴

The ‘Country Characteristics’ Approach

In contrast to the rational choice approach in which exchange rate policy-making is seen to be determined by the interaction between public and private actors, the ‘country characteristics’ approach views the key determinants to be the particular structural features and circumstances of the country in question. From this perspective, though a rational choice analysis is sometimes incorporated, exchange rate policy-making is predominantly seen as a technocratic decision based on a cost-benefit analysis of all the available options,

²³ Giovannini (1993); See also Schwartz (1993).

²⁴ Sohnen (1969), pp.236-7; Brittan (1970, 1978). Black (1979), pp.192-4.

and as involving a trade-off between various social, political, and economic objectives such as low unemployment and inflation versus competitiveness, or the loss of monetary autonomy versus the benefits of a restrictive regime. As such, the idea of ‘optimal’ policies is replaced by the notion of adaptation and of shifts between exchange rate regimes in response to changing circumstances as the authorities seek to maintain their policy goals. This approach is well summed up by Frankel’s mantra, that whilst each exchange rate regime is right for some countries at some time, ‘no single currency regime is right for all countries or at all times.’²⁵

Analyses of exchange rate policy-making from this perspective often conjure up long lists of important characteristics. These are frequently seen to include for example: the size and openness of a country’s economy, the structure of its international trade relations, its degree of economic development, its vulnerability to exogenous shocks and balance of payments problems, its exposure to international capital mobility, the character of its microeconomy (i.e. the degree of capital and labour mobility, price/wage flexibility etc.), the nature and diversity of the commodities it produces, the effectiveness of its domestic economic tools, and the divergence in its inflation rate compared to that of other countries.²⁶ One common argument from this approach for example, is that countries who have small, open economies and/or an extensive geographical concentration of trade (such as close links to a major trading partner) will prefer a restrictive exchange rate regime in order to protect themselves against economic uncertainty and exchange rate instability. It is also argued that this preference may be shared by countries who desire to improve their anti-inflationary credibility, who are lacking strong public institutions, or who have an

²⁵ Frankel (1999), p.1; Examples also include Melvin (1985); Argy (1990); Savvides (1990); Aghevli and Montiel (1991); Giovannini (1993); Delbecque (1994); Honkapohja and Pikkarainen (1994); Milesi-Ferretti (1995); Edwards (1996); Oatley (1997); Caramazza and Aziz (1998); IMF (1999); United Nations (2000).

²⁶ See Argy (1982), pp.28-30; Honkapohja and Pikkarainen (1994); Frankel (1999); United Nations (2000).

underdeveloped financial sector. Floating regimes on the other hand, are often considered to be preferred by countries that are large, economically well developed, who have no suitable partner with whom to peg, and/or have well developed financial markets, strong public institutions such as an independent central bank, and a good anti-inflationary record.²⁷

Alongside these 'economic' structural factors, another important aspect of exchange rate policy-making according to this approach is seen to be the structure and particular characteristics of the domestic political sphere. Milesi-Ferretti for example offers an analytical model based on rational choice in which exchange rate policy-making is determined by the relative strength and stability of the government in comparison to that of its main opposition party. In this particular example, a weak and unstable right-wing government faced with a potentially strong left-wing opposition is hypothesised to prefer a floating rather than a restrictive regime, as the latter will allow the opposition to improve their own economic policy credibility and hence their electoral prospects by committing themselves to a continuation of the same policy.²⁸ A similar analysis is provided by Oatley, who argues that a left wing government faced with a rising exchange rate and an independent central bank will prefer a fixed exchange rate regime in order to enable the pursuit of a less restrictive monetary policy, while a right wing government faced with an uncompetitive economy and rising inflation will have an incentive to adopt a restrictive regime in order to enforce a tighter monetary policy.²⁹ Continuing in this vein, others have also argued that more unstable countries are unlikely to adopt pegged regimes because the electoral costs of having to abandon it will be prohibitively high. Such systems are

²⁷ Argy (1982), pp.28-30; (1990); Aghevli and Montiel (1991); Honkapohja and Pikkarainen (1994), pp.34-6; Oatley (1997), Ch.2; Frankel (1999); United Nations (2000), pp.82-3.

²⁸ Milesi-Ferretti (1995)

²⁹ See Oatley (1997), especially Ch.2.

therefore seen to be more likely to be adopted by stronger governments as these will be more able to defend the regime and to weather any political storms that may ensue.³⁰

Proponents of the country characteristics approach however, are on the whole divided and uncertain as to the exact effects that various characteristics will have on the choice of exchange rate regime, and over which are to be accorded most importance in the policy-making process. Black for example has argued that strong policy-making authorities may prefer a floating rather than a fixed exchange rate regime in order to enable the pursuit of domestic policies necessary for enforcing economic discipline and stability, while conversely weaker authorities experiencing inflationary difficulties may prefer a restrictive regime for the discipline that this provides.³¹ Moreover, whilst it is generally agreed that large economies will tend to opt for a floating regime, and that small open economies with large trading partners will tend to regulate their exchange rate, others have argued instead that the crucial determinant is not the degree of size or openness, but the level of divergence between a country's rate of inflation and those of its main trading partners. Even here though, disagreement persists. Some for instance argue that a greater degree of divergence will be more likely to lead to a restrictive regime in a bid to reduce the differential, though others claim that this will lead instead to a floating system in order that the gap can be offset through the exchange rate.³²

Furthermore, while it is often argued that countries with rigid economic structures are more likely to choose a flexible regime as a shelter from the external environment, it is also argued that such countries may choose a restrictive regime to help eliminate

³⁰ Edwards (1996); Caramazza and Aziz (1998).

³¹ Black (1979).

³² Argy (1982), pp.29-30; Melvin (1985).

fluctuations.³³ Conversely, it has also been claimed that countries with highly open economies who might be expected to adopt a fixed regime in order to minimise the impact of exchange rate fluctuations may prefer rather to adopt a floating regime for the insulating benefits that this can provide.³⁴ These inconsistencies have been further replicated in the recent debate over the effects of globalisation, with some arguing that policy-making authorities have sought to use fixed regimes in order to mitigate the effects of international capital movements on the current account, and with others viewing moves to floating regimes for the same reasons.³⁵

Such problems and inconsistencies then, also render the attempt to approach the subject of exchange rate policy-making from a country characteristics approach extremely difficult. As Argy has put it, such an approach is ‘highly contentious’, and as Delbecque points out, it is an area of theory with no ‘conventional wisdom’.³⁶ Such lack of agreement over the impact of various political and economic factors, as well as over which factors are themselves important, means this approach also has little in the way of explanatory value. Indeed, as Honkapohja and Pikkarainen concur, “overall the country characteristics do not help very much to explain the countries’ choice of exchange rate regime.”³⁷

The ‘Interest Group’ Approach

The third and final view of exchange rate policy-making contained within the literature is that of the ‘interest group’ approach. In contrast to the previous perspectives, this approach addresses the question of exchange rate policy-making from an examination

³³ See Savvides (1990); Aghevli and Montiel (1991); Honkapohja and Pikkarainen (1994); Åkerholm and Giovannini (1994).

³⁴ Argy (1982), pp.28-30.

³⁵ Cf. Savvides (1990); Helleiner (1999); United Nations (2000).

³⁶ Argy (1982), p.29; Delbecque (1994).

³⁷ Honkapohja and Pikkarainen (1994), pp.41ff; also Delbecque (1994), p.55.

of the interests of various economic groups and sectors within the national economy, and of their transmission to, and interaction with the policy-making process. Considerations of economic efficiency or political expediency are generally held to possess relatively little weight, and instead the primary emphasis is on the distributional conflict between socio-economic groups with different exchange rate preferences. Exchange rate policy-making is therefore held to flow from the relative balance of power between these groups and their respective degree of political organisation and articulation. As Frieden explains, the choice of exchange rate regime is dependent on “how intense preferences are, how concentrated and organised the various interests are, and how political and other social institutions influence their interaction.”³⁸

A central tenet of the interest group approach is that different economic groups and sectors hold different preferences both for the type of regime and the level of the exchange rate that is desired, and that these will be determined by the degree to which these groups are exposed to international competition. It is commonly argued for example that those whose activities chiefly involve international trade and payments will favour a restrictive exchange rate regime in order to diminish the risks involved during the course of their business. Subdivisions within this sector include groups whose activities involve a high degree of foreign acquisitions (purchases or investments) who are also thought to prefer an appreciated exchange rate in order to obtain such assets more cheaply, whilst those competing with foreign producers on the global market are believed to prefer a depreciated exchange rate in order to make their business more internationally competitive.³⁹

³⁸ Frieden (1991), p.450; For examples see Vaubel (1990); Frieden (1991, 1998, 2000); Havrilevsky (1994); Walsh (1994, 2000); Hefeker (1997).

³⁹ Differences also exist within this group. Frieden (2000) for example argues that producers of standardised goods have a stronger interest in the level of the exchange rate as the price of their goods will be the only variable on which they can compete, whilst those competing largely on quality or other non-price variables are less concerned. Also see Walsh (1994, 2000); Hefeker (1997).

In contrast, groups and sectors with business activities more heavily weighted towards the domestic market (e.g. service industries and producers of non-tradeables), are believed to be less concerned about exchange rate fluctuations and to be more anxious for the authorities to retain the freedom to adjust economic policy in response to changing circumstances, in particular to be able to pursue an expansionary policy during a downturn. Within this category there are also subdivisions. Those industries who are facing competition from imports are thought to favour a lower rate in order to render their foreign rivals less competitive, whilst those who are not subject to competition from imports are seen to favour a relatively higher exchange rate in order to raise the domestic market price of their goods relative to those of the tradeables sector and to reduce the price of imports entering into their production process.⁴⁰

Within this general model there are also several variants. Hefeker for example focuses attention on the activities of internationally orientated business and financial sectors, arguing in the case of the European Union that in countries with close relations between major banks and producers of tradeables, these banks will be strongly in favour of monetary union as this will harmonise banking standards and thereby increase their profits. A divergence of interest in this instance is thus established between the large and small sectors of the national banking community, as those who are smaller and less internationally orientated will be likely to lose out and will thus oppose such measures.⁴¹ This view is echoed by Vaubel, who also subdivides the tradeables sector itself into large and small enterprises, with the former also preferring more rigid exchange rate regimes.⁴² In a similar manner, Walsh has argued that the key determinants of exchange rate policy-

⁴⁰ Frieden (1991, 1998; 2000); Hefeker (1997).

⁴¹ Hefeker (1997).

⁴² Vaubel (1990).

making are the structure of national bank-industry relations and the stability of the government. According to this version, where banks and industry have a closely interdependent relationship they are both thought to prefer stable and competitive exchange rates, and will present a united front to policy-makers. Whether or not the government will actually adopt such a policy however is thought to depend on its degree of stability. As with some of the analyses of the country characteristics approach, Walsh claims that unstable governments are unlikely to attempt to pursue a restrictive exchange rate policy as the economic and political benefits of this policy will take time to accrue, whilst in the meantime the unpopular aspects of such a policy could threaten their electoral fortunes. On the other hand, in countries where banks and industry have a much more autonomous relationship both will have independent preferences for exchange rate policy. Policy-makers will thus be confronted with relatively weak and contrasting preferences, and the policy response is likely to be based on short-term partisan and electoral considerations that are also unlikely to result in the adoption of a restricted exchange rate regime.⁴³

As with the other conventional approaches to exchange rate policy-making however, the interest group approach is also subject to a number of criticisms. As Oatley points out for example, policy-makers cannot afford to ignore the political and economic consequences of exchange rate policy as a whole regardless of the preferences of the dominant sector, and moreover, the interest group model does not show how competing demands over exchange rate preferences are reconciled by the political process. Furthermore, it is also unclear as to whether economic sectors actually possess the exchange rate preferences attributed to them. The ability of banks and large international

⁴³ Walsh (1994; 2000).

traders to obtain exchange stability through the use of forward markets for example, means that not all will favour a restrictive exchange rate regime, while the preference of international exporters for a lower exchange rate will be mediated by their use of imports in the production process. In contrast to the standard logic of the interest group approach, international exporters with a high degree of import usage may actually prefer an overvalued exchange rate in order to reduce their import costs and to help drive down wages. In consequence, such difficulties also mean that as with the previous approaches to the question of exchange rate policy-making, an approach focusing on the role of interest groups is fraught with problems and unable to provide any substantial answers.⁴⁴

An Alternative Theory of Exchange Rate Policy-Making

In addition to their individual and specific difficulties, the approaches to exchange rate policy-making outlined above are also open to challenges on broader methodological grounds. In particular, these approaches can be criticised for their failure to address the more fundamental and logically prior question of why society itself takes the form that it does. Whilst attributing causal importance to the relation between public and private actors, the political and economic characteristics of individual countries, and the role of interest groups, traditional approaches make no attempt to understand why these social phenomena themselves should exist, but instead treat them in a taken-for-granted, ahistorical, positivist manner. The key difficulty this poses for an understanding of exchange rate policy-making is that there is no means of tracing any internal connection between the aims and motivations of policy-makers and the characteristics of the wider society in which they operate. The relation between political behaviour and socio-

⁴⁴ See Oatley (1997), pp.16-18.

economic factors has thus to be derived in an exogenous and speculative fashion, leading to systematised accounts that are more descriptive than analytical, and which ignore the fundamental constraints that are imposed upon exchange rate policy-making by the structural composition of society itself.

It is possible to surmount such difficulties however through the adoption of a Marxist methodology.⁴⁵ The key advantage of such an approach is that from this perspective the varied and apparently distinct phenomena of a society are not seen as independent and automatically given ‘things’, but as integral elements of a constantly developing organic and unified whole. As such, this enables a conceptualisation of social phenomena such as political and economic behaviour as being related in a way that is internal and necessary rather than external and contingent, thus providing a basis for inquiry that does not rely on the incorporation of arbitrary factors ‘from outside’.⁴⁶ The reason why such a methodological approach is able to do this is because it is precisely the question of social form which is taken as the starting point for analysis. Indeed, an examination that begins in this way is essential because as Marx points out, “society does not consist of individuals, but expresses....the relations within which these individuals stand.”⁴⁷ The first question that needs to be asked therefore is, ‘why do social relations assume the forms they do’?

⁴⁵ The specific position adopted here is that of ‘open Marxism’. See for example Bonefeld *et al* (1992; 1992a); Burnham (1993; 1994).

⁴⁶ Marx (1973); Bonefeld (1993); Bonefeld *et al* (1995).

⁴⁷ Marx (1896), p.265.

Social Form and Capitalist Production

A Marxist analysis of social form begins by drawing a distinction between the appearance and the essence of social phenomena.⁴⁸ In contrast to their external and immediate impression as independently existing ‘things’ or autonomous realms of activity, the various ‘forms’ of which social reality is comprised, such as the distinction between the ‘public’ and ‘private’ spheres, or ‘the state’ and ‘the market’ for example, are seen instead as the multifarious ‘theoretical expressions’ of relations between people that are determined during the process of production. For Marx, it is the specific way in which human labour power is organised in the course of social production which is therefore seen to comprise the essence or the content of social form. The various phenomena of a society are thus seen in terms of forms that are assumed by the social production process, and as the forms in-and-through which human labour obtains existence. Such phenomena are not therefore seen to be related in an external manner in terms of cause and effect, but are understood to be internally related through their constitution as the diverse forms that are assumed by the same set of social relations.⁴⁹

According to Marx, these social relations of production have since the most primitive days of human history been defined along class lines. Through the gaining and retention of control over the means of production, one class has managed to exploit another through the unremunerated extraction of surplus labour. The concept of ‘class’, which is therefore central to an understanding of social form, is thus not seen in terms of sociologically defined groups of people confronting each other, and nor is it seen to relate

⁴⁸ Marx (1991), p.956, writes for example that: “All science would be superfluous if the form of appearance of things directly coincided with their essence.”

⁴⁹ Marx (1896), ps.95-9, 165; Marx (1913; 1973); Marx and Engels (1965), pp.39ff, (1998); Bonefeld *et al* (1992); Burnham (1993; 1994).

simply to the existence of class consciousness or political struggle (neither of which are necessary for classes as-such to exist), but is regarded instead as an exploitative relation arising from the process of social production. As de Ste Croix explains, the concept of ‘class’ refers to “the collective social expression of the fact of exploitation, the way in which exploitation is embodied in a social structure.”⁵⁰

A subordinate class however does not simply accept its position in the social order. The existence of class exploitation also gives birth to resistance to this exploitation, and hence to ‘class struggle’. As with the concept of class therefore, ‘class struggle’ is also not something which is seen simply in terms of consciously directed political action, and nor is it conceived as the occasional outburst of open and direct resistance by workers. Instead class struggle refers on the one hand to an ongoing process of resistance by the labouring class to exploitation, and on the other, to the ongoing efforts of the dominant class to impose and maintain it.⁵¹ Though in political terms not all members of a class will act according to their ‘objective’ class interests, the fundamental significance of class for the process of social production means that the nature and development of the relations of production, and hence the nature and development of the social forms that they assume, are nevertheless conditioned as a whole by their class character, and by the struggle that this entails. As Marx puts it for example:

“The specific economic form in which unpaid surplus labour is pumped out of the direct producers determines...its specific political form. It is in each case the direct relationship of the owners of the conditions of production to

⁵⁰ de Ste Croix (1983), pp.43-4; Also see Marx (1847), p.162; Marx and Engels (1998): For an open Marxist view of class see Bonefeld *et al* (1995); Burnham (2001): For views of class in terms of political consciousness or struggle see for example Elster (1985); Roemer (1986); Lekas (1988); Evans (1999).

⁵¹ Bonefeld *et al* (1995), p.20; Holloway (1995).

the immediate producers...in which we find the innermost secret, the hidden basis of the entire social edifice.”⁵²

The outcome of class struggle however is by no means certain. In contrast to more deterministic interpretations of Marx in which this is postulated in terms of the inevitability of proletarian revolution, on a more open reading it is seen as a process with no fixed lines of development, and as something which is inherently open-ended. As such, the most important feature of a class society is not then the way in which human labour is organised in a technical sense in terms of its specific division of labour and the kind of work that is undertaken, but the way in which class struggle is contained and class exploitation reproduced.⁵³

In capitalist society this takes place through the mechanism of the ‘value form’. The capitalist mode of production is distinguished from other forms of social organisation not by the existence of money or commodities, but by the production of commodities for the purpose of exchange. Social production is undertaken in a private context by isolated, independent, and autonomous producers, and takes place in an uncoordinated manner without reference to any social plan or design. The social connection between producers in a capitalist economy is therefore not felt directly, but is only revealed in an indirect manner through the exchange of commodities on the basis of their value. This is determined by the productivity of labour, and is expressed in terms of the average amount of socially necessary labour time that a commodity takes to produce. ‘Value’ then, is not seen as a property of commodities themselves (although it appears as such), but since it is the average amount of labour time that is *socially* necessary which determines the value of a

⁵² Marx (1991), p.927; Also Marx (1847), p.330.

⁵³ See de Ste Croix (1983), pp.51-2; Clarke (1988); Holloway (1991); Bonefeld *et al* (1995).

commodity (and not the time that each individual commodity takes to produce *per se*), ‘value’ is seen as the product of a particular social framework, as the reified and alienated form in which labour appears under capitalist relations.⁵⁴

The social content of capitalist relations is one of class exploitation. While the mass of the population are separated from the direct means of producing their subsistence and must sell their labour power on an ongoing basis in order to survive, the minority of the population who own the means of production are able to exploit the labour of this propertyless mass for their own material benefit.⁵⁵ The specific means by which this exploitation takes place is through the extraction of ‘surplus value’. This process is described by Marx in the form of the circuit of capital, expressed in its general formula as: $M-C...P(lp-mp)...C'-M'$. In the first phase, $M-C$, the owner of ‘money capital’, i.e. capital in the form of money (M), buys the commodities (C) of labour-power (lp) and means of production (mp) on the market. In the second phase, the production process, these are put together to function as ‘productive capital’ (P). Here, by compelling the worker through the labour contract to provide his labour power for a greater length of time than that represented by the amount of wages received in remuneration, the capitalist is able to extract a volume of unpaid labour time which is embodied in the commodities produced (C’) as surplus value. In the final phase, $C'-M'$, this expanded sum of value in the commodity form is thrown onto the market for sale in order to be converted into a sum of money greater than that with which the capitalist started out (M’). The whole process is then repeated, ideally on an larger scale so as to facilitate ever greater levels of capital accumulation.⁵⁶

⁵⁴ ‘Value’ here refers to exchange value as opposed to use value. On this concept see Marx (1990; 1992); and also Rubin (1975).

⁵⁵ Marx (1896), pp.256-71.

⁵⁶ Marx (1992) Chs.1-4; also see Fine (1989), Chs.7-9.

This desire of capital for increased expansion however is not merely subjective, but is driven by the competitive pressure of capitalist production itself. By such means as the reduction of wages, the lengthening of the working day, and the improvement of productive technique and technology, it is possible for an individual capital to force a greater exploitation of labour and to produce commodities in less time than that which is socially necessary, thus enabling it to obtain a higher rate of profit and capital expansion. This increase in the social productivity of labour however also imposes discipline on all other capitals through changes in the value of their commodities, compelling others to follow suit and leading to such measures becoming widespread and generalised. Inefficient capitals who fail to keep pace with such developments come under growing pressure in the form of declining productivity and a falling rate of profit. Eventually, if adaptation is not forthcoming bankruptcy will ensue, capital will be destroyed, and workers will lose their jobs. In this way, by pressurising capital to increase its exploitation of labour, and by eliminating those capitals that fail to do so, the competitive dynamic of capitalist production is transmitted to all capitals through the mechanism of the value form, thus serving to keep social relations within the limits of the profitability of capital, and thereby helping to ensure its continued class domination over labour.⁵⁷

Social Reproduction and Crisis

The circuit of capital however cannot be understood as a single circuit, but as an expression of the movement of capitalist production in general presupposes the existence of innumerable, interrelated circuits throughout society. Each phase of the circuit thus appears simultaneously ‘as a point of departure, of transit, and of return’ for the process of

⁵⁷ See Clarke (1988), p.99-105; Marx (1992); Bonefeld (1993), p.25.

capital expansion as a whole. In its entirety then, the circuit is comprised of a unity of all the particular capitals in existence, each forming but 'partial movements of the reproduction process of the total social capital.'⁵⁸

This process however does not proceed smoothly but is unstable and vulnerable to disturbance and crises as a result of class struggle.⁵⁹ The disruptive capacity of class struggle inheres through the dependency of the circuit of capital on labour power and money. In the first instance for example, capital requires sufficient quantities and qualities of labour power to exploit. If these are not found to be readily available, due perhaps to industrial action or from a lack of adequate skills in the workforce, then capitalist production will be inhibited or even prevented.⁶⁰ In the second and more indirect instance, disturbances are felt through the role played by money in capitalist production as a measure of value in the form of price, and as the mediator of commodity exchange.⁶¹

In general terms, such disturbances to the price mechanism (inflation or deflation) are the result of changes between the amount of money and the amount of commodities that are in circulation. The exact causes of such disturbances however are neither simple nor straightforward. To neo-classical and Keynesian theories for example, they are thought to be the result of distortions to market equilibrium such as restrictive trade union practices, monopoly pricing, excessive alterations in the money supply due to incompetent or irresponsible government policies, or from excessive or insufficient levels of effective demand for goods. The resolution to monetary crises is thus seen to lay with the resolution of these contingent difficulties.⁶²

⁵⁸ Marx (1992), p.180.

⁵⁹ The most systematic treatment of crisis in Marx's writings is Marx (1954).

⁶⁰ de Brunhoff (1978), pp.9-36.

⁶¹ Commodity prices are believed to fluctuate around their values. See Rubin (1975); Marx (1991), Ch.48.

⁶² For example see Keynes (1923), Ch.1; (1936); Friedman (1968); Parkin (1975); Brittan (1978); Frisch (1983); Milgate (1983); Gilbert (1986).

The problem with these explanations however is that they make no causal connection between such disturbances and the process of capitalist accumulation. In contrast, from a Marxist perspective monetary disorders are seen to result precisely from the class basis of capitalist production. The volume of goods (or rather value) produced for example is seen to be determined by the volume of capital entering into the circuit and by the degree to which it is able to exploit labour. The productivity of labour, the technique, technology, and intensity of production however are all factors that are subject to class struggle. Generically, disturbances from this side assume the pattern of boom and slump. Increases in productivity and expanding markets through an increased exploitation of labour produce economic growth, leading to an increase in the volume of capital seeking expansion, a growth in the level of credit advanced, and falling unemployment. This is also accompanied by rising prices as the demand for goods also increases, as firms seek to raise profits, and as workers press for higher wages. Eventually however, the boom gives way to a crisis of overproduction. As the exploitation of labour increases, the mass of value produced exceeds the ability of the market, founded on the restricted purchasing ability of the masses, to absorb it at a price yielding a sufficient rate of profit. This leads to an 'excess supply' of commodities, a fall in prices and profits, rising unemployment, and a contraction in social production. This process however also creates the conditions for a renewed expansion. Rising unemployment subjects labour to increased discipline, allowing for lower wages and more intense exploitation, capitals come under pressure to improve efficiency in order to survive, whilst bankrupt and struggling firms are absorbed by larger, more productive concerns.⁶³

⁶³ Marx (1992), p.156; Also Marx (1896), p.160; (1954); (1991), pp.472-3; Mandel (1975).

The volume of money in circulation is also related to this process. Wage levels for example depend on the relative strength of capital and labour, whilst the volume of credit expanded depends on the perceptions of industrial and financial sectors as to their future levels of profitability – i.e. the future ability of capital to successfully exploit labour. The money supply is also determined by the level of state spending and economic policy, though this too is made in relation to conditions of capital accumulation. While it is possible for economic policy to be made with reference to ‘political’ aims, this itself is directly related to ‘economic’ conditions. There is no need for example to seek to manipulate a pre-election boom if the economy is already performing well, whilst expanding state spending and credit may also be motivated by a desire to avoid the social difficulties associated with a crisis of overaccumulation.⁶⁴

The effects of monetary disturbances on the circuit of capital need to be examined according to their particular circumstances. Rising and falling prices can at different times for example both prove to be beneficial and detrimental to capitalist production. Inflation can help aid the accumulation of capital and the flow of the circuit by stimulating profitability and by eroding real wages and debts, but can also deter capital from embarking upon the circuit by creating instability and uncertainty over future economic conditions. Eroding the ability to measure the value of commodities can undermine the value form, rising costs can prompt an intensification of class struggle as workers seek higher wages, the international competitiveness of the national economy may be reduced, and speculation may be encouraged at the expense of productive activity and investment. If taken to extremes, inflation can also lead to the destruction of the currency itself and to a

⁶⁴ Glyn and Sutcliffe (1972); Mandel (1975); Gamble and Walton (1976); Rowthorn (1977); Goldthorpe (1978); Fine (1979).

collapse of capitalist relations. A period of deflation can also be beneficial to the circuit of capital. This can serve for example to check damaging inflation and can help to restore conditions for capital accumulation within the value form by enforcing competitive discipline and improving national economic competitiveness. On the other hand however, deflation can also impede the circuit of capital by creating instability and uncertainty, by reducing prices and profits, by intensifying class conflict as capitalists seek to reduce costs and wages, and by raising the real value of debts and reducing productive activity and investment.⁶⁵

In order for the circuit of capital to flow normally, certain conditions must therefore be met. A ready supply of skilled, appropriately priced and disciplined wage-labour, as well the necessary materials for production is essential in order for capitalist accumulation to take place at all, whilst a relatively stable currency is necessary to serve as a means of expressing value in the form of price, and for encouraging capital to embark upon the process of expansion. Such factors however are not naturally or self-reproducing, and nor are they able to be produced from within the circuit itself. Instead, the provision of such factors requires intervention from ‘outside’ the circuit. In order to illustrate how this is achieved entails an examination of the capitalist state.⁶⁶

The Capitalist State

At first glance the capitalist state appears as a neutral ‘public’ sphere of human activity distinct and autonomous from the ‘private’ sphere of capitalist relations contained

⁶⁵ Ball (1964), pp.19-20; Jackman *et al* (1984), pp.184-5; Heathfield and Russell (1996), p.19.

⁶⁶ Marx (1970), p.32; (1990), p.170; de Brunhoff (1978), ps.9-60, and *passim*; Fine (1979).

within civil society. The state presents itself as an impartial arbiter, discriminating between competing particular interests to act in the 'national' or 'general' interest' for the benefit of all its citizens.⁶⁷ From a Marxist perspective however, such appearances are illusory. Instead, the state is not seen as a dispassionate force that is external to society, but is regarded as an intrinsic aspect of the capitalist mode of production and to be fundamentally concerned with ensuring the reproduction of capitalist class relations.⁶⁸

The capitalist state is seen to have emerged from the long drawn-out social changes and revolutions that led to the decline of feudalism and the rise of capitalism. The driving force behind these changes is considered to have been class struggle. The resistance of serfs to exploitation on the one hand, and the desire of the lords to impose ever greater exploitation on the other, led to a search for more efficient and profitable ways of extracting surplus labour. This led ultimately to the development of commercial agriculture and industry, the expansion of trade, and to the increasing monetisation of society. Such developments however also led to the recomposition of class relations. The open and directly coercive relations of feudal exploitation were supplanted as capitalism progressed by relations of formally free and equal individuals meeting in the market as buyers and sellers of commodities on the impartial bases of the rule of law and money. Behind this veneer of apparent equality however, class relations had not been abolished but had simply assumed a new form. Ownership of the means of production was now concentrated in the hands of a small minority on the legal basis of the 'rights' of private property, while the

⁶⁷ Such a view of the state is commonly expressed for example in the literature on 'globalisation'. See Cerny (1990), Ohmae (1990); Hirst and Thompson (1996); Strange (1997).

⁶⁸ de Brunhoff (1978); Clarke (1988, 1991); Burnham (1996).

mass of the population were now forced by the indirect coercive pressures of the market to continually sell their labour power to this minority in exchange for wages.⁶⁹

An inherent and fundamental feature of these social changes was the emergence of the capitalist state. In contrast to the feudal absolutist state in which the political and economic spheres of social life were fused and indistinguishable (a person's political position determining their economic position in the social hierarchy and vice versa), the capitalist state was predicated instead upon an institutional separation from civil society, and hence upon the delineation of social life into distinct 'public' and 'private', or 'political' and 'economic' spheres. In giving political form to the newly constituted relations of production in this way, the capitalist state materialised as an institutional form of social relations designed to uphold and legitimise the formal rights of private property and the inherent class divide this contains. The relation between the state and the process of capitalist production is thus not one which is external and contingent, but one that is internal and necessary. The state itself is conceived in terms of a form of social relations, and as such is seen to be primarily concerned to ensure their reproduction and maintenance.⁷⁰

Such a view of the state thus stands in direct contrast to views that emphasise its 'fractionalist', 'instrumentalist', 'pluralist', or 'relatively autonomous' character. The state is not understood as an institutional 'structure' capable of being appropriated and wielded by various social groups, sectors, classes, or 'fractions of capital' for their own ends, and nor is it seen to be capable of acting either in the interests of one part of capital at the expense of another, or with disregard to 'economic' forces. Approaches towards

⁶⁹ Clarke, (1988), p.17; Holloway (1995). pp.138-41; Burnham (1996), p.99-100: On the emergence of the capitalist state see for example Polanyi (1957); Strayer (1970); Poggi (1978); Anderson (1986).

⁷⁰ Clarke (1988); Bonefeld *et al* (1995).

understanding the state which regard it as something that is connected to, but nonetheless external from capitalist society, are all unable to conceptualise the limits to state behaviour in terms of the necessity for it to act in the interests of capital. They are unable for example to explain why the state persistently acts in the interests of capital despite variations in the complexion of the political authorities over time, and are similarly unable to explain instances of similarity in the behaviour of states with different social and political structures during certain historical periods.⁷¹ In contrast, it is through the form of the state itself as a ‘publicly’ constituted institutional framework for upholding the rule of law and money – the necessary conditions for capitalist production and class exploitation – that the necessity for the state to act in the interests of capital is derived.⁷²

The maintenance and reproduction of capitalist relations by the state involves continual action in order to regulate class struggle and to address the various crises that emerge as a result of the instability of the capitalist social form. This does not mean however that the state acts in the interests of all specific capitals, or that it acts in the interests of any particular fraction of capital. Since the circuit of capital exists only as a unity of innumerable competing circuits, and since capital itself needs to be transformed into all three of its money, productive, and commodity forms in order to expand, the state can only seek to provide the necessary conditions within which capital expansion can take place, and hence can act only in the interests of capital-in-general.⁷³

⁷¹ Such as the widespread adoption of ‘monetarism’ during the 1980s. For views from a fractionalist perspective see Crouch (1979); Longstreth (1979); Jessop (1983); Ingham (1984); Van der Pijl (1984): For a critique see Clarke (1978): For views from a ‘relative autonomist’ perspective see Block (1977; 1980): For instrumentalism see Miliband (1969).

⁷² Clarke (1988); Bonefeld (1993).

⁷³ Marx (1992), p.133. writes that: “Money capital, commodity capital and productive capital...do not denote independent varieties of capital whose functions constitute the content of branches of business that are independent and separate from one another. They are simply particular functional forms of industrial capital, which takes on all three forms in turn.” Also see Marx and Engels (1965); Barker (1978); de Brunhoff (1978); Clarke (1988), p.138; Fine (1989), p.178; Bonefeld (1992), pp.116-19; (1993), pp.53-4; Burnham (2001).

The key means by which the state does this is through its ‘economic policies’ concerning the management of labour power and money. Through its various social, employment, welfare, and education policies for example, the state seeks to confine working class expectations within the boundaries of profitable capital accumulation and to ensure a sufficiently trained and disciplined workforce for exploitation, whilst through its credit, fiscal, monetary, and exchange rate policies the state seeks to ensure a relatively stable currency and to regulate the price mechanism in a manner conducive to the continued flow of the circuit of capital.⁷⁴ The limits on state behaviour resulting from the specific form of capitalist society however, cannot be fully determined from an analysis of ‘the state’ in isolation. As Barker has pointed out, ‘the state’ does not exist in the singular, but only as part of an international collection of states. A proper understanding of the state and the constraints imposed upon its activities therefore requires an analysis of this international context.⁷⁵

The International Context

For Marx, capitalism is analysed as an inherently global form of social relations. The tendency to create the world market is seen to be ‘directly given in the concept of capital itself’, and competition on the world market is seen to serve as ‘the very basis and living atmosphere of the capitalist mode of production.’⁷⁶ From this viewpoint, each individual nation state is therefore considered to be but one part of a unified global whole, as ‘a territorial fragmentation of a society which extends throughout the world’, and the

⁷⁴ As Kalecki (1943) contends, the idea that the state will thus maintain full employment if it only knows how is ‘fallacious’, since this will inevitably undermine the precarious nature of labour within capitalism.

⁷⁵ Barker (1978).

⁷⁶ Marx (1973), p.408; (1991), p.205.

character of the world system is thus defined by the constitution of political authority on a national basis, and by the accumulation of capital on an international level.⁷⁷ The global capitalist system is not then seen to be a mere sum of its parts, an aggregation of compartmentalised units, but is as Picciotto explains, ‘a single system in which state power is allocated between territorial entities.’⁷⁸ In other words, national states are but ‘political nodes’ in the global flow of capital.⁷⁹

The power and legitimacy of the national state is dependent upon a continually expanding accumulation of surplus value within its borders. In turn, with a policy of autarky only viable for the provision of the most basic standards of living, such accumulation is itself fundamentally dependent upon international trade and commerce. The prosperity and stability of national social relations therefore rests not only upon the successful integration of the domestic economy, or ‘national’ circuit of capital into the international circuit, but also upon the prosperity and stability of the international circuit itself.⁸⁰

Conditions within national states are therefore subject to global pressures that lie beyond their individual power to control, while a crisis in one ‘node’ of the global system can rapidly destabilise other parts.⁸¹ As such, the behaviour of each state in economic policy terms is conditioned not only by a need to attract and retain capital in order to secure domestic social reproduction, but also by the need to ensure the well-being of international capitalist relations as a whole. Whilst states are therefore forced into competition with each other in order to entice capital to their territories, they are also

⁷⁷ Holloway (1996), p.125; Picciotto (1991, 1991a).

⁷⁸ Picciotto (1991), p.217; (1991a).

⁷⁹ Bonefeld *et al* (1995), p.8; Holloway (1996), pp.116-29.

⁸⁰ de Brunhoff (1978); Burnham (2001).

⁸¹ Clarke (1991), p.54; Bonefeld *et al* (1995), p.13.

forced to co-operate in order to ensure the successful maintenance and continued flow of the circuit of capital both nationally and globally.⁸²

This dependency upon international conditions places certain pressures and restrictions upon national economic policy-making. As Barker points out, the limits to the form, development, and management of each individual state is subject both to the level and development of domestic class struggle, and to global conditions of capital accumulation in general, themselves the result of class struggle on a global scale.⁸³ In overarching terms, this means that each state must provide internationally favourable conditions for surplus value accumulation within its borders or capital will seek more profitable avenues elsewhere, provoking balance of payments difficulties, national economic and political crises, and ultimately threatening the stability of domestic capitalist relations.⁸⁴ However, because crises are an inherent feature of capitalist relations, states cannot hope to achieve their resolution, but can only seek to mitigate their effects and strive to gain a better position for themselves within the global system.⁸⁵

Given the role of money in capitalist production a key element in achieving these aims is the necessity for states to ensure the international convertibility of their national currencies. This is needed in order to integrate the various components of the global circuit itself and to enable the flow of international trade and payments. The means by which this convertibility takes place is determined by the exchange rate regime, the particular form of which therefore conditions the means through which the dynamics and pressures of the global economy are transmitted to the domestic circuit, and conversely, through which the

⁸² de Brunhoff (1978), p.175; Burnham (1996), p.105; Holloway (1996), pp.122ff.

⁸³ Barker (1978); Bonefeld (1992), p.122; Burnham, (1993, 2001); Panitch (1994), p.69; Holloway (1996), p.129.

⁸⁴ Bonefeld *et al* (1995); Burnham (1993, 1996).

⁸⁵ Clarke (1988), p.119; Bonefeld *et al* (1995), p.75.

international influence of the domestic circuit itself is felt.⁸⁶ In order for currency convertibility to be successful however, global confidence in the national currency must be secured. If such confidence is not forthcoming, for example due to a relative decline in national competitiveness or because of disturbances to the national circuit of capital, then global integration will be threatened and domestic crisis will result. In this way, just as the value form transmits the competitive discipline of capitalist relations to individual capitals through the role of money, so it also transmits global capitalist discipline to national states through the international system of exchange rates.⁸⁷

Having now traced the constraints and limits of state behaviour in a general sense, an analysis of specific state behaviour requires a more focused examination of the way in which key policy-makers themselves are influenced by the constraints of the capitalist state form. In order to understand the behaviour of specific states in exchange rate policy-making terms it is therefore necessary to move from an analysis of the state and the global context to an analysis of national state managers.

State Managers and Exchange Rate Policy-Making

In economic policy-making terms the most important set of actors within the state are those of the 'core executive'. This is defined here as those leading figures within the government (usually, though not exclusively members of the Cabinet), and the senior officials at the Treasury and the central bank.⁸⁸ The overarching aim of these state managers given their position within the state is to secure the reproduction of domestic

⁸⁶ de Brunhoff (1978), *passim*, especially Appendices II and III.

⁸⁷ de Brunhoff (1978), pp.139-40; Clarke (1988), p.112; Bonefeld *et al* (1995), p.13.

⁸⁸ This definition of the 'core executive' contrasts with that provided by Rhodes (1995), p.12. which is too broad and directs attention away from the key bases of power within the state, and also contrasts with Bulpitt's preference for the notion of 'the Court' (1983; 1996) which in focusing on the role of party leaders is deemed too narrow.

capitalist relations through the provision of national and global conditions for capital accumulation. National economic policy-making is driven by the need to regulate class struggle and to create conditions conducive to domestic stability and a more favourable integration for the state into the world system. Within this broad-based remit however, state managers are also driven by more subjective aims and ambitions. In general terms these can be seen to reside in a range of 'high political' goals, such as the gaining and retaining of office, and the augmenting of their status, authority, prestige, influence and the like within their respective departments, organisations, and parties. In more specific terms, high political activity is associated with those matters of state that are of particular importance such as foreign, defence, and economic policy, and stands in sharp contrast to 'low' politics, defined by Buller simply as those 'matters deemed to be too dull, time consuming or awkward to deal with'.⁸⁹

The achievement of these various goals however is no simple task. In the first instance the ability of the state to secure the accumulation of capital is circumscribed by the limits of the state form itself in terms of the need to contain class struggle and by its dependency upon global conditions. In addition, the core executive are also subject to a wide array of other pressures and constraints. These derive for example from membership of international bodies and organisations, from departmental or party political matters, and from the demands of social interest groups and public opinion generally. The formulation and development of economic policy therefore takes place within the limits not only of the capitalist state form but also within the constraints of what is actually viable given the various national, cultural, social, and political attributes of the state in question.⁹⁰

⁸⁹ Buller (1999), p.697: Also see for example Bulpitt (1983), ps.64-5, 82; (1996), p.224; Holm (2000).

⁹⁰ Gamble (1974), p.4; de Brunhoff (1978), p.84; Bulpitt (1996), p.255.

To help them achieve their aims, state managers seek to develop a ‘governing strategy’. This will identify the key problems that are faced and will provide a plan for their resolution based on the historical, institutional and ideological context within which they are operating.⁹¹ A particularly useful strategy for state managers, as Bulpitt has argued, is to seek to establish and maintain a degree of ‘governing autonomy’ from the various pressures with which they are faced. The more space and freedom that state managers have to implement key policy tasks, the higher is the likelihood of these being implemented in a competent fashion, and hence the greater is the prospect of achieving high political aims. The challenge for the core executive therefore is to develop a governing strategy that will enable them to ensure favourable conditions for capital accumulation, to achieve the successful integration of the national and international circuits of capital, and to attain sufficient autonomy with which to engage in high political activity.⁹²

While members of the core executive may at times find it desirable or necessary to pursue a governing strategy based on the directly visible involvement of the state in capitalist relations, as with the ‘Keynesian’ mode of economic policy regulation in Britain after 1945, such an approach contains inherent dangers.⁹³ A major risk for example, is that openly visible state intervention can lead to the politicisation of issues previously regarded by most people as being purely ‘economic’ (such as wage-levels and working conditions), and can thus lead to growing demands and pressures over these issues being directed at the state. In turn, such politicisation also runs the risk that a crisis in the ‘economic’ sphere will necessitate overt state action in order to secure the continued reproduction of capital,

⁹¹ On this see Buller (1999).

⁹² See Bulpitt (1983), Chs.2-4; (1996), pp.124-7; Bulpitt and Burnham (1999), pp.17-18.

⁹³ See Burnham (1999), pp.42-5; (2001), pp.130-131.

thereby exposing the class character of the state through openly contravening its claim to act in the general interest. A key danger of a governing strategy based on a politicised mode of economic policy-making is therefore that in such circumstances this can aggravate class unrest, and may even lead to a wholesale crisis of political authority itself.⁹⁴

A more useful approach for the core executive therefore, can be to try and remove key areas of economic policy-making from the realm of political accountability through a governing strategy of ‘depoliticisation’ – a concept which has been developed in recent years through the works of Burnham and Bonefeld. The central feature of such a strategy is that it seeks to relocate core aspects of economic policy-making away from the discretionary control of the state, placing them instead under the control of ‘independent’ and ostensibly ‘non-political’ bodies and/or policy rules. Though state officials will invariably retain a degree of ‘arms-length’ control over key economic policy issues, a successful governing strategy of depoliticisation will enable the core executive to distance themselves from the policy-making process, and in so doing will enable them to disclaim responsibility and hence accountability for such matters.⁹⁵

In contrast to a politicised mode of economic policy regulation, in which class discontent over economic conditions can lead to growing pressure against the state itself, under a depoliticised regime class dissatisfaction and pressures are instead diverted into purely ‘economic’ or ‘political’ channels (such as working conditions, democratic representation, human/civil rights etc), neither of which leaves room for questioning the organisation of society as a whole.⁹⁶ Moreover, by ‘locking-in’ the future direction of economic policy through a credible relinquishing of discretionary control, a strategy of

⁹⁴ Fine (1979), p.178; Bonefeld and Burnham (1996).

⁹⁵ See for example Bonefeld and Burnham (1996); Burnham (1999, 2001).

⁹⁶ Fine (1979); Clarke (1988), Ch.5; Burnham (1999; 2001).

depoliticisation can also serve to condition the expectations, and hence the behaviour of capital and labour, confining these within the limits set by the policy regime. The ability to constrain expectations is further increased if the set of rules and bodies to which economic policy-making tasks are reassigned are themselves constituted 'externally' as part of an international system. This will enable the authorities to present the regime as being bound up with wider political issues (such as global political and economic stability, or European integration for example), and will increase the costs of regime change, thereby enhancing its credibility and depoliticising effects.⁹⁷

A key advantage of a depoliticisation strategy therefore, is that this can ease pressure on the state by fragmenting class struggles over economic conditions and policy-making, and by redirecting them into constitutionally safe channels. Moreover, by furnishing the core executive with a means of insulating themselves from the adverse political and social effects of their economic policies, and by effectively conditioning the expectations of capital and labour, such a strategy can also leave state managers better placed to enforce policies designed to assist the accumulation of capital and regulate class struggle, and can provide them with a greater degree of governing autonomy for the pursuit of their high political goals. These various points have been well summarised by Burnham, who writes for example that:

“Depoliticisation as a governing strategy is the process of placing at one remove the political character of decision-making. State managers retain arm’s-length control over crucial economic and social processes whilst simultaneously benefiting from the distancing effects of depoliticisation. As a form of politics it seeks to change market expectations regarding the effectiveness and credibility of policy-making in addition to shielding the government from the consequences of unpopular policies.”⁹⁸

⁹⁷ See Kenen (1988), ps.18, 45-52; Giovannini (1993), p.123; Buller (1999), p.697.

⁹⁸ Burnham (2001), pp,127-33: Also see Bonefeld and Burnham (1998), p.34; Burnham (1999), pp.45-50.

It is against this background of economic policy-making in general that exchange rate policy-making in particular needs to be examined. More specifically, exchange rate policy-making needs to be analysed as a component part of the development and implementation of a governing strategy, made by the core executive with the aim of ensuring favourable conditions for national and global capital accumulation, the regulation of class struggle, and the attainment of high political freedom. The specific exchange rate regime that will be adopted or maintained at any one time is thus dependent upon the particular context and aims of the governing strategy.

A floating or managed exchange rate regime for example may be consistent with the adoption of a policy rule (such as inflation targeting by an independent central bank) and a mode of depoliticised economic policy regulation, but may also be adopted should the state authorities wish to pursue a strategy of politicised circuit regulation, enabling them to exercise discretionary management and flexibility in pursuit of their aims. A fixed exchange rate regime on the other hand, can provide a particularly useful policy rule for the pursuit of a depoliticisation strategy.⁹⁹ Not only does a fixed exchange rate regime enable the integration of the national and international circuits of capital in a way which ensures that the competitiveness of the national economy remains within the confines of internationally defined conditions for capital accumulation, but such a regime can also facilitate the presentation of both the effects and the responsibility for economic policies as deriving from, and as belonging to the international regime itself rather than the core executive. A fixed exchange rate, especially one embedded in a wider set of international commitments, can thus provide a key element in a strategy of depoliticisation.¹⁰⁰

⁹⁹ Burnham (2001), pp.127-33.

¹⁰⁰ Goldstein (1990), pp.84-5; Oatley (1997), ps.24, 41-2.

Concluding Remarks

This chapter has examined the subject of exchange rate policy-making from a theoretical perspective. It has outlined the conventional means of understanding this issue and has highlighted some of the difficulties that these accounts face. An alternative approach to this subject was then proposed based on a Marxist methodology which sought to address the issue of exchange rate policy-making by conceptualising political and economic behaviour as internally related elements of a unified social whole. This illustrated how social phenomena can be seen as forms of social relations that are determined during the process of production and by the development of class struggle. In capitalist society the form taken by these relations was seen to be expressed in the circuit of capital, in which capital expansion is achieved through the exploitation of labour. This process was also shown to fundamentally involve the state as a regulator of class relations, and to be constituted on an inherently global basis, with national states themselves constrained by the dynamic of international capitalist competition. Within this overarching framework, the primary concerns of the core executive were considered to be the reproduction of capitalist relations and the attainment of high political goals. Economic policy-making was analysed in terms of the development of a governing strategy for the achievement of these aims, and exchange rate policy-making was regarded as a component part of this governing strategy.

This alternative approach stands in sharp contrast to existing accounts of exchange rate policy-making. It argues that exchange rate policy is not made in the technocratic pursuit of 'optimal' policies for the maximisation of economic growth and prosperity, and

nor is it determined by a country's particular structural characteristics or by the dominance of certain socio-economic interest groups. Instead, exchange rate policy-making is seen as a component part of a wider governing strategy made with a view to regulating class struggle, to providing favourable conditions for the expansion of capital, and for ensuring that the core executive possess sufficient freedom with which to pursue their high political aims.

In order to examine how this takes place in more detail, it is necessary to focus empirically on exchange rate policy-making within a particular state. Here, the key focus for this study shall consist of an examination of Britain's interwar gold standard policy. The structure for the rest of the thesis is therefore as follows: Chapter 2 reviews the current literature on Britain's interwar gold standard policy and provides a contrasting view based upon the alternative theoretical approach to exchange rate policy-making. Chapter 3 establishes the backdrop to the development of the policy by charting the growth of an economic and political crisis in the British state from the nineteenth century. Chapters 4 and 5 cover the period leading up to the return to gold between 1920 and 1925, showing this policy to have been the key component of a governing strategy designed to address Britain's economic and political difficulties. Chapter 6 analyses and assesses the initial success of this policy from 1925 to 1928, chapter 7 examines the breakdown of the regime during 1929-1931, while in chapter 8 the emergence of a new regime for economic policy regulation during the 1930s is also examined. The concluding chapter outlines how the findings of this thesis provide a basis for drawing wider generalisations about the political economy of exchange rate policy-making, and contains a brief examination of Britain's

membership of the European Exchange Rate Mechanism from 1990-1992 in order to demonstrate the contemporary relevance of the argument presented.

Chapter 2 : The Gold Standard

Britain's return to the gold standard at the prewar parity in 1925 was a decision of fundamental importance not only for Britain but for the international political economy as a whole during the interwar period. It is a subject which has long been a source of controversy and debate among scholars, though it is also one which still holds contemporary relevance, frequently forming a text-book model for fixed exchange rate systems such as the European Exchange Rate Mechanism or the single European currency. Given the sheer volume of material devoted to this subject then, the relevance of yet another examination may not therefore appear to be readily apparent. The advantages of this however, are two-fold. In the first instance, analysing the return to gold using the alternative theoretical approach to exchange rate policy-making outlined in the previous chapter offers a new means of understanding and assessing this decision. Secondly, this analysis therefore also provides a basis from which wider generalisations about the political economy of exchange rate policy-making can be drawn.

This chapter thus examines Britain's interwar gold standard policy as a case study into the political economy of exchange rate policy-making. It begins by outlining the technical mechanisms and historical background of the regime, and critically examines conventional explanations for Britain's decision to return to it. Following this, an alternative theory and assessment of Britain's return to gold are then proposed on the basis of the alternative theoretical approach to exchange rate policy-making.

The Gold Standard

The 'gold standard' was a fixed exchange rate regime in which the value of the national currency was directly defined not in terms of another currency, but in terms of gold. To participate in the regime a country had to guarantee that its currency could be freely converted into a legally defined amount of gold at its central bank, that gold could likewise be converted into a set amount of national currency, and that it could be imported and exported without restraint. In this way, gold formed the 'standard' against which the value of all participating currencies could be measured and compared with each other. The exact ratio at which the amount of gold represented by one currency equalled that represented by another was known as the 'parity', or the 'par value'. In Britain's case for example, one pound sterling could be converted during the nineteenth century into 113 grains of fine gold, exactly the same amount as was contained in 4.86 US dollars, thus establishing a parity with the dollar of £1=\$4.86.¹ This did not mean however that the exchange rates of gold standard countries were totally rigid. Instead, factors such as interest rate differentials and the cost of transporting and insuring gold created a margin around the par value, known as the 'gold points', within which currencies were free to fluctuate. As such, the gold standard effectively formed an international exchange rate regime in which participating currencies were bound together within tightly defined limits.²

The classical view of the gold standard during the eighteenth and nineteenth centuries was of an automatic and self-regulating mechanism for maintaining balance of payments equilibrium between participating countries.³ This was based on an assumption

¹ Hawtrey (1933), pp.31-7; Officer (1996), pp.49-60.

² McKinnion (1996), Ch.2; Officer (1996), Ch.3.

³ Scammell, (1965), p.113; Tomlinson (1990), pp.17-18.

that the balance of payments were determined primarily by international commodity flows (i.e. the balance of trade), and that these in turn were determined by relative changes in domestic price levels. The process by which this was thought to operate can be clearly demonstrated through the use of a two country model. Starting from a position of equilibrium, a rise in the price of goods produced by country X above those produced by country Y would lead to a decline in the demand for its exports, creating a balance of trade deficit and a fall in the exchange rate. If this reached or dropped below the gold export point, then it would become profitable for traders to convert the currency of country X into gold and use this to purchase goods from country Y. With that currency exchanged for gold now lying dormant in its central bank, the outflow of gold from country X would thus reduce its money supply, curtailing economic demand and putting downward pressure on domestic prices, while at the same time the money supply of country Y would be increased as imported gold was converted into currency, thus putting upward pressure on its prices. Eventually, prices in country X would fall such that demand for its exports would rise, whilst prices in country Y would rise such that demand for its exports would fall, thus restoring balance of payments equilibrium.⁴

Another important feature of this system however, was that in automatically keeping the price levels of all participating countries broadly in line with each other (within limits defined by the gold points), adherence to a gold standard also ruled out the pursuit of discretionary economic policies since any undue expansion or restriction of the domestic money supply would simply be offset by movements of gold. As such, the regime was not only seen as a means of securing equilibrium, but was also seen as a valuable

⁴ See Hume (1752); Scammell (1965), pp.105-6; Triffin (1968), pp.121ff.

safeguard against political interference with the economy, thus ensuring the maintenance of non-inflationary economic policies.⁵

In reality however the classical theory proved to be inconsistent with the empirical evidence, as large flows of gold were uncommon. Instead, rather than allowing substantial losses of gold, central banks sought to defend their gold reserves by raising interest rates whenever the exchange rate approached the gold export point. As a consequence, the classical theory became modified to take account of such behaviour, giving rise to a new interpretation of the gold standard mechanism in terms of capital flows and interest rate differentials. According to this model, rising prices and a falling exchange rate within country X would lead to an increase in domestic interest rates, serving to attract and retain capital, thereby mitigating or stopping any outflow of gold. Moreover, higher rates would also constrain domestic credit, thus reducing the money supply and once again putting downward pressure on domestic prices. On the other hand, according to an unwritten code of central banking conduct known as the 'rules of the game', country Y, now experiencing an inflow of gold was supposed to expand domestic credit by maintaining or lowering its interest rates. Again, this would lead to an increase in its money supply, rising prices, an outflow of gold, and the restoration of balance of payments equilibrium.⁶ In contrast to the classical theory therefore, from this perspective membership of the gold standard no longer ruled out discretionary policy-making, but permitted a degree of flexibility within certain parameters. While the governing authorities remained obliged to maintain convertibility at the par value and the free movement of gold, policy-makers were nonetheless seen to be relatively free in terms of the choice and timing of their response to gold flows.⁷

⁵ Scammell, (1965), p.113; Tomlinson (1990), pp.17-18.

⁶ Scammell (1965); Collins (1990), pp.181-8; Gomes (1993), pp.148-50.

⁷ Scammell, (1965), p.113; Tomlinson (1990), pp.17-18.

Again however the reality was somewhat different. Rather than allowing movements of gold to exert their full effects on domestic prices, central banks habitually broke the rules of the game by seeking to ‘sterilise’ their impact through open market operations such as the sale and purchase of securities in order to increase or decrease the volume of funds available to the money market.⁸ As such, some commentators have also proposed a third interpretation of the gold standard mechanism known as a ‘target zone’ approach. In this version the gold standard is seen to have been a policy rule, and the key determinants of gold flows are considered to have been its degree of credibility. If the official commitment to the regime was deemed by the market to be credible, then a fall in the exchange rate to or below the gold export point would induce speculators to purchase the national currency in the expectation that the authorities would soon take the necessary action to raise it back within the gold points, or ‘target zone’. In consequence, such speculation itself would lead to a self-correcting inflow of capital, thus convincing speculators as to the correctness of their actions and helping to ensure the continued credibility of the regime. In like fashion, a rise in the exchange rate to or above the gold import point would lead to speculative sales of currency in the belief that its value would soon fall, thereby also helping to ensure that it remained within its target zone. In this way, the constraints imposed on discretionary policy-making by the operation of the gold standard are considered to have been much weaker than those envisaged by earlier theories. As well as possessing discretion over the choice and timing of their response to movements in the exchange rate, a credible commitment is believed to have given policy-makers the ability to pursue short-term economic policies contrary to those needed to

⁸ Scammell (1965), p.107; Gomes (1993), pp.119-21.

maintain the par value of the currency, with the only constraint being the need to take eventual action to maintain the rate.⁹

Historical Background

Historically, the gold standard developed in an unplanned and uncoordinated manner during the eighteenth and nineteenth centuries. The first country to place its currency on a gold basis was Britain, who established the *de facto* convertibility of sterling in 1717, followed by *de jure* convertibility in 1821. As the nineteenth century progressed, an increasing number of countries joined Britain on the system, abandoning the more commonplace silver or bimetallic (gold and silver) standards as the value of silver diminished following a rapid increase in its world supply. By the 1880s, all the world's major trading nations had placed their currencies on the gold standard, making it the first truly international exchange rate regime.¹⁰

The relative stability and smooth functioning of what is now known as the 'classical' gold standard era however, was largely due to a series of unique and largely fortuitous conditions. The progressive expansion and generally open character of the world economy provided capital with a continuous supply of new markets as outlets for surplus value; the growth in the world supply of gold largely kept pace with the rising demand for monetary gold and ensured that its value, and hence its utility as the basis of the money supply remained relatively stable; and the political and economic disorganisation of the working class on an international scale enabled countries to swiftly return to the regime if

⁹ McKinnion (1996), p.31; Eichengreen and Flandreau (1997), pp.101ff: Examples of the gold standard as a policy rule also include Bordo and Kydland (1995); Miller and Sutherland (1992); Hallwood *et al* (1996).

¹⁰ Scammell (1965), p.103; Officer (1996), p.42; Eichengreen and Flandreau (1997), p.4.

ever they were forced to depart from it.¹¹ The system was also underpinned by a substantial degree of central bank co-operation between the major gold standard countries (namely Britain, America, France, and Germany), and by the role played by the Bank of England, which by virtue of Britain's nineteenth century economic dominance and the associated status of sterling as the world's primary currency, formed the central orchestrating agency of the regime.¹²

By the early part of the twentieth century however, these conditions were becoming progressively undermined. The growth of international economic activity was fast outstripping the growth in the world supply of gold, destabilising its value; the spread of economic protectionism and an intensification of Imperial rivalries were eroding openness in world trade; the growth in working class organisation was putting growing pressure on the ability of state authorities to pursue policies of strict economic orthodoxy; and the decline in Britain's economic dominance was eroding the global position of sterling and the centrality of the Bank of England. In 1914, under the mounting pressures of the First World War, the system finally collapsed.¹³

Throughout the war the free exchange of currencies was severely constrained as countries introduced widespread controls and sought to regulate their exchange rates in line with the demands of the conflict. By 1919 free exchange had been largely resumed, though the severity of the financial and economic dislocation caused by the war now forced countries, with the exception of America (who remained on gold), to adopt a floating exchange rate regime. This was subject to great volatility as intense political and economic

¹¹ Primary producing countries for example were frequently unable to pursue deflation in order to avoid economic crises, though almost always engaged in a rapid return to the system. Britain's adherence to the gold standard was also suspended in 1797 due to the Napoleonic wars, and was also temporarily suspended in 1847, 1857, and 1866. See Eichengreen (1996); McKinnion (1996), p.31.

¹² Kemmerer (1944), pp.198-202; Scammell, (1965), p.105; Aldcroft and Oliver (1998), pp.46-7.

¹³ Tomlinson (1981), pp.27-42; (1990), pp.15-24; Ingham (1984), p.174.

turmoil engulfed the immediate postwar period. A fierce world boom during 1919 was followed in 1920 by an equally severe slump, while social unrest appeared to be endemic. Faced with these difficulties, state authorities around the world became increasingly convinced of the need for a return to a gold standard in order to provide stability and facilitate an economic recovery. In 1925 Britain re-established sterling on a gold basis at its prewar parity of \$4.86, providing the signal for many other countries to re-link their currencies to gold (though rarely at their prewar ratios) and heralding the start of a generalised move back to global exchange rate stability. By 1928 this process had largely been completed, and an international gold standard was once more a reality.¹⁴

The reconstructed system however was fundamentally weak and unstable. Despite the onset of another global boom during the mid-1920s, the regime was steadily undermined by a growing crisis of overproduction within the global circuit of capital. By 1929 the world economy was rapidly plunging into the deepest depression ever seen, putting the system under even more pressure. In 1931, economic and financial turmoil in Central Europe led to a speculative attack on the pound, forcing Britain to abandon the gold standard, and leading many other countries to do likewise. By 1932 most countries had now moved to a managed exchange rate regime, leaving only the United States and a small 'gold bloc' of European countries remaining on gold. Despite various efforts throughout the 1930s to re-establish the international gold standard, a combination of global political and economic instability, and social tensions resulting from the depression now ruled out any such prospect and precluded all but the most basic international co-operation. A US devaluation in 1933 added to the difficulties and uncertainties facing the world economy and put the remaining gold standard countries under growing deflationary

¹⁴ See Brown Jr (1940), *passim*; Kenwood and Lougheed (1971), Chs.11-12; Eichengreen (1993), *passim*.

pressure in order to maintain their par values. In 1936 this pressure forced France to devalue and to leave the gold standard, triggering the dissolution of the gold bloc, and by 1938 the US was the only country remaining on gold. As an international regime, the system was finally consigned to history.¹⁵

Theories of Britain's Return to the Gold Standard

The literature on Britain's return to the gold standard at the prewar parity in 1925 has to date been characterised by a general lack of consensus over the reasons for the decision, and explanations have drawn upon an eclectic mix of various overlapping motives and themes. One of the most common of these is that the return was driven largely by subjective values and ideational factors. The longevity of Britain's commitment to the regime is seen to have given rise to deeply ingrained 'sentiments', 'habits', and 'governing traditions', and adherence to a gold standard at \$4.86 is thought to have been regarded by the vast majority of people as the normal and natural way of life. This is also thought to have been reinforced by considerations of 'national pride' and 'prestige' deriving from the international role of the pound, and by a belief that Britain even had a 'moral obligation' to ensure its convertibility into gold at the par value. Britain's departure from the regime is thus considered to have been regarded as a purely temporary affair, with a return to gold thought to have simply been the 'accepted thing to do'. The belief in the righteousness and permanency of the system was such that, as Youngson puts it, not to have engaged in a swift return would have been 'revolutionary', and indeed there is considered to have been no real thought or discussion of any alternative regime or exchange rate.¹⁶

¹⁵ Brown Jr (1940); Drummond (1981); Scammell (1991); Eichengreen (1996); Aldcroft and Oliver (1998).

¹⁶ Youngson (1960), pp.26-7; Also see Gregory (1926), p.56; Winch (1969), p.89; Brown Jr (1970), pp.173-8; Moggridge (1972), pp.86-97; Sayers (1976), p.135; Aldcroft (1983); Tomlinson (1990), pp.43-60.

Another prominent theme however is that the restoration of the gold standard at the prewar par was also driven by economic considerations, primarily by a desire to resolve Britain's postwar difficulties of high inflation and unemployment. From this view, Britain's state authorities are either seen to have attributed prewar levels of prosperity to the institutional framework of an international gold standard and to have therefore seen its recreation as the best means of restoring Britain's economic fortunes, or to have been wedded to the dictates of classical economic theory, with its postulate that a stable monetary framework was essential for the maximisation of trade and employment. From both positions it is argued that state officials believed that a return to gold at \$4.86 would secure international confidence in sterling and provide certainty and stability for Britain's international trade, thus facilitating the import of essential items such as food and raw materials, and helping to restore Britain's export and financial service sectors. Supporting this, the gold standard would also provide a bulwark against inflation, a large cause of which was thought to have been due to the political misuse of the money supply during the war, and would thus force adherence to sound and 'responsible' economic policies, and ensure that Britain remained competitive by forcing domestic prices to conform to international levels. A return to gold by Britain would also encourage other countries to do the same, thereby aiding the restoration of international stability and facilitating the general postwar recovery of the world economy. From this perspective therefore, the decision to return to gold is thought to have been motivated by a desire to 'return to 1913' and as having essentially been an 'employment policy'.¹⁷

¹⁷ Gregory (1925), pp.21-2; Puxley (1933), p.23; Brown Jr (1940); Kemmerer (1944); Williams (1959), pp.46-7; Sayers (1960), (1976), pp.110-11; Youngson (1960), pp.231ff; Moggridge (1972), pp.98-100; Winch (1969), *passim*; Howson (1975), pp.140-1; Aldcroft (1983); Williamson (1984); Middleton (1985), p.92; Tomlinson (1990), p.42; Skidelsky (1992), pp.190-2.

A contrasting theme in the literature however is that the return to gold was a policy made not in the interests of Britain's economy as a whole, but to serve the particular interests of the financial sector of the City of London. From this view, the City is seen to have wanted a return to gold at the prewar parity in order to restore its pre-eminence as an international financial centre and to restore its earnings capacity following the detrimental impact of the war, whilst the government are thought to have been 'imbued' with the notion that the prosperity of the City was of paramount importance regardless of the effects the policy might have on other sectors. In part the desire to secure the well-being of the financial sector is thought to have been motivated by a desire to compensate for Britain's long-declining industrial sector, though for the most part it is considered to have been the result of the undue influence exerted by the City over the policy-making process through its historically close institutional and cultural links with the Bank of England and the Treasury.¹⁸

Besides economic considerations, a further theme in the literature is that the return to gold was motivated by political factors. For some, the policy is thought to have been driven primarily by the desire of senior officials at the Bank and the Treasury to regain their traditional control over economic policy that had been lost to politicians during the war.¹⁹ For others however, the move is thought to have also been driven by the desire of the authorities to insulate themselves from the pressures of rising social demands on the state. Bank officials are thought to have been driven by a desire to avoid government interference and possible nationalisation, while government officials are thought to have been anxious to avoid the political fallout resulting from the move back to economic

¹⁸ See for example Gregory (1925), pp.51-2; Williams (1959), pp.46-51; Youngson (1960), ps.27, 234; Pollard (1969, 1970; 1976); Winch (1969), p.86; Moggridge (1972), ps.86, 97; Longstreth (1979); Ingham (1984); Broadberry (1989), p.49; Peden (1991), p.60.

¹⁹ See for example Lowe (1978), and to an extent Skidelsky (1969).

orthodoxy. By placing monetary policy under the control of the gold standard, officials would effectively be able to disclaim responsibility for the effects of monetary policy, and indeed for economic policy in general since this was now subordinate to the necessity of maintaining the exchange rate. It would, as Williamson puts it, “protect the Bank from dangerous demands for even more Ministerial intervention, and Ministers from public responsibility for unpleasant policies.”²⁰

Assessments of the Policy

Assessments of Britain’s return to gold tend to fall into one of two categories. The first of these is that the policy was a complete disaster which created, or at least substantially contributed to domestic economic depression, chronically high unemployment, and industrial unrest. This interpretation derives from the original Keynesian critique of the decision, with its central claim that the re-stabilisation of sterling at \$4.86 overvalued the pound by an estimated 10% against the US dollar given relative prices in Britain and America. This is seen to have made Britain’s exports more expensive, and to have compelled employers to try and reduce their production costs, the largest element of which was frequently the cost of wages. In turn, the attempt to impose large wage cuts is thought to have provoked fierce trade union resistance, leading to industrial unrest and ultimately to the general strike of 1926. Moreover, although the return to gold is seen as having facilitated a revival in the City’s financial earnings, the effect of the high pound is thought to have depressed exports and to led to an increase in imports, thereby putting pressure on the balance of payments and necessitating high levels of tax and

²⁰ Williamson (1984), pp.110-11; Also see Tomlinson (1981; 1990); Ingham (1984), pp.173ff; Middleton (1985); Clarke (1988), p.149; Peden (1988).

interest rates in order to defend the parity. The combined result therefore, is that while the City prospered, Britain's economy as a whole stagnated and unemployment rose to unprecedented heights.²¹

According to this analysis, the return to gold at the prewar par is considered to have been a serious policy mistake and an abject failure. Britain's authorities are believed to have misjudged the difficulties that the return would entail, basing their assessments of the expected level of adjustment on inappropriate price indices and on the erroneous belief that domestic prices and wages would adjust themselves quickly and smoothly to the new exchange rate. Any adjustment difficulties were thus believed to have been temporary, easily surmountable, and largely incidental to the long-term benefits of economic stability and prosperity.²² As such, proponents of this viewpoint also argue that sterling should have been valued at a lower rate more conducive to maximising British trade and employment. This, it is claimed, would have lessened the pressure on Britain's exporters, thus helping to ensure a higher level of economic growth, lower interest rates and unemployment, and industrial peace.²³

In contrast to this interpretation however, the second assessment of Britain's return to gold argues that the problems experienced after 1925 were not as bad as is often maintained (a key claim for example is that Britain's rate of economic growth during the 1920s was comparatively favourable in historical terms),²⁴ and that they were primarily due

²¹ See Keynes (1925); Sayers (1960), pp.92-3; Pollard (1969, 1970; 1976); Moggridge (1972), pp.98-105; Winch (1969), pp.68ff; Ham (1981), pp.55-6; Peden (1988), pp.19-20; Eichengreen (1992), p.303: Estimates on sterling's overvaluation against the dollar vary from 11-14% by Dimsdale (1981), to 20% by Wolcott (1993), to 20-25% by Redmond (1984).

²² Keynes (1925); Sayers (1960), pp.88-9; Winch (1969), p.83; Moggridge (1972); Pollard (1976), pp.221-3.

²³ Keynes (1925); Harrod (1951), p.358; Moggridge (1969); Pollard (1969); Skidelsky (1969, 1992); Winch (1969), p.90; Pelling (1974), p.306; Pressnell (1978); Dimsdale (1981); Ham (1981); Peden (1988), pp.22-3; Wolcott (1993).

²⁴ Feinstein (1963), pp.1-4; Lomax (1964), pp.32-3; Aldcroft (1967, 1983); Dowie (1968).

to factors other than the return to gold at \$4.86. The unexpected behaviour of the US trade cycle for example is seen by many as a key contributory factor. US prices at the time of Britain's return were widely expected to rise and to therefore ease the pressure of adjusting to \$4.86, whilst the actual course of American prices proved to be downwards, thus making the degree of adjustment required that much greater than had originally been anticipated. In addition, the difficulties of British industry are thought to have been compounded by economic dislocation in its traditional export markets, and by competitive devaluations by France and Belgium, both of whom returned to gold in 1926 at substantially undervalued exchange rates. Growing speculation on Wall St. throughout the latter half of the 1920s is also thought to have exacerbated the situation by forcing many other countries, including Britain, to maintain high interest rates in defence of their gold reserves, while domestic factors such as the rigidity of prices and wages is also seen to have exerted a large causal influence, buoyed by overly generous and freely available unemployment benefits, excessive trade union power, the immobility of labour, and the persistence of uncompetitive production methods and practices.²⁵

From this perspective it is contended that the return to gold at \$4.86 cannot therefore be seen as the primary cause of Britain's difficulties. The decision to return is not seen as a policy error, but is instead regarded as having been sound and justifiable on the basis of those conditions that were known at the time. Supporters of this view maintain that it was not unreasonable in 1925 to have expected Britain's economy to withstand an exchange rate of \$4.86, that there was no viable alternative to a gold standard in the circumstances of the 1920s, and indeed that the policy itself was supported by the vast

²⁵ Gregory (1926), pp.45ff; Williams (1959), pp.47-51; Sayers (1960), pp.93-7; Youngson (1960), p.237; Aldcroft (1983), p.94; Peden (1991), pp.68-9; Thomas (1992).

majority of domestic opinion.²⁶ As such, proponents of this assessment also claim that while returning to gold at a lower rate might have helped Britain's export industries in the short-term, it would not have resolved Britain's longer-term economic problems, and indeed may even have made matters worse. A lower par, it is argued, would not have obviated the need for improved competitiveness from British industry, would not have solved the problems of domestic price and wage rigidity, and would not have enabled Britain to escape from economic dislocation in its export markets, or from the undervaluations of France and Belgium. In consequence, it is argued that while a devaluation may have eased the immediate pressure on British industry, it would have ultimately served to delay the process of adjustment, thus making the eventual changes that difficult to achieve.²⁷

Problems with the Literature

Current approaches to understanding Britain's return to the gold standard are not without merit, especially insofar as they draw attention to the desire of state officials to avoid inflation and to displace political responsibility for the effects of economic policy. They are however, also subject to a number of shortcomings. Accounts which emphasise the role of values and ideational factors such as 'tradition', 'prestige', or 'economic theory' for example, do not explain how and why such factors come into existence and endure in the first instance, and reveal little about the actual development of the gold standard policy itself. The tradition and prestige of Britain's adherence to the regime for instance is of itself insufficient to explain the return to gold in 1925 since such factors were also present

²⁶ Einzig (1932), pp.44-58; Youngson (1960), p.234; Palyi (1972), p.75; Alford (1986), pp.34-8: Also see Williams (1959), pp.47-51; Sayers (1960), pp.93-7, (1976), pp.212-13; Aldcroft (1967), (1983), pp.136-7; Tomlinson (1990), p.72; Redmond (1992), p.353.

²⁷ Einzig (1932), pp.44-58; Brown Jr (1940); Williams (1959), pp.48-51; Sayers (1960); Howson (1975), p.31; Dimsdale (1981); Alford (1986), pp.34-8; Peden (1988), pp.20-2; Tomlinson (1990), p.72.

after 1931 when Britain did not return to the system, and while it may have been ‘revolutionary’ not to return to gold after the war, this too does not adequately explain why the decision was made. Accounts emphasising such factors are also problematic in that they overlook the political and economic considerations involved in the decision, and ignore the benefits that the policy was expected to provide for state officials.

A second problem with conventional accounts concerns the timeframe of their analysis, with the general contention being that the official motivations for the return originated in response to events during and immediately after the First World War. This view is expressed most clearly in those accounts which understand the policy to have been an attempt at addressing Britain’s postwar difficulties by seeking to restore prewar conditions in order to maximise economic activity. The problem with this however is that an analysis that begins with the First World War ignores the influence of prewar developments upon the motivations of state managers. While the effects of the war undoubtedly exacerbated the problems faced by Britain’s authorities, the origins of these difficulties are for the most part to be found in the period before 1914. Overlooking the prewar era thus precludes a view of the return to gold as having been a response to longer and more deep-rooted problems in Britain. While the effects of the war are therefore certainly crucial for understanding the development of the gold standard policy, they alone are hence also insufficient to explain it.

A third difficulty with conventional approaches relates to the claim that the return to gold was a policy made primarily in the interests of the financial sector. It is never explicitly shown precisely how and in what way these interests were transmitted to the policy-making authorities, and exactly how they managed to enjoy precedence over those

of other sectors beyond a reference to unspecific historic and cultural linkages between the City, the Treasury and the Bank of England. Furthermore, it is also questionable that such a divergence of interests between various economic sectors actually exists in the manner supposed. From the analytical perspective of the circuit of capital for example no single 'fraction' of capital can have substantially different interests from those of capital as a whole, since capital itself must transmute through all three of its forms (M-P-C) in order to expand. The interests of finance, industry, and commerce must therefore be seen as interwoven rather than autonomous, while state managers, as politically responsible for conditions in the domestic circuit generally, must also therefore be seen as concerned with the total pattern of domestic economic activity rather than with the 'interests' of any particular sector.

Fourthly, traditional accounts are also problematic inasmuch as they focus on either the 'economic' or the 'political' aspects of the policy rather than conceptualising it as having been simultaneously both a political and an economic strategy, thus failing to grasp the full complexity of the decision. Accounts which emphasise the economic advantages of the policy for example, usually in terms of reducing unemployment and facilitating prosperity, typically ignore its political benefits in terms of shielding members of the core executive from 'social pressures' (understood in more specific terms as pressure from capital and labour), while accounts which do emphasise these political benefits in turn often fail to recognise the economic advantages they offered. The 'political' advantages provided by insulating the state authorities from social pressure for example, also possessed the 'economic' benefits of helping to reduce the expectations of capital and

labour towards future levels of state intervention, the high level of which was serving to reduce private enterprise and sustain economic inefficiencies.

An Alternative Interpretation

In contrast to conventional interpretations of Britain's return to the gold standard at \$4.86, an analysis based on the alternative theoretical view of exchange rate policy-making developed in the previous chapter offers a markedly different way of understanding and assessing the policy. From this perspective, the return to gold is not seen as having been driven by ideational factors or a desire to restore prewar conditions, and nor is it seen as an attempt to maximise Britain's trade and employment or as having been designed primarily to serve the financial interests of the City. Instead, the policy is seen as the central component of a wider governing strategy designed to provide favourable conditions for capital accumulation, to regulate class struggle, and to secure greater freedom of high political manoeuvre for the core executive. More specifically, the policy was designed to address long term political and economic difficulties within the British state by putting pressure on capital and labour to become more competitive and to shift to more advanced industrial sectors, to reduce and confine class unrest, and to ease the pressure on the state authorities through the depoliticisation of monetary and economic policy-making.

The political and economic difficulties facing Britain in the 1920s had their origins in developments during the last third of the nineteenth century. At this time Britain's position as the world's most powerful economy was under threat from increasing international competition, a relative decline in productivity, and a growing over-dependency on export industries of diminishing global importance. From 1910 the political

stability of the British state itself was also under threat from an increasingly organised and disaffected labour movement infused with the idea of using radical means to further its position. The seriousness of this situation was augmented by the effects of the First World War. The material demands of the conflict put Britain's economy under enormous pressure, depleting its reserves and further distorting its pattern of productive activity towards outdated and declining industries, while high levels of inflation further undermined Britain's economic competitiveness and helped to sustain labour unrest. These effects were further enhanced by a huge expansion of the state into almost all areas of economic life, which helped to strengthen the organisation of both capital and labour, and which transformed economic conditions and policy-making into overtly political issues. At the same time as this expansion now made state officials themselves directly responsible for domestic economic conditions, it also raised the expectations of capital and labour as to what could be achieved through the use of state power after the war, thereby making the resolution of these problems more difficult, and constraining the high political freedom of the authorities.

By the end of the war the key aims of the core executive were to return control and responsibility for economic conditions to the market, to contain and reduce inflation and labour unrest, and to encourage an economic recovery and an adjustment in Britain's economic structure in order to meet the changed conditions of the postwar world. The central means of achieving these aims was a governing strategy based upon a return to the gold standard at the prewar par. This, it was thought, would aid the postwar recovery of the global economy by encouraging other nations to return to gold, would provide stability for Britain's international economic activities, and would firmly re-integrate Britain's

economy within the competitive discipline of the global circuit of capital, thereby forcing domestic prices and economic conditions to conform to those prevailing elsewhere. In addition it was also felt that returning to gold at the specific rate of \$4.86 would ensure credibility in the policy, and that the relatively high value of the exchange rate would put pressure on the domestic economy as a whole, forcing down prices and wages and encouraging producers to move into internationally expanding branches of economic activity. The financial discipline of the regime would also be reinforced by the necessity of maintaining an all-round tight economic policy stance, including high levels of interest rates and taxation, in order to defend the parity until the economy adjusted.

A credible return to the gold standard was also seen to possess definite political advantages. By placing control of monetary policy in the hands of the politically 'independent' Bank of England, and by locating this within the wider framework of an automatic and globally constituted system, membership of the regime would serve to lock-in the future economic policy direction of the state as a whole (since this would now be subordinated to the needs of maintaining the parity), and would enable state officials to depoliticise the issues of economic conditions and policy-making. This would help to ease the pressure on the authorities and to increase their freedom of high political manoeuvre in several ways. Firstly, this would serve to reduce and contain the expectations of capital and labour as to the future economic policy behaviour of the state; secondly it would redraw the boundaries between the 'political' and the 'economic', thereby disarming and redirecting class struggles over economic issues away from the state. Thirdly, the regime would effectively blur the borders of political responsibility (and hence accountability) for economic conditions between the government and the Bank of England; and fourthly,

adherence to a gold standard would simplify the management of economic policy through the provision of a clear signal in the form of gold movements as to whenever domestic economic conditions began to diverge from those pertaining internationally.

From this alternative viewpoint Britain's interwar gold standard policy is not seen to have been a mistake or a failure, but is best described as having been a relative success. On the one hand, the policy largely failed to force any substantial adjustment or competitive breakthrough in the British economy, and though prices fell, wages remained rigid. This created growing difficulties for the state authorities, who became unable to exert their full freedom of manoeuvre in interest rate policy due to rising political concerns over unemployment, and eventually led to the collapse of the gold standard regime itself as the lack of any significant domestic adjustment combined with the emergence of an international economic crisis during the late 1920s to produce a speculative attack on the pound during 1931.

In terms of its political effects however, the return to gold can be viewed as having been a success. The regime established a credible and depoliticised framework for economic policy-making, effectively removing monetary policy from the political agenda, and with the exception of unemployment (which remained a key political issue throughout this period), the authorities generally were no longer seen to be responsible by representatives of capital or labour for domestic economic conditions. Moreover, the renewed gold standard also enabled state officials to displace whatever pressure did arise over economic conditions, while the threat posed by labour unrest and militancy was also reduced. As such, despite the constraints over interest rates, the gold standard can therefore

be seen to have eased the political difficulties of the British state and to have provided the core executive with a greater degree of high political freedom.

Concluding Remarks

This chapter has examined the key themes and issues surrounding Britain's return to the gold standard in 1925 and has outlined an alternative means of understanding the policy based on the alternative theoretical approach towards exchange rate policy-making developed earlier. From this perspective, Britain's return to gold is seen as a component part of a wider governing strategy designed to regulate the domestic circuit of capital, contain labour unrest, and improve core executive freedom for the pursuit of high political goals. More specifically, it is argued that Britain's return to gold was designed to address long-term political and economic difficulties within the British state by encouraging an economic adjustment and improved competitiveness, and by displacing responsibility for economic conditions and policy-making away from the state through the depoliticisation of monetary and economy policy-making. The following chapters develop this argument in more detail.

Chapter 3 : The Crisis of the British State

Britain's interwar gold standard policy was the key component in a wider governing strategy designed to address a growing economic and political crisis in the British state. This crisis began to develop during the latter part of the nineteenth century with the onset of relative economic decline and an increasingly outmoded pattern of economic activity, and grew in intensity in the years immediately preceding the First World War with an upsurge of labour unrest and militancy posing a serious threat to political stability. The crisis was further exacerbated by the effects of the war itself, which not only added to Britain's economic weakness and to the growing strength of labour, but also transformed economic conditions and policy-making into an overtly political issue, thus leading to growing pressure on the state authorities and greatly curtailing their high political freedom of manoeuvre. The purpose of this chapter is to outline and explore these issues.

The Origins of the Crisis

During the mid-nineteenth century Britain was the world's most powerful economy. It produced almost a third of the world's manufacturing output, provided well over a third of its industrial exports, supplied much of its capital, and accounted for a fifth of all international trade. Industrially, Britain's strength derived from its 'staple' exports of textiles, heavy metals, shipbuilding, and from the 1870s engineering equipment and coal, though with few natural resources of its own, ever-larger amounts of imported raw materials and foodstuffs were necessary to sustain its industrial activities and burgeoning urban population, resulting in a persistent and worsening balance of trade deficit. This was

prevented from developing into a wider balance of payments problem however by Britain's invisible earnings from items such as shipping services, though primarily from the financial activities of the City of London, the world's dominant financial centre. The earnings of the City, supported by a high demand for British industrial goods and by sterling's role as the world's primary vehicle currency, were not only able to plug the trade gap but were also sufficient to furnish Britain with an overall balance of payments surplus.²⁸

This pattern of economic activity was underpinned by a series of fortuitous factors. An unprecedented expansion of the world economy driven by the spread of industrialisation and coupled with the existence of captive Empire markets ensured a continuous demand for British goods and capital, while a domestic combination of a relatively weak and disorganised labour movement and a credible commitment on the part of Britain's state managers to maintain the orthodox economic policy framework of a gold standard, a balanced budget, and a minimal state helped ensure continued economic and political stability.²⁹ These factors however were soon under threat. Increasing global competition, the development of more advanced productive methods and techniques by other nations (especially the US and Germany), and a changing composition of world demand towards newer and more advanced commodities such as vehicles, chemicals, electrical and consumer goods eroded Britain's competitive advantage and rendered its industrial base increasingly outmoded. At the same time, the financial dominance of the City was also coming under pressure from the growth of rival centres in Paris, Berlin, and New York, while domestic pressures for social reform were leading to a steady rise in the

²⁸ Bird (1946, 1946a); Hill (1946, 1946a); Ashworth (1960); Kenwood and Loughheed (1971); Alford (1996), Chs.1-3.

²⁹ Scammell (1965), *passim*; Kenwood and Loughheed (1971); Tomlinson (1981); Fulcher (1991), pp.38ff.

level of state spending and undermining the pursuit of economic orthodoxy. The effects of these developments on Britain's relative economic performance were dramatic. From the middle of the nineteenth century to the outbreak of the First World War, Britain's share of world manufacturing output fell by over 50%, its global share of industrial exports fell by more than 10%, and its rate of GDP growth, averaging around 2% throughout the latter half of the nineteenth century, had declined to just over 1%.³⁰

The long-term seriousness of this problem however was not yet fully recognised, and the immediate response to these developments was muted. International demand for British goods and capital was still relatively strong, and with British trade and investment to Empire and developing countries continuing to rise, the incentive to modernise and adjust production remained weak.³¹ Furthermore, while Britain's difficulties did not pass unnoticed, especially during the Great Depression of the 1870s and 1880s, they also failed to generate any widespread concern among contemporaries. Though several commentators drew attention to Britain's shortcomings in relation to the US and Germany, and though several government inquiries were set up to examine the situation, the generally accepted view was that these problems were temporary and that there was nothing fundamentally wrong with Britain's pattern of economic activity.³² This view gained further credence as Britain recovered from the depression to enjoy an economic boom during the early 1900s, and was further augmented by the continuation of Britain's absolute economic dominance despite its relative decline. Though facing an increasingly difficult challenge, by 1914

³⁰ On Britain's relative economic decline see Ashworth (1960); Matthews (1964); Dowie (1968); Weiner (1981); Coates and Hillard (1986); Elbaum and Lazonick (1987); Newton and Porter (1988); Dintenfass (1992); Lowe (1995); Rose (1995), pp.233-7; Alford (1996), Chs.1-4; Garside and Greaves (1997).

³¹ Kahn (1946), Ch.5; Kenwood and Lougheed (1971); Rose (1995), pp.232-3; Alford (1996), Chs.1-4.

³² See for example the Report of the Royal Commission Appointed to Enquire into the Depression of Trade and Industry (1886). C.4893.

Britain was still the world's most important economy, its leading exporter, and its foremost financial centre.³³

Alongside these growing economic difficulties, the prewar period was also characterised by a rising political challenge from organised labour. Discontent had forced the authorities to concede a number of important social reforms, including an extension of the franchise to working class males, while the growth of trade unionism and the establishment of the Trades Union Congress (TUC) in 1868 had forced state officials to concede their legal recognition. With the formation of the Labour Representation Committee in 1900 (later becoming the Labour Party in 1906), hopes were also rising that Parliamentary representation could help to secure improvements in working class living standards. By 1910 however, the hope of making progress by working within the capitalist system was turning to disillusion. Persistent judicial attacks on the industrial and political activities of labour such as the Taff Vale and Osborne rulings had put increasing pressure on the trade union movement, real wages were being eroded by the inflationary impact of the economic boom, and the electoral prospects of the Labour Party were under increasing threat following the adoption of socially reformist policies by the Liberals.³⁴

This growing dissatisfaction was reflected in the increased popularity of radical French and American ideas of using direct action to further working class aims. Especially popular among the labour rank-and-file, though with even traditionally moderate sections of the labour movement and many middle-class activists now also adopting an increasingly militant character, the result was an unprecedented outbreak of social disorder throughout Britain between 1910-1914 known as the 'Great Unrest'. A pandemic of frequently violent

³³ Kahn (1946), Ch.5; Alford (1996), Chs.1-3.

³⁴ See Cole (1948), pp.284ff; Fulcher (1991), pp.56-96; Aris (1998), pp.71-96.

and unofficial strikes erupted on an unparalleled scale and intensity in virtually every industry (though especially pronounced in the key sectors of coal and transport), with the average number of new stoppages virtually double the annual average for the previous decade, and with the average number of working days lost increasing almost five-fold.³⁵

The sheer size and intensity of the unrest was deeply alarming to many contemporary observers. Industrial employers, official labour leaders, and state managers alike were united in their belief that the 'old world' was falling apart, and many feared that revolution was now imminent. Despite resorting to the use of armed troops to maintain order on a number of occasions however, state officials remained anxious both to avoid inflaming the situation, and to avoid having to implement any far-reaching social reforms. The official response to the crisis was instead characterised by a reliance on short-term, *ad hoc* measures designed to limit the progression of the unrest and to placate any immediate dangers. Some limited minimum wage concessions for example were introduced to try and appease those groups of workers who were particularly worse off, and an Industrial Council for conciliating in disputes was established in 1911 in a bid to consolidate moderate labour opinion behind the government.³⁶

Such measures were initially successful in containing the excesses of labour discontent, though from the end of 1911 the unrest grew in intensity, forcing employers to concede significant improvements in working class living standards and heightening fears within official circles of revolutionary action. In 1914 these fears were raised still further when the three largest and most powerful trade unions, the Mining Federation of Great Britain (MFGB), the National Union of Railwaymen (NUR), and the Transport Workers

³⁵ Calculated from Cole (1948), pp.284ff; Butler and Butler (1994), p.373; Aris (1998), *passim*.

³⁶ Cole (1948), pp.284ff; Fulcher (1991), pp.101ff; Pelling (1992), p.133; Aris (1998), *passim*.

Federation (TWF) tentatively agreed to form the ‘Triple Alliance’ – a mutually supportive arrangement in which all employment contracts would be co-ordinated to expire simultaneously. By giving the unions huge bargaining power in any subsequent negotiations through their ability to inflict acute disruption upon the economic life of the country, it now seemed as if the challenge of labour was sharpening. In August however the danger was supplanted by an even more serious threat to the stability of the state with the outbreak of the First World War.³⁷

The Impact of War

The economic and political effects of the war were profound and far-reaching. The world economy was shattered, huge problems of intergovernmental debts and reparations were created, the United States was transformed from the world’s greatest debtor nation into the world’s largest creditor, and had now superseded Britain as the world’s leading industrial power. The war also compelled many countries to seek new avenues of trade and to drive towards autarky and industrialisation, leading to an enormous over-expansion in the international production of key wartime commodities such as heavy metals, coal, and primary produce. For Britain these developments also meant the loss of many of its overseas markets, while those that remained were left faltering under poor economic conditions. The City too was badly affected by the war, losing up to a quarter of its overseas assets, and now faced a rising challenge from New York for the role of the world’s leading financial centre.³⁸

³⁷ Cole (1948), pp.327ff; Pelling (1992), p.131; Aris (1998), p.93.

³⁸ Morgan (1952), pp.306-11; Brown Jr (1970), pp.170-1; Roberts (1995); Rose (1995), pp.240-2.

Britain's ability to meet such challenges was also weakened. Though the conflict stimulated some improvements in industrial techniques such as mass production, Britain's economic activities remained overwhelmingly concentrated in the staple export trades, its plant and machinery were old and war-ravaged, and practically no technological progression had been made compared to emerging rivals such as Japan and the United States.³⁹ The decline in Britain's competitiveness was also intensified through huge wartime inflation as average wages and retail prices virtually doubled, and as wholesale prices rose by some two and a half times, while to compound these problems the national debt had now rocketed from £650 million to £7800 million as a result of financing the war primarily through extra borrowing rather than higher taxation.⁴⁰

Another important effect of the war was the vast expansion of directly visible state control over the economy that it necessitated, and the transformation that this produced in relations between the state, capital, and labour. This expansion was not immediate or pre-planned, but excepting the rapid nationalisation of the mines and railways, occurred on a gradual and *ad hoc* basis in response to the failure of the free market to meet the demands of the war effort.⁴¹ This was especially apparent in spring 1915, when a crisis over a shortage of military supplies precipitated the collapse of the Liberal government and the establishment of the first wartime coalition, and was swiftly followed by the introduction of an array of measures to tighten control over the economy. An informal agreement with the trade unions over production methods was swept aside, with strikes and 'restrictive practices' both being made illegal, while regulations on prices and wages were increased, and controls were extended to cover working hours and the allocation of labour, which

³⁹ Cole (1948), pp.373-4; Johnson (1968), ps.86-7, 488-9; Kirby (1995), pp.53ff; Alford (1996), pp.111-16.

⁴⁰ Feinstein (1972), Table.65; Butler and Butler (1994), p.383.

⁴¹ Morgan (1952), Ch.2.

now also included military conscription. Even so, it was not until the establishment of the second wartime coalition in 1916 that state controls began to be applied in any systematic manner, with these measures being rapidly and progressively extended to all aspects of economic life.⁴²

The expansion of state control however did not eliminate labour unrest. Despite an initial truce, disturbances continued throughout the war, driven largely by grievances over rising inflation, profiteering by sections of industry, and the government's draconian handling of labour. Though smaller in scale than the Great Unrest, the wartime disquiet was also punctuated by several large strikes, most notably in the coal and engineering industries, and was still of grave concern to the authorities, especially given the military dangers of a decline in war production. Also disconcerting was that the unrest was still overwhelmingly led by radicals enthused with the idea of overthrowing capitalism, such as the newly established Shop Stewards Movement, and further, that the key focus for labour's grievances now lay not with employers but with the state itself, which with the extension of economic control was now considered to be directly responsible for domestic economic conditions.⁴³

The government's response to the unrest was to continue with its prewar strategy of attempting to contain rather than resolve these difficulties. In a bid to ameliorate discontent higher wages and price controls were introduced, the Labour Party obtained its first Cabinet Ministers, and great postwar social reforms were promised in key areas of working class concern such as health, housing, education, and the franchise.⁴⁴ Hopes of reform were also encouraged by the establishment in 1916 of an official enquiry into postwar relations

⁴² Pigou (1947), pp.111-15; Cole (1948), pp.353ff; Morgan (1952), Ch.2; Fulcher (1991), pp.105ff; Cronin (1991); Lowe (1995), pp.30-6; Pugh (1995), pp.10ff; Aris (1998), pp.109-10.

⁴³ Carter (1917); Cole (1948), pp.355-61; Middlemas (1979), pp.125-31; Aris (1998), pp.127-36.

⁴⁴ Morgan (1952), pp.52-6; Pugh (1995), pp.10ff.

between the state, capital, and labour, known as the 'Whitley Committee'. Though few of the committee's recommendations ever came to fruition, proposals for a series of wide ranging changes to prewar relations, including the extension of basic minimum wages and giving labour a degree of control over production, were largely successful in eroding support for more radical measures.⁴⁵

The war also had a significant impact upon bilateral relations between the state and capital. Despite the incorporation of many businessmen into the state's system of wartime administration, industrialists continued to lack any central organisation of their own and were increasingly uneasy about the perceived growth in the influence of labour. To counter this threat, the Federation of British Industries (FBI) was established in 1916 to represent the views of industry to the state.⁴⁶ Internal divisions within industry however prevented the Federation from establishing itself as a fully representative organisation. Employer groups such as the British Manufacturers Association and the Master Cotton Spinners' Federation refused to join, the National Farmers Union later disaffiliated, and the Engineering Employers Federation (EEF) were in constant rivalry with the FBI over its claim to be the representative voice of British industry.⁴⁷ This conflict was not resolved until 1919 when an EEF initiative led to the establishment of the National Confederation of Employers' Organisations (NCEO) to deal specifically with labour issues such as wages and working conditions and the FBI agreed to restrict its interest to more general matters, thereby establishing each organisation as the recognised authority within their respective fields. As such, the NCEO played a relatively minor role in expressing the view of industry on economic policy during the interwar years, and it was the FBI who despite their

⁴⁵ Welton (1960), pp.102ff; Johnson (1968), ps.48ff, 164-5; Sheldrake (1991), pp.29-36.

⁴⁶ Modern Records Centre (hereafter MRC) MSS.200/F/4/35/5. 'FBI: Its Aims and Activities' (FBI), 1920; Blank (1973); Grant and Marsh (1977); Grant (1983); Turner (1984).

⁴⁷ Grant and Marsh (1977), p.20; Turner (1984a), pp.37ff; Cronin (1991), pp.69-70.

absentees formed the largest and most influential of Britain's employer organisations. A variety of smaller bodies such as the National Union of Manufacturers (NUM) and the Association of British Chambers of Commerce (ABCC) also formed a periphery of business opinion, though these were also less important than the FBI and the NCEO.⁴⁸

The strains of war also led to changes in the institutional organisation of the state itself. The expansion of government spending and a proliferation of new Ministries eroded the budgetary control of the Treasury, while the funding of the war effort through large borrowing and the issuing of currency notes by the Treasury also undermined the Bank of England's control over interest rates. The centrepiece of the government's prewar economic policy, adherence to the gold standard, was also eroded. Though legal adherence was upheld throughout the war (albeit at the slightly devalued rate of \$4.76) in order to provide a stable conduit through which Britain and the Allied powers could obtain supplies and financial aid from the United States, in reality this was merely nominal as an inability to insure gold shipments effectively meant that in *de facto* terms the gold standard was no longer operative.⁴⁹ Moreover, as the war progressed rising inflation and a growing trade deficit put sterling under growing pressure, making continued adherence increasingly costly and raising Ministerial doubts as to the utility of continuing on the regime. Senior Bank and Treasury officials though remained successfully adamant throughout the war as to the necessity of maintaining legal convertibility. Sir John Bradbury (a joint permanent secretary to the Treasury) for example warned that leaving the regime would have 'economic consequences of a disastrous character', Brien Cokayne (the then Deputy Governor of the Bank of England) stated that it would be 'a feather in the German cap',

⁴⁸ MRC:MSS.200/B/3/2/C299. 'The NCEO and the FBI : Historical Summary of Relationship'; Grant and Marsh (1977), pp.17-21; Turner (1984a); Fulcher (1991), pp.111-17.

⁴⁹ Hawtrey (1933), p.90; Morgan (1952), pp.356-7; Boyle (1967), pp.109ff; Moggridge (1969), pp.11-12.

while John Maynard Keynes (a Cambridge economist seconded to the Treasury during the war) argued that it would dislocate the entire pattern of imports and exports essential for the war effort.⁵⁰

Perspectives on the Postwar State

Along with these various difficulties the war also raised to prominence the wider question as to the form that the postwar state should take. For state officials themselves, although a primary need was considered to be improved competitiveness and a shift in industrial production to newer and more advanced lines in order to meet the changing economic realities of the postwar world – a point strongly emphasised for example by the Committee on Commercial and Industrial Policy (the ‘Balfour Committee’) in 1919 – there was as yet no consensus as to how this was to be achieved. Some, such as the Ministry of Reconstruction, were urging a more expansionary and interventionist state in order to help stimulate economic growth, reconstruction, and social reform, while a less restrictive attitude towards state spending was also urged in 1919 by the report of the Haldane Committee on the postwar machinery of British government.⁵¹

The most influential opinions on the postwar state form however were those of the Committee on Currency and Foreign Exchanges After the War (known as the ‘Cunliffe committee’ after its Chairman Sir Walter Cunliffe, the former Governor of the Bank of England), which held exactly the opposite view. Dominated by senior officials at the Bank

⁵⁰ Public Record Office (hereafter PRO) T170/90. ‘The War and Finance’ (Bradbury), 1915; ‘The Financial Prospects of this Financial Year’ (Keynes), 9/9/15; ‘Is the Suspension of Specie Payment Necessary’ (Keynes), 3/8/14; PRO:T170/14. Untitled Memo. (Bradbury), 1915; Bank of England (hereafter BE) G1/420. Cokayne to Strong 12/6/17; Morgan (1952), Ch.1; Johnson (1971), *passim*.

⁵¹ MRC:MSS.200/F/3/S1/31/1. ‘Report upon Post-War Priority and Rationing of Materials’ (Ministry of Reconstruction), 1918; Johnson (1968), pp.107-9; Winch (1969), p.67; Kirby and Rose (1991), pp.21-3; Lowe (1995), pp.36-8. Report of Balfour Committee on Commercial and Industrial Policy (1918). Cd.9035.

and the Treasury, this committee emphasised that the main difficulties Britain would face in the postwar era would be high inflation and labour unrest, and argued that the best means of addressing these was to re-establish a properly functioning gold standard at the prewar parity. This, it was claimed, would provide a firm and automatic means of checking inflation (seen as the key cause of social unrest), would directly expose domestic economic conditions to the competitive discipline of the global market, thus helping to enforce a productive adaptation, and would also ensure that the directly visible involvement of the state in economic affairs was kept to a minimum, thereby easing the pressure on the core executive. Possible alternatives to gold or to \$4.86 as the par value were not discussed, and only the actual means of bringing these conditions about was subject to any debate.⁵²

As such, the committee were fully agreed that a period of deflation would be necessary after the war in order to enable a return to gold at the prewar parity. Key committee members, particularly Cunliffe and Bradbury, emphasised that the only means of improving Britain's competitiveness and restoring the value of the pound was to reduce domestic prices, and that this would require a reduction in domestic purchasing power (primarily wages), a contraction in the money supply, and higher interest rates. The possibility of accommodating inflation through a depreciating exchange rate was mentioned only cursorily, with Bradbury noting that this would produce 'a much larger amount of friction' than a policy of deflation.⁵³

It was also readily apparent however that deflation would be difficult to implement, and that it would contain great social dangers. Cokayne for example (now the Bank's Governor) pointed out that it would be 'a very painful process', Cunliffe agreed that it

⁵² The following is from various memos and minutes of evidence in PRO:T185/1-2, and PRO:T1/12434.

⁵³ PRO:T185/1 and PRO:T1/12434. Cunliffe committee minutes 18/3/18, 7/5/18, 10/6/18, 8/7/18, 9/7/18.

would not be very ‘palatable’, while Bradbury also maintained that there would be ‘considerable difficulty’ in reducing wages given the imminent extension of the franchise. The return to gold, he warned, would be incompatible with the government’s ‘very large and very costly schemes of social reform’.⁵⁴ Moreover, with the postwar expectations of capital and labour as to the economic policy behaviour of the state likely to be high, the committee were also anxious to ensure that postwar monetary policy remained free from political interference. This was not simply to ensure that politicians did not succumb to the electoral temptations of inflationary public finance, but was also designed to shield the core executive as a whole from the political difficulties that would accompany a discretionary mode of economic policy-making. Responding to proposals for the establishment of a state controlled central bank after the war for example, Cunliffe argued that those in charge would have to be ‘super-human’ in order to handle the responsibility, while as Bradbury put it:

“We are just about to sail on uncharted seas and to enter into a new world. It is quite possible, human nature being fallible, that those directors might make an error which would be disastrous to the country. Do you not think it would be difficult to find people to act as directors with an absolutely unfettered discretion on a matter of such vital importance as that?”⁵⁵

In August 1918 the committee published its first interim report, emphatically recommending that Britain return to a normally functioning gold standard ‘without delay’. The regime was presented as an ‘automatic machinery’ for keeping British prices in line with world levels and for ensuring that monetary policy was ‘permitted a freedom from

⁵⁴ PRO:T185/1-2. Minutes of Evidence 7/5/18; 10/6/18; 8/7/18; 16/10/19; Cunliffe committee minutes 4/3/18; PRO:T1/12434. Minutes of Evidence 11/7/18.

⁵⁵ PRO:T185/1-2. Minutes of Evidence 7/5/18; 8/7/18; PRO:T1/12434. Cunliffe committee minutes, 25/2/18, 19/3/18, 9/7/18.

State interference' not possible 'under a less rigid currency system'. The report also warned that failure to return risked 'very grave danger' of ongoing inflation, and maintained that continued uncertainty over monetary policy would hamper the revival of British industry and finance. Though the committee made no specific prescriptions as to exactly how a return was to be brought about (with much being thought to depend on future circumstances), it nonetheless made a series of proposals designed to prepare the way. These included a cessation of state borrowing, a re-establishing of interest rate movements in line with the gold reserves of the Bank of England (the minimum recommended level of which was £150 million), a progressive reduction and limiting of the fiduciary issue (that part of the note issue un-backed by gold), and for control of the money supply to be handed back to the Bank in order to ensure that this was 'as free as possible from State interference.'⁵⁶

Similar views were also mirrored at this time by an internal Bank of England committee established specifically to press the government for a return to gold, and by a less prestigious government committee entitled the Committee on Financial Facilities After the War.⁵⁷ In addition, officials were also anxious to mobilise support for these aims as soon as possible in order to help condition postwar expectations. Cokayne for example was keen to emphasise the need for higher interest rates and lower wages in order to check inflation and to reduce the 'prevalence of the 'Strike' habit', while Bradbury warned that the 'restoration of the currency' would 'probably be the most urgent of all reconstruction

⁵⁶ Committee of Currency and Foreign Exchanges : First Interim Report. Cd. 9182. August 1918.

⁵⁷ BE:ADM16/2. 'Report of the Special Committee...' (Bank of England), 26/11/18; PRO:T172/1499B. 'Post-War Reports and Conferences' (undated): Also see Hume (1963), p.232; Boyce (1988), pp.175-6.

problems', and called for a rapid publication of the Cunliffe committee's interim report in order 'to steady public opinion'.⁵⁸

The views of the labour movement on the postwar form of the state were closely shaped by its wartime experience. Dissatisfaction with inflation, profiteering, and the state's economic policy stance had increased support for radical ideas, as had the success of the Russian revolution, and many expected the prewar sharpening of class conflict to be resumed in the postwar period. In contrast, the war had also given a boost to moderate labour opinion, having demonstrated that it was possible to further working class objectives from within rather than against the state, and as such many within the labour movement were now also predicting a great new era of social reform and working class advances within capitalism itself, and were calling for the continuation of state economic controls over planning, prices and profits. In addition, the war had also given a considerable impetus to the size, organisation, and authority of the labour movement as a whole. Trade union membership had grown to 5.5 million from 3.4 million in 1913, trade unions themselves were now increasing in size through a series of amalgamations, and the extension of the franchise was expected to raise electoral support for the Labour Party. Furthermore, the war had also widened the outlook of organised labour beyond the narrow confines of its more traditional issues such as wages and working conditions, and its interest in much wider policy areas such as foreign affairs and national economic policy was now increasing.⁵⁹

Despite this however, in terms of detail and substance labour's proposals for postwar policy remained limited. The more radical aim of overthrowing capitalism for

⁵⁸ BE:G1/420. Cokayne to Strong 23/9/18, 19/11/18; PRO:T172/895. Cokayne to Bonar Law 16/10/18; PRO/T1/12202 [37716]. Bradbury to Bonar Law 7/10/18.

⁵⁹ Cole (1948), pp.366-86; Johnson (1968), pp.219-46; Fulcher (1991); Butler and Butler (1994), p.373; Labour Party general election manifestos in Dale (2000).

instance was not accompanied by any specific plans as to what should be put in its place, while more moderate proposals such as calls for widespread nationalisation and a programme of welfare benefits and state provision of work to deal with postwar unemployment remained vague and largely aspirational in character. Indeed, the only really developed and coherent scheme put forward by labour at this time was for the introduction of a progressive fiscal policy and a capital levy on war wealth in order to reduce the national debt.⁶⁰ In terms of the postwar state form therefore, while many radicals within the labour movement remained in favour of revolutionary action, most official labour opinion maintained an orthodox outlook. The majority of trade union leaders remained committed to a policy of gradualism and social reform rather than conflict and revolution, most Labour Party MP's were drawn from a trade union background and still remained chiefly concerned with traditional labour issues, while prominent figures within the Labour Party such as Ramsay MacDonald, Philip Snowden (the Party's economic policy spokesman), and H. D. Henderson were increasingly anxious to allay public fears of labour radicalism and to impress the Party's 'fitness to govern' upon the British electorate.⁶¹

The views of capital on the postwar state form were also shaped by the experiences of war. Unease about the enhanced strength of organised labour for example had led to the general view that it was now necessary to rein back the movement's wartime advances. For some such as the FBI the hope was that this could be achieved through the establishment of a new and more harmonious relationship with labour, with high wages and industry-provided welfare benefits being granted in return for a permanent easing of restrictive

⁶⁰ 'Labour Problems After the War' (Labour Party), 1917; 'Labour and the New Social Order' (Labour Party), 1918; Labour Party Annual Reports 1917-1918, and 1923. Appendix VII; Cronin (1991), pp.61-2.

⁶¹ Snowden (1934), p.531; Johnson (1968), pp.219-46.

practices and improved efficiency, though for others such as the NCEO and the EEF the view was of a much more one-sided postwar relation, calling for the legal abolition of trade union practices altogether and offering nothing in return.⁶²

On postwar economic and monetary policy however, the views of capital were more tentative. Unfamiliar with many of the issues involved many industrialists, especially the FBI (whose primary concern at this time was with expanding its membership base and who were therefore keen to avoid advocating potentially controversial views), remained content to leave these issues to those considered to be experts in such matters. Nevertheless, representatives of capital remained broadly in favour of a return to economic orthodoxy. The ABCC and the London Chambers of Commerce (LCC) for example were both supportive of a return to gold, the FBI also accepted the need for deflation in order to raise the value of the pound (though urged that this be gradual so as not to endanger postwar recovery), while the FBI, the ABCC, and the Institute of Bankers all stated that in their view the war had revealed it to be ‘more than ever necessary for us to maintain the integrity of the pound sterling’. The view of the City, as signalled by the Chairmen of Britain’s leading banks, though concerned about technical details such as the size of any future gold reserve, was also in favour of deflation and a return to gold.⁶³

On this basis, the general view of capital in terms of the postwar state form was in favour of a limited and temporary period of state assistance, leading ultimately to a return to a minimalist state. Throughout the war for example, one section of industrial opinion known as the ‘productioneers’ felt that Britain’s military struggle with Germany would be

⁶² MRC:MSS.200/F/4/32/2. ‘Reconstruction after the war’ (FBI), 6/12/17; PRO:CAB24/74. V. Caillard (FBI President) to Secretary of War Cabinet. 12/2/19; Carter (1917); Turner (1984), pp.13-14.

⁶³ PRO:T185/1-2. Minutes of Evidence 10/6/18, 11/6/18, 11/7/18; FBI memo to the Cunliffe Committee 10/7/18; Evidence of Holden, Schuster, and Goodenough; MRC:MSS.200/F/4/24/1-2. FBI Bulletins (1918-1919 issues); Hume (1963); Moggridge (1972), p.96; Catterall (1976); Turner (1984a), pp.38-9; Cronin (1991), p.73.

continued after the Armistice in the form of a trade war, and now perceived distinct benefits from closer contacts with the state, calling for a period of large-scale intervention such as protective subsidies and tariffs to help facilitate industrial modernisation and postwar reconstruction. The majority of industrial opinion however considered such views to be misplaced. While most industrialists remained keen for a degree of short-term state protection in order to assist with reconstruction, any notion that this should be further extended was greatly opposed. As the FBI put it for instance, government interference was not only ‘cumbersome, expensive, and irritating’, but was ‘fatal to commercial efficiency and enterprise’. Instead, most industrialists were in favour of the removal of state control over industry as soon as possible, and for the introduction of large cuts in tax and public spending in order to stimulate production by reducing costs and raising profits. The predominant attitude of industry to the postwar state form was therefore that this should be restricted to the provision of a minimal economic framework within which business and the free market could operate unimpeded, a view well summarised by the British Commonwealth Union (BCU) and the Parliamentary Industrial Group. As they explained:

“The policy of the State in relation to industry and commerce after the war should be to afford the maximum of assistance in their maintenance and development, and to interfere as little as possible with their control and management.”⁶⁴

The Battle for the Postwar State

⁶⁴ MRC:MSS.200/F/4/32/2. ‘Industry in Parliament’ (BCU); ‘Reconstruction after the war’ (FBI), 6/12/17; MRC:MSS.200/F/4/24/1-12. FBI Bulletins (1918-1919 issues); PRO:T185/2. FBI memo to the Cunliffe Committee 10/7/18; MRC:MSS.200/B/3/2/C299 & C300. ‘The Control of Industry’ (NCEO), 30/7/19; PRO:CAB24/74. ‘Governmental Assistance to British Industries’ (FBI), 1919; Carter (1917); Johnson (1968), pp.219-46; Davenport-Hines (1984), *passim*; Grant (1991).

Among these competing perspectives on the postwar state form, the government themselves as yet had no solid view on the subject and the Armistice was accompanied by acute panic as to the course of action that should now be taken.⁶⁵ The central dilemma confronting the government in the immediate postwar period was to reconcile the need for increased economic competitiveness, efficiency, and output, with the need to avoid an intensification of labour unrest. With the postwar situation expected to be volatile, Ministers were once again concerned that labour disquiet had the potential to develop into an explosive revolutionary situation, and were desperate to avoid a recession during the transition to peacetime lest this should light the fuse. To this end a key aim of Ministers was to abolish the state's directly visible control over the economy and to return control over economic conditions to the market. This it was believed, would not only help stimulate an economic recovery, a revival of exports, and raise output and efficiency, but would also enable state officials to relinquish their overt responsibility for the economy, and would help reduce the expectations of capital and labour regarding postwar conditions, thereby easing political pressures.⁶⁶ As Austen Chamberlain, the Chancellor in the postwar coalition government (which now excluded the Labour Party) from January 1919 explained, the increasing reliance of capital and labour on the state was not only prolonging industrial unrest, since with the government expected to step in at any moment 'neither side would say the last word as to what they were prepared to concede', but was also exacerbating Britain's political and economic difficulties.⁶⁷ With reference to the wool industry for example, Chamberlain stated that:

⁶⁵ Johnson (1968); Wrigley (1990), p.91.

⁶⁶ Middlemas (1979), pp.120-46; Wrigley (1990), pp.7-8; Aris (1998), pp.155ff.

⁶⁷ PRO:CAB23/9. Cabinet Meeting 28/1/19.

“The moment you began control you were inevitably driven to complete control which, if prolonged, led to nationalisation, which was therefore, only a question of time. Control eliminated all the usual motives which induced economic production. The whole burden of making things move was thrown upon the Controller, and all the moral machinery interested in increasing production became moribund.”⁶⁸

A major problem for the government however lay with the high extent of the state’s directly visible involvement with the economy, and with the heightened expectations of capital and labour this had engendered. With labour now pressing for the retention of key controls and for the restoration of restrictive practices, and with industry maintaining that the government’s priority should be protection and increased productivity, it was clear that any attempts to either retain wartime productive practices or to engage in a rapid dismantling of state control risked provoking large-scale unrest. As such, the majority of the Cabinet were now of the view that while the more contentious areas of state control needed to be relaxed, a complete withdrawal from the economy would take some time to achieve.⁶⁹

Despite this, the government’s fears of social turmoil were nonetheless soon realised. The slow pace of social reform and the emergence of a mild recession after the Armistice triggered a new series of severe disturbances across the country (especially acute in the transport, coal, engineering, and shipbuilding industries) on a scale which surpassed even that of the prewar period. The number of new strikes during 1919 was more than twice the annual average for the previous decade, and the number of working days lost was more than twice the annual average during the Great Unrest.⁷⁰ Moreover, the character of the unrest was also disconcerting. Though still largely directed at the state rather than

⁶⁸ PRO:CAB23/15. ‘Draft Minutes of a Meeting...’, 5/8/19.

⁶⁹ Johnson (1968), *passim*; Middlemas (1979), p.142; Wrigley (1990), ps.80ff, 135-41; Kirby and Rose (1991), pp.33-5.

⁷⁰ Calculated from Butler and Butler (1994), p.373; Also Johnson (1968), p.301; Middlemas (1979), pp.12ff.

employers, many strikes were now also officially sanctioned, and were believed by Ministers to be driven by Bolshevik ideas. Indeed, with unrest now even spreading to sections of the police and the armed forces, officials were increasingly anxious about the security of the state itself. Compounding this fear, the Triple Alliance had now resumed their activities following a wartime interlude, and domestic turmoil also seemed to be part of a wider international convulsion, with revolution in Hungary and with the threat of revolution in Austria, Germany, and parts of the British Empire.⁷¹

Such trouble however was not unexpected. As one official report remarked in January 1919, the wonder was ‘not that it had come so soon, but that it has been delayed so long.’⁷² Nevertheless, despite such warnings the government had made no real preparations for dealing with the postwar situation and once more sought to address the difficulties with short-term, *ad hoc* measures designed to consolidate moderate opinion against labour radicalism. As Bonar Law (the leader of the Conservative Party) explained, responsible trade unionism was now ‘the only thing between us and anarchy’.⁷³ As such, many of the social reforms promised during the war were now introduced. Trade union practices were quickly restored, the majority of working hours were reduced, wages were temporarily frozen at their inflated wartime levels, and unemployment benefits were both extended and increased.⁷⁴ The government also successfully managed to head off unrest in the coal mines, a potential trigger for Triple Alliance action, by establishing a Royal Commission to examine conditions in the industry, and further sought to address the unrest by setting up another National Industrial Council with the apparent aim of helping to restructure

⁷¹ Johnson (1968), pp.301-2; Wrigley (1990); Fulcher (1991), pp.122-9.

⁷² PRO:CAB24/74. ‘Fortnightly Report on Revolutionary Organisations in the U.K...’, 28/1/19.

⁷³ *Ibid.*, 29/1/19, 12/2/19; PRO:CAB24/90; PRO:CAB27/59; PRO:CAB27/60. Cabinet Meetings; Johnson (1968), *passim*; Middlemas (1979), pp.139-45; Wrigley (1990); Aris (1998), pp.138ff.

⁷⁴ Johnson (1968), *passim*; Wrigley (1990), pp.85-92.

relations between the state, capital, and labour. Like its 1911 predecessor though, the Council was again in reality designed to provide the authorities with shelter from their immediate difficulties.⁷⁵

Alongside these measures, Ministers also sought to develop and implement a longer-term strategy for dealing with the situation. In February a fast-track inquiry was established to examine means of bringing about a rapid economic revival, with its Chairman, Sir Auckland Geddes arguing that the main problem facing the government was its commitment to pursue the ‘inconsistent policies’ of social reform and a return to the gold standard.⁷⁶ Although a quick return to gold at the prewar par would he claimed, be a sound policy, given the size of the government’s debt, its pledges of social reform, and the volatile social situation, such a move was deemed to be impossible at the present time. As he explained, there would be ‘enormous political and social difficulties’ in implementing the necessary deflation. As such, Geddes thought that a return to gold should therefore be postponed, and instead maintained that it was ‘absolutely essential’ to allow the continuance of wartime inflation in order to stimulate the economy and avoid even greater industrial unrest. This view was also held by Bonar Law, and by the Prime Minister, Lloyd George, now primarily concerned with the threat of revolution and of the opinion that the essential aim was to ensure ‘a certain contentment in the labour world’. Despite strong opposition from Chamberlain, who claimed that continued inflation would penalise exporters and place ever greater pressure on sterling, the inquiry therefore concluded in contrast to the Cunliffe committee, that the introduction of deflation to bring about a return to gold at \$4.86 should be delayed, and that in the meantime inflation should be sustained

⁷⁵ Cole (1948), pp.389ff; Middlemas (1979), pp.139-41; Wrigley (1990), pp.131ff.

⁷⁶ PRO:CAB24/74. ‘Proposed Industrial Enquiry’, 11/2/19.

in order to encourage domestic economic activity.⁷⁷ That there would now be no quick return to an operational gold standard was made fully certain in late March when Britain formally departed from the regime. With the cost of maintaining the exchange rate becoming ever more prohibitive in the face of high inflation and a growing trade deficit, and with the government in no position to bear the social consequences of deflation, sterling's convertibility into gold was officially terminated, and from the beginning of April the pound became a floating currency.⁷⁸

As spring progressed the economic situation also changed markedly. Driven by an international economic boom, by pent up domestic demand for consumer goods, by industrial restocking, and by the government's loose economic policy stance, Britain embarked on one of the fiercest periods of expansion in the twentieth century. This however, had both positive and negative effects for the state authorities. On the one hand, the economic boom eased the transition to peacetime, and despite the risks allowed officials to ease the majority of state controls. Restrictions on industrial materials and foreign trade were mostly removed by mid-1919 and by the end of the year the only significant regulations remaining were the continued control of the mines and railways and some import restrictions.⁷⁹ On the negative side however the boom also continued to destabilise the domestic circuit of capital and undermine Britain's competitiveness. Speculation developed into frenzied proportions, the trade balance continued to decline with a surfeit of imports, sterling continued to deteriorate, and inflation rose sharply. Average retail prices in 1919 for example were now more than twice their prewar levels, wholesale prices were more than two-and-a-half times higher, while rising demands for

⁷⁷ PRO:CAB24/75. 'Rehabilitation of Trade and Provision of Employment' 17/2/19, 21/2/19; 'Notes of a Conference of Ministers' 25/2/19; 26/2/19; Johnson (1968), pp.391ff.

⁷⁸ Various in PRO:T170/140 and PRO:T176/16; Morgan (1952), pp.197-8; Clay (1957), pp.116-17.

⁷⁹ Morgan (1952), pp.61-6.

wages (which rose by nearly 50% during the course of the boom) continued to exacerbate class unrest. Moreover, with profits now relatively easy to come by, the boom also served to insulate the economy from the need for competitive improvements, encouraging many industrialists to reconstruct along old and safe, rather than newer lines, and stimulating many sectors (especially the staple trades) to overexpand in relation to the 'real', as opposed to the 'artificial' boom level of international demand.⁸⁰

The Hard Line

By mid-1919 the threat of revolutionary labour action was thought by the authorities to be diminishing. This was apparently confirmed by the reaction of the labour movement to the publication of the final report of the Royal Commission on the coal industry in June. Despite supporting the miners on many issues, the report remained ambiguous on the subject of nationalisation, further dividing radical and moderate labour opinion. While labour radicals (particularly the MFGB) now began calling for the use of direct action in order to force the government to nationalise the mines, the majority of labour opinion now began to move back towards what were considered to be more attainable traditional aims such as improved wages and living standards. The Labour Party conference and the executive body of the TUC (the Parliamentary Committee) for example both now declared themselves to be against the use of direct action for political ends, with

⁸⁰ Figures calculated from Feinstein (1972), Tables 51-52; Butler and Butler (1994), p.383: Also see Pigou (1947), pp.161-3; Morgan (1952), pp.267ff; Johnson (1968), pp.402-9; Alford (1996).

the latter warning that such measures would inevitably lead to a national strike and to a doomed attempt at revolution.⁸¹

At the same time however, official concerns over the growth of public spending and inflation were intensifying. Despite the conclusions of the Ministerial inquiry, both Cokayne and Montagu Norman (the Bank's Deputy Governor) were increasingly anxious for a rise in interest rates in order to reduce inflation and prepare the way for a return to gold, and while such a move was at the present time held to be 'unthinkable' by Chamberlain due to the still potentially volatile social situation, the Chancellor was nonetheless agreed that the unchecked growth of inflation now posed 'a danger to the stability of the country'.⁸² Towards the end of the summer however the official line began to harden. The effects of the war and the imposition of harsh settlement conditions under the Versailles Treaty were placing the German economy under severe strain, weakening their economic threat and further undermining the case for prolonged state intervention, whilst at the same time officials were becoming ever-more frustrated at Britain's own economic performance. Many employers (especially in the coal and steel industries) were condemned by the government for their unwillingness to modernise and restructure whilst simultaneously engaging in profiteering and calls for state protection, the labour movement were seen as ungrateful for social reforms, and both were seen to be colluding in order to maintain high prices and wages and to avoid the need for higher productivity.⁸³

According to Lloyd George the main problems now facing Britain were the high incidence of labour unrest, the 'diminution of output', and continuing inflation, which was

⁸¹ Labour Party Annual Report 1919, pp.116-23; TUC Annual Report 1919; Branson (1977), pp.15-53; Middlemas (1979), pp.148-55; Wrigley (1990), pp.210-16.

⁸² PRO:T172/1059. Cokayne to Chamberlain 10/7/19; BE:ADM34/8. Norman Diaries 7/7/19 – 18/7/19; PRO:CAB27/72. Chamberlain 26/7/19.

⁸³ Various in PRO:CAB23/15; Johnson (1968); Branson (1977), pp.48-9; Wrigley (1990), pp.234-5; Cronin (1991), pp.76-7.

seen to be 'at the bottom of the trouble in this country more than any other industrial cause'. Along with Chamberlain, the Prime Minister was now also of the view that it was essential for Britain to reduce its expenditure and increase production, while at the Bank of England Cokayne too was continuing to argue that inflation needed to be reduced, stating that this was leading to ever higher demands for wages and was driving down sterling with the risk of producing 'widespread distress' given Britain's dependency on imports. A rise in interest rates in order to reduce prices and raise the pound was thus deemed by the Bank to be 'urgent', and a rapid return to gold was considered to be of such 'vital importance' that it was 'well worth a temporary sacrifice.'⁸⁴

With public opinion also now believed to be increasingly opposed to inflation, in August the government signalled their hardened stance by rejecting the nationalisation of the coal mines. This move brought an immediate strike declaration from the MFGB, and led the Triple Alliance to call a ballot on a general strike. Despite the alarming nature of these developments however, it was now increasingly apparent that such measures did not have the full support of the labour movement and that the Alliance leadership themselves were divided. Seizing the opportunity, the government successfully managed to widen these splits by ensuring a generous settlement for the NUR in an unrelated railway dispute, thus dividing the Triple Alliance and effectively forestalling the threat of any unified strike action.⁸⁵

Though the immediate danger of acute unrest had now been averted, the government nevertheless remained wary. A permanent anti-strike organisation (the Supply and Transport Committee) was established in November to deal with any future recurrence

⁸⁴ PRO:CAB23/15. 'Draft Minutes of a Meeting...' 5/8/19; PRO:CAB27/72. Cokayne to Chamberlain 25/9/19; 'Note by the Chancellor' 26/7/19; Wrigley (1990), ps.192ff, 234.

⁸⁵ Cole (1948), pp.370-92; Johnson (1968), pp.384ff; Branson (1977), pp.15-33; Middlemas (1979), p.149; Wrigley (1990), pp.174ff; Aris (1998), pp.160ff.

of labour disquiet, and officials remained cautious over any rise in interest rates for fear of the social consequences.⁸⁶ As the pressure on sterling intensified however, and as the authorities became increasingly confident of their ability to deal with any unrest, the government finally agreed to a rise. Treasury bill rates were increased to 5.5% and Bank Rate moved up to 6% in a bid to check inflation and restore the control of the Bank of England over the money market. This was followed in December by the publication of the final report of the Cunliffe committee, which re-emphasised the conclusions of the interim report in favour of a return to gold at \$4.86, by a public declaration from Chamberlain that the government had formally accepted the report's recommendations, and by the introduction of measures to progressively reduce the fiduciary issue as the first stage of implementing the report's proposals. The attempt to address the economic and political crisis of the British state was now underway.⁸⁷

Concluding Remarks

This chapter has outlined the development of an economic and political crisis within the British state from the latter part of the nineteenth century. This was expressed in terms of a relative economic decline, a progressively outmoded pattern of economic activity, and a sharp increase in labour unrest and militancy from 1910. It has also shown that the general state of opinion in Britain at this time was slow to realise the full seriousness of these developments, and that it was only following the severe impact of the First World War that the authorities began making any concerted attempt to address the

⁸⁶ PRO:CAB23/19; BE:ADM34/8. Norman Diaries 19/9/19.

⁸⁷ Final Report of the Committee on Currency and Foreign Exchanges After the War, (1919). Cmd.464; BE:G1/420. Cokayne to Strong 19/11/19; PRO:T1/12437. Bradbury to Chamberlain 6/12/19; House of Commons Debates. 15/12/19. Vol.123, Cls.43-6; Johnson (1968), pp.461-89; Morgan (1952), pp.150ff; Clay (1957), pp.120-3.

situation. To this end, the primary aims of Britain's state managers as they entered the postwar era were to withdraw the state from its directly visible involvement with the economy, to raise Britain's competitiveness, modernise its pattern of economic activity, and to contain and reduce the threat posed by labour unrest and militancy.

Though as yet not fully developed, the central component of the governing strategy adopted to achieve these aims was that of a return to the gold standard at the prewar parity of \$4.86. This was to be implemented following a period of deflation and retrenchment, which would clear the way for a return by reducing prices and wages and by raising the value of the pound. A return to gold would then provide state officials with an automatic anti-inflationary framework for economic policy-making, keeping domestic prices and wages within internationally defined limits, serving to undermine the inflationary cause of class unrest, and encouraging producers to move to newer and more advanced industrial sectors. Adherence to the regime would also increase the high political freedom of manoeuvre available to the core executive by depoliticising the issues of economic conditions and policy-making, thereby helping to lower the expectations of capital and labour, and to displace pressure over economic conditions away from the state. The next chapter examines these aims in more detail and outlines the initial attempt to implement this strategy.

Chapter 4 : The First Steps, 1920-1922

This chapter follows the attempt by Britain's state authorities to impose deflation and retrenchment in order to prepare the way for a return to the gold standard at the prewar par. It shows that officials were moderately successful in reducing prices and wages, and in disengaging the state from its directly visible involvement with the economy, but that despite this the pound remained below par and economic conditions and policy-making remained politicised. As such, continuing political pressure and unrest associated largely with the effects of deflation eventually forced state officials to ease their economic policy stance. By 1922 the core executive had turned away from deflation and had adopted a 'waiting policy' in the hope that sterling could be restored to par through US inflation and a fall in the dollar.

Deflation and Retrenchment

After the turmoil of 1919 state officials entered 1920 determined to complete the withdrawal of the state from its directly visible involvement with the economy and to reduce inflation as a prerequisite for a return to the gold standard at the prewar par. The wartime expansion of the state and the postwar boom had both insulated Britain's economy from competitive pressures, while the politicisation of economic conditions and policy-making had put the state authorities under increasing pressure from capital and labour and had restricted their freedom of policy manoeuvre. At the same time, these problems were also compounded by rising inflation, which had intensified class unrest and had exacerbated Britain's relative economic decline. For state managers the imposition of deflation and the return of control over economic conditions to the

market were thus considered essential in order to restore competitive discipline, reduce prices, raise the pound, and address the threat posed by labour unrest. Following this, a return to gold was deemed necessary to prevent any resurgence of such difficulties by ensuring that domestic economic conditions (especially prices and wages) remained within internationally defined levels, and by providing the monetary authorities with a technocratic and depoliticised means of regulating Britain's circuit of capital.

These aims however contained an number of corollaries. Higher levels of interest rates and taxation as well as stringent cuts in public spending would be required to tighten credit, force down prices, balance the budget, and raise the value of sterling. This also necessitated the restoration of the Bank of England's control over interest rates, which in turn required the reduction and restructuring of the national debt and the return of control and responsibility for economic conditions to the market. This process however would also be essentially predicated upon a recomposition of class relations in favour of capital and thus contained the inherent danger of provoking labour opposition and further unrest. With present levels of production being sustained only by an expanding supply of credit, a tight monetary and fiscal stance would put pressure on producers to cut costs (primarily wages), and to find more efficient means of extracting surplus value, either by improving existing practices or by moving to newer lines of industrial production. Rising unemployment and cuts in public spending (primarily on social services) would also serve to undermine labour's resistance to deflation, while the withdrawal of directly visible state control would augment the control of employers over the process of production. As Ralph Hawtrey

(the Treasury's Director of Financial Enquiries) for example later described it:

“The treatment of adverse exchanges by a high Bank Rate may quite accurately be described as inducing a depression of trade, with its accompaniments of a shrinkage of profits and of employment.”¹

At the same time as such measures would impose competitive pressures upon the economy, they would however also enable state officials to deal with these social and political problems by eschewing responsibility for economic conditions, thus displacing pressure over economic policy-making away from the state and forcing capital and labour to resolve their differences without recourse to state involvement.¹ Restoring the control of the Bank of England over interest rates and adhering to an apparently automatic exchange rate system would act as a self-imposed constraint upon the discretionary capacities of the monetary authorities, with the public impression of a non-political mechanism effectively insulating officials from the unpalatable consequences of their economic policy stance. The Treasury for example could claim that responsibility for interest rate decisions now lay with the Bank, while the Bank (in rare departures from its traditional wall of silence) could claim that interest rate decisions were now made according to the dictates of the gold standard, responsibility for the adherence to which lay with the government. As Hawtrey later explained:

“The principal ground for entrusting credit regulation to an independent Central Bank is to place it outside political criticism. If the intervention of the Government is to be a normal part of credit regulation, the way is

¹ BE:ADM16/3. ‘Gold and Bank Rate’ (Hawtrey), 11/7/25.

¹ Various in PRO:T171/235; Grigg (1948), pp.73-4; Howson (1975), ps.25, 33.

opened to political criticism.”²

The outstanding benefit of a return to the gold standard was therefore that it would provide state managers with a credible and transparent policy rule for manipulating the expectations and hence the behaviour of capital and labour, thus enabling the application of financial discipline while simultaneously displacing political pressure over economic conditions, and making it simpler and easier for the authorities to manage Britain’s circuit of capital. As Basil Blackett (the Treasury’s Controller of Finance) explained, a gold standard would equip the authorities with ‘an automatic barometer of credit’, providing a clear indication as to the world position of Britain’s prices and to the necessity or otherwise for a move in interest rates.¹ Or as Hawtrey again put it, a discretionary monetary policy would be problematic since it would depend:

“purely on the judgement of the Bank [of England] which may be fallible, and is far less clearly understood by traders etc. concerned. With a gold standard the dangers of excessive prices are apparent to everyone and the movement in the Bank reserves is at once a warning which everyone understands. In consequence the credit adjustments are made more easily and more certainly.”²

The need to impose such measures was increasingly apparent during the early months of 1920. By the spring retail prices were now two-and-a-half times higher than they were before the war, wholesale prices were three times higher, real wages were at record levels, and sterling had recently fallen to an ignominious low of \$3.20. Economic

² BE:EID4/102. ‘The Fiduciary Issue’ (Hawtrey), 6/5/27; Hawtrey (1933), pp.83-90: Also see BE:G1/464. Notes by Norman (1927); BE:OV9/480. ‘Substance of a Lecture...’ (Niemeyer), 22/2/29.

¹ PRO:T172/1384. ‘Dear Money’ (Blackett), 19/2/20; Also BE:G1/506. ‘Economic Developments in Post-War Britain’ (Blackett), December 1935.

² PRO:T172/1499B. ‘How Does a Gold Standard Work in Regulating Credit?’, (Hawtrey). Insert mine.

output and productivity remained lethargic, the balance of payments were in an parlous condition, while the need for an adjustment in Britain's pattern of economic activity to keep abreast of shifting global economic conditions (such as changes in productive technology, methods, and consumer demands) was becoming increasingly acute. State officials also remained concerned with the level of labour unrest, with the number of new stoppages now rising to their highest ever levels and with the number of working days lost remaining higher than the annual average during the Great Unrest.³

As such, throughout the initial part of the year senior Bank and Treasury officials began strongly pressing for higher interest rates in order to check inflation and raise the value of sterling to enable a return to gold. At the Bank, Norman warned that continuing with low rates would 'ruin us', while Cokayne argued that deflation was essential in order to stimulate exports, reduce wages, and to attract and retain capital. Though the Governor recognised that this process would 'necessarily be a painful one', it was also considered to be 'unavoidable' and in the final analysis the difficulties involved were thought to be 'as dust in the balance compared with the restoration of free trade and the removal of social unrest and political discontent.'⁴ At the Treasury, officials such as Hawtrey, Sir Otto Niemeyer (a Treasury undersecretary), and Sir Warren Fisher (the Permanent Secretary) were also calling for higher rates in order to reduce prices and wages, and even Blackett, initially urging caution in order to avoid further economic and social disruption, and initially of the view that a rate of 6% was 'as high as it is safe to go on political and social grounds', was soon advocating an increase to 8% given the urgency of the situation.⁵

³ Calculated from Butler and Butler (1994), pp.373-4; also see Kahn (1946), *passim*; Morgan (1952), pp.267-97; Alford (1996), pp.122-4.

⁴ BE:ADM34/9. Norman Diaries 9/3/20; PRO:T172/1384. 'Memo. as to Money Rates' (Cokayne), 25/2/20.

⁵ PRO:T172/1384. Niemeyer to Blackett 3/2/20; 'Cheap or Dear Money' (Hawtrey), 4/2/20; 'Memo. as to Money Rates' (Cokayne), 25/2/20; Fisher to Chamberlain 11/3/20; 'Dear Money' (Blackett), 19/2/20; Blackett to Chamberlain 4/3/20.

The government too were keen to encourage the process of economic adjustment and decontrol, especially with regards to the overexpanded wartime industries. In the case of coal for example, the Cabinet view was that ‘a decrease in industrial activity was inevitable, and the sooner it came the better’, and Ministers were also anxious to divest themselves of any responsibility for the sector, stating that they ‘would never be free until they resigned their control over the industry’. With the labour situation still potentially volatile however, Ministers also remained cautious. Rapid decontrol of the industry was thought to carry the danger of rising coal prices, wage pressure, and the risk of a general strike, while major Cabinet figures were also unconvinced about the need for a rise in interest rates. Lloyd George and Bonar Law for example were anxious about the effect of higher rates on the government’s debt servicing and housing programme (seen as a key bulwark against labour radicalism and unrest), while Chamberlain remained concerned about how high interest rates might go once deflation was unleashed, and about the political criticism that this would attract.⁶

At the same time however, the conditions for implementing deflation were now increasingly opportune. Public opinion was mounting against high levels of inflation and public spending, the state’s remaining wartime controls were now scheduled for removal in 1921, and although the threat of action from the MFGB or the Triple Alliance was still present, the risk of any immediate and serious unrest was judged to have passed its peak. Strike activities were now decreasing in number and moderate labour opinion was thought to be in the ascendancy. By March the Chancellor had accepted the necessity for a ‘gradual’ deflation, and in April tighter measures were finally imposed with a rise in

⁶ BE:ADM34/9. Norman Diaries. 4/2/20 – 30/3/20; PRO:CAB23/20-21. Cabinet Meetings 21/1/20; 31/3/20; 3/6/20; Various in PRO:T172/1384.

interest rates to 7% and with the introduction of a deflationary budget of tax increases and public spending cuts.⁷

Into the Slump

At the same time as deflation was being introduced however, the global boom was also coming to an end. The immediate impact of the boom had been to exacerbate the vast wartime expansion in the international production of key primary and industrial goods, profoundly unbalancing relations of supply and demand between the various branches of the world economy. This misalignment was made worse by the now declining need for commodities of high wartime demand such as coal and heavy metals, by the return to international markets of producers shut out during the conflict, by the proliferation of new European states (each of whom sought to develop their own industrial capacity as rapidly as possible), and by the deeply contentious issues of reparations and war debts, all of which added to prevailing political and economic tensions and uncertainties. Such difficulties were also exacerbated by the mass export and price cutting activities of Germany necessitated by the need to meet the high levels of reparations imposed by the Allies, by a rapid international growth in tariffs and other protectionist measures, and by the disintegration of the international system of exchange rates that had been held artificially stable during the war. The result of these various factors was to produce a global crisis of overproduction, causing a severe slump in the price of both primary and industrial goods.⁸

These developments impacted severely upon the British economy, the expansion of which during the boom had been primarily based upon the anticipation of recapturing old

⁷ BE:ADM34/9. Norman Diaries 4/2/20 – 30/3/20; Various in PRO:T172/1384; Morgan (1952), ps.91-106, 206-7; Clay (1957), pp.125-6; Middlemas (1969), p.97; Wrigley (1990), pp.253-62.

⁸ Pigou (1947), *passim*; Kenwood and Loughheed (1971), pp.173-202; Eichengreen (1992), pp.102ff.

export markets. As such, the collapse in world demand left many firms burdened with large debts and diminished profitability, and left the banking system overexposed to struggling sectors. In addition, the domestic forces of restocking and consumer spending that had helped drive the boom forward were also now coming to an end, with the combined result that Britain plunged into its worst recession for fifty years. Industrial production, still yet to recover to prewar levels fell by 19% during 1920-21 (with above-average falls in the staples industries), and unemployment rose from under 300,000 to over 2.2 million by October 1921.⁹

The recession however was not completely unfavourable for the authorities. Between 1920-22 British wholesale prices fell by more than 25%, retail prices by around 10%, and money wages by between 25-30%.¹⁰ Sterling rose consistently (though not continuously) throughout the period, and the balance of payments current account improved to a surplus of £337 million from a deficit of £45 million in 1919. Officials were also able to maintain their budgetary rectitude, transforming a deficit of £1690 million in 1919 into a £237 million surplus by 1921, reducing public spending by 60%, and putting around 80% of the national debt onto a medium to long term basis as compared to 50% at the end of the war.¹¹ The slump also helped officials to facilitate the final decontrol of the economy. In 1921 the remaining wartime ministries such as Munitions, Shipping, and Food were abolished, the mines and railways were returned to private ownership, and all wartime controls had been removed by the end of 1922.¹² Moreover, the attitude of the state authorities towards labour also continued to harden. The Emergency Powers Act of

⁹ Clay (1957), p.134; Middlemas (1969), pp.95-6; Feinstein (1972), Tables 1, 51, 52, 57; Branson (1977).

¹⁰ Calculated from Labour Bulletin. June 1929; Pigou (1947), p.207; Morgan (1952), pp.267ff; Feinstein (1972), Tables 17, 65.

¹¹ Morgan (1952); Moggridge (1969), p.15; Brown Jr (1970), pp.198-202; Feinstein (1972), Table 37; Howson (1975), p.25; Sayers (1976), pp.125-6; Cronin (1991), p.76.

¹² Cole (1948), pp.401-2; Tomlinson (1990), pp.52-63; Cronin (1991), pp.88-9.

1920 gave the state wide-ranging powers to deal with the threat of any large-scale disruption such as that posed by the Triple Alliance, and was seen by the TUC's Parliamentary Committee as a move striking at the very existence of the trade union movement itself.¹³

The high incidence of unemployment during the slump also further weakened the strength and radicalism of organised labour and helped to further consolidate moderate opinion within the labour movement. Trade union membership fell from 7.9 to 6.6 million between 1920-1922, while the influence of labour radicals became increasingly marginalized despite the consolidation of radical groups with the establishment of the Communist Party of Great Britain (CPGB) in August 1920. This was evidenced earlier in the year when trade unionists voted resoundingly against calling a general strike to force the nationalisation of the coal mines, and was also apparent in the growing professionalism of the TUC and the Labour Party, with each having now developed a penchant for stability above unrest and a vested interest in the maintenance of their newly improved status.¹⁴

Despite the benefits of the slump however, the recession initially led to an intensification of class conflict as faltering economic conditions induced many employers to try and reverse labour's previous gains by seeking to cut wages, intensify work, and reassert control over industrial production.¹⁵ This though was met with determined resistance from labour, who at this point were still in a strong position. Trade union membership during 1920-21 rose from 7.9 to 8.3 million, the number of new strikes in 1920 was the highest yet during the twentieth century (and was not surpassed until the

¹³ MRC:MSS.292/20/6. TUCPC meeting 27/10/20; Tomlinson (1990), pp.58-65; Middlemas (1979), pp.152ff.

¹⁴ Calculated from Butler and Butler (1994), p.373; Labour Party Annual Report 1920, p.9; Branson (1977), p.56; Challinor (1977), Ch.10ff; Middlemas (1979), pp.161-3; Jones and Keating (1985), p.56; Tant (1993).

¹⁵ Middlemas (1969), p.97; Clegg (1979), ps.23, 151-2; Wrigley (1990), pp.253-81.

1940s), while the amount of working days lost had so far only been superseded in 1912 and 1919. Moreover, despite the dramatic rise in unemployment this resistance was also markedly successful. Though wholesale prices fell by about a fifth, and though the cost of living declined by 10% during 1920-21, money wages remained virtually unchanged and real wages actually rose.¹⁶ Further, despite the erosion of labour radicalism politically motivated unrest also continued to alarm the government, with the prospect of British military support for Poland in their war with Russia producing a wave of disquiet during the summer that threatened to develop into a revolutionary situation. A TUC council of action was appointed to call a general strike, and the situation was only defused when a Polish victory dispelled the need for external assistance.¹⁷

In addition, labour also remained critical of government policy on a range of other issues. Though Britain's economic crisis was primarily thought to be the result of international factors such as the reduced purchasing power of foreign nations, high inflation, exchange rate instability, and continued uncertainty within Europe, the government's foreign policy stance was also deemed to be a key factor. An economic blockade of Germany, the isolation of Russia, and the imposition of harsh reparations conditions for example, were all seen to have helped create and compound the adverse global economic situation. As such, with the majority of labour opinion now looking to reformist rather than radical measures, the remedy for the economic crisis was seen to lay with concerted international action and an expansionary policy in order to restore purchasing power abroad and to help revive the world economy. To ameliorate the domestic impact of the recession the government were also urged to adopt a similar policy

¹⁶ Calculated from Hansard 10/5/28. Col.217; Pigou (1947), p.207; Feinstein (1972), Tables 51-2, 64; Butler and Butler (1994), ps.373-4, 383; MRC:MSS.200/B/3/2/C531 Pt.1. Labour Bulletin June 1929, Tables I-II.

¹⁷ Branson (1977), pp.50-6; Jones and Keating (1985), pp.44-5.

of expansion including schemes for public works and increased unemployment benefits, and were also attacked for their apparent indifference towards, and for their refusal to accept any responsibility for the high level of unemployment.¹⁸

For representatives of capital Britain's economic problems were also seen to flow from the international situation, though in contrast to labour the solution was seen to lie with domestic rather than international measures. In particular, the reduction of production costs by cutting wages, taxation, and public spending was seen to be essential in order to overcome the recession by improving Britain's competitiveness. Industrial attitudes towards the state however, remained less decisive. On the one hand, many industrialists were reluctant to seek government assistance for fear that this could lead to a renewal of unwanted interference, though on the other hand many were now critical of the government for their lack of direct help, and especially for its policy of high interest rates which was seen to be a key contributory factor in many of their economic ills.¹⁹

Despite the continued politicisation of economic conditions and the worsening state of the economy however, neither capital nor labour regarded the notion of returning to gold as a contentious issue. As such, despite the criticism of their economic policy stance, this lack of opposition enabled state officials to continue adhering to the principles of the Cunliffe report. Indeed, though critical of government policy, representatives of both capital and labour remained actively in favour of a return to an international gold standard. Both the Labour Party and the trade unions for example were increasingly concerned with the effects of exchange rate instability and the low value of the pound, with one joint trade union-Labour Party committee stating that a low pound meant higher import prices and

¹⁸ 'International Economic Policy' (Labour Party), 1919; Labour Party and TUC Annual Reports 1920; Cronin (1991), pp.113-14.

¹⁹ MRC:MSS.200/F/4/24/3. FBI Bulletins (1920 issues); Layton (1925), *passim*; Turner (1984), p.10; Cronin (1991), pp.78-9.

thus a higher cost of living, and calling for immediate legislation to reduce the money supply until sterling rose back to par.²⁰ The general view of industrialists was also of a similar persuasion, with a national conference of manufacturers and producers declaring in February 1920 that a rise in the pound and the re-establishment of global exchange rate stability was of the ‘utmost importance’.²¹ Such views were also bolstered by the conclusions of an international conference of experts held in Brussels to consider means of resolving the international economic crisis, which called on national states to start taking measures in order to return to gold at parities appropriate to their postwar circumstances.²²

State officials however were initially slow to realise the extent to which the slump was affecting Britain. Economic problems were thought to be confined to specific areas and industries, and by mid-1920 both Treasury and Bank officials were of the view that domestic economic conditions were returning to normality. Officials were however concerned with the level of criticism being directed at the policy of high interest rates. Fisher for example derided such criticisms as ‘ill-informed’ and ‘self-interested’, whilst Blackett regarded the ‘intense hostility’ as ‘only natural’ given the economic situation. As such, Treasury officials were also keen to avoid putting excessive strain on the economy, and sought to prevent deflation from damaging ‘legitimate’ economic activity. As Blackett again put it:

“a policy of steady deflation has to steer very gingerly between the Scylla of new inflation and the Charybdis of a financial crisis destroying credit and

²⁰ TUC Annual Report 1920. p.119.

²¹ MRC:MSS.200/F/4/24/3. FBI Bulletins 9/2/20. 3(6); 16/2/20. 3(7).

²² See Clay (1957), pp.136-7; Eichengreen (1992), pp.152-7.

stopping new production.’²³

Moreover, officials were also quick to realise that there would be no early return to gold. With the United States now also adopting a policy of deflation to improve economic efficiency, raising sterling to its prewar parity with the dollar would require a level of interest rates which as Chamberlain pointed out would be ‘politically impossible’.²⁴ Indeed, even Norman, now Governor at the Bank and one of the most ardent proponents for a quick return to gold had by September abandoned any hope of higher rates in the near future. As he observed, the freedom of the Bank was now constrained by the fact that interest rates were ‘now a political as well as a financial question’, and as such any resolution of ‘the everlasting difficulties about increasing wages’ was now ‘sadly remote’.²⁵ The recognition that there would be no quick return was formalised in November when the prohibition on the export of gold in place since April 1919 was put on a statutory footing in the Gold and Silver (Export Control) Act, extending the embargo until the end of 1925.²⁶

Despite this setback, the continuing deterioration of the economy, and the growing political pressure, officials remained firmly committed to the policy of deflation and firmly opposed to any substantial increase in state intervention to alleviate the difficulties of the recession. As Norman put it for example, any relaxation of interest rates would not only fail to improve the competitiveness of Britain’s export industries, but in raising the value of Britain's war debts to the US would also be ‘unwise if not dangerous’.²⁷ Direct state

²³ PRO:T171/235. ‘General Results of the Financial Policy...’ (Blackett), 2/7/20; PRO:T171/180. ‘Note on Present Conditions in Finance and Industry’ (Blackett with comments by Fisher), 28/6/20; PRO:T171/235. ‘Draft Brief for the Chancellor of the Exchequer on the Progress of Trade Since the Armistice’ (unsigned Treasury memo), July 1920; BE:G3/176. Norman to G. Pallain 17/5/20; Also see Kynaston (1999), pp.100-3.

²⁴ Various in BE:ADM16/2; On US deflation see Eichengreen (1992).

²⁵ BE:ADM16/2. Norman to P. Jay. 6/9/20; BE:G3/176. Norman to P. Jay 8/9/20, 22/9/20.

²⁶ PRO:T176/37. Untitled memo (Niemeyer), 22/7/20.

²⁷ BE:ADM34/9. Norman Diaries 23/12/20; 28/12/20; Also see Sayers (1976), p.124.

assistance too, remained limited and insubstantial. Though some minor legislative aid for exports and the protection of key industries was introduced, larger and more interventionist schemes such as public works were rejected on the basis that the present level of unemployment was inescapable and that any attempts to avoid it would be inflationary and damaging to Britain's long-term economic prospects.²⁸ As one Treasury report for instance explained, while immediate action on unemployment was needed in order to avert 'a serious state of unrest and a probable cause of social disaster', increased state intervention would serve only to 'check the fall in prices....and so delay the recovery of productive enterprise.'²⁹

A Strategic Retreat

Despite these measures however, the recession continued to worsen during 1921 and the government remained under pressure. Although the number of new stoppages now fell, the labour situation also continued to deteriorate, with the annual amount of working days lost more than tripling to over 85 million, a level greater than the entire years of the Great Unrest combined, and a scale only ever surpassed in the general strike year of 1926.³⁰ Moreover, the labour movement were also continuing to attack the government over the state of the economy, especially over high unemployment, and for their foreign policy stance, which was seen as helping to sustain the international crisis.³¹ On the other hand however, labour radicalism also continued to decline. This was clearly evidenced by

²⁸ Various in PRO:CAB27/115 and PRO:T172/1208; MRC:MSS.200/F/4/24/4. FBI Bulletin 3/1/21. 4(1); Also see Pigou (1947), pp.139-42; Hancock (1962); Rose (1995), pp.243-4.

²⁹ PRO:CAB27/115. 'Draft Interim Report of the Unemployment Committee', September 1920; Blackett to Chamberlain 10/8/20.

³⁰ Calculated from Butler and Butler (1994), pp.373-5; Also see Lovell and Roberts (1968), pp.72-4.

³¹ Labour Party and TUC Annual Reports 1921; MRC:MSS.292/135.01/1. 'Draft Manifesto on Unemployment' (Labour Party), 12/1/21; MRC:MSS.292/135.2/1. Emergency National Joint Council conference 8/12/21.

events following the government's announcement in February that control of the coal industry would be handed back to private ownership six months ahead of schedule at the end of March. This was followed by a declaration from the new owners that wages would be severely reduced, provoking the MFGB and its Triple Alliance partners to declare a strike, and prompting the government in turn to declare a State of Emergency and dispatch troops to the coalfields. Skilful negotiations by the government however succeeded in persuading the Triple Alliance to temporarily postpone their action and to re-enter discussions with the MAGB. Although these proved to be futile, clear divisions between the leadership of the Alliance were now starting to emerge, with the MFGB refusing to permit joint control of the strike and with the leaders of the NUR and the TWU now wavering over their commitment to the miners. Subsequently, the NUR and the TWU withdrew their support for the MFGB, leaving them to struggle alone to their eventual defeat at the end of June. This event, known in labour annals as 'Black Friday' marked a significant turning point in the class struggle. With the Triple Alliance now effectively dead, and with the prospect of concerted labour resistance to the 'capitalist counteroffensive' receding, employers began to press home their advantage. In turn, the labour movement began to further turn their attention away from long-term aims such as nationalisation, and towards the more immediate goals of defending wages and working conditions.³² With labour now weakened and fragmented however, this rearguard action was also largely unsuccessful, and though the cost of living fell by 20% from 1921-22, real wages, trade union membership, and the scale of labour unrest all began to decline.³³

The government also remained under pressure from capital, with increasing

³² Snowden (1934), pp.559-63; Cole (1948), pp.386ff; Branson (1977), pp.50ff; Middlemas (1979), pp.152-60; Tomlinson (1990), pp.58-65; Wrigley (1990), pp.211ff.

³³ MRC:MSS.200/B/3/2/C531 Pt.1. Calculated from Labour Bulletin June 1929, Tables I-II; Pigou (1947), p.207.

demands from business for cuts in tax, public spending, and wages, and for further reductions in the level of state economic intervention.³⁴ The government were now also under fire over the subject of monetary policy, with even the habitually cautious FBI becoming increasingly critical. Recent developments such as international exchange rate instability and continued political-economic turmoil in Europe could not, they argued, possibly have been foreseen by the Cunliffe committee, and with these circumstances now making the recommendations of the committee much more difficult to implement, the Federation began calling for an official enquiry to review the situation. The government's policy of deflation was, as they put it, now a 'principal obstacle' to any economic recovery, and 'a change in that policy might prove of some advantage in the present crisis.'³⁵

In spite of this however, the views of capital were not critical of the policy aim of returning to the gold standard as-such. The City for example were largely in favour of the policy (and of using deflation to do so), though there were strong dissenting voices from Reginald McKenna (the Chairman of the Midland bank), and to a lesser degree from other bankers such F. C. Goodenough (the Chairman of Barclays),³⁶ while the criticism of the FBI was not primarily directed at the return to gold itself. Indeed, as they maintained, it was still

“highly desirable that an arbitrary control of the currency in all European countries should, if possible, be replaced by some automatic means of regulation.”³⁷

³⁴ BE:G30/6. 'An Appeal by Bankers of the UK', 12/5/21; 'An Appeal by Merchants, Manufacturers, and Shipowners of the UK', 20/6/21; Cronin (1991), pp.89-90.

³⁵ MRC:MSS.200/F/4/24/4. FBI Bulletins (1921 issues); MRC:MSS.200/B/3/2/C204 Pt.1. 'The Trade Depression' (FBI), 7/10/21; 'Memo. of Points Raised at a Special General Meeting...' (NCEO), 20/1/21; Various in MRC:MSS.200/B/3/2/C531 Pt.1.

³⁶ BE:ADM34/9-10. Norman Diaries 23/12/20; 28/12/20; 16/2/21; Catterall (1976), p.44; Kynaston (1999), *passim*.

³⁷ MRC:MSS.200/F/4/24/4. FBI Bulletins 12/7/21. 4(27); 19/7/21. 4(28).

The concerns of the Federation lay instead with the use of deflation in order to return to gold at the prewar par, a policy which they claimed would be economically damaging and would ‘perpetuate instability for an indefinite period’. With economic and monetary stability now being regarded as ‘of far greater importance than the re-establishment of any pre-war ratio with gold or any other standard of value’, the FBI argued that the par value of any return to gold should be set at a level appropriate to providing stability at the prevailing level of costs and prices. While no particular rate of return was proposed, as Sir Peter Rylands (the FBI’s President) put it with no apparent dissent, a parity of around \$4 ‘would meet all the necessities of trade’.³⁸

Despite the growing dissatisfaction with deflation however, Norman continued to resist pressure for lower interest rates. Any reduction, he claimed, would be premature given the uneven effect of the deflation so far, as whilst the fall in wholesale prices was thought to have ‘proceeded well and without serious troubles’, retail prices were proving to be more stubborn. As retail prices formed the basis for the cost of living and hence for wage negotiations, and since the high level of the cost of living was believed to be a key factor in the coal strike and in the poor industrial situation generally, the continued pressure of high rates was believed to be essential in order to force a reduction in retail prices and to bring about ‘a general reconsideration of wages in a downward direction’. Nevertheless, with criticism of high interest rates continuing to grow the Governor was now increasingly pessimistic about avoiding a cut. As he put it:

“high rates have done a good deal, but are now being so bitterly attacked – in the Press, at Westminster and by intrigue – that I am fearful if they can

³⁸ MRC:MSS.200/F/4/24/4. FBI Bulletins. 18/10/21. 4(41); 29/11/21. 4(47); MRC:MSS.200/F/3/S1/2/1. ‘AGM of the F.B.I’, 23/11/21, pp.28ff; MRC:MSS.200/F/3/S1/14/2. The Trade Depression’ (FBI), 7/10/21.

last.”³⁹

Such fears indeed proved to be well-founded. With Cabinet officials anxious to ease the political pressure over the economy, in March Treasury bill rates were reduced to 6% followed by a cut in Bank Rate (now the dominant short term rate with the diminishing importance of Treasury bills) to 6.5% in April. This was also followed by further cuts to 6% in June, 5.5% in July, and 5% in November.⁴⁰

Having failed to maintain the pressure of high rates, Norman, in conjunction with Benjamin Strong, the Governor of the Federal Reserve Bank of New York (FRBNY), began to devote his efforts towards facilitating the revival of the international economy and to the construction of a new regime for its management. With many of the world’s economic difficulties simultaneously now also political ones however (such as reparations, war debts, and tariffs), Norman was convinced that the restoration of a sound global economy could only be achieved by the removal of ‘economic’ issues from the ‘political’ sphere, and by treating them as purely technocratic questions to be resolved by experts in such matters. As such, the two Governors were keen to base the core of the new system around a reconstituted international gold standard, operating through a network of politically independent central banks, each of which would in turn act according to a specified set of technical criteria.⁴¹ Speaking of these plans to a central banking colleague in October 1921 for example, Norman wrote:

³⁹ BE:G3/177. Norman to Strong 17/2/21 – 23/5/21; BE:OV37/20. Norman to W. H. Clegg 28/2/21.

⁴⁰ Treasury bills were gradually withdrawn from circulation. See Morgan (1952); Sayers (1976), pp.124-5.

⁴¹ BE:G3/177. Norman to Strong 23/7/21; 13/10/21; BE:G3/179. Norman to A. R. Wagg 5/7/23; BE:ADM16/2. ‘Central Banks’, 15/2/21; Clay (1957), Ch.5; Boyle (1967), pp.202-6; Sayers (1976), pp.121-23; Cottrell (1995), pp.88-9, (1997), *passim*.

“finance and economies are at the present moment too much in the hands of politicians for us Central Bankers to take any overt action, but I think the time may come when the boot will be on the other leg.”⁴²

The cuts in interest rates also sparked further debate within the Treasury over the immediate future of monetary policy. Some such as Robert Horne (the Chancellor from April) and Hawtrey for example were now opposed to continuing with deflation. The Chancellor doubted whether Britain’s economic competitiveness could in fact be improved by lower prices given that sterling was now free to float, arguing that this might simply be offset by a rise in the pound, and instead favoured a policy of maintaining price stability. With the recent turmoil of sharp inflation and deflation having left Britain’s trade in ‘a thoroughly jangled state of nerves’, the time was not he claimed, right for deflationary experiments, but for ‘old-fashioned soundness’.⁴³ For Hawtrey, Britain’s economic and social difficulties were also directly attributable to currency instability and to the high level of interest rates which, he claimed, had now forced British prices below a level at which they could safely be stabilised. Continuing with deflation he warned, thus not only risked inflicting ‘permanent injury’ upon the economy, but could also lead to ‘disastrous consequences’ of a wider financial, social, and political nature, as well as a future resurgence of inflation as workers and employers sought to recoup their losses. As such, Hawtrey also argued in favour of a policy of price stability. Indeed, with deflation in the United States having now led to the absorption by America of a huge amount of the world’s gold, and with an outbreak of US inflation thus now thought to be inevitable, Hawtrey claimed that a policy of holding British prices steady would not only ameliorate

⁴² BE:G3/177. Norman to Strong 13/10/21; Also see BE:G3/178. Norman to Moll 22/2/22; Norman to the Governor of the National Bank of Roumania 22/2/22.

⁴³ PRO:T176/5. Pt.1. Horne to Niemeyer, July 1921.

domestic problems, but would also help sterling to return to par with minimal disruption as American inflation led to a depreciation in the dollar.⁴⁴

The majority of official opinion however did not regard the lowering of interest rates as signalling a wholesale relaxation of the deflationary stance or any long-term shift in policy outlook away from improving Britain's economic competitiveness by forcing down prices and of minimising the directly visible economic intervention of the state. Rather, the cuts were seen as a strategic and temporary retreat in response to political and economic pressure. Niemeyer for example continued to argue that deflation was essential if there was to be any return to gold, and was especially keen to maintain the pressure on retail prices and wages. Retailers he argued, had become used to 'easy returns with very little risk' and were now 'extremely unwilling' to face up to genuine competition, while labour for their part had to accept lower wages. As he put it:

"It is generally admitted that if Britain's trade is to compete in the markets of the world the prices of British goods must come down. This in effect means that the wages of British labour must come down."⁴⁵

On this Blackett also concurred. As he argued, the 'vital matter' was to increase Britain's export competitiveness by continuing to force down production costs, and as such an inflationary stimulus would thus hinder Britain's economic recovery by encouraging imports, restricting exports, and by creating renewed pressures for higher wages. A policy of lower interest rates was thus opposed on the basis that it would initiate:

⁴⁴ PRO:T176/5. Pt.1. 'The Credit Situation' (Hawtrey), 19/4/21; 'Bank Rate' (Hawtrey), 5/7/21; 'The Genoa Currency Resolutions' (Hawtrey), 4/2/22.

⁴⁵ PRO:T172/1208. Niemeyer to Horne 3/10/21, 7/10/21; PRO:T176/5 Pt.2. Unsigned and untitled Treasury document. September 1921; untitled document (Niemeyer), 5/10/21.

“a new cycle of rising prices and rising wages and an increasing Budget deficit...just at the moment when with a little patience the most difficult period of the painful process of a return to sound conditions will begin to be succeeded by a revival of industry on a new basis of reduced wages and reduced prices.”⁴⁶

Indeed, as Norman pointed out, Hawtrey’s views on price stability did not represent the majority of Bank and Treasury opinion, and moreover the Treasury’s general economic policy stance remained stringent despite the cuts in interest rates, with high taxes and public spending reductions still in force.⁴⁷ Deflationary pressure was also sustained and augmented by the Treasury’s withdrawal of its wartime Currency Notes from circulation, reducing the money supply as part of the effort to restore the Bank’s control over the money market.⁴⁸

Continued criticism of economic policy was also leading to significant discomfiture in official circles over the issue of state-economy relations, a subject which was considered extremely desirable to keep out of public discussion as much as possible, and on which the authorities were keen to maintain a hard line. The FBI’s calls for an enquiry into monetary policy for instance were rejected by Lloyd George on the basis that this would foster economic uncertainty, while more detailed consideration of the means of continuing with retrenchment was hived off from the core executive, with the task of recommending means of effecting large cuts in public spending being given to a committee of independent businessmen under the Chairmanship of Sir Eric Geddes.⁴⁹ Chamberlain too sought to displace political responsibility for the economic situation, telling the FBI during his final

⁴⁶ PRO:T176/5 Pt.1. Untitled memo (Niemeyer), July 1921; Blackett to Chamberlain 8/6/21.

⁴⁷ BE:G3/178. Norman to Strong 24/2/22; Morgan (1952), ps.91-119; Johnson (1968), p.491.

⁴⁸ Morgan (1952), ps.207-13, 376-7; Moggridge (1969), pp.15-16; Wrigley (1990), pp.240-1.

⁴⁹ MRC:MSS.200/F/4/24/4. FBI Bulletins (1921 issues); Cronin (1991), pp.89-90.

days as Chancellor that the government had at best very little influence over the various economic factors with which they were aggrieved, and telling the House of Commons under pressure over interest rates on several occasions that (despite their continued *de facto* political control) such matters were now the sole responsibility of the Bank.⁵⁰ At the Bank of England, Norman also remained anxious to ensure that the government did not jeopardise their recent advances by extending state assistance to ameliorate the social effects of the recession. State schemes he claimed, were ‘impossible remedies for unavoidable unemployment’, and with the primary need still to improve competitiveness the Governor argued that it would therefore be wrong to ‘diminish the economic efficiency and well being of a whole people, in order to benefit a small unemployed proportion’.⁵¹

These views were also expressed by a Treasury-led conference of industrialists and financiers convened to discuss the unemployment crisis; by the Board of Trade, who warned that state assistance would remove the incentive for producers to reduce costs; and by the Treasury, which argued that state aid to the unemployed needed to be restricted to ‘the barest minimum needed to prevent starvation’ in order to avoid diminishing the incentive to work.⁵² Moreover, as Niemeyer pointed out, state intervention would not only be detrimental to economic competitiveness but also contained political risks in that it would lead people to believe that the solution to Britain’s difficulties lay with state intervention, and would thus create ‘great exasperation’ when this inevitably failed.⁵³

⁵⁰ PRO:T176/13 Pt.1. ‘Relations Between the Treasury and the Bank of England’; MRC:MSS.200/F/4/24/4. FBI Bulletins. 22/2/21. 4(8); 8/3/21. 4(10).

⁵¹ PRO:T172/1208. Notes of interview with Norman (H. Young), 27/9/21; BE:G3/177. Norman to Strong 13/10/21.

⁵² PRO:T172/1208. Unsigned and untitled Treasury document. September 1921; ‘Draft Proposals of Commander Hilton Young’s Committee’ 2/10/21; PRO:CAB27/119. ‘Trade in Relation to Unemployment’, 26/9/21.

⁵³ PRO:T172/1208. Niemeyer to Horne 3/10/21, 7/10/21; PRO:T176/5 Pt.2. Unsigned and untitled Treasury document. September 1921; Untitled document (Niemeyer), 5/10/21.

The Waiting Game

For Britain's state managers, the situation began to improve during 1922. Industrial production began to recover, wholesale and retail prices continued to fall, and sterling rose to \$4.63 by December. The balance of trade also improved, the current account showed a third consecutive surplus, and with unemployment remaining high at around 1.9 million, the labour movement became increasingly fragmented and demoralised, falling to their weakest and least radical ebb for over a decade. Trade union membership also continued to fall, the number of new stoppages declined to their lowest levels since 1916 and the amount of working days lost (though still historically high) fell to their lowest levels since 1918. The last of the state's wartime controls of the economy were also removed, and though certain aspects of state intervention (such as levels of public spending) remained larger than in 1914, control and responsibility for economic conditions had essentially now been restored to the market.⁵⁴

Despite such advantages however, the extent of the actual deflation that had been achieved since 1920 had proved insufficient to raise sterling back to par. US deflation had helped to sustain the strength of the dollar, while the unwillingness of business to reduce its prices, and the success of labour's resistance to large wage cuts had precluded the necessary domestic adjustment needed to force up the exchange rate. These factors also continued into 1922. Though employers continued to press home their advantage, securing victory in the only major dispute of the year (in the engineering industry), simmering tensions in the coal industry served as a warning against pressing too hard. As such, the

⁵⁴ Cole (1948), pp.386ff; Morgan (1952), Ch.2; Feinstein (1972), Tables 37, 57, 64; Cronin (1991), pp.87-92; Butler and Butler (1994), ps.373, 383-5.

shorter working hours secured by labour in 1919 survived the slump virtually unscathed, and though money wages fell, real wages as a whole remained only slightly lower than in 1920. State officials also continued to worry about the slow pace of the fall in retail prices which was still thought to be a key factor in holding up production costs and preventing any substantial improvement in Britain's competitiveness.⁵⁵

A further difficulty for the authorities was that despite the dissolution of the state's wartime economic controls, economic conditions and policy-making nonetheless remained key political issues, and capital and labour continued to hold state officials largely responsible. For labour, Britain's problems were still considered to be the result of the international situation and the government's foreign policy stance, though monetary policy was now also of increasing concern. The Labour Party were now adding their voice to the FBI's calls for an enquiry into its economic effects, and were critical of the high level of interest rates, while the TUC's newly constituted executive body, the Grand Council (TUCGC), was of the view that the recent experiences of inflation and deflation had both been detrimental to working class interests, and was now calling for a policy of domestic price stability. Both the Labour Party and the TUCGC were also increasingly concerned about exchange rate instability which was seen to be 'hampering trade and retarding construction', and for this the only remedy was considered to be a general return to a gold standard by the world's main trading nations. As such, every country was implored to 'take all possible steps to rehabilitate its currency', while countries for whom a return to gold at their prewar parity was too impractical were urged to stabilise at more appropriate rates. Although no 'appropriate' rate was specified for Britain, there was also no dissent on the

⁵⁵ Snowden (1934), pp.559-63; Pigou (1947), p.207; Cole (1948), pp.376ff; Moggridge (1969), p.15; Fulcher (1991), p.115; Butler and Butler (1994), pp.383-5.

notion of a return at \$4.86.⁵⁶

For representatives of capital on the other hand the general view was still that reductions in wages, tax, and public spending were necessary to raise competitiveness, and that a policy of economic and monetary stability was required for a revival of trade and prosperity. While the FBI continued to call for an enquiry into monetary policy and to express concerns over the use of deflation to return to gold at the prewar par, a return to the gold standard itself was therefore still considered to be essential, while in the City the vast majority of opinion also remained supportive of both deflation and a return to gold.⁵⁷

More general support for a return was also bolstered by the conclusions of another international conference on the economic crisis (held in Genoa), with official state representatives reiterating the conclusions of the 1920 Brussels conference in declaring support for a general return to gold at parities appropriate to postwar conditions. The conference also addressed growing concerns of an international gold scarcity by calling for greater central bank co-operation and for the adoption of a gold ‘exchange’ standard rather than a ‘full’ gold standard to economise on the use of gold. In contrast to the classical gold standard system in which central bank reserves consisted primarily of gold, it was now determined that only ‘primary’ countries such as Britain and the US should hold reserves primarily of gold, and that the reserves of ‘secondary’ gold centres should be comprised of both gold and primary gold standard currencies, thus cutting down on the international

⁵⁶ MRC:MSS.292/110.1/1. ‘The Attack on Wages and Hours Standards’ (TUC/Labour Party), 1922; MRC:MSS.292/452/3. ‘On the Evils of Industrial Interruption and Trade Dislocation Caused by the Fluctuations of the Exchanges and Other Problems Arising out of the Banking System’ (TUCGC), 1922; Labour Party Annual Report 1922, pp.247-8; 1922 Labour Party General Election Manifesto in Dale (2000).
⁵⁷ MRC:MSS.200/F/4/24/7 & 5; FBI Bulletins 31/1/22. 5(5); 21/2/23. 6(5); MRC:MSS.200/F/3/S1/14/2-3; ‘Statement by the FBI’, 6/12/22; MRC:MSS.200/F/3/S1/8/13. ‘Lower Production Costs and Trade Revival’, 14/2/22; Catterall (1976), p.44; Kynaston (1999).

demand for the precious metal.⁵⁸

Despite such support for a return to the gold standard however, the persistence of political and economic difficulties during 1922 now led Britain's state authorities to relax their deflationary stance still further. Interest rates were cut to 3% by July, the tight budgetary position was eased by cuts in taxation, and though large reductions in public spending continued, these too were relaxed due to political pressures. The severe cuts recommended by the Geddes committee of £87 million were eventually scaled down to a slightly less extreme £52 million, and even the collapse of the coalition government in October (following a military debacle with Turkey), and the election of an apparently more orthodox Conservative government led by Bonar Law produced no substantial change in economic policy.⁵⁹ International factors, especially the continuing uncertainty in Europe and tensions over reparations and war debts also remained problematic, and as Norman bemoaned, were now making it 'well nigh impossible' to attempt any return to gold at the present time.⁶⁰

By the end of 1922, despite the attempt to impose deflation in order to prepare the way for a return to gold, Britain's state officials nonetheless still found their freedom of high political manoeuvre constrained. Though sterling remained close to par, though industrial production was recovering, and though retail prices were slowly falling, economic conditions in general remained poor, unemployment remained high, and real wages remained stubborn. Moreover, the continued politicisation of economic policy had forced a suspension of the deflationary strategy and a reduction in interest rates, whilst

⁵⁸ Various in MRC:MSS.200/F/3/E1/16/8-9 and BE:ADM16/2; Hawtrey (1933), pp.93-101; Brown Jr (1970), pp.342ff.

⁵⁹ Morgan (1952), pp.96-7; Boyle (1967), pp.152-62; Branson (1977), ps.69-70, 139; Middleton (1985), pp.43-4; Cronin (1991), pp.89-91.

⁶⁰ BE:G3/178. Norman to Blakett 31/1/22; to Vissering 4/2/22; to V. Moll 6/2/22; and to Strong 21/3/22; BE:G30/8. Norman and H. Trotter (Deputy Governor) to the Chancellor, 22/6/22.

international conditions were also proving to be a fundamental bar to any return. With the immediate strategy of imposing deflation to enable a return to gold at the prewar par having now failed, and with deflation remaining politically and economically dangerous, official hopes increasingly turned instead to the possibility that sterling might be carried to par by eventual US inflation. As Norman put it, while a return to gold at the old par would ‘certainly create difficulties’, these might be reduced should prices rise in America.⁶¹

Concluding Remarks

This chapter has examined the initial attempt by the core executive to address the economic and political crisis of the British state by imposing deflation and retrenchment in order to clear the way for a return to the gold standard at the prewar par. It has shown that by 1920 state officials were increasingly keen to address Britain’s economic difficulties and to deal with the threat posed by labour unrest and militancy, and that they sought to do so through a governing strategy based upon a return to gold. The gold standard was seen to offer an automatic mechanism for ensuring that Britain remained internationally competitive, as providing a means of disciplining the expectations and behaviour of capital and labour, and as offering a shield from political pressure over economic conditions by depoliticising monetary and economic policy-making.

This chapter has also shown however that despite returning control over economic conditions to the market, and despite widespread support for a return to gold, economic conditions and policy-making in Britain remained politicised. As such, while deflationary measures were initially successful in reducing inflation and in undermining the strength of

⁶¹ BE:G3/178. Norman to Strong 21/3/22; MRC:MSS.200/B/3/2/C531 Pt.1. Labour Bulletin June 1929, Tables I-IV; Pigou (1947), ps.150, 207; Feinstein (1972), Tables 51, 52, 66.

labour through the disciplining effects of unemployment, continued political pressure over economic conditions meant that Britain's authorities were unable to carry through a sufficient degree of deflation in order to raise the pound back to \$4.86. By the end of 1922, the inability to force through deflation without provoking unrest had forced the authorities to ease their tight economic policy stance and to turn instead to a policy of waiting for US inflation to carry sterling back to par. This, it was now thought, would enable Britain to return to gold and avoid the political dangers of forcing down prices and wages. The success or otherwise of this waiting policy is the subject of the following chapter.

Chapter 5 : The Return to Gold, 1923-1925

This chapter examines the final phase of Britain's return to the gold standard. It shows that state officials were becoming increasingly anxious as economic conditions failed to significantly improve, as labour unrest remained an active issue, and as US prices failed to rise. As such, by 1924 the authorities now moved away from their waiting policy and sought more positive measures in order to address Britain's continuing economic and political difficulties. While a return to gold at the prewar par was still considered to be a key means of preventing inflation and of depoliticising economic conditions and policy-making, Britain's authorities were now also of the view that this itself could be used as a means of forcing an adjustment in Britain's economy through the deliberate imposition of a relatively high exchange rate. On this basis, a return to gold at \$4.86 would help to impose financial discipline upon capital and labour in order to condition expectations and force an adjustment in Britain's pattern of economic activity, while the depoliticising effects of the regime would provide officials with an effective shield from the unpalatable social and political effects of this process.

Hopes Abandoned

For Britain's state authorities 1923 began with much promise but ended in despondency as hopes of a return to gold were once again raised only to be disappointed. During the early part of the year things appeared to be progressing well. The hoped-for inflation in America had lifted sterling to \$4.76 by February, an agreement had been reached with the US over Britain's war debts, and the economy was continuing to recover from the slump. Unemployment maintained its decline, industrial production continued to

expand, and there were increasing signs that Britain was finally starting to adapt to the changing demands of the global economy as prices continued to fall, and as newer and more advanced branches of production began to grow more forcefully.¹ Furthermore, the position of the labour movement also continued to weaken, and employers continued to press home their advantage. Money wages fell by 15%, real wages now dropped below their prewar levels, and although the prevalence of industrial disputes induced the government to resurrect the Supply and Transport Committee (re-named the Strike and Transport Organisation) as a precaution, the number of working days lost in stoppages nonetheless fell to its lowest level since the end of the war.²

Increasingly optimistic, Treasury and Bank officials were now convinced that their difficulties were starting to recede and that a return to the gold standard was on the agenda. There was, as Norman declared, finally ‘a light at the end of the tunnel!’³ Though the Deputy Governor of the Bank, H. A. Trotter, was keen to point out that there could be no return until the issues of war debts and reparations had been fully settled, officials were certain that US inflation would shortly take sterling back to par, and that plans for the final move would soon need to be devised. An informal committee was set up at the Bank to examine the matter.⁴

This optimism however proved to be misplaced, and despite the recovery Britain’s general economic performance remained sluggish. Unemployment remained chronically high at around 1.6 million, the traditional export industries continued to struggle, and the

¹ Grigg (1948), pp.98-105; Middlemas (1969), pp.225-7; Alford (1986), p.45.

² Figures from Feinstein (1972), Tables 51-2; Butler and Butler (1994), p.373; MRC:MSS.200/B/3/2/C531 Pt.1. Labour Bulletin, June 1929, Table IV.

³ Norman to Blackett 26/2/23, in Clay (1957), pp.178-9; Brown Jr (1970), p.307.

⁴ BE:OV37/20. H. A. Trotter to W. H. Clegg 11/1/23; PRO:T176/5 Pt.1. Treasury Bonds’ (Niemeyer), 24/1/23; ‘Notes on McKenna’s Speech’ (Fisher), 29/1/23; ‘Export of Gold to America’ (Hawtreys), 5/3/23; BE:C40/737. The Return to Gold’ (Hawtreys), 19/1/23; Niemeyer to Trotter 23/1/23; Notes by Niemeyer January 1923; Untitled Bank of England document, 16/5/23.

growth of more advanced industries remained insufficient to offset Britain's overall relative economic decline. Moreover, although the Cabinet remained anxious to encourage 'the development of trade and industry in all their branches', the necessity for economic adaptation was still not yet being sufficiently realised by either capital or labour, both of whom remained strongly resistant to change.⁵ Trade unions for example were concerned that modernisation would lead to even higher unemployment, industrialists were still in many instances able to make a satisfactory profit from old production methods and practices, and were still able to take advantage of Empire markets, while the invisible earnings of the City too remained relatively weak due to its failure to adjust to changing global conditions. These impediments were also compounded by the structural remnants of the postwar boom, with many industries now burdened with excess capacity and large debts, reducing the amount of capital available for new investment and restructuring. With a substantial portion of the financial sector having large investments in such industries, Britain's banks were also unwilling either to make the new advances necessary for a shift in production, or to put financial pressure on firms to modernise lest this increase the risk of default.⁶

Furthermore, despite the fact that the state had now formally relinquished its direct wartime control over economic conditions Britain's authorities also remained under pressure over the economy. For the overwhelming majority of the labour movement the government's foreign policy was still regarded as a key factor in Britain's economic difficulties, and any solution was still believed to require the restoration of foreign purchasing power and economic stability through reconstruction loans, a revision of the

⁵ PRO:CAB23/45. Cabinet Meeting 14/2/23; Various in PRO:CAB23/46.

⁶ Cole (1948), pp.376ff; Morgan (1952), pp.298-9; Feinstein (1972), Tables 1, 2, 17, 37, 57; Branson (1977), *passim*; Allen (1979), pp.74-6; Dintenfass (1992), p.30; Alford (1996), pp.119-21.

peace treaties, and a settlement of war debts and reparations. Labour also maintained its attack on the government for its lack of action over unemployment and continued to call for policies such as ‘work or maintenance’ to ameliorate its effects, and for a capital levy to reduce the burden of the national debt and to enable increased public spending. The question of monetary policy was also now a subject of growing debate within the labour movement. In January for example the Joint Research and Information Department of the TUC and the Labour Party added to calls for an enquiry into the issue, condemning the government for its indifference to the effects of deflation and for the continuing uncertainty. As they complained, “at present we have no definite currency policy, and it is high time that the subject received full examination in the light of its effect on unemployment.”⁷

Moreover, the notion of deliberately managing monetary policy with the aim of maintaining domestic price stability (now being publicly advanced by Keynes and his associates such as Hugh Henderson) was also continuing to grow in popularity within the movement. As such, many including the National Joint Council of the TUC and the Labour Party, as well as the more left-wing Independent Labour Party (ILP), were now pressing for state control of the banking system in order to regulate credit for this end.⁸ There was however, no consensus on such matters within the labour movement and others were in favour of a return to the gold standard. The Joint Research and Information Department for instance claimed that international economic stability could only be achieved by a general

⁷ MRC:MSS.292/135.01/1. ‘Proposals for Unemployment Policy’ (TUC-Labour Party Joint Research and Information Dept.), January 1923; Labour Party and TUC Annual Reports 1923.

⁸ Various in MRC:MSS.292/135.01/1; Keynes (1923); ‘Monetary Policy’ (H. D. Henderson), 14/7/23, in Clay (1955); Monthly Circular of the Labour Research Department, November 1923. No.8; December 1923. No. 9; ‘Unemployment and Currency’ (A. Greenwood), Foreign Affairs. October 1923; ‘Unemployment Situation’, October 1923; Labour Party Annual Report 1923. Appendix III; Wootton (1925); Tomlinson (1990), p.66-7.

return to gold by the world's major trading nations at par values appropriate to existing exchange rates. As they explained:

“No single step would do so much as the adoption of a satisfactory international monetary policy to solve the problem of unemployment at home and abroad.”⁹

Economic conditions also remained a political issue for capital, though disquiet over the government's monetary policy stance came almost wholly from industrial manufacturing. The ABCC for instance were of the view that the time was now ripe for taking steps to return to gold, whilst the only real opposition from within the City came from McKenna, who was now also calling for a managed money policy.¹⁰ The FBI however continued to argue that the remedy for Britain's economic difficulties lay with improving the competitiveness of industry by reducing production costs, and as such continued to press for lower levels of wages, taxation, and public spending. In addition, despite their internal tensions the Federation also continued to call for a re-examination of monetary policy, and though conceding that wider considerations could render ‘a further period of deflation necessary in the broader interests of the national welfare’, were nonetheless still opposed to any return at the prewar par.¹¹

With the government still refusing to instigate an inquiry however, the FBI now established their own committee of investigation which heavily criticised the notion of returning to gold at \$4.86. Such a move, it warned, would not only dislocate trade and hit

⁹ MRC:MSS.292/135.01/1. ‘Proposals for Unemployment Policy’ (TUC-Labour Party Joint Research and Information Dept.), January 1923.

¹⁰ PRO:T172/1499B. ‘Post-War Reports and Conferences’ (undated); MRC:MSS.200/F/4/24/7. FBI Bulletins 30/1/23. 6(5); 6/2/23. 6(6); Various in PRO:T176/5 Pt.1.

¹¹ MRC:MSS.200/F/4/24/7-8. FBI Bulletins (1923 issues); MRC:MSS.200/F/3/S1/14/5. FBI Grand Council (FBIGC) Meeting 17/10/23; Boyce (1988), pp.178-9.

Britain's exporters, but would also increase the burden of the national debt, leading to higher taxes and unemployment. Moreover, the resulting deflation would put downward pressure on prices and wages, risking 'the most serious social and political consequences', and would lead the government to 'incur a heavy responsibility.' Instead, the FBI now added to calls for a policy of price stability, albeit with the qualification that this should be preceded by a mild dose of inflation in order to raise prices to a level sufficient to increase profitability and stimulate private enterprise.¹²

'Nothing But Troubles...'

To state officials these domestic concerns were also accompanied by difficulties of an international nature. In January the crisis over reparations had reached a new low when France and Belgium re-occupied the Ruhr (a key industrial area of Germany) in a bid to secure payment, further disrupting global economic confidence and damaging hopes for a recovery,¹³ while in addition to this the gap between US and British prices which had been recently narrowing, was now starting to widen. In February the FRBNY raised interest rates to 4.5% in a bid to arrest inflationary pressures resulting from the continued flow of capital to America, though the Bank of England were forced by political pressures to hold their rates at 3%. This widening of the interest rate differential now led to a fall in US prices, a renewed rise in British prices, and a slow but sustained depreciation of sterling throughout the rest of the year.¹⁴

¹² MRC:MSS.200/F/3/S1/14/5. 'Trade Depression and Unemployment' (FBI), 12/10/23.

¹³ Grigg (1948), pp.153-72; Eichengreen (1992), pp.147-50.

¹⁴ BE:OV4/30. 'Capital Movements to and From London Pt.II' (R. E. H. Allport), March 1934., p.17; Brown Jr (1940), p.713; Dimsdale (1981), p.317.

By May the informal Bank of England committee established to examine the return to gold had reached some provisional conclusions. Among these were the recommendations that the Treasury and Bank note issues be amalgamated as soon as possible in order to place control of the money supply solely with the Bank; and that Britain should return to the gold standard once it was clear that this could be maintained without any great difficulty, namely when the Bank had held a gold reserve of £150 million under favourable conditions for two consecutive years, or by 1930 at the latest.¹⁵ Official opinion on monetary policy however was now divided. Though key members of the core executive were agreed that higher interest rates could still not be actively pursued, differences arose over whether or not to engage in some measure of inflation in order to ease the political and economic pressure. Hawtrey and Addis for example both advocated a period of low interest rates in order to raise British prices before then pursuing a policy of price stability, and a similar view was also held by Stanley Baldwin, the latest Chancellor of the Exchequer and the Prime Minister from May. Though insistent that the responsibility for interest rates lay with the Bank of England, there was, as he told the House of Commons ‘no greater necessity for this country....than cheap money’, and for keeping prices ‘steady and on a level’. Crucially, as he also pointed out, this now meant that the question of a return to gold could not now be ‘properly discussed’ within ‘a measurable distance of time’.¹⁶

Others however took a different view. Niemeyer for example remained implacably opposed to the idea of inflation and regarded any reconsideration of the long term

¹⁵ BE:C40/737. Untitled Bank of England document, 16/5/23.

¹⁶ PRO:T176/5 Pt.1. ‘Export of Gold to America’ 5/3/23, (Hawtrey); BE:ADM16/3. Untitled Memo, (Addis) 4/7/23; BE:C40/737. Untitled Memo (Addis), 1923; PRO:T176/13 Pt.1. ‘Relations Between the Treasury and the Bank of England...’ (undated); MRC:MSS.200/F/4/24/8. FBI Bulletin. 31/7/23. 6(30); Parliamentary Debates. 13/6/23. Vol.165. Cls.607-8.

deflationary policy as ‘premature’, whilst for Norman, despite the fact that the gold standard was not now ‘a question of practical politics’, a key benefit of a return was that it would put an end to such calls for higher prices by definitely fixing Britain’s future monetary policy.¹⁷ Antipathy to inflation was also shared by Bradbury. As he explained to Norman, although an amalgamation of the note issues was essential to provide ‘a strong bulwark’ against political interference with the money supply, implementing such measures before political pressures had diminished would be a ‘risky experiment’ and would merely incorporate undesirable ‘vices’ into the currency system ‘which both you and I wish to extirpate’. In addition, Bradbury was also concerned that the Bank should not allow themselves to be manoeuvred into bearing the responsibility for any inflationary policy that the government might foist upon it. As he put it:

“if the Chancellor of the Exchequer designate continues to develop on the lines of his recent speeches, I should, if I had any responsibility for the Bank, much prefer to leave him with the entire responsibility for his own experiments.”¹⁸

With the prospect of bridging the gap with US prices through deflation now bleak, official hopes were also gravitating once more towards the idea that US inflation could provide a solution. The difficulty now though was that the Federal Reserve were making it abundantly clear that they were aiming to hold US prices steady. As such, Britain’s authorities turned their attention towards the possibility of forcing US prices to rise, and in May another Bank of England committee was established to examine whether or not this could be achieved by a strategic export of gold. Though Addis warned that the Americans

¹⁷ PRO:T176/5 Pt.1. ‘Treasury Bonds’ (Niemeyer), 24/1/23; ‘Notes on a Question by Lord Vernon’ (Niemeyer), 24/4/23; ‘Note on FBI Memo.’ (Niemeyer), November 1923; BE:C40/737. Norman to Bradbury 26/5/23; Clay (1957), pp.145-6.

¹⁸ BE:C40/737. Bradbury to Norman 25/5/23, 28/5/23.

would merely sterilise any gold received, the proposal nonetheless attracted considerable attention within official circles and by the end of the year two variants of the ‘gold export scheme’ (a Treasury and a Bank version) were under consideration.¹⁹

In July however, these uncertainties over monetary policy within official circles were transmitted to the public when Norman raised interest rates to 4% in a bid to check the persistent fall in sterling. By directly contradicting the stated view of the Chancellor, the rise increased public interest in monetary policy still further, adding greater impetus to calls for an inquiry and a managed money.²⁰ Under mounting pressure, the authorities began to grow increasingly worried. Cabinet Ministers for example were becoming ever-more concerned with high unemployment, with Baldwin now describing it as ‘the outstanding problem in the political life of the country’ and warning that failure to address it ‘might wreck the government’, while at the Bank of England, Norman was also becoming increasingly anxious to get back to gold. As he explained to Strong: “We can have and perhaps deserve nothing but troubles until we are again anchored to Gold. How and when can we do it?”²¹

In October these difficulties were further compounded when the Minister of Labour (Sir Montagu Barlow) announced that the government would consider permitting a degree of inflation in order to alleviate the effects of unemployment. Coming at a time of heightened nervousness in the world economy (with the ending of the Ruhr occupation in September having been followed by the onset of hyperinflation and social disorder in

¹⁹ BE:ADM16/2-3. ‘Notes for the Treasury Committee’ (Norman), undated; ‘Memo. on a Project for the Formation of a Reserve in Connexion With the British Debt to the United States’ (Addis), 21/5/23; PRO:T176/5 Pt.1. ‘Monetary Policy’ (Hawtrey), October 1923; Niemeyer to Norman 21/11/23; Norman (and Bank of England) untitled memo. 21/11/23; Moggridge (1969), pp.16-17; Sayers (1976), pp.128-33.

²⁰ MRC:MSS.200/F/4/24/8. FBI Bulletin 24/7/23. 6(29); the Times 7/8/23.

²¹ PRO:CAB23/45. Cabinet Meetings 2/7/23, 25/10/23; BE:G35/4. Norman to Strong 8/10/23.

Germany) the announcement triggered a large flight of capital and a run on the pound.²² Despite an attempt by Baldwin to calm the markets by declaring the government's commitment to price stability, the calling of a surprise general election in a bid to gain a mandate for protectionist measures served only to inflame the situation, and with fears rising that the 'socialist' Labour Party might win, sterling weakened even more.²³ Such tensions were also not eased by the election result itself. Though the Conservatives were returned as the single largest party, they were now outnumbered on the issue of tariff reform by the Liberals and the Labour Party, both of whom were resolutely committed to free trade. Though the Conservatives duly formed a government, they were therefore unable to implement the very policy on which the entire election had been fought, leaving the future direction of Britain's economic policy unsettled, and leaving the markets uncertain.²⁴

Many of these difficulties and uncertainties continued into 1924. Sterling remained under pressure during the early part of the year, the gap with US prices continued to widen, and unemployment remained high at 1.4 million. The competitiveness of the old staple industries also continued to deteriorate, the gold export scheme was shelved for being likely to exacerbate public interest in monetary policy and further damage confidence in the pound, and the unstable political situation also continued.²⁵ In January the Conservatives lost a vote of confidence and were replaced by the first minority Labour government, whilst the first half of 1924 also witnessed a resurgence of labour unrest as

²² BE:ADM34/12. Norman Diaries 15/10/23; 2/11/23; Clay (1957), pp.207-10; Sayers (1976), pp.130-6; Eichengreen (1992), pp.147-50; Kynaston (1999), pp.105-6.

²³ Grigg (1948), pp.118-123; Sayers (1976), pp.130-2.

²⁴ BE:G14/312. 'Notes for the Treasury Committee' (Norman), 19/12/23; BE:ADM34/12. Norman Diaries 19/12/23; Grigg (1948), p.124; Boyle (1967), pp.165-6.

²⁵ BE:G14/312. 'Notes for the Treasury Committee' (Norman), 19/12/23; Committee of Treasury extracts; BE:OV4/30. 'Capital Movements to and From London' (R. E. H. Allport), March 1934; Moggridge (1969), pp.16-22; Feinstein (1972), Tables 1, 37, 57; Sayers (1976), pp.128-33.

workers sought, often successfully, to reverse the attack on wages during the slump. The number of new stoppages rose to its highest level for three years, and to some it seemed as if a new wave of unrest akin to that of the immediate postwar era was emerging. The Labour Research Department (LRD) for example thought the outbreak marked the ‘revival of the industrial movement’, Snowden (the new Labour Chancellor) described it as an ‘epidemic’, and the government were prompted into seriously considering the use of the Emergency Powers Act.²⁶

Moreover, the issue of monetary policy also remained politically sensitive. Norman for example was increasingly concerned with the growing attention being paid to ‘a permanent alternative to the gold standard’ as Keynes and his associates continued to argue for a policy of price stability, and as sections of capital and labour also continued to support a managed money.²⁷ Many on the left, such as Oswald Mosley, John Strachey, J. A. Hobson, and the ILP continued to call for an inquiry into the issue and to press for an expansionist economic policy and public ownership of the banking system, and indeed despite leadership opposition the Labour Party conference even passed a resolution to this effect. Many others within the labour movement, including the TUC and the Labour Party, were also critical of the idea of using deflation to return to gold at the prewar par, a move which was seen as likely to increase unemployment, damage the economy, and given that there was no real prospects for a general return to gold, would also fail to deliver economic stability.²⁸ These concerns were also shared by prominent figures in the City such as

²⁶ Butler and Butler (1994), p.373; Monthly Circulars of the LRD during 1924; Labour Party and TUC Annual Reports 1924-1925; Snowden (1934), pp.633-5; Lovell and Roberts (1968), pp.72-3; Marquand (1977), pp.318-20.

²⁷ BE:G14/312. ‘Notes for the Treasury Committee’ (Norman), 19/12/23.

²⁸ PRO:T160/197. Evidence by Keynes to the Committee on the Currency and Bank of England Note Issues (hereafter the ‘Chamberlain-Bradbury committee’) 11/7/24; MRC:MSS.292/135.01/1. ‘A Practical Policy for Unemployment’, 17/6/24; PRO:T176/5. Pt.2. ‘Memo. on Proposed Raising of the Bank Rate’ (Joint Research Dept.), June 1924; Labour Party Annual Report 1924; Morning Post 13/6/24; Wootton (1925).

McKenna, Goodenough, and Goschen, and by the FBI, who remained anxious as to the scale of deflation that would be needed to return to gold at the prewar par. With British prices presently considered to be around 10% higher than those in the US, deflation would they argued, reduce trade (especially exports), enlarge the burden of the national debt, require even higher taxes, and produce rising unemployment and ‘serious industrial friction’ until domestic prices and wages adjusted.²⁹

Hurrying Slowly

In spite of these difficulties however, by 1924 conditions were now improving for Britain’s state authorities. Though still uncertain, the world political and economic situation was beginning to look more stable. The introduction of financial reforms in Germany, including the creation of a new currency (the Rentenmark) and a politically independent central bank (the Reichsbank) had begun the process of a return to stability, while an international committee headed by the US General Dawes had been established to examine ways of balancing the German budget. The resulting plan devised by the committee also contained measures for facilitating international economic reconstruction and recovery as a whole, based upon a global expansion of American credit to debilitated countries through the recycling of excess US money capital. In particular, US capital loaned to Germany would enable reparations repayments to be met, thus enabling many other countries to meet their debt obligations and ostensibly resolving the protracted disputes over reparations and war debts. Indeed as 1924 progressed, global economic

²⁹ MRC:MSS.200/F/4/24/9. FBI Bulletins (1924 issues); MRC:MSS.200/F/3/S1/14/3. ‘Taxation Policy’ (FBI), 27/2/24; PRO:T160/197. Evidence to the Chamberlain-Bradbury committee by the FBI (30/7/24), by Goschen, McKenna, Goodenough; PRO:T176/5 Pt.1. OGM Speech by McKenna, January 1924; Kynaston (1999), pp.114-15.

conditions not only recovered but also developed into a new boom centred on European reconstruction and an upswing in America.³⁰

Domestically, the worst of the slump was also now over. Industrial production surpassed prewar levels for the first time, and though the staple trades continued to suffer, Britain's new industries continued to grow.³¹ The uncertainty over economic policy and the decline in sterling were also soon dispelled as the new Labour government announced its commitment to economic orthodoxy, in particular its desire to adhere to the deflationary principles of the Cunliffe report and to see Britain return to gold 'as soon as possible'. Plans for a capital levy were also dropped, and state intervention to deal with unemployment remained minimal, with the government claiming that the problem could only be resolved by greater economic flexibility and adaptation to global conditions.³² Furthermore, despite the rise in industrial unrest the labour movement also remained weakened compared to recent years. Though the number of new stoppages rose, the actual number of working days lost continued to fall and trade union membership fell to its lowest point of the interwar period.³³ By the middle of the year the resurgent unrest itself was now also subsiding. As the LRD observed, by July the 'forward move' had 'distinctly slowed down in pace', and by August it had almost disappeared.³⁴

Also of benefit to the authorities was that while the notion of a deliberately managed money was gaining wider credence, discontent over monetary policy was paradoxically now diminishing and the majority of opinion in Britain was not averse to a

³⁰ Clay (1957), Ch.5, pp.190-217; Kenwood and Lougheed (1971), pp.186-96; Eichengreen (1992), ps.147-52, 224-6.

³¹ Feinstein (1972), Tables 51-2.

³² Various in PRO:CAB23/47, PRO:PREM1/76 and PRO:T208/55; PRO:T172/1499B. 'Post-War Reports and Conferences'. Undated; Snowden (1934), pp.596-616; Cole (1948), pp.408ff; Marquand (1977), p.310.

³³ Butler and Butler (1994), p.373.

³⁴ Monthly Circulars of the LRD, June to September 1924.

return to gold. The bulk of the labour movement remained primarily concerned with more directly tangible issues such as wages, working conditions, and unemployment, the TUC's policy charter ignored the issue of monetary policy completely, the Labour Party leadership were firmly wedded to the gold standard, and despite the more radical stance of the left the general attitude of labour remained indifferent towards the subject. Indeed as the Labour Party later put it, though the process of deflation had produced 'serious industrial and social consequences', the issues of the gold standard and monetary policy were at this time 'the subject of surprisingly little political discussion'.³⁵

Similar views were also evident from representatives of capital. The ABCC continued to favour a return to gold and were now hopeful that this could be achieved within a 'comparatively short period', while City opinion, though divided over the use of deflation to force the issue, was also overwhelmingly in favour of an eventual return.³⁶ Even the FBI, despite their criticisms, were not opposed to a return to gold *per se*, nor necessarily to the use of deflation, but were rather concerned with the use of excessively rapid deflation in order to return at the prewar par. Indeed, the Federation now considered a general return to gold as essential for a revival of both international and domestic prosperity, and did not regard a managed money scheme as being practicable for anything other than a temporary interim measure preceding a return. As such, whilst the FBI favoured a waiting policy in the hope that US inflation would carry sterling to par with only a 'temporary retardation' of exports, they also continued to accept that there were

³⁵ TUC Annual Report 1924, p.482; Monthly Circular of the LRD. April 1924. Vol. XIII. No.4; Labour Party Annual Report 1928; BE:OV9/262. 'Purchasing Power of Gold' (League of Nations), 20/11/28; Snowden (1934), pp.596ff; Cole (1948), pp.408ff; Boyce (1988), pp.180ff.

³⁶ MRC:MSS.200/F/4/24/9. FBI Bulletins 29/1/24. 7(5); 5/2/24. 7(6), 12/2/24. 7(7); PRO:T160/197. Evidence to the Chamberlain-Bradbury committee by Schuster, Goschen, Currie, Leaf, Paish, McKenna, and Goodenough (Chairmen of Britain's leading banks); PRO:T176/5 Pt.1. OGM Speech by McKenna, January 1924; Grigg (1948), pp.181-4; Brown Jr (1970), p.338-9; Catterall (1976), p.44; Kynaston (1999), pp.114-15.

‘other considerations’, primarily the need for global economic recovery, which could make deflation necessary.³⁷

These improvements in domestic and international economic conditions combined with this easing of discontent over monetary policy and the general lack of opposition to the gold standard now enabled the authorities to begin considering a return to gold in more detail. At the Treasury concerns were now rising that Britain could ‘very suddenly’ be left isolated and weakened by a quick return to gold by the rest of the world, while at the Bank of England Norman was growing increasingly anxious for a rise in interest rates to bolster the pound. Political sensitivities over the issue however were still prevalent. Baldwin for example was fearful that renewed deflation could lead to a resurgence in labour unrest and the popularity of Socialist ideas, and officials generally were keen to avoid re-igniting public interest in the subject.³⁸ As Niemeyer maintained, public debate on monetary policy would raise hopes of a managed money and inflation, the loose talk of which had ‘already done us an infinitude of harm’, whilst as Norman pointed out, raising interest in the issue by announcing a specific date for a return would be ‘difficult and perhaps dangerous.’ As he explained:

“There have always been some here for whom the idea of gold was repugnant because they favoured, or pretended to favour, some new-fangled scheme: there have been public speakers....who were liable to torpedo confidence at any time: there have been many who feared a crisis if prices were deliberately forced down and margins on loans eliminated....Therefore, on the whole, my feeling is that however wearisome the pace has been, we have been wise so far to hurry slowly.”³⁹

³⁷ PRO:T160/197. FBI evidence to the Chamberlain-Bradbury committee 30/7/24; MRC:MSS.200/F/4/24/9. FBI Bulletins. 5/7/24. 7(31); 5/8/24. 7(32).

³⁸ BE:G3/180. Norman to Blakett 21/5/24; Norman to Silberling 13/6/24; 14/6/24; BE:ADM34/13. Norman Diaries 13/6/24; BE:C40/737. Norman to Strong 27/3/25, 24/4/25; PRO:T160/197. Niemeyer to Snowden 5/4/24; PRO:T176/5 Pt.1. ‘Sterling and the Gold Standard’ (Hawtrey), 26/4/24; Williamson (1999), pp.169ff.

³⁹ PRO:T176/5 Pt.1. Niemeyer to Snowden, March 1924; BE:G3/181. Norman to Strong 16/10/24.

Unable to find a justifiable excuse for putting up interest rates however, Norman was forced to abandon the idea of a rise. Nonetheless, the pound soon began to appreciate as the FRBNY engaged in a series of cuts to 3% by August in a bid to allay domestic fears of a recession and to encourage a return to gold by Britain and Europe. As such, the differential with New York was now sufficient to fuel expectations that Britain would soon return to gold at the prewar par, provoking a speculative inflow of capital and causing sterling to rise from the summer.⁴⁰

With officials increasingly keen to engineer a return, in June an official committee known as the Committee on the Currency and Bank of England Note Issues (though better known as the Chamberlain-Bradbury committee after its two chairmen) was established. Ostensibly designed to consider the technical question of amalgamating the note issues, in reality the committee was set up to examine the means by which a return to gold could be brought about.⁴¹ In particular, the committee were concerned with the question of whether deflation should now be imposed in order to raise sterling to par quickly, or whether they should continue waiting for US inflation in the hope that this could be achieved with less friction. For key officials however, neither option offered an ideal solution. On the one hand, deflation was thought to be difficult to achieve and would entail a long period of high interest rates and economic dislocation. As Hawtrey explained:

⁴⁰ BE:ADM34/13. Norman Diaries 13/6/24; BE:G3/180. Norman to Strong 16/6/24; Brown (1940), Ch.12; Keynes (1951), p.229; Morgan (1952), pp.213ff; Howson (1975), p.56; Sayers (1976), p.139.

⁴¹ The committee was initially led by Austen Chamberlain, who was replaced by Bradbury after being made foreign secretary in the new Conservative government: BE:G35/5. Norman to Strong 26/2/25, 15/4/25; BE:G3/181. Norman to W. H. Clegg 13/10/24; BE:G3/180. Norman to Niemeyer 16/4/24; PRO:T160/197. Niemeyer to Snowden 5/4/24; Notes by Niemeyer; PRO:T176/5 Pt.1. 'Sterling and the Gold Standard' (Hawtrey), 26/4/24; Sayers (1976), pp.136-7.

“no method of returning to the gold standard at pre-war par (apart from a rise in prices in America) can avoid the depression and unemployment incidental to a fall in prices.”⁴²

On the other hand, continuing to wait for US inflation was now thought to be increasingly futile, with the growing view being that US prices would not now rise and that British prices would therefore have to fall. As Norman for example put it, whilst American inflation ‘would make it much easier’ to return to gold, this was now unlikely and Britain would instead have to endure a ‘big fall in price.’ For Norman and Addis however (the Bank’s representatives to the committee), this was still considered to be worth the ‘sacrifice’. Deflation, they argued, would not only force Britain to become competitive, but by enabling a return at the prewar par would also provide for economic stability, ensure international confidence in sterling, and prevent a future resurgence of inflation and hence ‘further social disturbances, further strikes and discontent.’ Moreover, adherence to such an ‘automatic’ regime with its clear economic signals was also seen as enhancing their freedom of manoeuvre. As Norman, complaining of the Bank’s organisation again explained, ‘I certainly am not blessed with a ‘machine’ which so far runs itself that I am free to be away from London as much as I would like’, while as Addis put it, a government announcement of its intention to return would provide the Bank with ‘the reason, and if necessary the excuse’ for its actions.⁴³

Aware of the potential dangers of deflation however, not least the possibility that this could lead to political pressures for the nationalisation of the Bank, Norman and Addis were also keen to ensure that responsibility for the operation of monetary policy would lay

⁴² PRO:T176/5 Pt.2. ‘Sterling and Gold’ (Hawtrey), 4/7/24.

⁴³ PRO:T160/197. Evidence of Norman and Addis to the Chamberlain-Bradbury committee 27/6/24; BE:G35/5. Norman to Strong. 18/2/25.

entirely with the government. As the Governor again explained, while it was ‘difficult not to have political views’, it was however ‘dangerous to express them’, and whilst the Bank was willing in principle ‘to lend its services for the re-establishment of a free gold market in this country....[it] would not desire to participate in the result of Exchange operations.’ Furthermore, although the Bank would possess formal authority for sterling once Britain was back on gold, Norman was also insistent that the Chancellor would nonetheless remain ‘the ultimate authority for the maintenance of the Currency, and therefore of the Exchanges.’⁴⁴

A Shift in Strategy

Despite the assertions of Norman and Addis however, Britain’s state authorities were still undecided as to their course of action. Hawtrey for example favoured continuing to wait for US inflation, arguing that higher interest rates would create ‘another acute and serious unemployment crisis’, Bradbury now purported to have ‘no settled conclusions’ on the matter, and the Bank of England as a whole were also uncertain. As Cecil Lubbock (the Deputy Governor) explained to Strong:

“The question of the gold standard will no doubt be prominent before very long....something will have to be done soon: but are we to force our prices down, or will you allow yours to rise?”⁴⁵

Though uncertain over the timing of the return, state officials were nonetheless resolutely agreed on the par value, with the rate of \$4.86 now so ingrained that the

⁴⁴ PRO:T160/197. Evidence by Addis to the Chamberlain-Bradbury committee 27/6/24; Comments by Niemeyer during the evidence of Goodenough 11/7/24; PRO:T172/1500A. Norman to Niemeyer 4/12/24; BE:G30/13. Norman to H. Schacht 6/12/24.

⁴⁵ PRO:T176/5 Pt.2. ‘Sterling and Gold’ (Hawtrey), 4/7/24; PRO:T208/54. ‘Sterling and the Gold Standard’ (Hawtrey), 24/7/24; PRO:T160/197. Bradbury to Farrer 24/7/24; BE:G3/181. Lubbock to Strong 25/8/24.

Chamberlain-Bradbury committee did not even consider it to be worth discussing. This did not mean though that \$4.86 was decided upon merely out of precedent, or that the lack of discussion signified negligence on the part of the authorities.⁴⁶ Rather, a return at the prewar par was seen by state officials to be fundamentally important for the whole structure of Britain's economy and its integration into the global circuit of capital. Returning at a rate less than \$4.86 would, it was thought, not only damage international confidence in sterling and diminish Britain's capacity for invisible earnings, but would also mean higher import costs and renewed inflationary pressures. Moreover, a return at \$4.86 would not only encourage other countries to return, thereby facilitating global stability, but as Hawtrey later explained this was also considered to be the only credible rate available. A lower parity would undermine the credibility of Britain's commitment to the gold standard by sending out a signal that further devaluations might follow in the future should similar difficulties arise. Thus:

“The advantage of the old parity was that, once the country had returned to it by a great effort, people would expect great efforts to be made to retain it. For that reason it would command a greater degree of confidence than a new rate chosen to suit the circumstances of a particular moment.”⁴⁷

The need for Britain's return to gold to be credible was therefore considered by officials to be of vital importance, not least for helping to shape the expectations and hence the behaviour of capital and labour by convincing them that there would be no future change in monetary policy. As Norman put it, the situation was ‘much more a question

⁴⁶ A view held for example by Gregory (1925), pp.32ff; Brown Jr (1940), pp.609-12; Moggridge (1972), Chs.3-4; Howson (1975), Ch.3.

⁴⁷ Hawtrey (1933), pp.233-4; PRO:T172/1499B. ‘How Does a Gold Standard Work in Regulating Credit?’ (Hawtrey), undated believed 1925; Evidence by Niemeyer to the Committee on Finance and Industry, 4/6/30. Minutes of Evidence Vol.2; BE:G14/312. Niemeyer to A. C. Turner 19/11/43; Clay (1957), pp.158ff.

of...the psychology of the announcement than of the facts.’⁴⁸ Indeed, with uncertainty over monetary policy still a potential source of political difficulty for the authorities, the need for a credible commitment was even considered in many ways to be more important than the actual date of the return itself. As Norman, who did not now expect sterling to go to par for ‘months or years’, told Strong:

“There is no need for great hurry in our reaching gold parity, but there is great need for hurry in having a policy which is clear to everybody and which is definite and final.”⁴⁹

The question of when to return to gold thus hinged upon which date was thought to be the most credible, or as Bradbury put it, which date people were ‘most likely to believe.’ Officials though, were still in disagreement as to when this should be. Neither Chamberlain or Hawtrey for example suggested any particular date, Bradbury thought an eighteen month period to be the most credible, whilst Addis and the Bank’s Committee of Treasury favoured a period of twelve months. For Norman though, the best date was thought to be in three years time. As he explained, returning to gold at the prewar par in a shorter period would entail a more rapid rise in the pound and would thus be an unreasonable proposition ‘to put before the man in the street’, risking antagonising public opinion and losing credibility.⁵⁰ Announcing that Britain would return to gold in three years however would not mean that the authorities would have to wait that long for the benefits. On the contrary, Norman argued that the speculative inflow of capital that would follow a credible announcement to return at \$4.86 would quickly lift sterling back to par well in

⁴⁸ PRO:T160/197. Evidence by Norman to the Chamberlain-Bradbury committee 27/6/24.

⁴⁹ BE:G3/180. Norman to Strong 16/6/24; Norman to Blackett 21/5/24; Norman to Silberling 13/6/24; 14/6/24.

⁵⁰ PRO:T176/5 Pt.2. ‘Sterling and Gold’ (Hawtrey), 4/7/24; PRO:T208/54. ‘Sterling and the Gold Standard’ (Hawtrey), 24/7/24; PRO:T160/197. Comments made by Chamberlain during Goodenough’s evidence to the Chamberlain-Bradbury Committee 11/7/24; Comments by Bradbury during the evidence of Norman and Addis to the Chamberlain-Bradbury committee 27/6/24; BE:ADM16/2. Minutes of the Committee of Treasury 23/6/24.

advance of the date set, thus providing the authorities with ‘extremely valuable camouflage’, giving the public time to get used to the ‘new’ exchange rate, and drawing the political sting out of the move. As he again explained,

“if you can....draw up a façade which impressed everybody with its certainty as to its date, I believe long before that date arrives you will have reached gold and the agitation will have died away; people will have forgotten about it.”⁵¹

In September the Chamberlain-Bradbury committee produced its first draft report. This advocated continuing to wait for US inflation but argued that Britain should return to gold regardless within a maximum period of twelve months. The draft however was criticised by senior officials for being too vague. Bradbury wanted more emphasis on the fact that the wait for US inflation would be a short one, Norman thought it to be too ambivalent over the date for a return, whilst Chamberlain felt that it should be more explicit in stating that the currency would be managed by the Bank of England and not the government. In October the committee produced a second revised draft report, though this too continued to propose waiting for a rise in US prices.⁵²

By now however the emphasis in official thinking was beginning to shift more decisively in favour of a policy of deflation. Key authorities were increasingly of the view that Britain could no longer afford to wait for US prices to rise, and were also coming to recognise that a return to gold at the old par could itself be used as a means of forcing down British prices. As Strong pointed out, it was now ‘illusory to expect price adjustments of themselves to effect a recovery of sterling’, and the only way forward for

⁵¹ PRO:T160/197. Evidence by Norman to the Chamberlain-Bradbury committee 27/6/24.

⁵² PRO:T160/197. Bradbury to N. E. Young 11/9/24; Chamberlain to Young 13/9/24; Various copies of the committee’s reports; Moggridge (1969), pp.32-4; Sayers (1976), p.140.

Britain was to return to gold with an act of ‘force majeure’. This view was also now shared by Niemeyer who maintained that a successful return did not require that British and US prices were level beforehand, but could only now be accomplished by actually putting the pound at par. As he later expanded, ‘when you get within a certain distance of par there is one thing...which will carry the last fence, and that is to put your rate at par, to say it is there.’⁵³ On this assessment Norman too was now in full agreement. Indeed in his view, US inflation would now not only fail to reduce the price difference between Britain and America, but would itself trigger renewed inflation in Britain. As he told Strong,

“it would not be sufficient to wait for exchange parity to be reached merely through the price levels coming together. Indeed, if while we were waiting your prices were to raise...I do not believe we could ever prevent ours from following.”⁵⁴

As this change in strategy was developing however the domestic political situation was becoming more uncertain. Embroiled in a political crisis over the alleged intervention of the Prime Minister, Ramsay MacDonald, in the trial of a Communist editor for sedition, the minority Labour government collapsed, forcing another general election.⁵⁵ Moreover, as it became increasingly clear that the Conservatives were likely to win, the prospects for using a return to gold to impose deflation grew increasingly slim. As Norman bemoaned, the Conservatives were,

⁵³ PRO:T172/1500A. Niemeyer to Norman 8/12/24; PRO:T172/1499B. Untitled Document 21/4/25; Evidence by Niemeyer to the Committee on Finance and Industry 4/6/30. Minutes of Evidence. Vol.2; Clay (1957), p.164; Moggridge (1969), pp.32-7.

⁵⁴ BE:G3/181. Norman to Strong 16/10/24.

⁵⁵ On this see for example Middlemas (1969), pp.262ff.

“apt to listen to the traders and manufacturers, who, while they profess a remote affection for gold and a real affection for stability, always want a tot of brandy (in the shape of inflation) before the level is fixed!”⁵⁶

Unfortunately for the Governor the Conservatives were nonetheless re-elected and discussions on the return to gold were once again paralysed. The political upheaval, Norman complained, had now ‘side-tracked all thoughts on gold policy’, had left no political desire to take the ‘drastic steps’ necessary to bring about a return, and no decision was now expected until possibly as late as 1927.⁵⁷

‘Not a Word...’

By October 1924, all official attempts to return to gold since the end of the war had so far been thwarted. A quick return in 1919 had been ruled out for fear of the social and political consequences of deflation, the dear money policy of 1920 had been forcibly abandoned by 1922 due to political and economic pressures, subsequent hopes for US inflation had proved fruitless, and now the renewed optimism of 1924 had apparently collapsed along with the Labour government. On top of this, monetary policy also remained under fire from certain quarters. Continued attacks by Keynes and Henderson were now joined by several sections of the press, while many on the labour left also remained critical. In particular, the newly established ‘national minority movement’ headed by the CPGB and the ILP continued to oppose any notion of a return to gold, arguing that this was being dictated by financial interests and warning that a return would mean higher interest rates, rising unemployment, and lower wages.⁵⁸ On the side of capital, the FBI also

⁵⁶ BE:G3/182. Norman to Blakett 27/10/24.

⁵⁷ BE:G3/181. Norman to Strong 16/10/24.

⁵⁸ Sunday Express 5/5/25; Daily Mail, 5/3/25; ‘Will Unemployment Increase?’ (Henderson), 4/4/25 in Clay (1955); the New Leader 16/1/25; 13/3/25; the Workers’ Weekly (CPGB) January-March 1925; Monthly

continued with their critical stance, questioning whether a general return to gold was possible at the present time and reasserting their view that a unilateral return by Britain would fail to provide economic stability. These concerns were now also evident from other industrial groups, such as the Manchester Association of Importers and Exporters (MAIE) who claimed that a return to gold risked ‘disastrous consequences’ to trade, industry, and employment, and many traders were also anxious that a return would lead to higher interest rates and lower prices.⁵⁹

Despite these criticisms however, conditions in general were nevertheless continuing to improve for state officials. The overwhelming majority of press and public opinion in Britain remained either uninterested or unconcerned about the prospect of a return to gold, and those explicitly against the policy remained in a minority. Moreover, following the subsidence of unrest the labour movement were once more returning to their traditional concerns and continuing to pay little heed to monetary policy issues, while the Labour Party leadership remained committed to a return to gold, with Snowden concurring in the view that there needed to be no prior convergence of British and US prices since a stable currency was itself ‘one of the essentials of a healthy state of trade’.⁶⁰

Representatives of capital were also increasingly positive towards a return to gold. The City were now universally in favour, with even McKenna describing the gold standard as having ‘great and striking advantages’, and despite their concerns many within commerce and industry were also favourably predisposed. The LCC for instance declared

Circular of the LRD, March 1925. XIV(3); Labour Party Annual Report 1930. p.35; Hancock (1962), p.107; Boyce (1988), *passim*.

⁵⁹ MRC:MSS.200/F/3/E1/4/1. ‘Finance’ (FBI), 5/2/25; MRC:MSS.200/F/3/S1/14/6 and PRO:T172/1499B. J. S. McConechy (MAIE) to Nugent 24/1/25; to Churchill, 18/4/25; and to Sir A. Anderson 21/4/25; G. H. Fulton to FBI 17/3/25; MAIE Bulletin 24/7/24.

⁶⁰ Labour Party and TUC Annual Reports 1924-1925; Monthly Circular of the LRD (issues from August 1924 to May 1925); Workers’ Weekly January-February 1925; The Socialist Standard (1925 issues); the Observer 8/2/25.

their support for the policy, while many wholesale and retail interests were now looking forward to the boost to sales from lower prices.⁶¹ Though uneasy, the MAIE were also deferential to the authorities, pointing out that only the state authorities possessed ‘the necessary knowledge and experience’ to make monetary policy decisions, and despite their continued anxieties the FBI were now increasingly optimistic about the future economic situation. The rise in sterling was seen not as a deflationary menace but as a sign of increased confidence in the British economy, international conditions were thought to be improving, and the prospects for a general return to gold were looking progressively brighter as countries began to recognise that it was ‘essential to check inflation by some automatic means.’ The Federation were now also against continuing to wait for a rise in US prices, arguing that this would produce domestic inflation, now seen to be detrimental to Britain’s long-term prosperity. Though still concerned about the short-term effects of a return to gold, the FBI were now also convinced that the majority of British opinion was in favour and that the move was ‘inevitable’.⁶² As such, although the authorities were thought to be holding sterling at an artificially high rate, thus increasing British costs and prices, the Federation were nonetheless of the view that British industry would simply have to adjust to the ‘new’ exchange rate. As they put it:

⁶¹ MRC:MSS.200/F/4/24/11. FBI Bulletins 27/1/25. 8(4); 3/2/25. 8(5); 10/2/25. 8(6); MRC:MSS.200/F/3/S1/14/6. G. H. Fulton to FBI 17/3/25; BE:G14/312. Norman to Bradbury 24/2/25; PRO:T172/1499B. Midland Bank Monthly Reviews. January-March 1925; A. de V. Leigh (LCC) to Baldwin and Churchill 16/3/25; Catterall (1976), p.44; Kynaston (1999), p.18.

⁶² MRC:MSS.200/F/3/S1/14/6 and PRO:T172/1499B. MAIE Bulletin 24/7/24; J. S. McConechy to Churchill 18/4/25; to Nugent. 24/1/25; FBI to Churchill 17/3/25; to G. H. Fulton 20/3/25; to R. A. Kerr Montgomery 18/5/28; D. L. Walker (FBI General Secretary) to Sir R. A. Kerr Montgomery. 12/12/28; MRC:MSS.200/F/4/24/9-11. FBI Bulletins (November 1924-March 1925). NB: In October 1924 the ‘FBI Bulletin’ changed its name to ‘British Industries’. For purposes of simplicity and continuity however it shall still be referred to as ‘FBI Bulletin’. Also see MRC:MSS.200/F/3/E1/4/1. ‘Finance’ (FBI), 5/2/25; ‘The Gold Standard and International Debts’ (Nugent), 6/2/25.; Layton (1925), pp.184-5; Hume (1963), pp.240-1; Boyce (1988), pp.189-90.

“it seems difficult to avoid the conclusion that the restoration of our full competitive power requires the forcing down of our prices and costs until they are in adjustment with the value of the exchange as fixed by our monetary authorities.”⁶³

Furthermore, despite the lack of political will on the subject, at the Bank of England Norman was still anxious to get back to gold as soon as possible. Equally sensitive to the dangers of public debate on the issue however, the Governor remained keen to keep it out of the limelight. As he told Strong:

“you know how controversial a subject it is – how it is everybody’s business – and how secretly it must be treated....not a word can be breathed until some decision has been reached.”⁶⁴

As such, though Norman was still eager to take more active measures to assist sterling, a rise in interest rates was ruled out for fear of the potential reaction. Instead, the Governor turned to less noticeable methods to strengthen the pound, using his influence within the City to bring about an informal embargo on foreign lending.⁶⁵ Following this, Norman then travelled to New York to set upon a plan for bringing about Britain’s return. In consultation with senior figures at the FRBNY it was agreed that Britain’s embargo on the export of gold should be allowed to expire at the end of 1925, and that all official considerations of the issue would be delayed until March in order to keep it out of Parliament until the last minute, and away from the ‘irresponsible’ US congress which would undoubtedly raise awkward questions.⁶⁶ Assurances of co-operation were also obtained, with the US agreeing to provide a credit facility of \$500 million (later reduced to

⁶³ MRC:MSS.200/F/4/24/11. FBI Bulletin 30/4/25. 8(15).

⁶⁴ BE:G3/181. Norman to Strong 16/10/24; to W. H. Clegg 13/10/24; to B. Hornsby 10/11/24.

⁶⁵ Morgan (1952), p.366.

⁶⁶ BE:G35/5. Norman to Strong 21/3/25; PRO:T160/197. Evidence by Norman to the Chamberlain-Bradbury committee 28/1/25; Boyle (1967), p.187.

\$300 million) for insurance against speculation, and guaranteeing that they would not engage in any deliberate inflationary or deflationary measures while Britain returned. Norman was also warned however that higher interest rates might be needed in New York in the near future to check domestic speculation, and that the deflationary pressure on the British economy following a return might therefore be greater than anticipated.⁶⁷

Early in 1925 events began to gain momentum. In January the Chamberlain-Bradbury committee produced its third draft report, also recommending that the gold export embargo be allowed to expire in December, but adding that the export of gold be permitted on license in the interim, and that the government should make an announcement to this effect in the near future. The draft also now put a figure on the scale of domestic adjustment thought to be required to sustain the prewar par in the absence of any US inflation, claiming that British prices would have to fall by 6%. The difficulties involved in this however were played down, with the draft arguing that this reduction was only 1.5% greater than that required to hold sterling at its present rate of \$4.79, and that the actual extent of any adjustment would therefore be ‘comparatively small.’⁶⁸ The already terminal case against easing the pressure on Britain’s industry through inflation or a lower exchange rate was further compounded by the publication of the latest report of the long-running Balfour committee, which reinforced official beliefs that the only solution to Britain’s long term economic decline was increased productive efficiency and an adjustment to changing global conditions.⁶⁹

By now the position was looking uniquely ripe for a return to gold. Sterling was close to par, the political and economic situations were increasingly stable, and as Norman

⁶⁷ PRO:T175/9. Norman telegrams to Lubbock 7/1/25; Boyle (1967), pp.183-5; Moggridge (1972), pp.59-60.

⁶⁸ Copies of the reports in PRO:T160/197.

⁶⁹ Sayers (1960), p.90; Moggridge (1969), p.65.

put it only ‘certain politicians and cranks’ were now opposed to the policy.⁷⁰ Official opinion on the plan devised in the US however was divided, with senior Bank and Treasury figures concerned about the complications posed by the provision of US credits. As Niemeyer for example explained, such credits could not halt a determined speculative attack, though their existence would complicate the situation by making the state responsible for the regulation of the currency. In the event that Britain should encounter any difficulty following the return, public opinion would therefore be likely to call for their use instead of a rise in interest rates, thus serving to prolong Britain’s economic uncompetitiveness. In addition, various officials at the Bank were also nervous about returning to gold before British and US prices had converged, warning that the risk ‘would be too great and the consequences of failure too grave for us to commend it.’⁷¹ Such disagreement however left Norman unruffled. As he remarked, while the Bank had a ‘general approval in principle but a strange opposition in detail’, its opposition would soon ‘be worn down’.⁷²

On The Seas of History

With the basic elements of a plan now all but settled, the focus of attention now turned to the new Chancellor, Winston Churchill. Self-confessedly ignorant of financial and economic matters, Churchill did not pretend to understand the nuances of a return to gold and remained highly dependent on his advisors, Hawtrey, Niemeyer, Bradbury, and

⁷⁰ PRO:T175/9. Norman telegrams to Lubbock 7/1/25.

⁷¹ PRO:T172/1500A. Niemeyer to Norman 8/12/24; ‘The Cushion’ (Niemeyer), 20/3/25; Untitled and undated document by Fisher; BE:C40/737. Lubbock to Norman 9 & 10/1/25; Niemeyer to Norman 16/3/25; PRO:T175/9. Norman telegrams to Lubbock 7/1/25; Niemeyer to Lubbock 9/1/25; PRO:T160/197. Evidence by Addis to the Chamberlain-Bradbury committee 28/1/25; Sayers (1976), p.141.

⁷² BE:G35/5; Norman to Strong 24/1/25; BE:G14/312. Norman to Strong 24/4/25.

Norman in such matters.⁷³ Moreover, the Chancellor's primary concerns lay not with the economic details, but with the political implications of the decision, and more specifically with assembling sufficient arguments with which to defend himself against any criticisms it might attract. As such, towards the end of January Churchill dispatched a memo to his advisors outlining his concerns. In particular the Chancellor was worried that a return to gold would lead to higher interest rates, checking economic activity, raising unemployment, and leaving the government (and especially himself) open to the charge of favouring finance over industry. In contrast, he wondered whether it would not be better to continue with a discretionary regime on the basis that the imposition of higher rates could be justified with the claim that even higher levels would be required under a gold standard, and that no-one could therefore 'attribute it to the action of the British Government'. Nonetheless, whilst 'only very plain and solid advantages' were thought to 'justify the running of such a risk', Churchill was also 'ready and anxious to be convinced' of the need for a return to gold.⁷⁴

All of Churchill's advisors, with the exception of Hawtrey who continued to urge waiting for US inflation, now emphasised the importance of a quick return. The general consensus was that a decision on the subject could no longer be avoided, that the Chancellor would be exposed to immediate criticism whatever action he took, but that a return to gold offered distinct political and economic advantages. The overwhelming majority of public opinion in Britain they argued, was in favour of a gold standard, and it was also claimed that this would provide greater long-term economic stability and lower interest rates than a managed money. In contrast, failing to return would they warned, lead

⁷³ Boyle (1967), pp.179-81; Ponting (1994), p.293.

⁷⁴ PRO:T175/9. Untitled Memo. (Churchill), 29/1/25.

to economic instability and a loss of international confidence in the pound, which would require even higher interest rates to prevent its collapse than would be needed to maintain the prewar par. For this, as Norman maintained, ‘the ignorant would doubtless blame the Chancellor’. In addition, Churchill’s advisors also emphasised that a gold standard would offer an easier means of managing economic policy, ensuring less economic fluctuations than a managed money and providing an effective defence against political pressure for inflation, the negative effects of which in terms of wage demands and social unrest were still alive in the memory. Moreover, as Niemeyer maintained, while a return to gold would not require a very large fall in prices, in the event that it should then this would not be a bad thing as the fall would have been inevitable in any case, and the gold standard would therefore ‘have shown its use as an instrument of danger’. In sum, continuing with a managed money, as Niemeyer again put it, would not therefore produce an easing of the political pressure, but on the contrary would lead to ‘great disappointment and considerable opposition’.⁷⁵

These views were also mirrored by the final report of the Chamberlain-Bradbury committee, published in February. The report maintained that conditions were now uniquely ripe for a return to gold, and that in the absence of US inflation British prices would only have to fall by a ‘significant, though not very large amount’ in order to hold the prewar par without any difficulty. It also argued that this process would be aided by a credible return, claiming that a ‘courageous policy’ would surmount ‘apparently formidable obstacles with surprising ease’, and warned that continuing with a managed

⁷⁵ PRO:T172/1499B. ‘The Gold Standard’ (Hawtrey), 2/2/25; ‘The Gold Export Prohibition’ (Niemeyer), undated; ‘Gold Standard Bill’ (Niemeyer), Undated; ‘Commentary’ (Niemeyer), 2/2/25; Niemeyer to Churchill 6/2/25; Untitled Memos, 7/3/25, 21/4/25; ‘Note on Gold Standard’ (Niemeyer), 29/4/25; BE:G14/312. Norman to Churchill (undated); Bradbury to Niemeyer 5/2/25; PRO:T171/246. Niemeyer to Churchill 21/2/25.

money would require higher interest rates in order to avoid any loss of confidence in the pound.⁷⁶

Despite maintaining that these various points offered ‘a solid foundation both of argument and authority justifying the actions proposed’, Churchill however was not yet convinced and had yet to make any recommendation on the subject to the Cabinet.⁷⁷ With unemployment still a politically sensitive issue, and with a return to gold at the prewar par recognised as requiring high tax and interest rates, the Chancellor remained anxious about the potential for criticism. Nonetheless, though sharply rebuking senior Treasury and Bank officials for their apparent lack of concern over unemployment, Churchill was forced to admit that in the end there was no alternative. As he explained:

“I do not pretend to see even ‘through a glass darkly’ how the financial and credit policy of the country could be handled so as to bridge the gap between a dearth of goods and a surplus of labour; and well I realise the danger of experiment to that end. The seas of history are full of famous wrecks.”⁷⁸

In February however the rise in New York rates of which Norman had been warned took place with an increase to 3.5%, prompting the Bank of England to raise interest rates to 5% in March and to warn of a possible 6% rate in April in order to exert a final pull on sterling.⁷⁹ At such a crucial stage, officials were ever-more anxious to ensure that the subject of a return to gold did not become a topic of public debate. Cabinet Ministers, aware of but not participating directly in the discussions, were keen to keep quiet on the

⁷⁶ Report of the Committee on the Currency and Bank of England Note Issues. 5/2/25. Cmd.2393.

⁷⁷ PRO:T172/1499B. Chamberlain to Churchill 8/2/25; BE:C40/731. Bank of England to Strong 6/2/25.

⁷⁸ PRO:T171/245. Churchill to Niemeyer 6/2/25; PRO:T172/1499B. Churchill to Niemeyer 22/2/25; Boyle (1967), p.188; Skidelsky (1969); Gilbert (1976), p.96.

⁷⁹ BE:ADM34/14. Norman Diaries 19/3/25; Hawtrey (1933), p.117; Sayers (1976), pp.144-5.

issue in order to avoid exciting any renewed public interest,⁸⁰ while Niemeyer, concerned that the rise would elicit a temperamental and public outburst from Churchill (who had not been informed of the move beforehand) sought to head off any adverse reaction by dispatching a memo to the Chancellor pointing out that the responsibility for such decisions now lay squarely with the Bank and that political interference should be avoided.

As he stated:

“It is not either necessary nor the practice for the Bank to consult the Government of the day....We have neither claim to be consulted nor power to enforce our views; and I think it would be generally recognised that in order to avoid political interference on these matters it is not desirable that we should have any such claim.”⁸¹

In the event however the rise attracted no great criticism, and though privately ‘indignant’ Churchill nevertheless followed the line presented by Niemeyer, telling the House of Commons that the Bank were acting independently and asserting that it would be an ‘inconvenient practice’ if the Chancellor were to state his opinions on such matters.⁸² With the end now in sight, Churchill also invited several prominent figures from both sides of the monetary policy debate to a dinner party at which the competing arguments were put in a final deliberation. Representing the case for a managed money, Keynes argued forcefully that a return to gold at the prewar par would overvalue the pound, damage Britain’s export industries, and lead to downward pressure on wages, rising unemployment, and industrial unrest. Bradbury, in contrast, extolled the virtues of a gold standard. It was he said, a ‘knave proof’ mechanism that could not be rigged for political or

⁸⁰ PRO:CAB23/49. Cabinet Meeting 25/3/25.

⁸¹ PRO:T176/13 Pt.1. Niemeyer to Churchill 4/3/25; Leith-Ross (1968), p.95.

⁸² PRO:T176/13 Pt.1. ‘Relations Between the Treasury and the Bank of England....’ (undated); BE:G14/312. Committee of Treasury Minutes 25/3/25: The CPGB were one of the few to protest. See Workers’ Weekly 18/3/25; Gregory (1926), p.40; Sayers (1976), p.144.

‘even more unworthy reasons’, and adherence to it would ensure that Britain’s exports remained competitive by forcing cost adjustments in slack industries. Britain’s staple trades, he argued, were likely to contract whatever policy was adopted due to increasing foreign competition, and the best future for Britain lay with developing its means of invisible earnings and in adjusting its industrial structure towards the production of higher quality goods. Once the arguments were in, Churchill asked McKenna, as an ex-Chancellor, what he would do. In a stark reply, McKenna stated bluntly that there was no alternative to a return, though it would he warned, be ‘hell’.⁸³

Three days later on the 20th March the official decision was formally taken at a meeting between Norman, Churchill, Chamberlain, Bradbury, Niemeyer, and Baldwin (once more the Prime Minister). It was agreed that Britain would return to gold at the prewar par, that the embargo on the export of gold would be allowed to expire at the end of December, and that there would be an official announcement of the return in the budget speech in April. Bank of England licences for the export of gold were to be available in the interim, any rise in interest rates was to be delayed until a week after the return in order to diminish any criticism of the decision, and the US credits were to be used only in the event of a substantial gold outflow.⁸⁴

Following the decision the Cabinet were now informed,⁸⁵ and to avoid the need for provocative legislation officials sought to enlist the informal assistance of the banking sector in order to restrict the convertibility of gold for export purposes only. This, it was thought, would make the gold standard easier to manage by reducing the level of gold reserves required by the Bank of England and by removing the potential for an internal

⁸³ The only surviving account of this meeting is in Grigg (1948), pp.182-4.

⁸⁴ See PRO:T172/1500A; Also see BE:ADM34/14. Norman Diaries 20/3/25.

⁸⁵ The official minutes do not record specific Ministerial opinions. PRO:CAB23/49. Cabinet Meetings 25/3/25, 27/4/25.

drain. The bankers however (especially McKenna), were reluctant to become involved and only agreed to do so after receiving explicit assurances that the length of their participation would be restricted to two years (later extended by a further year in 1927).⁸⁶ Officials also considered applying a temporary limit to the fiduciary issue in order to buttress the anti-inflationary credibility of the return by ruling out the possibility of a monetary expansion, though this idea was rejected. As Norman pointed out, such a move would not only fail to bind future governments and would hence lack credibility, but it would also arouse public debate on monetary policy and would therefore be ‘a highly controversial point at a moment when sleeping dogs had better be left alone.’⁸⁷

Concluding Remarks

In 1920 Britain's governing authorities began pursuing a policy of deflation and retrenchment in order to clear the way for a return to the gold standard at the prewar par. Tight economic policies would drive down prices and wages and raise the value of the pound, while disengaging the state from its directly visible control of the economy would reduce the expectations of capital and labour, thereby easing the political pressure on the state. Following this, the re-establishment of sterling as part of an automatic, fixed exchange rate regime would serve to prevent any resurgence of economic and political difficulties, confining domestic economic conditions within internationally defined levels, and depoliticising monetary and economic policy-making. This, it was hoped, would force Britain to remain internationally competitive, encourage producers to shift to newer and more advanced branches of production, reduce labour unrest, and increase the high

⁸⁶ Various in PRO:T176/16; BE:C92/111; BE:G14/312; and BE:G8/56.

⁸⁷ BE:C40/737. Norman to Strong 27/3/25; 24/4/25; BE:G35/5. Norman to Strong 20/4/25.

political freedom of the core executive. By 1922 however this strategy was seen to have failed. Despite the removal of the state's wartime controls economic conditions had remained politicised, and growing pressure from capital and labour over the effects of deflation had forced the authorities to loosen their economic policy stance. In its place, state officials turned instead to a 'waiting policy' in the hope that US inflation would enable a return to gold at \$4.86 with minimal risk and disruption.

This chapter has shown however that by 1924 it was increasingly apparent that this strategy too had failed. The prospect of a rise in US prices was diminishing, labour unrest had displayed renewed vigour, and key officials were now of the view that more active steps needed to be taken in order to address Britain's economic and political difficulties. As such, the governing strategy of the core executive now shifted to one in which a return to the gold standard at a deliberately overvalued exchange rate was itself to be used as a means of imposing deflationary financial discipline upon capital and labour. The relatively high value of the pound would force a reduction in prices and wages and encourage a reorientation of production, while the depoliticisation of monetary and economic policy would impose a firm discipline upon the expectations of capital and labour, and would displace any pressure over economic conditions away from the state, thereby improving the high political freedom of manoeuvre of the authorities. The success or otherwise of this strategy is the subject of the next two chapters.

Chapter 6 : The Golden Shield, 1925-1928

This chapter assesses the gold standard strategy from 1925 to 1928. It shows that in economic terms the policy was unsuccessful in forcing any significant competitive breakthrough or productive adjustment from capital and labour, and that subsequently Britain's economy continued to struggle. This was made worse by the onset of a global economic crisis from 1926, and served to constrain rather than enhance the freedom of manoeuvre of Britain's state managers as dissatisfaction grew over economic conditions, and as opinion in Britain remained opposed to any overtly deflationary pressure. Conversely however, the return to gold was largely successful in removing the issue of economic policy-making from the political agenda, and provided an effective means of shielding state officials from social disquiet over economic conditions. Though the authorities were not completely immune from criticism and pressure, monetary policy was no longer seen to be a key political issue during this time, and the credibility of Britain's commitment to maintain the par value of sterling was not seriously challenged. Dissatisfaction from capital and labour over economic conditions was for the most part successfully displaced away from the state, and officials on the whole now enjoyed a greater freedom of manoeuvre than they had under the politicised mode of economic policy regulation preceding the return to gold.

The Coping Stone

In May 1925 Britain returned to the gold standard at the prewar par of \$4.86. The Bank of England were legally obliged to convert sterling into gold at the rate of £3

17s 10½d per standard ounce, though in contrast to the prewar system internal convertibility and the circulation of gold coin were both now abolished. Sterling was exchangeable into gold for international settlements only, and to help ensure this the availability of gold was restricted to a minimum purchase of 400 ounces. The return also made the Bank formally responsible for the conduct of monetary policy, though to provide a degree of flexibility the Gold Standard Act did not specify any minimum level for the gold reserves, and nor did it establish any fixed level for the fiduciary issue, with at least two years of normal operating experience on the gold standard being thought necessary before an appropriate level could be determined.⁸⁸

More fundamentally, the return to gold at \$4.86 was the key component of a governing strategy designed to address the long-term economic and political difficulties of the British state. As such, the policy had several interrelated objectives. The first of these was to secure favourable conditions for capital accumulation and address Britain's relative economic decline. By stabilising the pound on gold, officials hoped to signal that Britain's future economic policies would be governed by the need to maintain the parity of the exchange rate, thus reducing and confining the expectations and behaviour of capital and labour within these limits. In particular, it was hoped that a credible commitment would rule out any inflationary excesses, secure international confidence in sterling, restore and safeguard the invisibles earnings capacity of the City, and aid a return to global economic stability through encouraging other nations to return to gold.

In fixing sterling at the prewar parity however, the state authorities not only hoped to ensure credibility for the return to gold but also sought to impose deflationary pressure on the British economy. With the rise in the pound since mid-1924 having been driven

⁸⁸ Various in BE:G35/5; Hawtrey (1933), p.110; Brown Jr (1940), Ch.12; Kemmerer (1944), Chs.5-6.

largely by speculation of a return to par rather than any real economic improvement, an exchange rate of \$4.86 was therefore too high to accommodate Britain's economic activities at their prevailing level of costs and prices. As such, by raising the price of Britain's exports officials hoped the move would put pressure on capital and labour engaged in the staple trades to reduce wage costs, adopt more efficient methods of production, and to move into newer and higher quality lines of production more attuned to the changing demands of the world market. As Baldwin put it, the high pound would impose a 'necessary and salutary' discipline upon capital and labour to raise productivity, re-organise, and shift to more advanced sectors.⁸⁹ Moreover, the fall in prices and wages would not simply affect the old export trades but would also enable and encourage those producing for the domestic market to follow suit, thus helping to reduce prices across the whole of Britain's economy. Even the City would face pressure for adaptation as the high interest rates necessitated by the return would constrain any tendency towards excessive lending and force the adoption of more prudent financial practices. Describing the situation in the City shortly after the return for example, as Norman put it:

"They have lived for ten years in a dream: they have not had to use their wits: they have not been able to help making money and they have not yet had time to shake off the habits of thought of these ten years."⁹⁰

The high value of the pound was also designed to assist Britain's competitiveness by reducing the price of essential imports (thus helping to lower production costs), and by necessitating the adoption of an all-round tight economic policy stance by requiring high interest rates, high tax, and restrictions on public spending in order to maintain the parity

⁸⁹ Middlemas and Barnes (1969), pp.302ff; Williamson (1999), pp.145ff.

⁹⁰ BE:G35/5. Norman to Strong 8/5/25.

until the economy adjusted.⁹¹ Again however, this would impact upon the whole economy. As Hawtrey explained, the measures required to maintain par would ‘depress *all* industries, including those which produce for export’.⁹² In addition, the return to gold would directly expose the British economy to the competitive discipline of the world market (a pressure compounded by a falling US price level), forcing domestic economic conditions to conform to those pertaining globally. In this way, the return to gold would not only ensure that Britain became economically competitive, but that it remained so. As Churchill explained, it would ‘shackle us to reality’.⁹³

Alongside these economic benefits the gold standard strategy also contained political advantages for Britain’s authorities. By conditioning the expectations of capital and labour as to the future economic policy direction of the state, the gold standard would help to fragment and confine class struggle to issues within these limits, thus easing the pressure on state managers. In addition, by placing legal control of monetary policy in the hands of the politically ‘independent’ Bank of England, the return would apparently rule out any interference by politicians, thus removing such matters (and hence questions about the direction of economic policy as a whole) from the realm of democratic accountability. Moreover, placing the Bank within the confines of an international regime constituted by the need to defend an exchange rate set by the government would also neutralise the accountability of Bank officials. By depoliticising the issue of economic policy-making in this way, the gold standard would thus enable the core executive as a whole to disclaim responsibility for economic conditions and to shield themselves from the unpalatable effects of their tight economic policy stance by displacing pressure away from the state,

⁹¹ BE:G35/5. Norman to Strong 26/5/25; PRO:T172/1499B. Niemeyer to Churchill, 21/4/25.

⁹² BE:G3/15. ‘Industry and Overseas Investments’ (Hawtrey), 23/6/25. My Emphasis.

⁹³ Parliamentary Debates. Vol.183, 4/5/25.

thus securing a greater freedom of high political manoeuvre.⁹⁴ As Baldwin put it, the return would provide ‘the coping stone’, aiding the reinvigoration of Britain’s economy and enabling the state to minimise its directly visible economic involvement, which in turn would encourage economic efficiency and help keep an enlarged and ‘untrained’ electorate away from Socialism.⁹⁵ Finally, the regime would also simplify the management of monetary policy by providing the authorities with a clear signal in the form of changes in the level of the gold reserves as to whenever economic conditions in Britain were diverging from those elsewhere. Summarising these advantages, as Churchill again explained:

“If wages are, or hours of labour are, out of economic relation to our competitors, if employers become slack or unenterprising, if the plant of our industries becomes obsolete, if the organisation is antiquated, if we consume too much or borrow too much or lend too much, all the alarm bells begin to ring immediately.”⁹⁶

The Mountain and the Mouse

The initial reaction to the return to gold was favourable. The commitment to maintain the par value was deemed to be credible by the financial markets, the majority of press and Parliamentary opinion was largely welcoming, and there was no real criticism from either capital or labour.⁹⁷ The City were strongly approving of the decision, and while the FBI felt that the immediate impact would be adverse, any difficulties were believed to be temporary and on the whole the step was viewed as being likely to bring long-term

⁹⁴ On the political benefits of an independent central bank also see notes by Norman in BE:G1/464.

⁹⁵ Middlemas and Barnes (1969), pp.302ff; Williamson (1999), pp.145ff.

⁹⁶ The Times 18/7/25; also see Gilbert (1976), p.128.

⁹⁷ Parliamentary Debates. Vol.183, 4/5/25, 5/5/25; the Times 29/4/25; Manchester Guardian 29/4/25; Evening Standard 29/4/25; Financial Times 30/4/25; Boyce (1988), p.192; Kynaston (1999).

economic benefits.⁹⁸ For labour, although the more radical left continued to call for state control of the banking system and argued that the high parity would damage exports, increase unemployment, and put pressure on wages, the labour movement as a whole were largely unmoved by the return. The Labour Party and the TUC censured the government merely for having acted with ‘undue precipitancy’, while the TUCGC later noted that the labour movement were as yet uncertain as to whether the return would be detrimental to industry and trade.⁹⁹

For the authorities, though confidence was high the return to gold was also accompanied by a degree of trepidation. As Norman remarked, ‘we must hope now that the ‘gamble’ is as promising of success as even the doubters seem to believe.’¹⁰⁰ Nonetheless, the absence of any significant controversy was viewed with satisfaction, and the move was generally deemed to have been a success. Niemeyer for example observed that fears over the return had been shown to be unjustified, and while Norman considered initial opinion to be ‘hesitating rather than defined’, the decision was also thought to have been ‘well received’ and the position to be one of ‘unexpected tranquillity.’ As he put it:

“the transition to free gold has been easier and has caused not only less alarm but even less interest than could have been expected. We rather prepared for a mountain and have (so far) brought forth a mouse!”¹⁰¹

This initial calm however was short-lived. Though industrial production continued to rise and though wholesale and retail prices both fell, the balance of payments

⁹⁸ MRC:MSS.200/F/3/S1/14/6. Nugent to Sir H. T. M. Roberts 4/5/25; and to F. Percival 6/5/25; MRC:MSS.200/F/4/24/11. FBI Bulletin 15/5/25. 8(16); Williamson (1984), p.107.

⁹⁹ ILP Archives. ‘Twenty Points of Socialism’ (J. Maxton), 1925; The New Leader 8/5/25 XI(5); The Workers’ Weekly 8/5/25; Labour Party Annual Report 1925, p.93; MRC:MSS.292/135.01/1. ‘Unemployment’ (TUCGC), January 1927; Middlemas (1969), p.316; Boyce (1988), p.192.

¹⁰⁰ BE:C40/738. Norman to Sir Drummond Fraser 4/5/25.

¹⁰¹ BE:G35/5. Norman to Strong 8/5/25; BE:C40/737. Norman to Strong 29/4/25; PRO:T172/1499B. Niemeyer to Churchill 7/5/25.

deteriorated as the effects of the return began to assert themselves.¹⁰² With their already weak competitive position diminished further due to the rise in the pound, employers in the old export industries however began to try and overcome the decline not by attempting to raise productive efficiency through technological modernisation, capital investment, or by moving to more advanced lines of production, but by laying off workers and reducing wages. This entailed a direct confrontation with labour and led to a renewal of industrial unrest during the summer.¹⁰³

The major sites of disturbance were located in the textile trades, and particularly in the coal industry. Highly dependent on exports, though long in decline and operating with outdated technology and production methods, Britain's coal industry had only managed to survive at its present size due to a series of fortuitous events. The First World War, the postwar boom, a US mining strike, and finally the Ruhr occupation had all helped to maintain a level of demand for British coal far above that which could normally be expected. As the world's production of coal began to rise once more however, and now on a larger scale due to retained wartime expansion, the dependency of new European states on coal exports, and a flood of German reparations coal, the global supply began to sharply exceed its demand, putting growing pressure on coal prices. In response, the Mining Association of Great Britain (MAGB) sought to sustain their profits by introducing substantial cuts in wages and lengthening working hours. Such moves however were rejected by the MFGB who instead called for a minimum wage, nationalisation of the mines, and industrial restructuring.¹⁰⁴ With the situation deadlocked, the government came

¹⁰² Dowie (1968), pp.68-71; Aldcroft (1983), p.93; Alford (1986), pp.20-1.

¹⁰³ The Sunday Worker 26/7/25 – 16/8/25; Cole (1948), p.416; Laybourn (1993), pp.22-4.

¹⁰⁴ MRC:MSS.292/252.61/5-6. 'Crisis in the Coal mining Industry' (Various), 30/7/25; 'The British Coalmining Industry' (MFGB), 1925; MRC:MSS.292/603/1 & 6. 'The Economic Position of the Coal Industry' (MFGB), May 1925; Daily Herald 27/6/25; the Times 23/7/25; Cole (1948), p.415; Citrine (1964), pp.132-6.

under increasing pressure to find a solution, though Ministers were unwilling to become involved. Not only was state intervention in the coal industry a well-established source of political trouble, but as Stanley Baldwin put it, the government's view was that British wage levels now needed to be reduced across the board in order to 'help put industry on its feet'.¹⁰⁵

Fearing that the attack on the miners was therefore the prelude to a wider attack on working class living standards, the TUC lent the MFGB their full support, raising fears of an escalation in the unrest. In response, the government established a Court of Inquiry into the coal industry, though the subsequent report satisfied no-one.¹⁰⁶ Doubtful of their ability to deal with any stoppage (with the anti-strike machinery of the early 1920s having been run-down), the government now tried to forestall industrial conflict by establishing a Royal Commission to examine the coal industry in more detail, and by agreeing to provide a six month subsidy to maintain present rates of wages and profits in the meantime. This event, known as 'Red Friday', was heralded as a great victory by the labour movement and as signalling the end of the capitalist attack on working class conditions. In reality though, it would prove to be a mere interregnum.¹⁰⁷

Besides their more direct impact, these economic difficulties also fuelled criticism of the return to gold, calling into question its utility as a means of depoliticising economic policy. In a well-publicised addendum to the Court of Inquiry's report for example, the economist Josiah Stamp cited the high pound as a key factor in the problems of the coal industry, a view shared by W. A. Lee (an MAGB leader), by the MFGB, and by Herbert Smith (an MFGB leader), who stated that the effect of the return was 'to force a lower

¹⁰⁵ Middlemas and Barnes (1969), p.387; Farman (1972), p.25.

¹⁰⁶ Report of the Macmillan Court of Inquiry. Cmd 2478 (1925).

¹⁰⁷ The textile dispute was also resolved with the status quo intact. See Citrine (1964), pp.132-9; Renshaw (1975), pp.118-24; Laybourn (1993), pp.28-36.

level of prices in this country, to increase unemployment, and to reduce wages.’¹⁰⁸ The policy was also further attacked by the labour left, with the ILP, the LRD, and prominent figures such as Mosley, Strachey, and John Hill all protesting about its economic effects.¹⁰⁹ The FBI too were now critical, claiming that the return had been ‘somewhat precipitate’ and that a combination of the high pound, a lack of US inflation, and resistance to wage cuts was driving Britain into recession. For their part, while the City remained widely supportive, McKenna also now rejoined those remonstrating against the policy.¹¹⁰ The most studied and influential attack however came from Keynes, who argued that senior officials at the Bank and Treasury had miscalculated the discrepancy between British and US prices and as such had overvalued sterling by around 10%. This, he claimed, would now require a much greater level of deflation than that anticipated in order to maintain the parity, resulting in greater pressure on wages and employment, and leading to a higher risk of serious industrial unrest.¹¹¹

Though some concerns were also evident within official circles, with Hawtrey for example complaining that high interest rates had been ‘disastrous’, the majority of key state managers were unmoved by these criticisms.¹¹² The notion that the problems of the coal industry were due to the gold standard was summarily dismissed by Churchill with the retort that he had ‘never heard any argument more strange and so ill-founded’, while Keynes’ claim that the rise in industrial unrest could have been avoided with a managed

¹⁰⁸ Addendum to the Report of the Macmillan Court of Inquiry. Cmd 2478 (1925); MRC:MSS.292/252.61/5-6. ‘The Mining Dispute’ (TUCGC), 1925; ‘The Coal Crisis’ (MFGB), 22/7/25; Citrine (1964), pp.132-3; Farman (1972), pp.22-3; Renshaw (1975), pp.118-22; Laybourn (1993), pp.28-9.

¹⁰⁹ MRC:MSS.292/135.2/2. ‘The Economic Position of the Coal Industry’ (TUCGC); Labour Party and TUC Annual Reports 1925; The New Leader 7/8/25. XII(6); 4/9/25. XII(10); Monthly Circular of the LRD, September 1925. XIV(9); Strachey (1925).

¹¹⁰ MRC:MSS.200/F/3/E1/3/3. ‘Some Causes of the Present Stagnation of British Trade’ (FBI), July 1925; MRC:MSS.200/F/4/24/11. ‘Position of British Trade’ (FBI), Reprinted in the Yorkshire Post 28/7/25; FBI Bulletin 30/7/25. 8(21).

¹¹¹ ‘Unemployment and Monetary Policy’ (Keynes), Evening Standard 22 & 23/7/25; Keynes (1925).

¹¹² BE:ADM16/3. ‘Gold and Bank Rate’ (Hawtrey), 11/7/25.

money policy was viewed with derision by the Bank.¹¹³ At the Treasury, Niemeyer was insistent that Britain's economic problems were due to 'many causes' and that the effects of monetary policy were being 'very greatly exaggerated' by its critics, and Fisher was keen to emphasise that there should be no relaxation of the government's tight economic policy stance, pointing out that any increase in public spending would lead to rising inflation, higher interest rates, and would render the maintenance of the gold standard 'impossible'.¹¹⁴ Such a view was also now held by Churchill, who maintained that it was essential to encourage economic adaptation, labour flexibility, and 'to get the cost of production down and to get the efficiency of production up', while a similar point was made by Bradbury. As he explained, whilst the pressure on Britain's struggling industries could theoretically have been reduced with a managed money policy or by a return to gold at a lower exchange rate, both would have weakened confidence in sterling and would have therefore entailed even higher interest rates in order to prevent a decline in the pound and all its associated dangers. A managed money policy would also, he claimed, have created exchange rate instability, the effects of which would be far more damaging to Britain's exporters than the present need for them to reduce their prices.¹¹⁵

For key state officials the present difficulties of Britain's exporters were not therefore seen as evidence that the gold standard was failing, but were rather a sign that it was operating as planned. Though resistance to wage cuts in the export trades had forced an immediate rise in real wages, these gains were expected to be reversed as the effects of the return worked their way through the economy. As Niemeyer put it:

¹¹³ The Times 13/7/25; BE:C40/738. Untitled Bank of England Document 27/7/25.

¹¹⁴ PRO:T176/21. Niemeyer to Baldwin 26/6/25; Sir Warren Fisher to Baldwin 25/5/25; PRO:T208/105. 'Gold Standard Results' (Niemeyer), 4/8/25.

¹¹⁵ The Times 18/7/25; 'The Gold Standard : A Reply to Mr. Keynes' (Bradbury), Financial News 12/8/25.

“as the process continues money wages will drop, real wages remaining in the previous relation to cost of living and wholesale prices. As wholesale prices are now in near correlation to world prices, when this happens, the temporary export handicap will have disappeared.”¹¹⁶

The Golden Shield

Though now formally in control of monetary policy, the Bank of England however were unable to completely ignore public opinion for fear of the potential political repercussions, and in August interest rates were cut to 4.5% in a bid to ease the strain. The move though failed to quell concerns over the economy and pressure for a further reduction grew, now strengthened by a large influx of gold from France which swelled the Bank's reserves, and by pressure from Churchill, increasingly concerned about the political consequences of continued high unemployment.¹¹⁷ The picture, as Norman observed, was now a mixed one:

“We seem to have slipped back to Gold with fewer pains and penalties than was generally expected – but we are not out of the wood yet. London still has to re-start as a free lender to all and sundry, while the industrial position in general and the coal position in particular are deplorable : they might jeopardise stability anywhere.”¹¹⁸

With the pressure continuing to rise, Norman was forced to cut rates in October to 4% despite the inflationary dangers, explaining to Strong that nothing else would have done more ‘to silence criticism of the gold standard.’ In addition, to reduce the risk of similar difficulties arising in the future, the Bank also began to accumulate a secret hoard of US dollars in order to enable them to manipulate the exchange rate without attracting undue attention.¹¹⁹

¹¹⁶ PRO:T176/21. Niemeyer to Baldwin 26/6/25; PRO:T208/105. ‘Gold Standard Results’, 4/8/25.

¹¹⁷ BE:G1/515. A. G. Anderson to Norman 7/8/25; BE:G35/5. Norman to Strong 21/8/25; PRO:T176/13 Pt.2. Norman to Niemeyer 21/9/25.

¹¹⁸ BE:G30/14. Norman to Sir Edward Cook 14/9/25.

¹¹⁹ BE:G35/5. Norman to Strong 23/11/25; BE:ADM34/14. Norman Diaries 19/10/25; BE:G3/182. Norman to Blakett 27/10/25; Sayers (1976), pp.214-20.

In November however the situation worsened as the informal embargo on foreign lending in place since the end of 1924 was removed, unleashing a flood of new issues and leading to a weakening of sterling. This was compounded by renewed speculation in New York, which caused a large outflow of capital and forced Norman to put interest rates back to 5% in December to defend the parity.¹²⁰ The move led to renewed protests against monetary policy. The FBI were sharply critical of the decision, and the labour left continued to argue that the gold standard was damaging Britain's trade and industry, and was putting pressure on wages and employment. The rise also stirred further displeasure within official circles, with Churchill unable to contain his anger at the Bank's decision, and with Hawtrey declaring it to be nothing short of a 'national disaster'.¹²¹

Despite these difficulties however, as a political strategy the gold standard can nevertheless be seen to have successfully established a credible economic policy framework and on the whole to have shielded state officials from political stress over economic conditions. For all the apparent furore over interest rates, monetary policy was not a major political issue, the majority of British opinion remained either uninterested in, or unconcerned about the subject, and only a minority attributed Britain's economic problems to the return to gold. The return had also successfully displaced responsibility for economic conditions away from the authorities, and generally speaking neither capital or labour now held state officials to be responsible for Britain's economic difficulties. Despite official sensitivities to criticism, the authorities were thus now under less pressure than in more recent years in which they had been forced to operate a managed money policy. Britain's commitment to maintain the par value of sterling had not been challenged, the

¹²⁰ BE:G3/182. Norman to Blackett 27/10/25; to W. H. Clegg 8/12/25; Sayers (1976), pp.214-20.

¹²¹ PRO:T176/13. 'The Credit Situation' (Hawtrey), 5/12/25; MRC:MSS.200/F/4/24/12. FBI Bulletin 30/1/26. 9(2); The New Leader (January-April 1926 issues); the Times 2/1/26; Daily Herald 1/10/26; Clay (1957), pp.293-5; Sayers (1976), pp.216-17.

troubles of the export industries had not led to a wider resurgence of unrest, organised labour remained numerically weak, and industrial action as a whole was relatively low. The number of new stoppages during 1925 was 15% less than in 1924, while the number of working days lost were now at their lowest levels since the war.¹²²

Furthermore, although many on the labour left continued to press for nationalisation of the banking system, others such as the CPGB paid little attention to monetary policy, and mainstream labour too remained primarily concerned with more traditional issues. Though supporting the general principle of banking nationalisation, the Labour Party conference for example rejected calls to devise specific means of doing so, a special trade union conference on unemployment emphasised the long-term nature of the problem and did not apportion any blame to the return to gold, while TUC representations to the Minister of Labour (Sir Arthur Steel Maitland), the President of the Board of Trade (Sir Cunliffe-Lister), the Prime Minister, and the Chancellor all failed to broach the issue of monetary policy.¹²³ Indeed, as one observer put it, the working classes were about as interested in the subject 'as they were in the nebular hypothesis.'¹²⁴

Instead, labour attributed Britain's problems to a number of other factors, including the global economic situation and the 'natural' process of structural change. Though citing the return to gold as a contributory factor in the coal dispute for example, both the MFGB and the TUC regarded it as of relatively minor importance, and considered the primary cause of the crisis to be the poor industrial organisation and management of the MAGB.¹²⁵

¹²² Einzig (1932), p.44; Clay (1957), p.139; Butler and Butler (1994), p.373; Hallwood and MacDonald (2000), p.346.

¹²³ Labour Party and TUC Annual Reports 1925; MRC:MSS.292/252.61/5. 'Report of the Special TUC Conference', 24/7/25; Lansbury's Labour Weekly 27/2/26, 12/6/26, 20/11/26; the Workers Weekly (1925 issues).

¹²⁴ F. Heaviside at the Labour Party conference. Labour Party Annual Report 1925, pp.262-6.

¹²⁵ MRC:MSS.292/252.61/6. 'The Economic Position of the Coal Industry' (MFGB), May 1925; 'The Coal Crisis', (MFGB), 22/7/25; 'Copies of all Official Documents and Communications Received and Issued in

The failure of employers more generally to modernise British industry was also regarded by the wider labour movement as the key element in Britain's economic difficulties. Calls from mainstream labour for greater state intervention besides the nationalisation of the coal industry remained limited to schemes for the alleviation of unemployment through work or welfare, and the solution to Britain's ills was chiefly considered to lay with industrial restructuring in order to reduce production costs and improve competitiveness.¹²⁶ As one joint TUC-Labour Party report put it, the 'real remedy' was 'the adoption of better appliances and equipment, and improved organisation.'¹²⁷

Representatives of capital were also of the view that the principal source of Britain's difficulties did not lie with the return to gold. Though Lord Weir, the President of the NCEO, argued that the return had been a 'severe strain', as T. B. Johnston, one of the few industrialists actively opposed to the gold standard bemoaned, protests from employers against the policy at this time were 'practically non-existent'.¹²⁸ The overwhelming majority of City opinion remained in favour of the regime despite McKenna's criticisms, the MAGB also regarded the gold standard to be but one of several factors contributing to the coal crisis, and despite their concerns the FBI also argued that it was impossible to determine the extent to which the return had added to the problems of British industry. For the majority of industrial opinion, the key factor was instead considered to be the excessively high costs of production compared to those of competitor

Connection with the Present Crisis' (MFGB), 1925; 'The Mining Dispute' (TUCGC), 1925; Daily Herald 21/5/25, 7/7/25; the Times 22/6/25; TUC Annual Report 1925.

¹²⁶ Labour Party and TUC Annual Reports 1925; MRC:MSS.292/135.01/3. 'Notes for TUCGC Unemployment Deputation' (TUC/Labour Party), December 1925; MRC:MSS.292/135/5. 'Notes on the Proposed Subsidy for the Shipbuilding Industry' (TUC/Labour Party), November 1925; MRC:MSS.292/100/1. 'The Possibility of a Higher Standard of Living Under Capitalism' (TUCGC), March 1927; also various in MRC:MSS.292/135.2/3.

¹²⁷ Labour Party Annual Report 1925, pp.46-8.

¹²⁸ PRO:CAB24/179. NCEO Deputation to the Prime Minister 20/4/26; MRC:MSS.200/F/3/S1/14/6. T. B. Johnston to the Editor of the National Review 26/1/26.

nations, and the main solution was seen to be cuts in wages, and reductions in tax and public spending rather than any change in monetary policy.¹²⁹

The credibility of the gold standard can thus be seen to have acted as an effective constraint on the future expectations of capital and labour, and for most the regime was now simply seen as something to which Britain had to adjust. While many on the labour left continued to criticise, neither the TUC nor the Labour Party were now opposed to the regime as-such, and even the arch-critic Keynes was now arguing the need to work within the confines of the gold standard framework, claiming that if the policy led to a significant shift away from the old export industries then it may well have been ‘a blessing in disguise.’¹³⁰ From industry, as Roland Nugent (a chief FBI economic advisor) explained, the task was not to challenge but to ‘put up with the position’ that the government had created, while as Charles Tennyson (the FBI’s Deputy Director) pointed out, the Federation now had no option but to accept the rigours of the regime since it was ‘very difficult to see what definite Government action could be possibly undertaken’. Tennyson further observed that while the Federation had been free to engage in open discussion of alternative monetary policies before the return, doing so now ‘would be tantamount to recommending that we should relinquish the gold standard’, something to which the majority of the FBI were opposed and which was therefore ‘unthinkable’. Moreover, the FBI were also optimistic about Britain’s future economic prospects and continued to regard the present difficulties as temporary. Britain’s return to gold was thought to be a key step

¹²⁹ MRC:MSS.200/F/4/24/11-12. FBI Bulletins 30/7/25. 8(21); 30/1/26. 9(2); PRO:T160/463. ‘The Gold Standard’; PRO:T176/21. Nugent to Churchill 15/10/25; MRC:MSS.200/F/3/S1/14/6. P. G. Swann to the FBI. 14/7/25; FBI General Economic Dept. to Rowntree & Co. Ltd. 17/8/25; Nugent to Norman 15/10/25; MRC:MSS.292/252.61/6. ‘The Economic Position of the Coal Industry’, (MFGB). May 1925; ‘The British Coalmining Industry’ (MFGB), 1925; ‘Position of British Trade’ (FBI), reprinted in the Yorkshire Post 28/7/25.

¹³⁰ Labour Party and TUC Annual Reports 1925; Keynes (1951), pp.241-2.

towards the restoration of international economic stability, and the gap between British and US prices would, it was thought, soon be eliminated either by US inflation and/or a mild domestic deflation.¹³¹

The Trial of the Strikes

In spring 1926 industrial tensions in Britain rose once more as the Royal Commission on the coal industry published its report. Rejecting longer hours, though also rejecting nationalisation and advocating limited wage cuts and an end to the subsidy, the report satisfied neither the MAGB or the MFGB, and with the TUC now threatening a sympathetic strike if the miners' requirements were not met, industrial conflict once more seemed inevitable. The government though were still unwilling to become involved. State intervention, it was thought, would merely turn the authorities into a scapegoat for all the problems of the industry and would reduce the pressure for increased efficiency, leading to higher production costs and lower competitiveness. The government had also spent the last six months strengthening their anti-strike machinery and were now keen to resolve the matter for good. Following the rejection of the report and a flurry of acrimonious negotiations, the MAGB announced sharp reductions in wages, provoking another strike declaration from the MFGB, who were subsequently locked out. At the end of April the subsidy also expired, and with the government refusing to grant any further concessions, the TUC decided to carry out their strike threat. The so-called 'general' strike (though only the 'first line' of workers such as those in the transport, heavy metals, building, and

¹³¹ MRC:MSS.200/F/3/S1/14/6. Nugent to P. G. Swann 21/7/25; to Sir H. T. M. Roberts 4/5/25; C. Tennyson to T. B. Johnston 15/2/26; 24/2/26; MRC:MSS.200/F/3/E1/3/3. 'Some Causes of the Present Stagnation of British Trade' (FBI), July 1925; 'Position of British Trade' (FBI), Reprinted in the Yorkshire Post 28/7/25; Boyce (1988), p.192.

printing industries were ever called out) lasted for nine days and was presented by the government as a revolutionary challenge. The real aim of the TUC however was merely to secure a fair deal for the miners, and as the realisation dawned that the government would not compromise the TUCGC unilaterally decided to call off their action, leaving the miners, who were eventually defeated six months later, to continue struggling alone.¹³²

The conventional view of the general strike is that this was primarily caused by the effects of the return to the gold standard at the prewar par. With the high pound having made Britain's coal exports more expensive, thereby leading the MAGB into a confrontation with the MFGB and the wider labour movement, the return is frequently held to have been the major cause of the unrest, and as such the strike is seen to provide firm evidence that the policy was a disaster.¹³³ Indeed, similar views were even present in contemporary circles. Both the MAGB and the MFGB for instance considered the return to gold to have been a causal factor in the coal and general strikes, Blakett later claimed that they 'were the natural sequel of the return to the old gold par', and Churchill too later spoke of the return as having led to 'fierce labour disputes.' Many on the labour left also blamed the gold standard for the crisis, with even Citrine, the TUC's General Secretary now claiming that monetary policy was 'damaging in every way', while for their part the FBI were now claiming that their warnings over the return had now been 'fully borne out by events'. Both the FBI and the TUC also later attributed the general strike to the return to gold in their evidence to the Macmillan committee on the relations between Finance and

¹³² On these events see PRO:CAB24/179; TUC Annual Report 1925, pp.158-9; Citrine (1964), p.167ff; Middlemas (1969a), p.76; Farman (1972); Arnot (1975); Renshaw (1975); Morris (1976); Phillips (1976); Laybourn (1993): Some on the left did see the strike as a revolutionary opportunity. See for example Lansbury's Labour Weekly 1/5/26.

¹³³ See for example Renshaw (1975), ps.108-9, 251-2; Kindleberger (1986), p.42; Boyce (1988), p.193; Ziebura (1990), p.35; Laybourn (1993), p.14; Kynaston (1999), p.126.

Industry.¹³⁴

The truth of the matter however is less clear-cut. While it cannot be denied that the return to gold was undoubtedly a causal factor in the unrest, it is also clear that other factors played a more important role. Britain's export industries (especially coal) would have faced great difficulties regardless of monetary policy due to their continued failure to modernise and adjust to the changing demands of the global economy, and it is almost certain that industrialists (especially in the old export trades) would have therefore still sought to force down wages in order to sustain profits. Indeed, what is most striking about domestic opinion at this time is that for the most part the gold standard was not thought to be chiefly responsible for Britain's economic and social problems. As such, despite the strikes the return to gold can therefore be seen instead to have successfully depoliticised monetary policy, and to have effectively displaced responsibility over economic conditions away from the state. Neither the MAGB nor the MFGB for instance held monetary policy to be of primary importance in the strikes, with the former continuing to blame high wages, and with the latter continuing to blame factors such as the global economic situation and the inefficient organisation of the coal industry.¹³⁵ Furthermore, in contrast to their later claims, neither the FBI nor the TUC made any significant link between the strikes and the return to gold during this period. The FBI did not refer to the gold standard as being a key influence, the TUC also primarily blamed the economic organisation and management of the coal industry, and the TUCGC made no mention of monetary policy either in their

¹³⁴ The Times 26/5/26; The New Leader 2/7/26. XIII(38); Lansbury's Labour Weekly 30/4/27; MRC:MSS.292/252.61/5. 'Statement on the General Strike' (MFGB), 12/1/27; BE:G1/506. 'Economic Developments in Post-War Britain' (Blackett), 1935, p.16; PRO:T175/11. Churchill to Niemeyer 9/4/27; MRC:MSS.126/EB/FI/46/3 & 47/5. Evidence to the Committee on Finance and Industry by the FBI (26/2/30) and by the TUCGC (12/4/30); Citrine (1964), pp.137-8.

¹³⁵ Various in MRC:MSS.292/252.61/3-6, including 'Statement on Owners Proposals' (MFGB), 27/4/26; 'The Coal Situation' (TUCGC), 6/9/26; 'Mining Crisis 1926', (TUCGC); the Times 22/5/26.

internal discussions during the crisis or in their subsequent review of events.¹³⁶ The TUC and Labour Party conferences also neglected the return to gold, and the issue was even ignored by a TUC deputation to the Minister of Labour sent to discuss the unrest.¹³⁷ The subject was also largely overlooked by the labour left in their interpretations of the strikes, and subsequent accounts by Snowden, Arthur Pugh (the TUC President), A. J. Cook (a radical MFGB leader), and H. Fyfe (editor of the labour paper the Daily Herald) also failed to yield any reference to the gold standard. The NCEO too, despite the views of Lord Weir, placed the responsibility not on the return to gold but on excessive trade union power.¹³⁸

Moreover, the unrest also failed to generate serious concerns within official circles of any threat to the gold standard strategy. Though at the time the Bank of England were worried about the effects of the coal and general strikes on sterling, refraining from any rise in interest rates during the crisis in order to maintain financial confidence and ensure the availability of domestic credit, there is no evidence to suggest that such concerns were borne out of anything other than short-term anxiety, and Cabinet discussions also reveal no concerns that the strategy was under serious threat.¹³⁹ Though remaining sensitive to any open debate of monetary policy the authorities did not therefore believe the strategy was now unravelling. As Niemeyer put it for example, while open discussion of monetary policy was ‘ill-advised’, unlikely to help sterling, and that ‘the less said on it the better’, the recent experiences had shown that apprehensions over the return to gold ‘were not well founded’.¹⁴⁰ Moreover, the unrest also failed to damage the credibility of Britain’s

¹³⁶ Various in MRC:MSS.292/252.61/4; MRC:MSS.200/F/4/24/12. FBI Bulletins (1926 issues).

¹³⁷ Labour Party and TUC Annual Reports 1926.

¹³⁸ Cook (1926); Fyfe (1926); Snowden (1934), pp.725-34; the Workers Weekly (1926 issues); Lansbury’s Labour Weekly 22/5/26; MRC:MSS.200/F/3/S1/34/1. ‘Government’s Proposed Amendment of Trade Union Law’ (NCEO), 5/10/26; MRC:MSS.292/252.61/3. ‘The Development of the Mining Crisis’ (Pugh).

¹³⁹ BE:OV32/2. Norman to Strong 15/4/26; BE:G8/57. Committee of Treasury Minutes 28/4/26, 5/5/26; Various in PRO:CAB24/179.

¹⁴⁰ PRO:T208/55. Niemeyer to Sir Sydney Chapman 15/5/26.

commitment to the gold standard in the eyes of the world's financial markets, and just five days after the end of the general strike sterling reached a par with the dollar on New York for the first time since 1914.¹⁴¹ With the pound having successfully withstood the trial of the strikes, state officials were now convinced that the main danger to their position had passed. The American credits obtained for the return in 1925 were discontinued, and J. P. Morgan (the government's US financial agents) declared this to be the 'final proof' that Britain's return to gold had been a success.¹⁴²

The unrest also failed to provide the catalyst for an upsurge in criticism of monetary policy, and for most people the subject still failed to arouse much interest. The majority of the labour movement remained primarily concerned with traditional issues, while labour's discontent over economic conditions was now directed mainly at employers rather than state officials. Despite ongoing calls from the left for an enquiry into the economic effects of monetary policy, for the public control of credit, and for an expansionary policy,¹⁴³ and despite continued labour attacks on the government over the persistence of high unemployment (with one Labour Party report arguing that the state bore 'the major part of the responsibility'), for the most part calls for greater state intervention outside the coal industry remained limited, and the true remedy for Britain's economic ills was still considered to be industrial re-organisation and modernisation.¹⁴⁴ Monetary policy also remained an uncontentious issue for the ranks of capital. The City were still staunchly in favour of the gold standard, the FBI and the NCEO were not greatly concerned with the subject, and though there was some dissatisfaction within the ABCC,

¹⁴¹ Daily News 17/5/26.

¹⁴² BE:G1/464. J. P. Morgan (New York) to E. C. Grenfell 12/5/27; Einzig (1932), p.124.

¹⁴³ Marquand (1977), ps.452-4, 478; Pimlott (1977), p.61; Lansbury's Labour Weekly (1926 issues).

¹⁴⁴ Lansbury's Labour Weekly 27/2/26, 16/6/26, 20/11/26; Labour Party and TUC Annual Reports 1926; MRC:MSS.292/135.01/6. "On the Dole' – or off!" (Report of the Joint Committee on the Prevention of Unemployment), p.12; also see the separate report and notes by Colonel J. C. Wedgwood 9/7/26.

an attempt to establish an internal enquiry into its effects was unsuccessful. The FBI, the NCEO and the ABCC also made no calls for a revision in monetary policy, maintaining that the best means of improving productivity and competitiveness was through lower production costs.¹⁴⁵

'So Much To Be Done'

At the same time as the 1926 strikes failed to damage the gold standard strategy in terms of depoliticisation and the displacement of pressure over economic conditions however, they also compounded Britain's lack of economic adjustment. Though Britain enjoyed a period of relative prosperity from 1927 to 1929, unemployment remained chronically high and the old export industries continued to languish. Moreover, despite also leading to a numerical weakening of organised labour, with a fall in trade union membership of more than 10% between 1926-28, the unrest was not followed by any great moves by employers towards cutting wages or lengthening hours, and only a minority such as Sir Alfred Mond and Sir Hugo Hirst (establishing ICI and General Electric respectively in 1926) engaged in any serious industrial restructuring. As a whole, Britain's economy thus experienced no significant modernisation or adjustment, and its relative international decline continued unabated as competitor nations continued to press ahead with improvements in productive methods and technology. The growth of newer and more advanced industries also remained insufficient to offset the stagnation of the staple trades, and though import prices fell, production costs remained comparatively high due to the

¹⁴⁵ MRC:MSS.200/F/3/S1/14/1, 3, & 6. Sir Max Muspratt to Neville Chamberlain 13/10/26; Memo. to the Prime Minister 30/11/26; 'Industry's Burden' (FBI), December 1926; MRC:MSS.200/B/3/2/C531 Pt.1. Secretary of the ABCC to the secretary of the NCEO, 11/2/26; MRC:MSS.200/B/3/2/C625 Pt.7. Report on the Industrial Situation (NCEO), May 1926; PRO:T208/55. ABCC Report 22/4/26.

persistence of inefficient practices and pre-1926 wage levels. In addition, with Britain's wholesale and retail prices both gradually continuing to fall, real wages for those in employment (though 16% below their 1920 peak) also continued to rise. While the authorities had therefore survived the strikes, as Norman was keen to point out, there remained 'so much to be done.'¹⁴⁶

The reasons for this lack of adjustment were varied. British labour for example was relatively immobile, with slow migration from areas of mass unemployment (such as the North and in South Wales) to areas of expansion (such as the Midlands and the South East), while many of Britain's old industries were still able to make sufficient profits despite their economic problems, and thus lacked the incentive to embark on an expensive switch to new lines of production. The structure of Britain's old industries was also still essentially the same as it had been during the nineteenth century, comprised mainly of family firms strongly resistant to improving productivity through mergers, while those amalgamations which did take place were also frequently designed as a defensive move pursued in a bid to evade the need for adjustment.¹⁴⁷ Industrial change was also hampered by a lack of access to capital, with many firms unable to accumulate sufficient investment funds out of their own profits due to the burden of high tax and debt servicing, and with Britain's banks still heavily extended to British industry, many remained unwilling to make any significant new advances for the purposes of reconstruction or to endanger their

¹⁴⁶ BE:ADM34/15. Norman Diaries 20/5/26: Figures calculated from Board of Trade (1930); Report of the Committee on Finance and Industry. Cmd 3897 (1931). Table 3, Appendices IV and VI; Dowie (1968), pp.68-71; Moggridge (1969), pp.83-4; Feinstein (1972) Tables 2, 37, 51, 52, 57, 65; Clegg (1985), p.421; Alford (1986), pp.20-1; Gazeley and Rice (1992), pp.326-31; Butler and Butler (1994), ps.373-5, 383-5; Feinstein *et al* (1997), Tables 1.6, 4.4, 4.3.

¹⁴⁷ PRO:T160/463. 'The Gold Standard' (Churchill); Cole (1948), pp.376-9; Morgan (1952), pp.298-9; Branson (1977), pp.140-2; Best and Humphries (1987), pp.231-2; Heim (1987), pp.240-56; Tolliday (1987), p.86.

existing investments by forcing adjustment through the pressure of bankruptcy.¹⁴⁸

These factors alone however cannot fully account for the continuation of Britain's faltering economic performance. There is no evidence to suggest for example that Britain's employers would have been more willing to engage in significant restructuring even had conditions for such an undertaking been more favourable, and labour immobility did not impede the growth of Britain's new industries, which were not short of manpower. The key causes behind Britain's economic failings instead lay primarily in the retrogressive attitudes of employers (especially in the old export trades), who remained wedded to outmoded technology and production methods, and in the resistance of labour to any further compression of living standards, especially reductions in wages.

These factors were clearly evidenced during the events of 1925-26. Provoked by the insistence of employers in the export trades that improvements in competitiveness were to come through wage cuts and longer hours rather than industrial re-organisation, the unrest served notice as to labour's willingness to resist any diminishing of their living standards and of the high costs that would be incurred in trying to force the issue. In recognition of the fact that overt class struggle was now at a stalemate, the strikes were followed by an 'industrial truce', with employers keen to return to orderly business, and with labour now demoralised and weakened by the failure of direct action.¹⁴⁹ As a result, industrial unrest declined markedly during 1927-28. The average number of working days lost was now nearly 90% lower, and the average number of new disputes over 50% lower than the annual average for 1922-25 (a period in which labour unrest was itself starting to subside from its postwar heights).¹⁵⁰

¹⁴⁸ Clay (1957), ps.231, 332-42; Heim (1987), pp.240-55; Eichengreen (1993), pp.144-5.

¹⁴⁹ Cole (1948), p.428.

¹⁵⁰ Calculated from Butler and Butler (1994), p.373.

The industrial truce was formalised in September 1926 with the establishment of talks between representatives of the TUC (led by the TUCGC chairman, Ben Turner) and a group of employers headed by Sir Alfred Mond.¹⁵¹ Though the FBI and the NCEO initially refused to participate in the talks, by 1927 a separate series of tripartite discussions had also been established with the TUC. With employers keen not to antagonise labour for fear of a future backlash, it was now deemed expedient to engage in a dialogue while the terms were still favourable.¹⁵²

Though ensuring industrial stability, the class stalemate now further impeded the process of economic adjustment insofar as it entailed the forcing down of British prices via the compression of working class living standards. Despite this however, state officials remained unwilling to become more directly and visibly involved in order to force an adjustment and continued to insist on the need for increased economic efficiency and adaptation.¹⁵³ Direct state intervention remained limited to measures designed to encourage private enterprise (such as the establishment of the National Grid in 1926, set up in part to facilitate the adoption of mass production techniques), and to curtail the disruptive ability of labour, such as the Trade Unions and Trade Disputes Act of 1927 which introduced severe restrictions on industrial action.¹⁵⁴ Nevertheless, though keen to minimise their responsibility and involvement, Ministers were also aware of the political dangers posed by continued economic atrophy. As such, the government turned to the Bank of England, (already now tentatively involved with industrial restructuring in the armaments industry), whom it was felt could encourage economic adjustment through the provision of fresh

¹⁵¹ TUC Annual Report 1928., pp.407-12; Cole (1948), pp.427-8; Citrine (1964), pp.246-9.

¹⁵² Various in MRC:MSS.200/F/3/S1/14/6; MRC:MSS.200/F/3/E1/3/11.

¹⁵³ Labour Party Annual Report 1927, p.97; PRO:BT55/49. 'The Economic Situation in the United Kingdom 1922-7' (Cunliffe-Lister); PRO:CAB24/184. 'Trade Union and Trade Disputes Bill' (Steel-Maitland), 23/3/27.

¹⁵⁴ Cole (1948), pp.423-9; Fulcher (1991), pp.120-1.

capital and the application of financial pressure without the attendant political risks. For the Bank's part, though also reluctant to accept any greater responsibility for economic conditions, officials were concerned that the government might be compelled to extend its involvement if they did not, and that this might lead to the possible nationalisation of the Bank itself. Moreover, Bank officials also felt that it would be impossible to confine state assistance to selected industries, and that this would merely widen the clamour 'to get some of the Government dope' and delay the 'more radical cure' of industrial restructuring and amalgamation. As such, although the Bank now succumbed to government pressure and became increasingly involved with those parts of British industry in most difficulty, they also remained emphatic that their assistance would be strictly limited, and that the provision of new capital would have to be preceded by industrial restructuring.¹⁵⁵

The Global Crisis

During the latter half of 1926, just as the world appeared to be recovering from over a decade of trauma, with many countries now back on gold and with the international economy enjoying a mild boom, global conditions again began to deteriorate.¹⁵⁶ This was expressed as a growing unevenness in conditions for the exploitation of labour within the global circuit of capital, assuming the more concrete form of a disequilibrium firstly between the various branches of the world economy, and secondly between national conditions for capital accumulation. For the former, the disproportionality was manifest in the overproduction and subsequent decline in the price of key commodities such as coal,

¹⁵⁵ BE:ADM34/16. Norman Diaries 21/11/27; BE:G14/55. Committee of Treasury Extracts; BE:OV9/479. Niemeyer to Grigg 19/7/28; Clay (1957), pp.320-59; Boyle (1967), pp.208-22; Sayers (1976), Ch.14; Heim (1984), pp.535-6; Kynaston (1999), pp.131ff.

¹⁵⁶ Kenwood and Lougheed (1971), pp.193-4; Eichengreen (1992), p.192.

heavy metals, and agricultural goods. This was not simply a result of the strains and the aftermath of the war, but was also due to the secular spread of industrialisation driven by capital's search for ever greater surplus value extraction, and by the uncoordinated character of capitalist production ignoring the limits of the market.¹⁵⁷ For the latter, the unevenness took the geographical form of a sharpening contrast between conditions for capital accumulation in most parts of the world, with those in America (now the world's most productive economy), leading to a vast expansion of global debt and a growth in speculation on the New York stock market. The roots of this crisis lay in the attempt by the United States to facilitate the postwar reconstruction of the world economy by providing a series of large foreign loans, primarily to Latin America and Germany under the 1924 Dawes scheme. For the most part however, these loans were not invested by their recipients in ways that would ensure the smooth expansion of global capital accumulation, or that would enable them to repay the debt, but were largely invested in already overexpanded sectors such as primary goods, or were spent on unproductive schemes designed to contain social tensions and shore up balance of payments weaknesses such as public works and welfare provisions.¹⁵⁸

The continued disparity in global conditions for capital accumulation meant consequently that despite the huge scale of American foreign lending (around \$6.4 billion between 1924-29) the United States nonetheless remained a net importer of world capital in the form of gold, further exacerbating its global maldistribution.¹⁵⁹ In addition, the US economy was itself now also exhibiting signs of overproduction, with a swathe of mergers and the development of mass production techniques during the past decade having raised

¹⁵⁷ See for example Kenwood and Lougheed (1971), Chs.11-13; Ziebura (1990), *passim*.

¹⁵⁸ Kindleberger (1986), pp.39-41; Marichal (1989), Ch.7; Feinstein *et al* (1997), Table 5.2; Bulmer-Thomas (1998), p.70.

¹⁵⁹ Kenwood and Lougheed (1971), pp.198-9; Marichal (1989), Ch.7.

the growth of American industrial output far above that of real per capita income.¹⁶⁰ As US producers curtailed by international and domestic overaccumulation now found it increasingly difficult to maintain present levels of production at a sufficient rate of profit, and as fears of a domestic recession therefore began to grow, American industry and commerce sought to avoid the consequences of the overproduction crisis with an expansion of domestic (especially consumer) credit. As such, by the latter half of the 1920s the scale of economic activity in both the global and US circuits of capital was thus being increasingly sustained only on the basis of an ever-growing mountain of debt.¹⁶¹

The problems within the US circuit of productive capital were also adding to the expansion of the US circuit of money capital, and hence to the growth of speculation on Wall St., as capital increasingly sought to bypass the need to engage in the productive exploitation of labour and instead sought to gain expansion on a purely financial basis.¹⁶² Attempts by the FRBNY to address this with higher interest rates however, served merely to compound the magnetism of the United States for international capital and also forced central banks around the world to raise interest rates in defence of their gold reserves. As higher rates added to the burden of debtor nations by putting further downward pressure on world commodity prices (especially of the primary goods on which debtors were frequently dependent) many states, particularly in Latin America, began to experience an intensification of their balance of payments difficulties. As the crisis deepened, many debtor nations now found themselves unable to respond with higher interest rates due to economic weakness and domestic resistance to deflation, and instead turned to a further expansion of primary goods production and to even greater borrowing in a bid to sustain

¹⁶⁰ Soule (1947), *passim*; Beaudreau (1996), Tables A3.2, A3.6.

¹⁶¹ Soule (1947), *passim*; Clay (1957), p.226; Ziebura (1990), pp.41ff; Eichengreen (1992), pp.193-2.

¹⁶² Hawtrey (1933), p.218; Aldcroft and Oliver (1998), p.40.

their position.¹⁶³

The impact of these events on the British state was felt in the form of renewed pressure upon the reserves of the Bank of England. Gold was lost to the US for speculation; to France as refugee capital returned following the cessation of the financial crisis; and to Germany, which was now borrowing heavily from London to sustain its balance of payments. The drain was also enhanced by an excessively high level of foreign lending by the City, and by a deterioration in the current account, both of which weakened sterling.¹⁶⁴ The Bank however were now constrained in their response by the political concerns surrounding the condition of the British economy. With unemployment rising, with industry struggling, with Churchill growing ever more anxious, and with the Bank themselves keen to avoid any adverse public opinion, considerations of a rise in interest rates were abandoned in favour of defending the pound once more with the use of open market operations.¹⁶⁵

By 1927 it was increasingly clear that the gold standard was not functioning in the way in which officials had originally envisaged. As Norman complained, international gold flows were frequently 'irrelevant' to economic circumstances, while central banks were frequently ignoring the 'rules of the game' by intervening in order to neutralise their effects on national price levels.¹⁶⁶ Moreover, both France and Belgium had by now effectively returned to the gold standard at competitively undervalued exchange rates, further distorting the operation of the international monetary system, and the regime itself was

¹⁶³ Kenwood and Lougheed (1971), pp.186-97; Kindleberger (1986), pp.73-91; Bulmer-Thomas (1998), Table 2.1.

¹⁶⁴ Sayers (1976), ps.184-7, 213, 336; Cairncross and Eichengreen (1983), pp.46-8; Butler and Butler (1994), pp.373-4.

¹⁶⁵ BE:ADM34/15. Norman Diaries 8/10/26; Sayers (1976), pp.212-16; Eichengreen (1992), pp.209-11.

¹⁶⁶ BE:G1/464. Norman to Sir Edward Cook 4/1/27; Clay (1957), pp.223-5.

also coming under renewed criticism.¹⁶⁷ Hawtrey for example was arguing that the costs of the return had been ‘much heavier than could have been foreseen’ and that tight credit had ‘frightfully aggravated’ Britain’s difficulties, the FBI were also protesting against the ‘abnormally high’ level of interest rates, and the labour left, increasingly of the view that government policy was being dictated by the interests of finance, were continuing to call for the Bank of England to be nationalised.¹⁶⁸ In addition, rumours were now circulating that Norman himself was ‘extremely worried’ about the situation, that he believed the return to gold to have been a mistake, and that he was even considering its abandonment if things did not soon improve.¹⁶⁹

In April a brief respite in the pressure allowed a politically expedient cut in interest rates to 4.5%, though the ease was soon revealed to have been a false dawn. In May problems resumed when the Banque de France began converting its reserves of sterling into gold in a bid to force British rates back up so as to ease upward pressure on the Franc.¹⁷⁰ Moreover, senior Treasury officials and the Governor were now under increasing fire from Churchill, whose disappointment with Britain’s slow rate of recovery and the persistence of high unemployment was palpable. Though Norman was insistent that unemployment was the government’s responsibility, the Chancellor was equally insistent that it was ‘an immense fault and shortcoming in our economic organisation’, and that it could not be ignored. Although the gold standard policy had secured international confidence in the pound and lowered the cost of living, it had he argued, also produced

¹⁶⁷ Sayers (1976), pp.192ff; Kindleberger (1986), pp.34ff.

¹⁶⁸ PRO:T176/5. Pt.2. ‘Recent Price Movements’ (Hawtrey), 1/3/27; PRO:T176/13. Pt.2. ‘The Monetary Outlook According to the Times’ (Hawtrey), 18/3/27; MRC:MSS.200/F/3/S1/14/6. FBI General Economic Department to Secretary of Ley’s Malleable Castings Co. Ltd. 11/4/27; Lansbury’s Labour Weekly (April 1927 issues).

¹⁶⁹ BE:G1/421. Note by the Whaley-Eaton news service, spring 1927; Sayers (1976), pp.334-5.

¹⁷⁰ Kindleberger (1986), pp.34ff.

labour unrest, a huge increase in unemployment, and had raised the threat of a dangerous political backlash in the not too-distant future. In all, Britain's monetary policy since the war had, Churchill warned, been 'entirely unsatisfactory'.¹⁷¹

Again however, such events cannot be seen as evidence of the failure of the gold standard strategy. Contrary to the rumours for example, Norman did not now view the return to gold as having been a mistake and nor was he remotely contemplating its abandonment, while even Churchill, in spite of his dissatisfaction, could see no alternative to the regime. Indeed, for all its problems the Chancellor was nevertheless of the view that the gold standard had been 'less disastrous' than would have been the case under a discretionary monetary policy with all its 'successive alterations and reversals'.¹⁷² Moreover, the criticism from Hawtrey was also not considered by Norman to be representative of any significant body of official opinion in Britain. As he later remarked:

"Except perhaps in the range of pure theory I have never heard anyone agree with him: and indeed it would have been true to say, for years past, that he represents neither opinion in the City, nor the official views of Whitehall, nor any deliberate and instructed views in political circles."¹⁷³

Furthermore, the pressures of the global economic situation also soon subsided. French sales of sterling quickly halted once it was realised that Norman could not raise interest rates and that damaging the pound would also endanger the Franc, and indeed the gold standard as a whole. In July international tensions were further eased as central bank Governors from the United States, Britain, France, and Germany gathered in New York to

¹⁷¹ BE:G1/464. Churchill to Norman 18/5/27; Note by Norman; PRO:T175/11. Churchill to Niemeyer 9/4/27; PRO:T208/121; 'Memo. on Draft Currency and Bank Notes Bill' (Churchill), 1927.

¹⁷² BE:G1/421. Strong to Norman 12/4/27; Norman to Strong 7/5/27; PRO:T175/11. Churchill to Niemeyer 9/4/27.

¹⁷³ BE:G1/50. Norman to Francis Rodd 7/1/33.

discuss ways of improving global stability. One of the most important outcomes of this conference was a cut in US rates to 3.5% in August, a move designed as much to address growing fears of domestic recession as to ease the pressure on Europe. Nonetheless, the reduction provided a welcome relief for the global economy, diverting capital away from the US, enabling the lowering of European interest rates, and aiding the recovery of sterling throughout the rest of the year.¹⁷⁴

The Crisis Grows

The easing of the crisis in the summer of 1927 however served merely as the point of departure for its intensification. With the New York conference seeking to deal with the world's economic difficulties through a relaxation of credit rather than by addressing its structural deficiencies, the way was cleared for continued overproduction and renewed speculation on Wall St. As global capital once more gravitated to the US, New York interest rates were again increased, reaching 5% by July 1928. Again however the rise failed to break the speculative boom but served only to increase the inward flow of gold and to force a tightening of rates elsewhere, while in addition, much American foreign lending now also began to be redirected to the domestic money circuit. The global effects of this sudden curtailment of US credit were severe, forcing many debtor nations into an even more pronounced state of crisis and threatening to undermine the stability of global capitalist relations as a whole. In an effort to sustain their balance of payments many debtor nations were now forced to run down their reserves, much of which was held in the form of sterling, and several countries including Holland, Germany, and especially France, also began converting their sterling holdings in a bid to move to a full gold, as opposed to a

¹⁷⁴ Brown Jr (1940), pp.452-8; Clay (1957), pp.221-37; Sayers (1976), pp.184ff, 341-3; Eichengreen (1992), pp.211-213; Cottrell (1995), pp.93-5.

gold exchange standard, putting pressure on the pound and heightening fears of a global gold shortage.¹⁷⁵ Compounding this still further, the issue of reparations was now back on the agenda, with German grievances over the provisions of the Dawes scheme (which included external monitoring of the German budget) and pressure for a final settlement leading to the establishment of the Young Committee in September to re-examine the subject.¹⁷⁶

The deepening of the crisis once again put growing pressure on Britain. Though the current account was now registering its highest surplus since 1923, unemployment was once again rising and industrial production was once again falling following a brief respite during 1926-27. Moreover, the issue of monetary policy now also began to attract renewed attention, with the question of amalgamating the Bank and Treasury note issues, the final stage of the process of returning to gold by unifying the money supply under the complete control of the Bank of England, now on the political agenda and raising interest in the gold standard.¹⁷⁷ Once more, criticism of the state authorities came from representatives of both capital and labour. The ‘Mond-Turner’ conference for example complained that interest rate movements were now being determined too rigidly by the level of the gold reserves, and called for an enquiry into monetary policy and for greater attention to be given to the domestic economic situation.¹⁷⁸ The wider labour movement were also dissatisfied. The TUCGC were of the view that the unemployment situation was now a threat to ‘the very

¹⁷⁵ Various in PRO:T176/27; BE:EID4/102. ‘Monetary Stability and the Gold Standard’ (League of Nations), 30/5/28; BE:ADM34/16. Norman Diaries 25/11/27; Brown Jr (1940), ps.400-2, 481-6, 567, 725; Kahn (1946), p.167; Kenwood and Lougheed (1971), pp.186-204; Sayers (1976), pp.192ff; Kindleberger (1986), p.56. Table 2; Zieburá (1990), pp.49-57; Eichengreen (1992), pp.187ff; Feinstein *et al* (1997), p.98.

¹⁷⁶ Kindleberger (1986), pp.65-8.

¹⁷⁷ BE:G1/464. Norman to Niemeyer 5/5/27; BE:ADM34/16. Norman Diaries; Various in BE:G14/312; Feinstein (1972), Tables 37, 51-2, 57.

¹⁷⁸ MRC:MSS.292/262/36. ‘Memo. Submitted on the Gold Reserve and its Relations with Industry’ (TUCGC/Mond Group), 1928; ‘Explanatory Memo. Submitted on the Memo. on ‘The Gold Reserve and its Relations With Industry’’, 1928 (hereafter ‘Explanatory Memo.’); TUC Annual Report 1928, pp.209ff.

stability of the nation' and thought that monetary policy was 'highly injurious', whilst the Labour Party conference as a whole, and not merely the labour left were now also calling for an enquiry and for the nationalisation of the Bank of England (albeit within the indirect model of a public corporation run by a board of politically neutral appointees).¹⁷⁹ Some on the more radical left however were now calling for the wholesale abandonment of the gold standard, while the government were also under concerted attack over their attempts to neuter the labour movement through the Trade Unions and Trade Disputes Bill.¹⁸⁰

From capital, although the City maintained their support for the gold standard (despite McKenna continuing to call for lower interest rates and an enquiry), the FBI were now also discontent, claiming that their warnings over the return to gold had been proved 'right in every single particular', while the Mond group attacked the return to gold for having damaged trade and promoted industrial unrest. Along with the labour left there was now also a growing feeling within industrial circles that monetary policy was biased in favour of the interests of finance, with Vincent Vickers, a former Bank of England director proclaiming for example that an increasing number of 'influential industrialists' were now coming to realise this fact.¹⁸¹

Dissatisfaction with economic conditions was also increasingly evident from other sources. Public petitions were presented to Parliament demanding an enquiry into the

¹⁷⁹ MRC:MSS.292/560.1/1. 'Development of Economic Policy' (TUCGC), November 1928; MRC:MSS.292/265/1. 'National Finance and Banking' (TUCGC), 15/2/28; MRC:MSS.292/135.01/2. 'Statement on Unemployment' (TUCGC), 1/12/28; Labour Party Annual Reports 1927, pp.264-5; 1928; TUC Annual Reports (1927), pp.453-5; (1928), p.230; Lansbury's Labour Weekly 30/4/27; New Leader 24/6/27. XIV(35).

¹⁸⁰ Lansbury's Labour Weekly (1927 issues); Industrial Review (1927 issues).

¹⁸¹ MRC:MSS.200/F/3/S1/14/6 & 15/6. V. Vickers to FBI Chairman 2/7/27; to FBI Secretary 6/7/27; FBI Secretary to V. Vickers 4/7/27; R. T. Nugent to A. Wigglesworth 28/2/28; to R. A. Kerr Montgomery 18/4/28, 16/5/28; FBI General Economic Dept. to Colonel F. V. Willey 13/6/28; FBI General Secretary to R. A. Kerr Montgomery 12/12/28; MRC:MSS.292/135.01/2. 'General Memo. on Unemployment' (Mond Group), August 1928; MRC:MSS.200/F/4/24/12-13. FBI Bulletins (1927-1928 issues); Keynes (1951), pp.242-3; Sayers (1976), p.360; Kynaston (1999), pp.128-9.

effects of monetary policy, while in Parliament itself the Liberals were leading calls (publicly supported by Keynes and Henderson) for reducing unemployment with large-scale public works.¹⁸² Official circles too were now growing more concerned. The high and rising cost of unemployment benefit for example was an increasing source of anxiety to the Treasury, forcing the adoption of ever more manipulative accounting measures in order to sustain the impression of a balanced budget, while Hawtrey continued to press for lower interest rates to help stimulate the economy. Sir Richard Hopkins (the head of the civil service) was concerned that the amalgamation of the note issues would generate greater public interest in the issue of monetary policy and create ‘constant difficulties as to publicity’, while Churchill, still concerned with the political impact of unemployment, continued to berate senior figures at the Bank and the Treasury for their indifference to the problem, and for ‘their’ policy of forcing economic reconstruction through the pressure of deflation.¹⁸³

At the Bank itself, such criticisms continued to constrain their response to the crisis. The possibility of easing pressure on the pound through higher interest rates was again rejected by Norman firstly in November 1927 on the basis that this would be ‘grossly unfair to industry’ and beneficial to no-one, and then by Cecil Lubbock, the Bank’s Deputy Governor in mid-1928 (temporarily in charge with Norman absent through illness) on the grounds that this would merely force even higher rates elsewhere, and would attract undue ‘public attention’ given the scale of unemployment. Instead, the Bank were yet again forced into the use of open market operations to protect the pound, while Norman now

¹⁸² Various in MSS.200/F/3/S1/19/1; Winch (1969), pp.108-9.

¹⁸³ PRO:T175/125. Hopkins to Churchill 27/3/28; to Sir William Graham-Harrison 11/4/28; and to Niemeyer 17/4/28; PRO:T172/1500B. Grigg to Churchill 14/4/28; PRO:T160/463. ‘Mr. McKenna on the Gold Standard’ (Hawtrey), 30/1/28; the Times 30/10/28; Grigg (1948), p.199-200; Hancock (1962); Middlemas (1969a), p.137. Gilbert (1976), pp.289-95; Ponting (1994), pp.298-9.

began to seek greater central bank co-operation as an international means of addressing the crisis. The Governor was also keen however to ensure that such co-operation would be kept strictly secret, arguing that publicity would not only ‘make a public target out of the decisions [arrived at] and would leave them much more difficult to achieve’, but would also risk politicising the function of central banks by raising the issue of their ability to influence economic conditions through the discretionary regulation of credit.¹⁸⁴

Despite these constraints on state managerial freedom of manoeuvre and the rising concerns over monetary policy however, the gold standard was still nevertheless continuing to provide a credible framework for economic policy-making. For all his dissatisfaction with the regime, Churchill for example could still see no alternative to gold, and though Hawtrey continued to harangue the Bank, he was also opposed to any government control over monetary policy. Parliament, he maintained, should ‘content itself with prescribing the end’, and complete responsibility for monetary policy should continue to rest with the Bank, even though they themselves may not desire it.¹⁸⁵ At the Bank itself, though increasingly anxious that the global crisis might soon force Britain off the gold standard, Norman did not believe that there was any great desire in Britain for a change in the monetary system. As he put it, the number and influence of people wishing to significantly alter it was ‘almost negligible’, and consisted of:

“certain professors who no longer convince or even tickle the public: doubtless a number of manufacturers and exporters in the North whose attitude is more understandable than reasonable, and others, mainly cranks,

¹⁸⁴ BE:ADM34/16. Norman Diaries 27/8/27; BE:G1/421. Norman to Strong 5/10/27 [My Insert]; BE:G1/422. Lubbock to Harrison 3/8/28; Norman to Strong 11/4/28; BE:G14/312. Committee of Treasury Extracts; BE:G1/464. ‘Bank Rate’ (Norman), 1/11/27; Norman to Niemeyer 6/12/27; BE:G1/421. Norman to Strong 28/11/27.

¹⁸⁵ Various in PRO: T175/18 Pts.1-2 and MRC:MSS.292/135.01/1; BE:EID4/1021. ‘The Fiduciary Issue’ (Hawtrey), 6/5/27; Gilbert (1976), pp.289-95.

who think in solitude more than they mix and argue with others.”¹⁸⁶

Indeed, this assessment was largely accurate. Despite the growing difficulties, for the most part monetary policy remained a non-political issue, and state officials predominantly managed to continue avoiding the responsibility for the poor state of the British economy. Although it had raised public awareness of monetary policy, the Currency and Bank Notes (Amalgamation) Act was successfully passed in July 1928, by November Britain’s money supply had been unified under the control of the Bank of England, and the return back to the gold standard was now fully complete.¹⁸⁷ Moreover, despite their concerns, representatives of capital and labour continued to blame other factors rather than the government for Britain’s difficulties. The ABCC, the Mond (now Lord Melchett) group, and the FBI for example placed most of the responsibility on factors such as excessively high wages and the self-interested behaviour of foreign central banks, especially the FRBNY.¹⁸⁸ For the FBI, the Bank of England were considered to have had no choice but to maintain high interest rates due to world economic conditions, and indeed were even thought to have done their best to help British industry even though they themselves were in a ‘very difficult situation’. The Federation also regarded most critics of Britain monetary policy as ‘cranks’, and while generally having no strong views on the issue were now also arguing against any enquiry on the basis that it would give credence to labour’s calls for the nationalisation of the Bank.¹⁸⁹

¹⁸⁶ BE:G1/421. Norman to Strong 14/3/27; BE:G1/423. Norman to Harrison 28/11/28.

¹⁸⁷ The Act limited the fiduciary issue to £260 million, and permitted an increase only after a request by the Bank and with Treasury permission, subject to renewal on a six monthly basis for a period of up to two years. Extensions thereafter were subject to Parliamentary approval. See various in PRO:T175/125 and PRO:T176/13 Pt.2; Brown Jr (1940), pp.675-83.

¹⁸⁸ MRC:MSS.200/F/4/24/14. FBI Bulletins (1928 issues); MRC:MSS.292/135.01/2. ‘General Memo. on Unemployment’ (Melchett Group) August 1928., pp.53ff.; ‘Memo. Submitted on the Gold Reserve and its Relations With Industry’, and ‘Explanatory Memo.’, (1928); Yorkshire Post 28/12/28; Daily Herald 25/1/29.

¹⁸⁹ MRC:MSS.200/F/4/24/14. FBI Bulletin 15/5/28. 11(9); MRC:MSS.200/F/3/S1/14/6 & 15/6. Nugent to Sir R. A. Kerr Montgomery 16/5/28; and to Colonel F. V. Willey 9/10/28; FBI General Economic Department to

For labour, the TUCGC continued to regard the decline of the staple trades as being due to ‘natural and other causes beyond our control’, and Britain’s difficulties in general were still primarily thought to derive from global economic circumstances and the failure of British industry to adapt. Monetary policy was still not a central issue, and the key concerns of the movement remained those such as living standards, unemployment, and the government’s legislative attack on labour. Debates on unemployment at the TUC and Labour Party conferences made no reference to the gold standard, and the TUC did not hold the Bank to be responsible for economic conditions, arguing instead that the reason Britain had high interest rates was “not because the Bank wishes to bring them about...but because the rigid working of an automatic system leaves the financial authorities with no alternative.”¹⁹⁰ Even the more radical left were now not entirely critical of the authorities. Though calling for an enquiry into monetary policy and for the nationalisation of the Bank of England at the Labour Party conference, the ILP representative Frank Wise explicitly refused to criticise the motives or the intentions of the Bank, and indeed the resolution itself was withdrawn following an intervention by MacDonald and a promise to establish an official Labour Party committee of investigation instead.¹⁹¹

In addition, both capital and labour continued to argue that Britain’s problems could not be resolved with greater state intervention, and there were no significant calls for any great change in the direction of monetary policy. The main emphasis was still placed on the need for international co-operation and industrial re-organisation, and pressure

Sir R. A. Kerr Montgomery 18/4/28; and to Colonel F. V. Willey 13/6/28; MRC:MSS.292/262/36. ‘TUC Industrial Conference Report’, p.20.

¹⁹⁰ MRS:MSS.292/262/36. ‘Explanatory Memo’, (1928), p.5.

¹⁹¹ Labour Party and TUC Annual Reports 1927-1928; MRC:MSS.292/100/1. ‘The Possibility of a Higher Standard of Living Under Capitalism’ (TUCGC), March 1927; ‘Improvements in Conditions in 19th and 20th Centuries’ (TUCGC), June 1927; MRC:MSS.292/135.01/2; ‘Unemployment : Employers’ Memo. General Criticism’ (TUCGC), 7/11/28. ‘Statement on Unemployment’ (TUCGC), 1/12/28.

concerning monetary policy was directed at the need for reform in order to make the gold standard work properly rather than at securing its abandonment. The Mond-Turner representatives for instance continued to highlight the need for global co-ordination and industrial adjustment whilst the TUCGC also continued to emphasise the necessity for re-organisation and modernisation, arguing that “we have to produce more....to produce it more efficiently....and compete more effectively in foreign markets with our export goods.” On the subject of monetary policy the majority of the Labour Party also remained deferential to Snowden, still resolutely committed to the gold standard and of the view that monetary policy should be kept free from political control since Parliament was ‘not a competent body to deal with such highly delicate and intricate matters.’ Furthermore, representatives of both capital and labour remained optimistic as to Britain’s future economic prospects. To the TUCGC and the FBI alike, Britain’s difficulties were now thought to be coming to an end, the export industries were finally seen to be on a par with their major competitors, and the economic outlook was the brightest it had been since the war. The international situation was also soon expected to ease, and the Bank of England was soon expected to regain its prewar freedom of action.¹⁹²

Concluding Remarks

This chapter has examined the period following the return to the gold standard from April 1925 until the end of 1928. It has shown that this policy was designed to address Britain’s economic difficulties and to contain labour unrest by imposing competitive

¹⁹² See references from the previous footnote and also: Industrial Review (1928 issues); MRC:MSS.292/135.01/2. Summary of Mond-Turner Meetings, 17/10/28; ‘Development of Economic Policy’ (TUCGC); MRC:MSS.292/110.1/1. ‘The Trend of Real Wages in Britain 1850-1928’ (TUCGC); MRC:MSS.200/F/4/24/13-14. FBI Bulletins (1927-1928 issues); MRC:MSS.200/F/3/E1/13/5/2. ‘Note on Sir Alan Anderson’s Proposals’ (Glenday), 1/9/27; MRC:MSS.200/F/3/S1/14/1-7. ‘Government Economy’ (FBI), 31/3/27; Sir Max Muspratt (FBI President) to various bank chairmen 3/2/27.

discipline upon the expectations and behaviour of capital and labour, and by depoliticising the issues of economic conditions and policy-making. It has also shown however that this strategy was not entirely successful. The financial pressure imposed by the high exchange rate did not overcome the resistance of capital and labour to significant economic restructuring, and although prices fell, Britain's relative global competitiveness did not substantially improve. In part however, this was also due to factors beyond Britain's control such as the disproportionate conditions for capital accumulation within the world economy, and the onset of an international economic crisis from 1926. Despite these difficulties, and despite the fact that the continuation of economic problems led to growing criticism of state officials and constrained their freedom of manoeuvre in response to the crisis, the gold standard nevertheless still managed to provide distinct political benefits. The strategy was successful in establishing a credible and depoliticised framework for economic policy management, and was for the most part largely successful in insulating the core executive from political pressures. Class unrest subsided following the general strike of 1926, disquiet from capital and labour over economic conditions was now largely displaced away from the state, and for all their problems Britain's state authorities were now under less pressure and less constraints than they had been under the politicised mode of economic policy regulation prior to the return to gold.

Chapter 7 : The Collapse of the Strategy, 1929-1931

This chapter examines the breakdown of the gold standard strategy between 1929 and 1931. It shows that the development of the international crisis combined with a continued lack of economic adjustment in Britain put growing pressure on the state authorities over economic conditions and served to further constrain their freedom of policy manoeuvre. Nevertheless, this chapter also shows that despite these difficulties the gold standard continued for the most part to provide a credible and depoliticised framework for economic policy management, and to provide officials with an effective means of displacing such pressures away from the state. As such, although increasingly restricted, the high political freedom of the core executive during most of this period was still greater than it had been under the regime preceding the return to gold. This chapter shows too however, that as the economic crisis continued to worsen, the credibility and the depoliticising effects of the gold standard were progressively undermined, eventually culminating in an enforced departure from the regime in September 1931.

Manic Depression

The period 1929-31 was dominated by an intensifying crisis in the international circuit of capital. Speculation on Wall St. continued to grow, high interest rates at the FRBNY continued to draw capital from the rest of the world and to force other central banks to maintain tight credit, and the Banque de France (who combined with the US now held over half the world's monetary gold stock) also continued to accumulate gold. Global

difficulties were also exacerbated during the second half of the year as the crisis of overproduction in the American economy finally erupted, sending the world's single largest market into a steep depression.¹⁹³ These factors led to a sharp fall in international commodity prices between 1929-32, with the price of raw materials falling by 56%, manufactured articles by 36%, and food prices by 48%. The situation was further compounded as primary producers now introduced tariff restrictions and continued to expand production in a vain attempt to resolve their balance of payments difficulties, swelling the oversupply of primary goods on the world market. Moreover, as debtor nations found it increasingly difficult to service their obligations, many were also forced to adopt austerity measures, provoking widespread social resistance and adding to global political and economic instability. By the end of 1929 the depression was almost universal, and was rapidly becoming the worst in the history of world capitalism.¹⁹⁴

The global crisis impinged directly upon the British state. Though domestic industrial production during 1929 was at its highest since the war, Britain's staple industries continued to languish, unemployment remained high, and the balance of payments weakened.¹⁹⁵ There remained little indication of any substantial economic shift towards newer and more advanced lines of production, little sign of any significant re-organisation or modernisation of old technologies and production methods, and no evidence of any end to Britain's relative economic decline.¹⁹⁶ This lack of adjustment was also compounded by the industrial truce since 1926. Though organised labour remained numerically weakened, and though the number of new disputes and working days lost

¹⁹³ Hawtrey (1933), p.218; Soule (1947), *passim*; Kindleberger (1986), p.101; Beaudreau (1996), Table A3.9.

¹⁹⁴ Kindleberger (1986), p.103; Eichengreen (1992), pp.14ff, 222ff; Feinstein *et al* (1997) Table.6.2, pp.99-105; Bulmer-Thomas (1998), p.78.

¹⁹⁵ Feinstein (1972), Tables.37, 51-2, 57; Eichengreen (1992), pp.14ff.

¹⁹⁶ Clay (1957), pp.156-7; Sayers (1976), p.96; Branson (1977), pp.143-8; Alford (1986), pp.57-9; (1996), ps.119, 156-8.

remained comparatively low in relation to the first half of the 1920s, employers were still generally reluctant to try and impose wage cuts, longer hours, or modernisation for fear of inciting labour unrest. Indeed, though both wholesale prices and the cost of living had now fallen since 1924, real wages had risen by an average of 8.5%.¹⁹⁷

The crisis also put increased pressure on the gold reserves of the Bank of England, sustaining the Bank's fears that Britain could soon be forced off the gold standard. In their response however, state officials were now constrained by the growing political difficulties surrounding the problems of the British economy. With the persistence of high unemployment an increasingly sensitive political issue, especially given the approaching general election, and with pressure (led primarily by the Liberals) now mounting for the introduction of public works to alleviate the problem, the Bank were once more forced to avoid a rise in interest rates. This position though was unsustainable. Following a further rise in interest rates at the FRBNY in February, the Bank were now forced to raise their rates to 5.5% in order to defend sterling, and to warn of even tighter credit in the near future. This move attracted fervent protests from the press, the Parliamentary opposition parties, and from representatives of both capital and labour.¹⁹⁸ Though the City were unsurprised by the move, the FBI were sharply critical of the rise, both sides of the Mond-Turner talks now reasserted their calls for an enquiry into monetary policy, and the ILP reissued their demands for an expansionary economic policy and the nationalisation of the Bank of England.¹⁹⁹ Government Ministers too were disconcerted by the decision, with the

¹⁹⁷ BE:G1/455. Economic Advisory Council Report. 24/10/30, p.4; Board of Trade (1930), ps.18-19, 61-2; Report of the Committee on Finance and Industry (1931). Cmd.3897, p.85; Industrial Review July 1929-June 1930; Gazeley and Rice (1992), *passim*; Butler and Butler (1994), pp.373-4.

¹⁹⁸ PRO:T176/13. Pt.2. Lubbock to Hopkins 9/2/29; BE:ADM34/18. Norman Diaries 19/2/29; Sayers (1976), ps.222-6, 361-2; Middleton (1985), pp.145-9.

¹⁹⁹ MRC:MSS.200/F/4/24/15. FBI Bulletin 15/2/29. 12(2); MRC:MSS.292/135.01/1. 'Interim Joint Report on Unemployment' (Mond-Turner), March 1929; TUC Annual Report 1929, pp.188-202; ILP Archives. 'Re-Organise Industry' (ILP). March 1929; 'National Finance' (Pethick-Lawrence), April 1929; the Times 8/2/29;

Minister of Labour, Sir Arthur Steel-Maitland, publicly voicing his concerns, and with Churchill warning the Cabinet that the rise would have a ‘chilling effect’ on the British economy. Indeed, as one official report later put it, criticism of monetary policy was now at its highest level since the mid-nineteenth century.²⁰⁰

Shifting the Blame

Despite this growing pressure over economic and monetary policy however, the gold standard was still capable of providing state officials with a means of displacing criticism. The Cabinet for example continued to insist that the government had ‘no responsibility’ for interest rate movements and no control over the policy of the Bank of England, whilst Blackett, Bradbury, and Niemeyer also maintained that the Treasury did not, and indeed should not have any influence over the Bank. On their advice, the Chancellor responded to Parliamentary criticism of the high level of interest rates with the claim that he had no knowledge of, nor any role in the decision to raise rates, that such decisions were the ‘sole responsibility’ of the Bank, and that there was ‘no remedy which would be more ill-judged than interference on political grounds with the working of our banking system.’²⁰¹

Furthermore, though under intense pressure, Churchill, in contrast to his previous misgivings was now also favourably predisposed to the gold standard, putting forward a staunch defence of the regime to his Conservative party colleagues. Although the process

Pollard (1969), p.156; Williamson (1984), pp.117-18.

²⁰⁰ PRO:CAB23/60. Cabinet Meeting 7/2/29; MRC:MSS.200/F/4/24/15. FBI Bulletin. 15/2/29. 12(2); PRO:CAB24/20. Note by Churchill 25/2/29; Report of the Committee on Finance and Industry. (1931). Cmd.3897, p.6.

²⁰¹ PRO:CAB23/60. Cabinet Meeting 7/2/29; PRO:T176/13 Pts.1-2. Blackett to Phillips 17/2/29; Bradbury to Phillips 18/2/29; Niemeyer to Phillips 18/2/29; Untitled memo. (Hopkins), undated; ‘Relations Between the Treasury and the Bank of England’, 12/2/29, 19/2/29.

of economic adjustment had, he admitted, been ‘larger and more difficult’ than had originally been anticipated, he maintained that the ‘transitional difficulties’ had now been surmounted and there was ‘not a shadow of a doubt’ that the return had ‘contributed materially to the national well-being’. Britain’s problems he claimed, were not the result of monetary policy but were due rather to the international situation and the failure of both capital and labour to adapt to postwar conditions. Nevertheless, with a general election now approaching Churchill was also anxious to minimise public discussion of the subject, warning colleagues against engaging in any open debate of the issue on the grounds that it would ‘be inexpedient to open the door for fresh controversies’. In addition, the Chancellor was also anxious for the government to continue resisting pressure for increased state intervention, claiming that the economic and political risks involved were too great, and that attempting to cure unemployment with public works would lead to criticism of a ‘devastating nature’.²⁰²

As such, Churchill also requested that Treasury officials draw up a systematic refutation of the case for public works in order to further defend the government. In the resulting document, the Treasury argued that the only remedy for Britain’s problems lay with increased competitiveness through lower production costs, improved efficiency of both capital and labour, and industrial modernisation and restructuring to meet ‘the changes that have taken place in world demands’. In contrast, the introduction of public works would they claimed, merely serve to discourage private enterprise, hinder the transference of labour from depressed areas, lead to pressure for higher wages, resurgent inflation, and alleviate pressure for essential economic adjustments.²⁰³

²⁰² PRO:CAB24/20. ‘Unemployment’ (Churchill) 25/2/29.

²⁰³ ‘Memo. on Certain Proposals Relating to Unemployment’, May 1929. Cmd.3331., pp.51-3; Various in PRO:T175/18 Pts.1-2; BE:G1/466. Untitled memo. (Hopkins), undated.

Such views were also evident elsewhere within the core executive. In its final report for example, the Balfour committee stated that although the return to gold had reduced exports, raised unemployment and led to industrial unrest, such difficulties had been now overcome and abandonment of the regime was now ‘unthinkable’. Sir Richard Hopkins was insistent on the need to avoid ‘direct Government aid and intervention’, while Sir Cunliffe-Lister was similarly emphatic, arguing in relation to the coal industry that state intervention would merely deter firms from ‘facing the stringent terms of reconstruction’ and would encourage other industries to sit and wait for government help.²⁰⁴ At the Bank of England, Norman was also continuing with efforts to minimise state intervention, establishing a Securities Management Trust in November to assist with industrial re-organisation, and stating that he wished ‘to keep Government out of Industry in every way.’²⁰⁵

Bank officials were also anxious to counter the growing criticism of monetary policy. As they argued, interest rates had been forced upon them by the need to defend Britain’s gold reserves, while the poor state of the economy was not due to the gold standard but to the long-term failure of British industry to adapt to changes in global economic conditions, a problem which the return to gold itself had been designed to address. Though admitting that stabilisation at the prewar par had created ‘temporary difficulties’, the Bank were also insistent that these had been offset by the provision of economic stability and cheaper imports. As Norman put it, the return to gold had “directed attention to the need for the re-equipment, re-organisation etc. of productive industry

²⁰⁴ BE:G1/466. Untitled memo. (Hopkins), undated; PRO:CAB24/20. ‘Government Assistance to Rationalisation’ (Hopkins), 24/2/29; ‘Final Report of Committee on Industry and Trade’ February 1929, pp.54-8. Cmd. 3282.

²⁰⁵ BE:ADM34/18. Norman Diaries. 5/3/29; BE:G14/55. Various including Norman to Committee of Treasury 21/11/29; Tolliday (1987), p.96; Booth (1993), p.46.

necessary to enable it to compete with foreign industries.” The main problem facing Britain therefore, was believed to be the failure of British industrialists to adapt to the conditions imposed by the gold standard, and their continuing to cling to outdated methods and practices.²⁰⁶

Restating the Rules

Though providing state officials with a defence against criticism of economic policy, the gold standard was not an automatic guarantor of political success. In the May general election, although the issue of monetary policy itself did not feature highly, discontent over economic conditions (primarily unemployment) nonetheless saw the Conservatives defeated and a second minority Labour government installed in their place. In economic policy terms however the change again made little difference. The gold standard remained the cornerstone of the new government’s economic strategy, and more proactive measures remained limited to palliatives such as the introduction of some small-scale public works, and the establishment of the relatively ineffective Economic Advisory Council (EAC).²⁰⁷

Despite the electoral shift however, the new government were also soon facing difficulties over monetary policy. In August New York interest rates were suddenly raised from 5 to 6% in another attempt to check speculation, renewing the outflow of gold to the US and driving the Bank’s gold reserves below the unofficial minimum of £150 million as

²⁰⁶ BE:OV9/587. Untitled memo. (signed by Norman but written in collusion with Niemeyer), 1929; BE:G1/466. ‘Some Notes on the Return to the Gold Standard’ (Norman), 3/4/29; ‘Resumption of the Gold Standard’ (Norman), 3/4/29; ‘Rationalisation’, unsigned and undated Bank memo; BE:G30/19. Norman to J. W. Nightingale 1/1/29; BE:G1/455. Evidence by Norman to the Cotton Industry Committee of the Economic Advisory Council, 11/4/30.

²⁰⁷ Cole (1948), pp.429-32; Cross (1966), pp.236-57; Middlemas (1969a), pp.164ff; Middleton (1985), pps.45ff; Dale (2000, 2000a, 2000b).

recommended by the Cunliffe report.²⁰⁸ At the same time, foreign confidence in sterling was also being damaged by an international dispute over plans for a final reparations settlement, with Snowden unilaterally rejecting proposals at a conference in the Hague for an all-round reduction in global debts on the grounds that Britain would suffer disproportionate losses.²⁰⁹ The efflux of gold however did not lead to another rise in interest rates. Instead, with Bank officials worried that such a move would exacerbate tensions in Europe, and with Snowden having publicly declared his opposition to any further rate increases for fear of antagonising public opinion, the Bank were once again forced to defend the pound by other means, this time by selling a large portion of their secret dollar hoard.²¹⁰

Following the conclusion of the Hague conference (at which the Chancellor's dogmatism eventually secured a renegotiated settlement), Norman and Snowden met to discuss the crisis and to establish a means of insulating themselves against its political consequences. With the Labour Party having committed itself in opposition to establishing an enquiry into the effects of monetary policy, officials were growing increasingly concerned that this might generate greater public interest in the subject, and might not only endanger the independence of the Bank of England but even the gold standard itself. The Governor for example was anxious to furnish the Bank with an 'insurance against Labour snipers', whilst the Chancellor was now keen to reaffirm the Bank's responsibility for monetary policy. The outcome of this meeting was a re-assertion of the formal distinction of duties and responsibilities between the Bank and the Treasury embodied under the gold standard, with the Bank to possess complete control over all financial issues, and with

²⁰⁸ BE:G1/452-3. Correspondence between Norman and Harrison (the new Governor of the FRBNY).

²⁰⁹ BE:G1/453. Norman to Harrison 9/8/29, 13/8/29; Middlemas (1969a); Kunz (1987), pp.21-2.

²¹⁰ BE:G1/515. Harvey to Norman 26/7/29; PRO:T176/13. Pt.2. Lubbock to Hopkins 12/8/29; Sayers (1976), pp.227-8.

Snowden agreeing to restrict himself to the spheres of fiscal and political matters. The Chancellor also accepted Norman's prognosis that interest rates would have to rise in the near future, though with concerns still apparent about the effects on Britain's trade, public opinion, and the international situation, the Governor was forced to render assurances that such a step would not be taken until it was absolutely necessary.²¹¹

At the end of September however, under the cover of a financial crisis in the City Norman raised interest rates to 6.5%, their highest levels since 1921.²¹² Despite this cover, and though welcomed by the City, the move nonetheless attracted a hostile response from the ABCC, the FBI, and the TUC, with the Federation and prominent trade union figures such as J. H. Thomas and Bevin reissuing calls for an enquiry into the Bank of England.²¹³ Snowden though dismissed all responsibility for the rise, arguing that the Treasury had no influence over interest rates, and that the decision was one for the Bank alone. Even so, the Chancellor nonetheless sought to defend the Bank, arguing that the rise had been forced upon them by international events, and tried to placate the criticism by publicly announcing the establishment of the enquiry into the effects of monetary policy (to be headed by Lord Macmillan). The Chancellor was also keen to point out however, that the government remained committed to maintaining the gold standard, and in secret collusion with Treasury officials had also sought to prevent the enquiry from engaging in too close an examination of the Bank by ensuring that most of its members were of known orthodox opinion, and by making its remit 'as vague and nebulous as possible'.²¹⁴

²¹¹ BE:G1/515. Harvey to Norman 12/7/29, to Stamp 12/7/29; BE:ADM34/18. Norman Diaries 9/9/29, 16/9/29, 30/9/29; Clay (1957), pp.296-7; Leith-Ross (1968), Ch.11; Sayers (1976), pp.227-8.

²¹² On the 'Hatry crisis' see Kynaston (1999), pp.178-80.

²¹³ The Financial Times 29/7/29; the Times 27/9/29; the Daily Herald, 28/9/29; Labour Party Annual Report (1929); Kynaston (1999), p.181.

²¹⁴ BE:G1/515. Harvey to Norman 12/7/29, to Stamp 12/7/29; BE:ADM34/18. Norman Diaries 30/9/29; Labour Party Annual Report 1929, pp.237-31; ILP Archives. 'The Bank of England and Industry' (Snowden), 1930; Sayers (1976), pp.360-4.

Despite these growing pressures over monetary policy and unemployment however, the gold standard still remained a credible and largely depoliticised framework for economic policy. Though constrained in their policy freedom by the lack of adjustment and improvement in Britain's economy, key state managers were still under less pressure than during the period of managed money after the war, and while there was a substantial degree of disquiet over the effects of the gold standard from capital and labour, there was no real support for its abandonment and the regime was still proving to be relatively successful (notwithstanding the Conservative's election defeat) in enabling officials to displace responsibility for economic conditions. The vast majority of City opinion for example (with the notable exception of McKenna), remained firmly committed to the system and did not consider it to be a primary cause of Britain's economic difficulties, and while industrialists were increasingly discontent the primary responsibility for the economic situation was not seen to lay with the authorities but with other factors beyond their control such as the economic policy behaviour of other nations.²¹⁵ As Robert Glenday (the head of the FBI's General Economics department) for example explained:

“It is not so much the policy of the Bank of England which is responsible for our present difficulties, as the operation of the gold standard internationally....It certainly cannot be denied that the Bank of England has recently done its best to prevent industry suffering from a contraction of credit in the face of an extremely difficult exchange position.”²¹⁶

²¹⁵ MRC:MSS.292/135.01/1. 'Interim Joint Report on Unemployment' (Mond-Turner representatives), March 1929; MRC:MSS.200/F/3/E1/4/4. Minutes of Industry and Finance Committee (FBI), 13/11/29; MRC:MSS.200/F/4/24/15. FBI Bulletin 15/5/29. 12(5); 20/8/29. 12(8); 20/11/29. 12(11); MRC:MSS.200/F/3/S1/15/6. Glenday to Lord Barnby 21/8/29; Einzig (1932), pp.59-60; Sayers (1976), pp.360-1; Williamson (1984), pp.117-18.

²¹⁶ MRC:MSS.200/F/3/S1/15/6. Glenday to Secretary of the Society of British Aircraft Construction Ltd. 23/9/29.

Furthermore, the FBI were also convinced that the government's commitment to the gold standard was resolute, and though remaining critical about the high level of interest rates were still opposed to any attempt at resolving Britain's problems with an expansionary policy. Trying to stimulate economic growth in this manner it was argued, would merely nullify the reduction of costs and prices which British manufacturers had struggled to achieve since the return to gold, and would thus erode Britain's international competitiveness. As such, though the Federation themselves had no fixed economic policy at this time, the only solution was thought to lay with economic modernisation and restructuring, and with the implementation of global reforms to enable the gold standard to work properly. As the British Engineers Association put it, what was needed was 'not so much a revolutionary change of system as a fair chance for the existing system to function effectively.'²¹⁷

Similar views were also widely held within the labour movement. Although the ILP continued to call for the nationalisation of the Bank and a more expansive economic policy, and though several prominent labour leaders were also sharply critical – with Bevin for instance calling for an 'entirely new' international financial regime, and with Ben Tillett (formerly Turner) arguing that Norman was directly responsible for Britain's economic failure – such issues nonetheless remained a minority concern.²¹⁸ The majority of the labour movement remained preoccupied with more traditional struggles, and as with

²¹⁷ MRC:MSS.200/F/3/S1/18/6. BEA Bulletin. February 1929. 10(2), p.26; MRC:MSS.200/F/3/S1/19/1. Minutes of Industry and Finance Committee (FBI), 23/10/29, 13/11/29; FBI General Secretary to J. Pogson 9/12/29; MRC:MSS.200/F/3/S1/15/6. Glenday to F. V. Willey 15/1/29; MRC:MSS.200/F/4/24/15. FBI Bulletin. 15/5/29. 12(5); 20/11/29. 12(11).

²¹⁸ ILP Archives. 'Re-Organise Industry' (ILP) March 1929; 'National Finance' (Pethick-Lawrence). April 1929; TUC Annual Report 1929, pp.419-24; Labour Party Annual Report 1929, ps.185, 231; MRC:MSS.292/135.01/1 'Statement on Melchett-Turner Unemployment Report' (Bevin), 1929, p.12; MRC:MSS.200/F/3/E1/3/11. Remarks by Tillett during a TUCGC, NCEO, and FBI joint committee meeting 24/7/29; The TUC's general election manifesto also failed to mention the gold standard. See Industrial Review, May 1929.

the FBI still gave primary emphasis to the need for restructuring and adjustment rather than state intervention as the solution to Britain's economic problems. The majority of labour opinion was also in favour of reforming rather than replacing the gold standard to ensure its proper working, and a fully functioning international regime was seen to be 'indispensable to the restoration of national and world economic prosperity'. For most, the notion of leaving the gold standard was, as Milne-Bailey of the TUCGC put it, 'a thoroughly unsound idea', while Bevin himself even later confessed that he had no 'clear understanding' of the regime. Despite calls by labour's representatives to the Mond-Turner talks for an enquiry into the Bank of England, the vast majority of labour opinion, as Milne-Bailey again explained, did not hold monetary policy to be a key factor in 'all or even the chief difficulties of British industry.'²¹⁹

Cracks in the Shield

Despite the September hike in interest rates there was no easing of the strain on the Bank of England, whose gold reserves continued to drop alarmingly. As the crisis threatened to reach breaking point however, the pressure was suddenly relieved in October by the collapse of the New York stock market, now vastly over-inflated in relation to the profitability of the US economy. Though disastrous within the US itself, the initial effects of the crash elsewhere were beneficial, enabling a worldwide relaxation of interest rates, and allowing the Bank to begin replenishing their reserves and to reduce their rates to 5% by December.²²⁰

²¹⁹ MRC:MSS.292/110.1/1. 'Wages and Unemployment' (TUCGC), 7/2/29; MRC:MSS.292/561/2. 'The Economic Programme of the IFTU'; MRC:MSS.292/560.1/1. 'Economic Programme'; MRC:MSS.292/462/3. Milne-Bailey to Mr. Firth 28/5/29; MRC:MSS.292/135.01/1. 'Interim Joint Report on Unemployment' (TUCGC), March 1929; Labour Party and TUC Annual Reports 1929; House of Commons Debates 21/9/31.

²²⁰ Soule (1947), pp.306ff; Clay (1957), ps.254-5, 360; Sayers (1976), pp.229-33.

The international crisis however continued to intensify throughout 1930. A brief revival of American foreign lending early in the year soon relapsed, raising the real threat of defaults and devaluations, while national attempts to evade the crisis through the imposition of protectionist measures such as tariffs and quotas escalated dramatically following the introduction of US tariffs in June. The net result was that world trade declined still further, pressing debtor nations into an ever-greater expansion of production, and forcing creditor nations to reciprocate in turn by further extending their own protective measures.²²¹ Economic conditions in Britain also continued to deteriorate throughout 1930. Despite further interest rate cuts to 3% by May, industrial production fell back and unemployment rose by 58% to almost 2.4 million. The balance of payments also weakened, and with wholesale and retail prices continuing to fall, real wages continued to rise even though levels of trade union membership and industrial unrest remained relatively low.²²²

This deepening economic malaise also put more strain on Britain's state managers over economic and monetary policy. In Parliament, pressure continued to mount for greater state intervention to help deal with the economic situation, with the Liberals continuing to press for public works, and with the Conservatives now pressing for a policy of protectionism.²²³ Beyond Parliament, the EAC stated in March that the 'real causes' of Britain's economic gloom were 'impossible to grasp without an analysis of monetary questions', and in April the TUCGC told the Macmillan enquiry of their dissatisfaction with monetary policy, restating their call for a policy of price stability and criticising the

²²¹ Kindleberger (1986), pp.107-23; Eichengreen (1992), pp.253-7.

²²² Figures calculated from Board of Trade (1930), p.325; Report of the Committee on Finance and Industry (1931), p.85; Feinstein (1972), Tables.37, 51-2, 57; Sayers (1976), pp.231-3; Eichengreen (1992), pp.253-7; Butler and Butler (1994), pp.373-4.

²²³ PRO:T208/38. 'Bank Rate Policy' (Hawtrey), February 1930.

return to gold at the prewar par for having forced employers to try and cut wages in order to maintain profits.²²⁴ The labour left also continued to press vigorously for greater state intervention, and such measures also now drew substantial support from the labour rank-and-file, with the Labour Party conference declaring itself to be in favour of greater intervention and for public control of the Bank of England.²²⁵

Representatives of capital were also increasingly critical of monetary policy. The FBI for example now considered the return to gold to have been a deliberate attempt to force down British production costs and prices, and to have been a ‘major cause’ of Britain’s economic difficulties. It had, they claimed, led to higher interest rates, taxation, and unemployment, had produced industrial unrest and rising real wages, and had reduced selling prices, exports, and general economic activity. This view was also shared by many other representatives of capital, such as the MAIE and the NUM, who called for a more relaxed credit policy. Moreover, for the vast majority of capitalist opinion in Britain, including the ABCC and even the City, the general view was that economic re-organisation was no longer sufficient to deal with the economic difficulties, and that drastic cuts in tax, public spending, and wages, as well as the introduction of protective tariffs and the fostering of closer economic links with the Empire were necessary in order to reduce production costs and improve competitiveness.²²⁶

²²⁴ MRC:MSS.292/560.1/1. EAC: Committee on Economic Outlook. March 1930; MRC:MSS.126/EB/FI/47/5. ‘Précis of Evidence’ Pt.1 (TUCGC), 12/4/30; MRC:MSS/292/462/3. ‘The General Price Level and Stabilisation’ (TUCGC), 15/5/30.

²²⁵ PRO:CAB24/29. Memo. by Mosley; Labour Party Annual Report 1930; Cross (1966), pp.246-7.

²²⁶ MRC:MSS.126/EB/FI/46/3. Evidence to the Macmillan Committee by the FBI 26/2/30, pp.1-4; by E. L. Payton and E. Berkeley (NUM) 27/2/30; and by Lakin-Smith (ABCC) 11/7/30. Minutes of Evidence Vols.1-2; MRC:MSS.200/F/4/24/16. FBI Bulletins (1930 issues); MRC:MSS.200/F/3/S1/13/1. ‘Fiscal Policy’ (FBI), 14/10/30; MRC:MSS.292/135/1. ‘Unemployment’ (ABCC), 29/7/30; PRO:T208/55. Leaf to the Morning Post 2/7/30; MRC:MSS.200/F/3/E1/3/7. MAIE Bulletin. January 1930; Williamson (1984), pps.106-21; Kynaston (1999), pp.204-5.

In response, state officials once again sought to distance themselves from these difficulties. Calls for greater state intervention were rejected on the basis that tariffs, nationalisation, public works, or increased public spending would not only alleviate the pressure for economic adjustment and improved competitiveness, but would also render the state increasingly responsible for economic conditions. Instead, the government insisted on the necessity of reducing costs, prices, and public spending, and remained keen for the Bank to continue assisting with the process of industrial re-organisation in order to avoid any overt state intervention. The rising cost of unemployment was also dealt with by establishing a cross-party committee (the Gregory Commission) in order that the government could avoid having to tackle the problem directly.²²⁷ Further, the government refused to accept that the gold standard was a key cause of Britain's difficulties, though were anxious to minimise public debate of the issue. Snowden for example, under pressure from the labour left to nationalise the Bank publicly reasserted his commitment to maintaining its independence, telling the House of Commons on the advice of Hopkins that it would be 'improper' to comment on monetary policy now that the Macmillan enquiry was in session, while the Prime Minister, Ramsay MacDonald, was now pressing the committee not to include any inflammatory recommendations on monetary policy in its report. MacDonald was also insistent that Britain's problems were not due to monetary factors but to living beyond its means and failing to adapt to changing conditions.²²⁸

At the Bank of England, officials too were anxious to avoid responsibility for economic conditions. Though continuing to extend their involvement with the economy (most notably through an unsuccessful attempt to engage the City in the financing of

²²⁷ Middlemas (1969a), p.237; Pollard (1969), pp.149-50.

²²⁸ Labour Party Annual Report 1930, p.182; Middlemas (1969a), pp.257ff; BE:G1/427. Hopkins to Harvey 24/11/30.

industrial re-organisation with the establishment of the Bankers Industrial Development Corporation in April), the Bank remained emphatic that such involvement would be strictly temporary, limited to areas where re-organisation was urgently needed, and that in order to avoid encouraging inefficiency firms would, as Norman put it, have to get ‘their own house in order’ before being supplied with capital. The Governor, who remained implacably opposed to any notion of leaving the gold standard, also continued to insist that ‘just as we must now go into Industry so we must be sure that we get out of it!’, and stated to the Macmillan committee that while the Bank were legally independent, its actions were nonetheless constrained by the necessities of the gold standard, and that as such they were ‘not at all a free agent’ in their policy decisions.²²⁹

Bank officials also denied that their policy stance had been detrimental to the British economy. The effects of high interest rates upon industry, Norman argued, were ‘more psychological than real’, and their benefits in maintaining Britain’s international economic activities were considered to outweigh any domestic disadvantages they might produce. Once more the Governor argued that Britain’s troubles were not due to monetary policy but to certain ‘misfortunes’ such as the undervaluations of France and Belgium, and to the failure of industry to modernise and adapt. Indeed, as he put it:

²²⁹ Evidence to the Macmillan Committee by Norman (uncorrected proof in BE:G1/428), Minutes of Evidence Vols.1-2; BE:G14/55. Committee of Treasury Extracts; BE:ADM34/19. Norman Diaries 24/10/30; BE:G30/21. Norman to V. A. Malcolmson 12/9/30; BE:G1/455. Evidence by Norman to the Iron and Steel Committee of the EAC, 31/3/30; BE:G1/470. Norman to Sir Oswald Stoll 17/7/33; Tolliday (1987), pp.96-100; Kynaston (1999), ps.190, 407ff.

“I have never been able to see myself why for the last few years it should have been impossible for industry starting from within to have readjusted its own position...I believe that had it been done the whole face and prospect of industry would look different to-day.”¹

These sentiments were also endorsed by Niemeyer (now an economic advisor to the Bank), who argued that Britain needed to adjust to the ‘brute facts’ of the changed postwar international economy; by Henry Clay (also a Bank of England advisor) who argued that re-organisation was ‘the only hope’ given that it was now impossible to reduce wages without provoking labour unrest; and by the Bank’s chief statistician, J. C. Osborne, who maintained that an earlier and ‘more drastic deflation’ could have helped avoid many of the present difficulties. As he explained, such a policy:

“might have overcome the resistance of the sheltered industries to the conditions imposed upon the unsheltered industries by the return to gold: wages might have been forced to fall more uniformly with effect on the cost of living, which might have been bought into as close an approximation to wholesale prices as was the case in 1924, and industry might then have been placed on a paying basis.”¹

Even now however, with political sensitivities over economic and monetary issues increasing, the gold standard was still able to provide state officials with a credible policy framework and a means of shielding themselves from the full force of discontent. The vast majority of the City for example remained staunchly supportive of the regime, and though the FBI and the TUC were becoming increasingly restive, both continued to place most of the responsibility for Britain’s predicament on other factors such as the behaviour of foreign central banks (especially in France and America), and with City financiers, who

¹ Evidence by Norman to the Macmillan Committee 28/3/30. Minutes of Evidence Vol.1.

¹ Evidence by Niemeyer to the MacMillan Committee 4/6/30. Minutes of Evidence Vol.2; PRO:PREM1/70. ‘The Industrial Situation’ (Clay), 1929; BE:C43/137. ‘Answers to Governor’ (J. C. Osborne), 15/4/30, p.3.

were seen to have manipulated monetary policy in favour of their own interests. Moreover, the majority of the labour movement continued to place a premium on re-organisation rather than direct state intervention as the means of resolving Britain's economic difficulties, and the FBI remained sympathetic to the position of state officials.² Nugent for example told the Macmillan committee that in the Federation's opinion the Bank of England could not have done more for British trade, and indeed with the gold standard having placed the Bank 'in a position in which its freedom of movement was definitely restricted', the FBI considered that it had 'put up a very fine fight against impossible circumstances.' Thus:

“if other events had not happened over which the monetary authorities in this country...had very little control – if other people had not done other things – probably the course our financial authorities took could have been fully justified.”³

Furthermore, although dissatisfaction with the gold standard was rising there were as yet still no substantial calls for the regime to be abandoned, and criticism of monetary policy remained overwhelmingly directed at the need for reform in order to make the international system work properly. Though calling for the pursuit of price stability, the TUC for example were unsure if or how monetary policy could be utilised for this end, and though the FBI were increasingly predisposed to tariffs and closer Empire links, they nonetheless thought that 'a very determined effort' should be made 'to get the old system

² MRC:MSS.292/135.01/3. Untitled memo (TUCGC). 4/2/30; MRC:MSS.292/135/1. 'Displacement of Workers Due to Rationalisation' (TUCGC), 8/4/30; MRC:MSS.200/F/3/S2/26/1. FBI and TUC meeting 15/5/30; MRC:MSS.200/F/4/24/15-16. FBI Bulletins 20/8/29. 12(8); 20/2/30. 13(2); MRC:MSS.200/F/3/E1/3/7. Lithgow to Walker 5/3/30; Kynaston (1999).

³ MRC:MSS.200/F/3/E1/3/6. MacMillan committee evidence 20/3/30, pp.13-21.

going' before such measures should be introduced.⁴ Similar sentiments were also present elsewhere, and many of those who were sharply critical of the return in 1925 such as Keynes, Henderson, and Stamp were now opposed to the notion of leaving the regime. As they put it, although the return had created difficulties, other factors such as increased international competition and the inflexibility of capital and labour were also largely to blame, while departing from the system would now create more problems than it might possibly solve.⁵

From Bad to Worse

The crisis in the national and international circuits of capital became increasingly pronounced during the early months of 1931. Global economic activity and confidence was further depleted as protectionist restrictions continued to multiply and as several Latin American countries suspended their debt servicing.⁶ Britain's domestic economic performance too progressively deteriorated. Industrial production continued to fall, unemployment rose to the unprecedented heights of 3.25 million, and the balance of payments position was now calamitous. The current account registered its largest deficit since 1918 despite a drop in imports by nearly a fifth, as exports slumped by almost 30% and as invisible earnings fell by over a third, and though money wages now fell slightly, real wages remained firm as both wholesale and retail prices continued to fall by a greater amount.⁷ Furthermore, sterling also came under renewed pressure early in the year as the

⁴ MRC:MSS.292/560.1/1. TUCGC Economic Committee meeting. 25/2/29; MRC:MSS.292/462/3. 'The General Price Level and Stabilisation' (TUCGC), 15/5/30; MRC:MSS.126/EB/FI/47/5. Evidence to the Macmillan Committee by the TUC 12/4/30; MRC:MSS.200/F/3/E1/3/6-7. Evidence to the Macmillan Committee by the FBI 26/2/30; 20/3/30, p.23; MRC:MSS.126/EB/FI/46/3. Nugent to A. N. Gray 14/3/30; MRC:MSS.200/F/4/24/16. FBI Bulletins 20/2/30, 13(2); 20/11/30. 13(11).

⁵ BE:G1/455. EAC Committee of Economists Report 24/10/30, p.27; 'The Economy Report' 7/8/31.

⁶ Marichal (1989), Table.8. Ch.8; Bulmer-Thomas (1998).

⁷ Calculated from Feinstein (1972), Tables 37, 51-2, 57; Butler and Butler (1994), p.383.

combination of another gold drain to France, a large budget deficit, high government borrowing to fund unemployment benefits, and the absence of any real prospects for significant wage reductions began to raise doubts in the minds of international investors as to whether Britain's authorities would, or indeed could, make the necessary efforts to remain on gold.⁸

These problems now also led to a sharpening of class antagonisms, the focal point of which proved to be the issue of the budget. Though representatives of both capital and labour were broadly agreed as to the necessity of continuing to work within the confines of the gold standard, and hence of the need to maintain a balanced budget, their proposed means for achieving this were now diametrically opposed. For the majority of the press and capital (including the FBI, NCEO, ABCC, and the City) the general view was in favour of the adoption of tariffs and closer Empire links, and for a programme of cuts in tax, wages, and public spending, especially on unemployment benefits which were seen to be holding up wages and reducing labour mobility. Moreover, industrial re-organisation and monetary reform were no longer seen as the principle remedies for Britain's economic problems as competitor nations had themselves already engaged in far reaching re-organisation, and indeed there was now thought to be a 'grave danger' of excessive emphasis being given to problems which were inherently beyond Britain's capacity to solve alone, and hence of deflecting attention away from the need for domestic retrenchment.⁹

⁸ Hawtrey (1933), p.141-8; Kunz (1987), pp.29-45.

⁹ See for example the Manchester Guardian 5/8/31; the Times 10/8/31; Morning Post 14/8/31; MRC:MSS.200/F/3/S1/15/6. Nugent to G. B. Wolfe 22/4/31; MRC:MSS.292/560.1/21. 'Industry and the Nation' (FBI); MRC:MSS.292/560.1/2. 'The Industrial Situation' (NCEO), 11/2/31; MRC:MSS.200/F/4/24/17. FBI Bulletins (1931 issues); Keynes (1951), pp.271-9; Williamson (1984), p.122; Kynaston (1999), pp.213-14.

Labour opinion however was vehemently opposed to such measures. Lower wages and public spending cuts they argued, would merely reduce economic demand, thus intensifying the slump and leading to ‘widespread industrial unrest’, and in contrast the TUC called for a programme of greater state spending, public works, and higher progressive taxes. Monetary policy too was now also seen to be of ‘overwhelming importance’, with both the TUCGC and rank-and-file opinion increasingly displeased with the way the gold standard was operating. Though still of the view that a concerted effort should be made to ensure the ‘proper functioning’ of the system, key labour figures were now of the opinion that if the requisite international co-operation did not materialise, then Britain should take unilateral action and devalue in order to ease the pressure on its economy. At the same time however such a step was not considered to be a panacea, and economic re-organisation and modernisation were still thought to be essential for any recovery. Although monetary changes would no doubt be useful, they were chiefly thought to be ‘one of the conditions of better trade rather than a direct cause of it’.¹⁰

Most state officials however continued to side with the views of capital. Though Hawtrey now thought the gold standard to be ‘quite intolerable’, the majority of Treasury opinion remained resolutely in favour both of the regime and of implementing cuts in tax and public spending. This view was also supported by the Bank of England. Though harbouring concerns that Britain might soon be forced off the gold standard if the situation failed to improve, Norman refused to countenance any voluntary departure and was emphatic that the Bank would take whatever measures were necessary, however drastic, to prevent this from happening. The Governor was also now certain however that financial

¹⁰ MRC:MSS.292/560.1/20. ‘Economic Policy of the TUC’ (TUCGC), 4/3/31, p.4; Economic Policy Statement (TUCGC), 25/3/31; Milne-Bailey to Citrine 6/3/31; MRC:MSS.292/471/1. Milne-Bailey to E. E. Canney 28/5/31; MRC:MSS.292/135.01/3. ‘The Unemployment Situation’ (TUCGC), 13/7/31; Various in MRC:MSS.292/626/1; Cross (1966), pp.260-1; Cronin (1991), pp.101-3.

pressure from the Bank would be insufficient to resolve the crisis or to force an adjustment in Britain's economy, and argued that while wages still needed to be reduced, more active measures were required from the government in order to balance the budget and increase Britain's economic competitiveness.¹¹ The government however were less enthusiastic about assuming such responsibility, and key Ministers continued to try and distance themselves from these events. MacDonald for instance bemoaned that efforts to resolve the economic crisis were being hampered by cross-party disputes (with MP's being 'more interested in scoring partisan victories' than seeking a practical solution), and though Snowden told Parliament that 'drastic and disagreeable measures' were necessary to balance the budget, detailed consideration of such matters was once more farmed out by the government with the establishment of another official enquiry (the May committee) to examine means of reducing public expenditure.¹²

By early summer the international situation was accelerating in intensity. Despite further interest rate cuts in America and Britain (where at 2.5% rates were now at their lowest since 1909), economic conditions continued to deteriorate. The focal point of the world crisis now centred on Europe, where tensions were rising following a recent announcement by Austria and Germany of their intention to form a customs union, a move raising fears (especially in France) of a Germanic revival. In May these tensions were further strained with the collapse of Credit-Anstalt, the largest bank in Austria, dealing a severe blow to international confidence and sparking a fierce scramble for liquidity. By the end of the month the crisis was rapidly spreading throughout the region, with Germany in

¹¹ BE:G1/468. 'Industrial Depression' (Hawtrey), 5/3/31; Norman to D. Ferguson 27/1/31; BE:G14/341. Comments by Norman to a committee of MP's. Financial Chronicle 9/5/31; Evening Standard 16/6/31; Untitled article by S. Cocks (MP); Kunz (1987), pp.30-43.

¹² BE:G1/455; MacDonald to E. R. Peacock 15/4/31; Cole (1948), p.432-3; Cronin (1991), pp.100-3.

particular haemorrhaging badly, and with many countries around the world now also in deep financial turmoil.¹³

Despite the severity of the crisis, efforts by various central banks (including the Bank of England) to allay fears of a crash by providing liquidity loans were hampered by the French, who refused to help in retaliation against the proposed customs union. In response, the US President Hoover declared a twelve-month moratorium on all inter-governmental debts in a desperate bid to avoid a global economic meltdown. Initially this move prompted a small recovery, though continuing French intransigence and a series of delays in finalising the scheme led to a relapse in confidence. An eventual compromise deal brokered with France and the provision of further central bank loans proved too late to rescue the situation, and in July the German financial system ground to a halt, compelling the introduction of economic controls, the suspension of debt repayments, and the *de facto* abandonment of the gold standard.¹⁴

The financial collapse had a severe impact upon Britain. With the City having long pursued a strategy of borrowing short-term money and re-lending it on a long-term basis (especially after the cessation of US foreign lending from 1928), and with the Bank of England having been forced to court short-term capital to maintain sterling since the return to gold, Britain had by now accumulated a volume of short-term liabilities far in excess of its short-term assets. With many of the City's European investments now suddenly frozen as a result of the liquidity crisis, foreign investors began to grow increasingly concerned about the security of their British funds, raising further uncertainty as to the future of sterling.¹⁵

¹³ Kindleberger (1986), p.153; Kunz (1987), ps.46-64; Eichengreen (1992), pp.264-70.

¹⁴ Clay (1957), ps.267-71, 364ff; Kindleberger (1986), pp.144-8; Kunz (1987), pp.57-71; Eichengreen (1992), pp.259ff.

¹⁵ Cole (1948), p.432; Boyle (1967), pp.261-2; Sayers (1976), p.225; Aldcroft and Oliver (1998), pp.35-41.

Foreign confidence in Britain was undermined still more in June as the Gregory Commission published its findings, recommending a 30% cut in unemployment benefit, a shortening of its length, and a tightening of qualifying conditions. These unpalatable proposals though were rejected by the government, who instead heightened doubts about their willingness to balance the budget by increasing the ability of the Unemployment Insurance Fund to borrow in order to continuing paying benefits at existing rates.¹⁶ In July, the Macmillan enquiry also published its findings, though in contrast these were broadly favourable for the authorities, primarily emphasising the need for lower production costs and industrial re-organisation, and recommending that Britain continue to maintain the gold standard at \$4.86. A fixed exchange rate, it argued, was both economically and politically superior to a managed money, with exchange rate stability essential for Britain's international trade, and with a managed money being thought to 'place greater responsibility on the banking authorities.' This view was also supported by Bradbury, who in a note of dissent to the report argued that a managed money would lead to disputes over the interpretation of economic data and would place the Bank of England in an impossible situation *vis á vis* the government, leading ultimately to state control.¹⁷

The publication of the Macmillan report however failed to reinvigorate confidence in sterling, and just two days later the pound suffered a large and sudden fall as European commercial banks with funds locked up in Germany began liquidating their London assets.¹⁸ The fall prompted a strong rise in interest rates to 4.5%, and also compelled the Bank to seek an emergency extension of the fiduciary issue and supportive credits from the US and France. By now though, the majority opinion within the Bank and the Treasury

¹⁶ Grigg (1948), p.253; Cross (1966), pp.273-4.

¹⁷ Report of the Committee on Finance and Industry, and Memo. of Dissent by Lord Bradbury. Cmd.3897.

¹⁸ Kindleberger (1986), p.154; Kunz (1987), pp.97-100.

was that such measures could merely provide a temporary respite and that the only real solution was government action to rectify the budgetary imbalance, especially on unemployment benefit spending. Indeed, Treasury and Bank officials were now increasingly fearful that Britain would soon be forced off gold if more fundamental measures were not taken, and to impress this fact upon the government, the Bank now ceased providing support for the pound, allowing it to fall below the gold export point in order that the full seriousness of the situation be conveyed to Ministers through a decline in the gold reserves.¹⁹

Towards the end of July Norman finally cracked under the pressure and was replaced for the duration of the crisis by the Deputy Governor, Sir Ernest Harvey.²⁰ Almost immediately Harvey's nerve was also put to the test by the publication of the May report, which dealt yet another blow to confidence in Britain by predicting a huge budget deficit of £120 million for the next financial year. This was further enhanced by public hostility to the report's proposals for eradicating the deficit, with recommendations for increased taxation and severe cuts in public spending (two-thirds of which was to come from unemployment benefits) sharpening the divide in class opinion on the means of dealing with the crisis, and provoking outbreaks of civil unrest.²¹

While economic conditions in Britain were now an increasingly political issue, and while the government's commitment to the gold standard was increasingly under the spotlight, the gold standard itself however was still managing to retain its credibility with

¹⁹ BE:G14/316. Committee of Treasury Extracts; PRO:T175/51. Hopkins to Snowden, July 1931; BE:G1/468. Harvey to Snowden 6/8/31; Clay (1957), pp.384-7; Boyle (1967), pp.266-7; Williamson (1984), p.125; Kunz (1987), pp.64ff.

²⁰ BE:ADM34/20. Norman Diaries.

²¹ MRC:MSS.292/420/5. Various; BE:G1/109. 'Domestic Financial Policy Since 1925', Unsigned Bank of England memo; MRC:MSS.292/420/2 Pt.2. 'The Crisis' (Bevin and Cole), 1932; Grigg (1948), pp.254-5; Clay (1957), pp.389-90.

capital and labour as a general framework for economic policy-making. The necessity of balancing the budget in order to maintain the par value of sterling was still widely accepted, and there were as yet still no substantial calls for leaving the regime. Though pressure was growing for a devaluation in order to ease the strain on the economy, a move now supported by Keynes and one regarded by the TUCGC as possessing great benefits, the majority of capital and labour opinion remained convinced of the need to defend sterling at its present parity. As Glenday for example explained, devaluation would not resolve Britain's problems but on the contrary, would severely damage Britain's credit and precipitate a crisis 'of the first magnitude.' Instead, most representatives of capital (including the FBI, the ABCC, and the City) continued to press for cuts in public spending, tariffs, and closer Empire links, while the greater part of the labour movement, though now also prepared to consider the adoption of a tariff, also continued to argue that the budget should be balanced through a combination of higher progressive tax, and cuts in non-social service expenditure.²²

Nevertheless, with the May report casting serious doubt upon the credibility of Britain's commitment to maintain the gold standard at \$4.86, the pressure on sterling grew ever stronger. Fearful that any further rise in interest rates would now be seen as a sign of weakness and trigger a full-scale panic, the Bank were forced to turn to their US and French credits to defend the pound. Increasingly worried, Harvey now doubted whether MacDonald and Snowden were ready to face up to the situation, and was concerned that they might seek to take Britain off gold rather than take the necessary action to balance the budget. In the opinion of the Bank however, leaving the gold standard or devaluing were

²² MRC:MSS.200/F/3/E1/14/1. 'Statement on Macmillan Report' (Nugent), 14/7/31; Glenday to J. J. Butler 18/8/31; MRC:MSS.200/F/4/24/17. FBI Bulletin 21/9/31. 14(9); 20/11/31. 14(11); MRC:MSS.292/420/2. W. C. Lees (ABCC) to the Times 14/8/31; 'The Financial Situation' (TUCGC), 17/8/31; Daily Herald 24/8/31; Jay (1985), p.96.

both considered to be unthinkable. Abandoning gold would, it was thought, lead to a surge in inflation, while devaluation would merely alleviate the pressure for lower wages and industrial modernisation and would thus do little to provide for a real recovery. As such, the Bank's view was that swift action along the lines advocated by the May report was now urgent.²³ The government though continued to waver, and Ministers were reluctant to impose politically unpopular measures in order to defend the gold standard at the par value. Despite predicting a budget deficit for the following year some £50 million greater than that envisaged by the May report, Snowden for example continued to argue that Britain's fundamental position was sound, and that the declining international confidence in sterling was unjustified.²⁴

Going...Going...Gone!

The final events of the 1931 crisis are well documented. At a meeting with trade union representatives, Snowden and MacDonald emphasised the necessity of defending the parity and balancing the budget, with the Chancellor raising the spectre of ten million unemployed if sterling collapsed. The TUCGC however refused to accept any means of balancing the budget through cuts in unemployment benefits, with Citrine arguing that this would merely encourage an employers' attack on wages. At the Bank of England, officials continued to press the government for 'very substantial economies' to balance the budget (including benefit cuts), though the government continued to prevaricate for fear of the political consequences.²⁵ In an attempt to buy more time the government tried to obtain

²³ BE:SMT5/60. 'Sterling and the Gold Standard' (Siepmann), 25/8/31; BE:G1/468. Harvey to Snowden 6/8/31; BE:G14/316. Committee of Treasury Extracts; BE:G1/459. 'Going off the Gold Standard' (Clay), 19/8/31.

²⁴ Daily Herald 17/8/31; Boyle (1967), p.269; Kunz (1987), ps.96, 110(n86).

²⁵ MRC:MSS.292/420/2 Pts.1-2. Various including 'The Trade Unions and the National Financial Situation' (1931); MacDonald to W. Citrine 21/8/31; MSS.200/B/3/2/C798 Pt.1. Manchester Guardian 19/9/31;

further credits from the United States, but were informed by American financiers that further loans would require cuts in public spending. On proposals for cutting unemployment benefit however the Cabinet were sharply divided (11-9), prompting the collapse of the Labour government. Amidst cries from the labour movement of a ‘bankers’ ramp’, MacDonald and Snowden re-emerged at the head of a ‘national’ (though Conservative dominated) coalition government, ostensibly constructed as a temporary measure to defend the gold standard and guide Britain through the financial crisis.²⁶

Driving the offensive for public opinion, MacDonald quickly reiterated the necessity of saving the pound, claiming that a departure from gold would lead to a collapse in sterling and an inflationary crisis comparable to that of postwar Germany, while Snowden similarly claimed that leaving the regime would mean a 50% reduction in wages, pensions, and investments. More practically, an emergency budget quickly introduced £80 million of new taxes, cut unemployment benefits by 10% and suspended Britain’s debt repayments, while credits for the defence of sterling amounting to £80 million were also now found to be readily available from France and America.²⁷

Though the effectiveness of the gold standard as a shield from political pressures was now severely damaged, with monetary policy a key topic of political debate and with the government having now been forced to become directly and visibly involved, the crisis had not yet destroyed the credibility of the gold standard as a framework for economic policy management with capital and labour, and the general expectation was that the government would continue with the regime. Representatives of capital for example welcomed the establishment of the national government, continued to regard excessively

PRO:CAB23/67. Cabinet Meeting 21/8/31; BE:G14/316. Committee of Treasury Extracts.

²⁶ Daily Herald 4/9/31; the Times, 8/9/31; Williamson (1984), pp.126-8; Kunz (1987), pp.94-105; Kynaston (1999).

²⁷ The Times 26/8/31; Grigg (1948), p.256; Williamson (1984), pp.128-9; Kunz (1987), ps.105, 117.

high production costs as the key cause of Britain's problems, and continued to call for cuts in wages and public spending.²⁸ Representatives of labour on the other hand were vehemently opposed to the new government. Britain's economic difficulties were now attributed to 'unsound' monetary policies and to the failure of British industry to adjust, and while continuing to call for higher tax and public spending, the government's commitment to the gold standard was nonetheless considered to be resolute and a devaluation was seen as 'politically impossible.'²⁹ Despite this however, the Labour Party (now led by Arthur Henderson), the TUC, and even the ILP continued to accept that a flight from sterling would produce catastrophic consequences and that the budget needed to be balanced. Even Keynes was now vacillating between calls for the abandonment of gold and devaluation, and calls for giving the international gold standard one 'last opportunity'.³⁰

In the eyes of international investors however the credibility of the government's commitment to maintaining the gold standard at \$4.86 was by now fatally weakened, and though the emergency budget measures initially appeared to be successful, a renewed efflux of gold was soon underway. Confidence was further damaged by government complacency over the crisis, with Ministers now preoccupied with the forthcoming general election rather than with bolstering support for the regime; by the imposition of cuts in politically sensitive areas such as teachers' pay, which threatened to arouse further social unrest; and by proclamations by the Labour Party and the TUC threatening industrial conflict if attempts were made to cut wages. This was further compounded by a mutinous

²⁸ Daily Telegraph 3/9/31; Various in MRC:MSS.200/B/3/2/C530 Pt.2; Cross (1966), p.203; Kunz (1987), pp.114-18.

²⁹ MRC:MSS.292/420/2. Pts.1-2. 'The Financial Situation' (TUCGC), 25/8/31; 'The Trade Unions and the National Financial Situation', 7/9/31; MRC:MSS.292/471/1. 'Gold Standard' (TUCGC), 17/9/31.

³⁰ ILP Archives. 'Oppose the Bankers 'Ramp'' (ILP), 1931; MRC:MSS.200/B/3/2/C798 Pt.1. New Statesman and Nation 19/9/31; Daily Herald 17/9/31; Keynes (1951), pp.280-5; Pimlott (1977), pp.14-15.

outbreak of unrest at a British naval base in Invergordon over proposed salary cuts, which sent shockwaves through official circles and around the world.³¹

By mid-September the Bank's credits for the defence of sterling were becoming dangerously low, and both MacDonald and Snowden were increasingly concerned that Britain might soon be forced off gold. Despite French offers of further credits, the Bank finally conceded defeat on the 19th, and formally requested that the government relieve it of its legal obligation to sell gold. To this the Cabinet agreed without dissent, and on the 21st Britain was withdrawn from the gold standard, apparently for a temporary period of six months. In reality though, it was now for good.³²

Concluding Remarks

From 1925-1928 the governing strategy of a return to the gold standard at the prewar par failed to produce any significant economic breakthrough in Britain, though was largely successful in confining class unrest, in depoliticising economic conditions and policy-making, and in displacing political pressure over these issues away from the state. The subject of this chapter has been to trace the breakdown of this strategy from 1929-1931. A key characteristic of this period was that the continued lack of domestic economic adjustment and the impact of the worsening global crisis combined to put growing pressure on state officials over economic conditions in Britain. Nevertheless, for the most part the gold standard still continued to provide the authorities with a credible and depoliticised framework for economic policy management, and continued to provide an effective means

³¹ Grigg (1948), p.256; Clay (1957), pp.397-8; Boyle (1967), pp.274-5; Kunz (1987), pp.119-31.

³² PRO:T188/30. MacDonald and Snowden to Stimson and Flandin 18/9/31; BE:G1/459. MacDonald and Fisher to Norman and Harvey 19/9/31; BE:G14/312. Committee of Treasury Extracts; Also see various in PRO:CAB23/68; Hawtrey (1933), ps.150, 180-1; Kunz (1987), pp.135-7.

of displacing political pressure away from the state. This depoliticising capacity however was progressively undermined as the economic situation continued to deteriorate. The credibility of Britain's commitment to maintain the gold standard at the par value was finally destroyed during the summer of 1931 when a growing budgetary crisis led to a renewal of overt class struggle. This raised serious doubts about the government's willingness to take the harsh measures necessary to defend the regime, and eventually produced a fatal speculative attack on the pound. The next chapter examines the shift to a new governing strategy following the collapse of the gold standard.

Chapter 8 : The Search for a New Regime

This chapter examines the period following Britain's abandonment of the gold standard and analyses the development of a new governing strategy. It shows that economic conditions and policy-making were now once again key political issues, and that the main aims of the core executive remained the creation of favourable conditions for capital accumulation, the containment of class struggle, and the minimisation of the directly visible involvement of the state in economic policy-making. As such, the authorities adopted a governing strategy based around low interest rates, protective tariffs, and a managed exchange rate buttressed by a commitment to maintaining budgetary orthodoxy in order to help them achieve these aims. Despite the sterling crisis and the growing economic difficulties however, key state managers still held a return to the gold standard to be the ultimate aim of monetary and economic policy. This though was now ruled out by a combination of international instability, domestic opposition, and fear of the political and social consequences of deflation. Any remaining hopes for a return to gold were effectively shattered in 1933 when a US devaluation ruled out any prospect of international co-operation, and were completely extinguished by 1936 when the remaining international gold standard regime itself finally collapsed.

The Aftermath

As with the return to the gold standard in 1925, the decision to abandon the regime was greeted favourably by British opinion. The FBI along with the majority of the press welcomed the departure, there was no panic in the City, and although the ABCC regretted the decision it was nonetheless regarded as a sound one given the circumstances. The news

was also welcomed by labour, with the TUC believing it would lead to lower interest rates, and with the Daily Herald describing it as ‘highly desirable’. As Keynes observed, there were now few who did not rejoice ‘at the breaking of our golden fetters.’³³

The exit from gold however was not without dissent within official circles. Both Norman and Niemeyer (neither of whom were consulted over the decision) were critical of the move, and the departure did not provide any respite for the authorities.³⁴ Indeed, the immediate fear was that the exit would provoke a collapse in sterling and a resurgence of inflation. To counter this threat the departure was thus accompanied by a rise in interest rates to 6% and by the introduction of various economic controls including a prohibition on foreign loans, restrictions on imports and currency exchange, and a temporary six month tariff.³⁵ Officials also sought to secure confidence in sterling with a series of public declarations claiming that Britain had only been forced off gold due to economic problems elsewhere, that Britain’s budgetary position was fundamentally sound, and that the government were committed to ensuring that it remained so.³⁶ In spite of this, Britain’s departure from the gold standard was also followed by an increase in global financial instability. Many countries followed Britain off the regime, and while sterling did not collapse it nonetheless fell heavily despite an overwhelming victory for the national government in the October general election, reaching a low point of \$3.24 in December.³⁷

³³ Keynes (1951), pp.288-94; the Times 21/9/31, 25/9/31; the Financial Times, the Daily Telegraph, the Manchester Guardian, the Daily Express, the Morning Post, the Daily Herald 22/9/31; MRC:MSS.292/135.01/3. ‘Observations on Draft of ‘Labour’s way to Provide Work and Leisure’’ (TUCGC), 11/5/35.

³⁴ BE:OV48/9. Untitled memo. by Niemeyer 22/12/31; BE:G1/459. Untitled memo. by Niemeyer. 26/9/31; BE:G15/30. Various.

³⁵ MRC:MSS.200/F/4/2/8-14. FBI 15th Annual Report, 1930-31, pp.9-10; Dimsdale (1981), p.335.

³⁶ PRO:T188/30. Foreign Office Telegram, 20/9/31; PRO:PREM1/97. McDonald and Official Press Statement.

³⁷ Clay (1957), pp.399-400; Howson (1975), p.109.

As the economic crisis continued to worsen, economic conditions and policy-making now became an even greater political issue, and with the state once more seen to be directly and visibly involved, the pressure on the authorities grew.³⁸ Though still in favour of maintaining a balanced budget, the labour movement for example remained vehemently hostile to the national government for continuing with cuts in public spending, a policy seen as ‘class-biased’, as a prelude to wage cuts, and which provoked widespread protests and demonstrations from rank-and-file trade unionists across the country.³⁹ Instead, the labour left continued to call for a policy of extensive state planning and economic control including public works, widespread nationalisation, higher progressive tax, and an expansion of credit in order to stimulate the economy and ameliorate unemployment. The influence of the left within the labour movement however, already undermined by high unemployment, was now becoming increasingly marginal (a process augmented by the disaffiliation of the ILP from the Labour Party in June 1932), and as such the general views of the movement were now increasingly moderate.⁴⁰

The response of the Labour Party and the TUC to the crisis was not to call for any radical measures, but to argue for international co-operation to raise wholesale prices and for greater economic links with the Empire. Nonetheless, both the TUC and the Labour Party were also now unequivocally opposed to any restoration of the gold standard. As the TUCGC put it, such a move would be ‘sheer madness’, and would lead to price instability and widespread industrial unrest. Although Britain’s economic difficulties were still seen to have been partly due to wider international factors, the return to gold at \$4.86 was now considered to have overvalued the pound, to have led to high levels of interest rates, to

³⁸ MRC:MSS.292/420/2 Pt.2. ‘The Crisis...’ (Bevin and Cole); also see various in MRC:MSS.292/135/1.

³⁹ Various in MRC:MSS.292/420/2-3.

⁴⁰ Pimlott (1977), pp.28ff; Jones and Keating (1985), pp.57-8.

have damaged industry, and to have created high unemployment. Furthermore, a return at a devalued level was also rejected on the basis that this would merely provide temporary benefits, would be detrimental to Britain's long-term competitiveness, and would risk foreign retaliation. On the other hand, a managed money was also thought likely to produce exchange rate instability, and as such the TUCGC therefore felt that it would be better to accept the 'compromise' of a return to gold if other leading nations also returned and if the imperfections of the regime could be overcome. If these conditions could not be met however, the Council argued that the next best policy would be to remain off the gold standard and to cultivate an economic policy based around a sterling zone of Empire and other appropriate countries.⁴¹

Along with the labour movement, representatives of capital were also now critical of the government and opposed to the gold standard. The FBI, the MAIE, the NCEO, and the LCC for instance were all of the view that monetary policy was central to the present crisis and that the return to gold had proved detrimental to Britain's economic performance.⁴² While welcoming the decision to leave the regime however, representatives of capital were also keen that this should not be seen as a panacea for Britain's economic difficulties, and despite warnings by the LCC that any attempt to cut wages would lead to 'serious social disorders', most continued to press for reductions in wages, tax, and public spending, as well as for the introduction of tariffs and greater Empire links in order to

⁴¹ Labour Party Annual Report 1932; MRC:MSS.292/420/2 Pt.2. 'Labour Party Draft Resolutions' (TUC), 28/9/31; 'The Crisis...' (Bevin and Cole), 1932; MRC:MSS.200/B/3/2/C800 Pt.2. 'Tariffs and World Trade' (TUCGC) 22/6/32; 'Imperial Conference, Ottawa 1932' (TUC), July 1932; MRC:MSS.292/561/3.

'Conference of Workers' Representatives...' (TUCGC), April 1932; MRC:MSS.292/563.2/7. 'World Monetary Conference' (TUCGC), October 1932; 'Policy', (TUC), 9/6/33; the Times 21/10/31; Cole (1948), pp.435-40; Cronin (1991), pp.123-8; Dale (2000); Also see various in MRC:MSS.200/B/3/2/C798 Pt.1.

⁴² MRC:MSS.200/F/4/46/4. 'Report on Empire Monetary and Financial Policy' (FBI and the Empire Economic Union), 7/10/31; MRC:MSS.200/F/3/E1/4/2. MAIE Bulletin No.54; MRC:MSS.200/B/3/2/C798 Pts.1-5. Lord Leverhulme to J. B. Forbes Watson 11/1/32; J. B. Forbes Watson to Ramsay MacDonald 11/11/31.

address the situation. Moreover, although some within the City continued to believe that Britain would eventually return to gold, and although some industrial groups such as the National Federation of Iron and Steel Manufacturers (NFISM) favoured a return to a reformed gold standard, the majority of capitalist opinion was now of the view that there should be no return unless it could be clearly and unequivocally demonstrated to be in Britain's economic interests.⁴³ If this could not be shown, then along with the Labour Party and the TUC, the general view of capital was also that Britain's monetary policy should now be based around a floating exchange rate and a sterling zone, and while further state intervention and widespread economic planning were abhorred, there was nonetheless a growing feeling that the state should engage in a greater degree of consultation with capital over economic policy. In addition, though remaining averse to domestic expansionism, arguing that this would merely lead to greater difficulties in the future, the FBI were now also in favour of moderately raising and then stabilising prices as a means of restoring profitability and stimulating economic activity.⁴⁴

The exit from gold also led to an intense debate over the immediate course of economic policy within official circles. While now seeking to develop a new regime for economic policy regulation however, official aims themselves remained essentially unchanged and the emphasis was predominantly on the need for a change in policy style

⁴³ MRC:MSS.200/F/4/24/19. FBI Bulletin March 1932. 16(2); MRC:MSS.200/F/3/E1/14/1. 'Future Monetary Policy' (NFISM), 24/10/31; MRC:MSS.200/F/3/E1/4/2. NFISM to Glenday 18/4/32; MRC:MSS.200/B/3/2/C800 Pt.2. 'Imperial Conference', July 1932.

⁴⁴ MRC:MSS.200/F/3/E1/4/2. MAIE Bulletin No.54; LCC Director to Sir J. Lithgow 22/1/32; BE:G1/459. J. S. McConechy (MAIE) to Chamberlain 14/11/31; MRC:MSS.200/F/4/46/3-4. 'Industry and the Crisis', (FBI). September 1931; MRC:MSS.200/F/4/24/17-18. FBI Bulletins (October 1931 – May 1932 issues); MRC:MSS.200/F/3/E1/4/1-2. 'Industry and Monetary Policy' (FBI), April 1932; Director of the LCC to Sir J. Lithgow 22/1/32; MRC:MSS.292/560.1/21. 'Industry and the Empire' (FBI), 1932; 'Industry and the Nation' (FBI); MRC:MSS.292/560.1/2. 'The Industrial Situation' (NCEO); BE:EID4/102. 'Memo. on Currency' (LCC), November 1931; Manchester Guardian, 2/11 /31; the Times 25/9/31; Drummond (1981), p.14; Kynaston (1999), ps.361-3, 396-7.

rather than substance.⁴⁵ Primarily, Britain's authorities were still concerned to contain class struggle, provide favourable conditions for capital accumulation, improve competitiveness, and to maintain the pressure for economic adjustment while simultaneously minimising the directly visible involvement of the state with the economy in order to displace political pressure over economic conditions and policy-making. More specifically, in sharp contrast to the official view during the 1920s that Britain's economic problems were due to excessively high prices, the key difficulty now was thought to be that excessively low prices were reducing profitability and deterring private enterprise. As such, though the Bank of England continued to argue that lower prices were necessary to restore competitiveness, key Treasury officials thought the best means of encouraging an economic revival was by moderately raising and then stabilising prices. At the same time however, with officials remaining keen not to ease the pressure for economic adjustment, and remaining anxious to secure international confidence in sterling for fear that depreciation would lead to an uncontrollable resurgence of inflation, interest rates continued to be held at a relatively high 6%.⁴⁶

As such, although the case for a managed money regulated by the Bank of England with the aim of maintaining domestic price stability was once more being vigorously put by Keynes, such a notion again attracted little support within official circles. Key figures at the Treasury and the Bank (now increasingly concerned about the possibility of nationalisation) were insistent that a managed money would not work, and argued that such a policy would also contain significant economic and political dangers. Unstable international conditions combined with the Bank's low level of reserves and high external

⁴⁵ On this also see Booth (1983; 1987); Tomlinson (1990), pp.116-17.

⁴⁶ BE:G1/453. Harvey to MacDonald 28/9/31; BE:G1/459. Fisher to Snowden 30/9/31; BE:G15/30. Various including 'Note on the Possible Rise in Prices' (untitled and undated); 'Queries' (unsigned), 29/9/31; Clay to Lubbock 30/9/31; also see Dimsdale (1981), pp.329-30; Ham (1981), pp.65-6; Tomlinson (1990), pp.118-19.

liabilities for example were seen to preclude any possibility of regulating the value of sterling, whilst it was also thought that direct state control would adversely affect foreign confidence in the pound, and would therefore render sterling more difficult to manage and leave the way open for even greater criticism. Furthermore, it was also claimed that linking sterling to a commodity index would lead to a run on the pound whenever prices fell, since the market would assume an inflationary response, whilst a rising pound was also considered to be dangerous due to the downward rigidity of domestic costs and prices. As such, the general view within official circles was therefore that since it had proved to be impossible to reduce money wages without stimulating labour unrest, sterling should now be allowed to fall in order to raise domestic prices and profits, thus easing the pressure for cuts in money wages whilst simultaneously eroding their real value.⁴⁷ As Graham-Harrison, the financial secretary to the Treasury explained, since a rise in the pound was believed to carry the risk of difficulties similar to those experienced during 1925-26 the choice was therefore between ‘a low exchange and an attempt to cut wages severely’. Or as Hopkins put it:

“the risk of our suffering a second time so close an analogy to the past trouble of the export trades is surely conclusive against the [managed money] scheme.”⁴⁸

Official unity in opposition to a managed money however, did not extend to any agreement over the level to which the pound should be allowed to fall. Though it was felt that sterling should not be allowed to depreciate too severely due to the risk of excessive

⁴⁷ BE:G1/455. ‘Notes on the Currency Question’ (Keynes), November 1931; ‘Memo. on Mr Keynes ‘Notes on the Currency Question’’ (Clay), 24/11/31; ‘Comments on Notes on the Currency Question by Mr. Keynes’ (O. M. Sprague), 24/11/31; BE:G1/50. ‘Note by the Treasury’ (unsigned), 17/8/32; PRO:T177/12 Pt.2. Siepmann to Phillips 9/7/32; the Times 12/3/32; Clay (1957), p.462; Howson (1975), p.176; Sayers (1976), pp.381-2.

⁴⁸ PRO:T175/57 Pt.1. Untitled Memo (Graham-Harrison), 5/3/32; ‘The Goods or Commodity Standard’ (Hopkins), undated [my insert]; also see BE:G15/30. ‘Note of a Conversation with Lord Bradbury’ (Siepmann), 24/9/31; ‘Views of R.G.H’ (Hawtrey), 5/10/31.

inflation or foreign retaliation, views on the most 'appropriate' level were greatly divergent. Leith-Ross for example favoured a level of between \$4.00-\$4.25, Hopkins favoured a rate of \$3.90, Hawtrey felt that \$3.40-60 would be most appropriate, while Bradbury even suggested letting the pound fall to \$1 or \$2.⁴⁹ Despite this uncertainty over immediate policy however, officials were still generally of the opinion that the ultimate aim of economic policy should be a return to the gold standard at the old par. Though some were now opposed to such a move, such as Hawtrey, who thought that a lower exchange rate might now be more credible, and H. A. Siepmann (a Bank of England advisor) who thought that \$4.86 was now discredited in the public mind due to the 'evil consequences' it was believed to have produced, Ministers remained keen for a return to orthodox economic policies and most Treasury and Bank officials continued to believe that a return at the old par was desirable.⁵⁰

Officials were however also now of the view that a return was not possible at the present time. International conditions were felt to be too unstable, while the essential conditions for a successfully functioning gold standard, namely 'an ample supply of foreign loans....and a general public belief in the permanency of the system' were now gone.⁵¹ Nevertheless, given the importance of maintaining foreign confidence in sterling,

⁴⁹ BE:G1/455. Norman to N. Chamberlain 26/11/31; to Keynes 27/11/31; PRO:T188/48. Untitled memo (Phillips), 22/3/32; PRO:T188/29. 'Pegging the Pound – II', (Hawtrey), 2/10/31; PRO:T188/28. 'International Co-operation and the Gold Standard', 16/10/31; PRO:T188/48. 'Note of a Conversation with Lord Bradbury' (Siepmann), 24/9/31; Henderson to Phillips, 29/2/32; Various in BE:G15/30; Dimsdale (1981), p.329; Kunz (1987), p.160.

⁵⁰ BE:G15/30. 'Note of a Conversation with Monsieur Van Zeeland' (Siepmann), 22/9/31; Untitled Memo. (Siepmann), 23/9/31; 'Note of a Conversation with Lord Bradbury' (Siepmann), 24/9/31; 'Views of R.G.H.' (Hawtrey), 5/10/31; BE:OV48/9. Untitled memo. (Siepmann), 23/8/31; Untitled Memo (Niemeyer), 23/9/31; BE:G1/455. 'Notes on Mr Keynes' Memo' (Hopkins), 3/12/31; PRO:T188/28. 'International Co-operation and the Gold Standard', 16/10/31; BE:G14/165. 'B.I.S. Gold Guarantees'. (Siepmann), 3/11/31; PRO:T188/28. 'The Gold Standard and the Rules of the Game' (Hawtrey), 17/10/31; Cross (1966), pp.314-15; Howson (1975), p.176.

⁵¹ BE:G1/109. 'The International Exchange Structure' (unsigned Bank memo.), 27/7/49; BE:G1/459. Untitled Document (Niemeyer), 26/9/31; BE:OV48/9. Untitled memo. by Niemeyer, 22/12/31; Various in BE:G15/30.

the authorities were also keen that this inability should be kept strictly secret. With Hopkins reasoning that it would be possible to re-stabilise sterling against gold on a *de facto* basis within a ‘reasonably short time’, as Norman put it, any debate over a managed money at the moment would be destabilising and ‘unwise’, and ought therefore to be suppressed.⁵²

A New Regime

The key components of the new regime for economic policy management were installed during the first half of 1932. With continued international instability making sterling look relatively safe and leading to a recovery in the pound from December 1931, officials soon became convinced that the threat of a collapse was now over, allowing a series of cuts in interest rates to 2% by June (where they remained until 1939).⁵³ This was buttressed by a massive operation to convert Britain’s war debt to a lower rate of interest, thus easing the burden of debt funding, and by the introduction of a general 10% tariff on most foreign goods, a move designed to strengthen Britain’s balance of payments, bolster sterling, and address the concerns of industrialists. In turn, these measures too were strengthened by the easing of foreign exchange controls in March to reinvigorate Britain’s invisible earnings, by the introduction of an Imperial preference trading policy at the Ottawa conference during the summer, and by the maintenance of tight fiscal discipline. Neville Chamberlain (the new Chancellor since the general election) continued with the emergency budget measures of late 1931, while pressure for loan-financed public works

⁵² PRO:T188/28. Leith-Ross to Keynes 15/10/31; PRO:T175/57 Pts.1-2. ‘The Future of the Pound’ (Hopkins), November 1931; ‘Imperial and International Monetary Conference’ (Hopkins), undated; ‘Notes on Mr. Keynes’ Memo’ (Hopkins), 3/12/31; Untitled Memos. (Hopkins), 6/4/32, 2/4/33; BE:G1/455. Norman to Hopkins 11/12/32; Howson (1975), p.177; Drummond (1981), pp.121-2.

⁵³ Eichengreen (1992), p.302; Kynaston (1999), p.362.

was repelled on the basis that such schemes would take a long time to implement, that they would merely generate new unemployment when finished, and that they would either be inflationary (in which case the extra credit would be better spent on normal trade), or that they would divert funds from more productive channels.⁵⁴

Unable yet to return to the gold standard, officials now also adopted a loosely managed exchange rate regime. The Bank of England intervened to sell sterling whenever its value rose in order to hold it at around \$3.50 (though Norman favoured a more anti-inflationary level of around \$3.60), and used the foreign exchange accumulated in so doing to repay the US and French credits obtained for the defence of sterling during 1931. This process was formalised by July with the establishment of the Exchange Equalisation Account (EEA) which enabled a more structured means of smoothing out fluctuations in sterling by providing a set portion of funds specifically for this purpose.⁵⁵ In addition, the value of the pound was also supported by the construction of an informal ‘sterling area’ based around the Empire (the main exceptions being Canada and initially South Africa) and other countries with close economic links to Britain such as Scandinavia, Egypt, Iraq, and most of South America. Along with ensuring confidence in sterling, this was also designed to help maintain a degree of global exchange rate stability, and to increase Britain’s influence over international issues such as war debts, reparations and tariffs.⁵⁶

⁵⁴ Various in PRO:CAB58/183, PRO:T160/488, and PRO:T175/17 Pts.1-2; BE:G1/50. ‘Note by the Treasury’ (unsigned), 17/8/32; MRC:MSS.200/B/3/2/C800 Pt.2. ‘Imperial Economic Conference’ (ABCC), September 1932; MRC:MSS.200/F/3/E1/14/1. ‘Future Monetary Policy’ (NFISM), 24/10/31; Einzig (1932), pp.158-65; Nevin (1953), pp.83-4; Clay (1957), pp.400-1; Howson (1975), pp.92-9; Drummond (1981), ps.26-7, 134; Tomlinson (1990), pp.109-10.

⁵⁵ PRO:T175/57 Pts.1-2. Untitled Memos (Hopkins), 6/4/32, 30/3/33; Nevin (1953), pp.76-83; Clay (1957), ps.399-401, 460-1; Jucker-Fleetwood (1968), p.67; Leith-Ross (1968), p.140; Drummond (1981), ps.15-16, 162-3.

⁵⁶ Various in PRO:T160/488 [F13017/7]; BE:G1/459. Untitled Document (Niemeyer), 26/9/31; PRO:T175/57 Pt.1. ‘Empire Currency and the Sterling Block’ (Hopkins), undated; Drummond (1981), p.9; Tomlinson (1990), pp.102-3; Cottrell (1995), p.105.

The introduction of this new regime for economic policy regulation however did not mean that state officials were now prepared to accept direct responsibility for economic conditions. Indeed, with economic conditions and policy-making now overtly political issues, state officials were anxious to continue trying to minimise the directly visible involvement of the state, and to minimise public discussion of economic and monetary policy issues. Control over tariffs for example was handed over to an independent and ostensibly non-political Import Duties Advisory Committee, and while officials were still keen to emphasise the need for a balanced budget, a substantial degree of creative accounting remained necessary in order to avoid further cuts in politically sensitive areas such as unemployment benefits while maintaining a semblance of fiscal rectitude.⁵⁷ In the construction of the sterling area, officials were also anxious to discourage inappropriate nations from joining (especially those still on gold), since this would not only risk devaluations and thus undermine the advantages of a depreciated pound, but would also impose a moral responsibility on state officials to help with any difficulties that should arise, thereby complicating the management of economic policy.⁵⁸ Moreover, the EEA was also designed to maintain secrecy over the level of Britain's reserves, the depleted condition of which was still thought likely to attract speculation, and indeed details of the Account itself were kept secret until 1937 for fear of provoking controversy and criticism.⁵⁹ As such, although the Treasury now had a more direct role in the running of monetary policy, Treasury officials remained keen for the Bank to retain a great deal of

⁵⁷ BE:G1/459. Fisher to Snowden, 30/9/31; BE:G15/30. 'Note of a Conversation with Monsieur Van Zeeland', (Siepmann). 22/9/31; Untitled memo. by Siepmann 23/9/31; BE:OV48/9. Untitled memo. by Siepmann 23/8/31; Various in PRO:T175/17 Pt.1; Middleton (1985), pp.89-91; Booth (1987), p.509; Tomlinson (1990), pp.106ff.

⁵⁸ Various in PRO:T160/488; BE:G1/459. Untitled Document (Niemeyer), 26/9/31; PRO:T175/57 Pt.1. 'Empire Currency and the Sterling Block' (Hopkins), undated; Drummond (1981), p.9; Tomlinson (1990), pp.102-3; Cottrell (1995), p.105; Kynaston (1999), pp.363-4.

⁵⁹ PRO:T175/17 Pt.2. Notes by Hopkins and Phillips; Artis (1965), pp.4-5.

political independence and autonomy over day-to-day operations. As Norman later explained, the Treasury purposefully allowed the Bank to have ‘an extraordinarily free hand’ in the running of the EEA. As he put it:

“the executive management of the Account is normally left entirely to the Bank....we are not called upon to explain our interventions or our failure to intervene, nor to justify the complete discretion which the Treasury allow us in matters of day to day practice.”⁶⁰

Officials also refused to accept any responsibility for the problems resulting from the return to gold at the prewar parity. As Norman again explained, while the return was ‘probably a mistake’:

“in those circumstances I should do the same thing again. It is easy to see it afterwards. But a great deal of what has happened in the meantime was not necessary but depended on policy. It might have been different.”⁶¹

These sentiments were also echoed by Chamberlain, who sought to blame international factors for the failure of the strategy, arguing that although it had entailed ‘heavy sacrifices....in the shape of prolonged unemployment and depression’, there was ‘no reason why the return to gold should not have been a great success’. Such views were also later emphasised by Niemeyer. As he put it:

“It is perhaps easy to attribute to it all sorts of later misfortunes which might well have arisen anyhow from political and economic conditions which it was hoped in 1925 to avert in part by this very attempt at stability.”⁶²

⁶⁰ In Clay (1957), pp.437-8.

⁶¹ In Jucker-Fleetwood (1968), p.68.

⁶² MRC:MSS.292/563.2/3. ‘Statement by the Chancellor...at the Monetary and Economic Conference’, 14/6/33; BE:G14/312. Niemeyer to A. C. Turner 19/11/43.

Despite the apparent accommodatory character of this new regime however, Bank and Treasury officials were also keen to ensure that lower interest rates did not ease the pressure for improved economic efficiency and adjustment. Both capital and labour were still thought to be resistant to change, with wages remaining rigid, with industrialists still reluctant to engage in any substantial modernisation or shift in production, and with the banks still continuing to avoid the imposition of restructuring through the pressure of bankruptcy. As Robert Kindersley and Henry Clay (Bank of England advisers) stated, Britain's banks were continuing to prop up inefficient industries which 'ought to have been eliminated years ago'. As such, while lower interest rates were thought to be necessary to stimulate an economic recovery, officials were also certain that cheaper credit was no remedy for Britain's economic difficulties, since as Kindersley and Clay again explained, this would simply 'defer the re-adjustment of industry by making it easier for redundant, inefficient and water-logged concerns to avoid elimination'. Instead, what was needed was improved competitiveness, a 'contraction of over-expanded industries', technological re-organisation and 'the development of new lines of production'.⁶³ Such views, especially the need for competitive improvements, also gained wider international support. The gold bloc in particular (and especially France) now regarded inflation to be the root cause of the global crisis, and the general view of many countries was in favour of a deflationary response, with France and America also now pressing Britain for a quick return to gold.⁶⁴

⁶³ BE:C42/17. 'Credit Policy and Trade Recovery' (Kindersley and Clay), 13/4/32; BE:ADM34/2. Norman Diaries. 26/2/32; PRO:T177/12 Pt.1. Untitled memo. by Siepmann 15/12/32; BE:G1/50. 'The Non-Monetary Factors Affecting Prices' (unsigned Bank memo), 1/9/32.

⁶⁴ Various in PRO:T175/57 Pt.1 and PRO:T177/12 Pt.2; MRC:MSS.200/F/3/S1/21/62. 'Conclusions of Report...', 27/4/33; 'Meeting of Representatives' (Nugent), 29/5/33; Drummond (1981), pp.130-9; Eichengreen (1992), pp.320-1.

Treasury officials however were now opposed to the use of deflation (especially in the form of a return to gold) as either a domestic or an international response to the depression. Such a process it was argued, would not only be too slow in its operation but would also run the risk of provoking international defaults and an intensification of domestic labour unrest. It would they claimed, be ‘a desperate gamble’ and would produce ‘such social stresses as would assuredly bring collapse’. Further, even Bank officials were forced to recognise that public opinion was unlikely to countenance such a move and that a return to gold was not a viable option in anything other than the long term. With the general opinion being that it was too difficult and risky to reinvigorate the domestic circuit of capital by trying to force down money wages, official efforts were instead directed towards achieving a moderate inflation in order to raise and then stabilise prices at a level conducive to encouraging trade and industry through raising profits and eroding real wages.⁶⁵

Moreover, with sterling under no immediate threat, officials were by the summer also sufficiently confident to declare this publicly. As Chamberlain informed both the House of Commons and the Ottawa Empire conference, Britain would not engage in a quick return to the gold standard and the question of currency stabilisation was not one which could now be discussed at the present time. In addition, officials were now also emphatic that extensive conditions would have to be met before any return could be possible. In particular, there would need to be a rise in the general level of commodity prices and an adjustment of the various political and economic factors which had led to the collapse of the regime. The Bank of England reserves would need to be strengthened, the

⁶⁵ Various in PRO:T177/12 Pts.1-3 including ‘Observations on Main Memorandum’(unsigned Treasury memo), 1932; ‘Joint Meeting of Financial Sub-Committee...’ (Treasury document), 1/11/32.

questions of war debts, reparations, tariffs, and other protective measures would need to be resolved, and international co-operation and economies in the use of monetary gold would have to be significantly improved.⁶⁶

The Point of No Return

Throughout 1932 the international crisis continued to worsen. Economic controls and restrictions on world trade such as tariffs and quotas grew, international commodity prices continued to fall, and political and economic tensions continued to rise. These were fuelled by the collapse of agreements on war debts and reparations, by the continued suspension of debt servicing in Latin America, and by the increasing electoral advance of Fascism in Germany. International financial instability also increased as countries continued to abandon the gold standard, and by the end of 1932 the only significant adherents remaining on the regime were the USA and a core European 'gold bloc' composed of Belgium, France, the Netherlands, Poland, Switzerland, Italy, and Germany (albeit with extensive controls).⁶⁷

Domestically the picture was mixed. Though unemployment rose to an interwar peak of 3.4 million, from the middle of the year signs of a recovery driven largely by a housing boom and enabled by low interest rates were increasingly evident. Unemployment (though remaining chronically high) now began to fall slowly, exports (though remaining sluggish) began to revive, the current account (though still in deficit until 1934) started to

⁶⁶ MRC:MSS.200/B/3/2/C800 Pt.2. 'Imperial Economic Conference' (ABCC), September 1932; PRO:CAB58/183. 'The Foreign Demand for the Return of the UK to Gold' (unsigned), October 1932; PRO:T175/17 Pt.2. 'Note on the Programme for the World Conference' (undated and unsigned); Leith-Ross to Phillips 20/12/32; BE:G1/50. 'The Non-Monetary Factors Affecting Prices' (unsigned Bank memo), 1/9/32; Also see various in PRO:T177/12 Pts.1-2 and PRO:T160/488; Keynes (1951), p.ix; Howson (1975), p.197 (n29); Drummond (1981), pp.26-7.

⁶⁷ Leith-Ross (1968), pp.148-51; Drummond (1981), pp.126-7; Kindleberger (1986), pp.230-1; Kunz (1987), pp.154-70; Marichal (1989), Table 8. Ch.8; Eichengreen (1992), pp.258ff.

improve, and the balance of payments as a whole was strengthened over the next five or so years by an inflow of capital as sterling remained a relatively safe haven for investors. Industrial production too began to recover, growing by 50% between 1931-37 to reach record levels, and with growth now particularly strong in newer industries, while real earnings fell slightly until 1937.⁶⁸ Despite such improvements however, there remained little sign of any substantial economic adjustment in terms of increased competitiveness or a significant shift away from the old staple industries, which by 1937 still comprised over 82% of British exports. Moreover, British industry and finance now both sought refuge from the international crisis by turning to easy markets instead of facing up to the competitive challenge. The vast majority of new City issues were now directed inward, while the proportion of British exports going to the Empire and the sterling area grew from 35% between 1920-29, to 47% between 1930-38.⁶⁹

The views of capital and labour on the economic and political situation from 1932 remained essentially unchanged, maintaining the pressure on state officials. The labour movement for example continued to attack the government for its policy of retrenchment and for the persistence of high unemployment. Public protests, mass demonstrations, and outbreaks of civil unrest all continued to threaten political stability, and though remaining numerically weakened (with trade union membership continuing to fall until 1935), the number of new stoppages rose steadily, reaching their highest levels since 1920 by 1937.⁷⁰ Moreover, the majority of labour opinion was still firmly opposed to a return to gold. The

⁶⁸ Feinstein (1972), Tables.2, 17, 37, 51, 52, 57, 64, 65; Howson (1975), pp.108ff; Dimsdale (1981), pp.333-41; Aldcroft (1983), p.133; Cairncross and Eichengreen (1983), ps.84, 102; Middleton (1985), pp.24-6; Kindleberger (1986), pp.240-2; Feinstein *et al* (1997), p.91.

⁶⁹ Kahn (1946), Table.21, ps.139, 188-9; Dimsdale (1981), pp.333-4; Cairncross and Eichengreen (1983), pp.90-81; Alford (1996), pp.142-3.

⁷⁰ MRC:MSS.292/135/1. Citrine to MacDonald 3/11/32; H. B. Usher to Citrine 17/11/31; TUC Annual Report 1932; Pollard (1969), pp.156-61; Butler and Butler (1994), pp.373-4.

TUC argued that it would be a 'dangerous mistake' to return either at or near the old par, and the general consensus of labour was that the preferred economic policy programme was one based upon a managed money with the aim of maintaining price stability. Despite the weakening of the left, whose attentions had now begun to turn towards foreign policy issues such as the rise of Fascism, labour also continued to call for a more interventionist stance, with moderately higher prices and a progressive fiscal policy to maintain a balanced budget, and with increased public spending, public works, and nationalisation (though calls for the nationalisation of the Bank of England were quietly dropped after the general election defeat of 1935). Though facing a decline in real wages and falling trade union membership, the labour movement were also still able to mount sufficient resistance to prevent them from falling at an even faster rate. A large part of this was due to the establishment of the National Unemployed Workers' Movement, primarily under the auspices of the CPGB (and thus shunned by the TUC), which successfully maintained effective opposition to any erosion of living standards by refusing to allow the unemployed to return to work at less than trade union rates of pay.⁷¹

For capital on the other hand the necessary elements for an economic recovery were still considered to be the restoration of profitability through moderately higher prices, cuts in tax and public spending, and through the development of Empire links and the sterling area. Despite this however, most employers were now also unwilling to antagonise further labour unrest by trying to press for large wage cuts.⁷² Moreover, although some groups such as the Cotton Spinners and Manufacturers' Association (CSMA), and the

⁷¹ MRC:MSS.292/563.2/1 and 7. 'Observations on Mr. Neville Chamberlains' Speech' (Walkden and Citrine), 14/6/33; 'World Monetary and Economic Conference' (TUCGC), 1933; MRC:MSS.292/560.1/1-3. 'Unemployment Policy' (TUCGC), 21/11/34; 'TUC and the Gold Standard' (TUCGC), 1936; MRC:MSS.292/462/3. 'Policy on International Gold Standard' (TUCGC), 1936; Pimlott (1977), ps.38, 55; Butler and Butler (1994), pp.373-5; Kynaston (1999), pp.377-8.

⁷² Cole (1948), p.441; Pollard (1969), pp.159-61; Pimlott (1977), p.55.

Chambers of Commerce of the British Empire (CCBE) favoured a return to gold,⁷³ the majority of domestic capitalist opinion continued to favour a managed money and thought that there should be no return unless it was certain to work in the best economic interests of Britain. The City for example were now of the view that a return to gold at the present time was impractical given the international situation, while the FBI, the ABCC, and the LCC all declared themselves to be ‘most strongly averse’ to any notion of a return to gold that did not meet these requirements.⁷⁴

The general position of state officials however also remained unchanged. The core executive continued to insist on the need for a balanced budget and retrenchment, continued to resist pressure for public works, and continued to insist that there would be no return to gold until the various preconditions outlined earlier had been met.⁷⁵ A series of high level discussions on pegging the pound, involving Hopkins, Chamberlain, and Norman also re-emphasised that the pursuit of deflation was now too economically and politically risky, and that the gold standard had been discredited in the public mind.⁷⁶ As Leith-Ross for example later wrote:

“public opinion in this country has been decidedly hostile to any stabilisation on gold because of the experience which we had in the years

⁷³ MRC:MSS.200/B/3/2/C107. T. Ashurst (CSMA) to J. B. Forbes Watson 17/6/33; PRO:T175/84. Pt.1. ‘Report of the Congress Preparatory Committee on Monetary Policy’ (CCBE), July 1933.

⁷⁴ See for example MRC:MSS.292/420/1. ‘Public Expenditure’ (FBI), October 1932; MRC:MSS.200/F/3/S1/14/11. Various; MRC:MSS.200/F/3/E3/3/2. Locock to de. V. Leigh 6/4/33; to MacDonald 12/4/33; ‘Industry’s Monetary Policy’ (FBI), 8/2/33; Letter from the Central Landowners Association to MacDonald 12/4/33; Locock to O. Jones 19/1/34; Glenday to Lord Barnby 14/3/34; MRC:MSS.200/F/4/24/19; FBI Bulletin. March 1933. 16(2); PRO:T160/840. ‘Various Significant Facts’, (undated).

⁷⁵ BE:G1/52. Various including ‘General Principles of the Working of the Gold Standard’ (unsigned Bank memo), 7/5/33; BE:EID4/103. ‘Notes on the Possibility of an Early Restoration of the Gold Standard’ (Clay), 2/5/33; PRO:T175/57 Pt.2. ‘Note on the Programme for the World Conference’ (unsigned and undated Treasury memo.); also see various in PRO:T175/17 Pt.2, and Notes by Norman in BE:G1/515; Hawtrey (1933), p.215; Middleton (1985), p.167.

⁷⁶ BE:ADM34/22. Norman Diaries. 6/3/33, 9/3/33.

1924 to 1931, and of the fear that linking ourselves to gold might lead to a deflationary strain.”⁷⁷

The difficulties surrounding any future return to gold became more pronounced from spring 1933. The international situation became increasingly complicated, with the United States forced to suspend adherence to the gold standard following a domestic banking crisis, leading to a fall in the dollar and a sharp rise in sterling despite the efforts of the EEA. This was followed by increased US pressure for Britain to stabilise the pound against the dollar on a *de facto* basis, though this was strenuously resisted by the Treasury. The question of stabilisation was again raised in June however as part of a series of talks between Britain, America, and France preceding an international conference that was convening in London during the summer to discuss the world economic crisis. Although continuing global uncertainty was seen to preclude any formal and permanent stabilisation, it was nonetheless informally agreed that the three countries would strive to keep their exchange rates mutually stable for the duration of the conference, with sterling to be held within the range of \$3.88-\$4.12.⁷⁸

Before these plans could be put into operation however the proposals were leaked, causing a speculative rise in the dollar in the expectation of tighter US economic policies. As American fears of deflation grew, in July the US President Roosevelt rejected the stabilisation scheme and formally took the United States off gold, arguing that the most important contribution the US could make to global recovery was to aim for a rise in domestic prices. This was also followed by a policy of selling dollars for gold in a bid to

⁷⁷ PRO:T160/770. Untitled Memo (Leith-Ross), 21/11/37.

⁷⁸ BE:G1/515. Harvey to Norman 27/4/33; Also see various in BE:G1/53; Clay (1957), pp.404-5; Drummond (1981), pp.139ff; Cairncross and Eichengreen (1983), p.86; Kindleberger (1986), pp.194ff; Eichengreen (1992), pp.323-32.

secure this end, effectively scuppering the international conference in mid-course and destroying any remaining hopes for international exchange rate stability.⁷⁹

Events at the conference itself were in any case also proving to be a failure, with sharp disagreements persisting over the causes of, and hence the most appropriate response to the world crisis. British representatives for instance continued to assert that a return to gold was their ultimate economic policy objective, though remained equally insistent on the preconditions that needed to be met prior to such a move, and pressed for an internationally co-ordinated policy of low interest rates in order to raise world prices. Equally adamant however were the members of the gold bloc who continued to regard inflation itself as the key cause of the crisis, and who thus continued to press for a deflationary response. As a result, the final resolutions of the conference, which broke down in October, were imbued with compromise and ambiguity, calling *inter alia* for a general return to gold, though at a time and manner of countries' own choosing, and for a moderate rise in prices to be accompanied by the avoidance of excessive inflation 'at all costs', and by balanced budgets and improved economic flexibility.⁸⁰

The Final Curtain

The events that followed the failure of the world economic conference signalled the final collapse of the gold standard as an international regime. Though world wholesale prices began to rise, world trade in general continued to stagnate, international co-operation remained sparse, and global exchange rate instability intensified as the US

⁷⁹ Various in BE:G1/52-53; BE:G1/109. 'The International Exchange Structure' (unsigned), 27/7/49; Drummond (1981), Ch.6; Kindleberger (1986), pp.202-20; Eichengreen (1992), pp.317-33; Kynaston (1999), p.398.

⁸⁰ MRC:MSS.292/563.2/2, 3, and 10. 'Draft Annotated Agenda', 20/1/33; 'World Economic Conference', The Economist (Supplement), 10/6/33; 'Monetary and Financial Commission : Draft Report', 20/7/33; 'Statement by the Chancellor...' 14/6/33, p.6; Drummond (1981), pp.171-2; Kindleberger (1986), p.204.

continued to drive down the dollar in a bid to raise domestic prices. In January 1934 the United States returned to the gold standard, though at the significantly undervalued rate of 59% of their old par. This once again caused gold to gravitate towards America, and exacerbated global tensions by putting the remaining gold bloc countries under growing deflationary pressure.⁸¹

Domestically, the economic situation also remained mixed. Though unemployment continued to fall and industrial production continued to expand, Britain's old industries remained weak, officials remained concerned over the lack of economic re-organisation and adjustment, and were now increasingly worried about the growth of monopolies and price fixing cartels. As Clay for example put it, loss-making industries needed to reduce costs or switch 'to some new branch of production', while Britain as a whole needed to change the 'character of its export trade'. State officials were also concerned that tariffs had 'protected inefficiency' and that they were insulating certain industries such as iron, steel, and automobile manufacturing from the pressures for adjustment.⁸² Despite such concerns however, the authorities were also unwilling to extend their direct involvement in order to force the issue, and state measures remained limited to minor instances such as the Special Areas (Development and Improvement) Act 1934, designed to assist the establishment of light industries and firms moving into depressed areas.⁸³ Bank officials too remained keen to keep free of direct economic involvement. The Committee of Treasury for example agreed to a request from within the City to help establish a 'non-political' fund to provide counter-propaganda to labour's calls for nationalisation, stating

⁸¹ MRC:MSS.292/563.2/2. 'World Monetary and Economic Conference', (Walkden and Citrine), 14/12/33; BE:G1/109. 'The International Exchange Structure' (unsigned), 27/7/49; Drummond (1981), pp.182-3; Kindleberger (1986), pp.222-4; Eichengreen (1992), pp.317ff; Butler and Butler (1994), p.381.

⁸² BE:ADM28/1. 'The Douglas Social Credit Scheme' (Clay), 6/10/33; 'Purchasing Power Parity' (Clay), 10/4/34; PRO:T160/770. Untitled memo. by Clay 21/11/37; Clay (1957), pp.442-3; Grant (1991), pp.107-8.

⁸³ Kindleberger (1986), p.241; Tolliday (1987), pp.101-4; Alford (1996), pp.155-6.

that the Bank welcomed ‘any effective steps that might be taken with the object of educating public opinion on the whole subject’, and with growing pressure for increased industrial representation within the Bank being dismissed by its secretary, E. M. Stapley, as a ‘dangerous’ move which would take the Bank into the field of politics.⁸⁴

Officials generally also remained in favour of a return to gold as the ultimate aim of economic policy. Norman for example continued to argue that no other monetary system offered the same degree of stability ‘or the same safeguard against unsound financial policies’, and as such sought to reconstruct the operation of the system through the auspices of the newly established Bank for International Settlements (BIS). Making the regime operational through the BIS rather than individual central banks would, the Governor argued, not only enable maximum international co-operation, but would also minimise public discussion and speculation over central bank behaviour. Despite the unanimous adoption of this proposal at a BIS meeting of 23 central bank Governors in 1934 however, the majority of official opinion in Britain still maintained that such a step was still not yet possible.⁸⁵ Persistent international instability and a marked lack of co-operation were seen to mitigate against any such move, and with the US continuing to draw in gold many thought that the gold bloc itself would soon be forced to abandon the regime and devalue. Also mitigating against a return was the fact that domestic deflation was still considered to be too economically and politically dangerous given the continued high level of unemployment and the degree of antipathy with which such measures were regarded in the public mind. Instead, the overriding aim of the Treasury was to maintain

⁸⁴ BE:ADM34/22. Norman Diaries. 18/10/33; BE:G8/61. Committee of Treasury Minutes 25/10/33; BE:G14/55. ‘The Bank and Industry’ (E. M. Stapley), 21/7/35.

⁸⁵ BE:G3/200. Norman to an unnamed Australian Correspondent, 15/9/33; BE:G14/165. ‘Draft Resolution’ (undated); Norman to J. D. B. Fergusson 7/5/34; Norman to L. Fraser 9/5/34; Various in BE:G1/52 and MRC:MSS.200/B/3/2/C798 Pt.2; the Times 4/10/33, 15/5/34; Clay (1957), p.436.

low interest rates in order to avoid any further rise in unemployment and any resurgence of unrest. As one Treasury official put it, the British people would ‘not contemplate even the risk of having to deflate’, and as Hopkins maintained, stabilisation now would ‘not only prejudice our own recovery but would aggravate the world crisis’. Furthermore, as Chamberlain explained, with even the discussion of stabilisation risking a disturbance in confidence, the time was not yet right ‘to tie our hands’, and ‘even the most tentative approach to stabilisation’ was ‘quite unthinkable’.⁸⁶

Official reluctance over a return was further entrenched as the gold bloc were indeed forced to leave the gold standard and devalue, beginning with Czechoslovakia in 1934. These pressures also led to the tripartite agreement of September 1936 between Britain, France, and the US, which provided France with an orderly devaluation in return for a reduction in protectionist measures, and which was followed by devaluations from Holland, Switzerland and Italy, effectively signalling the end of the gold standard as an international regime. Though official hopes of an eventual return nonetheless continued to persist in some degree, it was now clear that the international gold standard, and with it any hopes of reviving the postwar strategy, were gone.⁸⁷

Concluding Remarks

This chapter has examined events in the wake of Britain’s enforced departure from the gold standard in September 1931 until the final collapse of the international system in 1936. It has shown that economic conditions and policy-making were now once more key

⁸⁶ PRO:T160/840. Treasury Report...’, 15/7/35; Notes by S. D. Waley (Treasury); S. D. Waley to Hopkins 25/9/35; Phillips to Hopkins 14/9/35; Financial News 2/10/35; Clay (1957), p.422; Drummond (1981), pp.190ff.

⁸⁷ For a more detailed discussion of these issues see Kindleberger (1986), pp.227ff; Drummond (1981), Chs.9-10; Eichengreen (1992), pp.357ff.

political issues in Britain, and that despite the adoption of a less restrictive regime for economic policy management, the central aims of state officials remained essentially unchanged from those of 1918. The key priorities of the core executive at this time were to improve Britain's economic competitiveness, to sustain pressure for a shift in its pattern of economic activity, to contain class unrest within politically non-threatening limits, and to enhance their freedom for high political manoeuvre by minimising the state's directly visible involvement with the economy. To achieve these aims, officials adopted a new governing strategy designed to stimulate economic growth and profitability through mild inflation and the erosion of real wages, and to constrain any excessive inflationary pressures and to sustain international confidence in sterling through a tight budgetary policy, the use of the EEA, and the establishment of an informal sterling area. At the same time the directly visible involvement of the state in economic policy-making was minimised through a series of measures such as the establishment of an independent tariff advisory board, the secrecy of the EEA, and by permitting the continued control of sterling by the Bank of England. Key state managers also sought an eventual return to the gold standard at the prewar par as the ultimate aim of economic policy, though this was now impossible to achieve given the persistently high level of international political and economic instability, and the strength of domestic antipathy both to the regime itself and to any prospect of further deflation.

Conclusion : Exchange Rate Policy-Making Reconsidered

This thesis has made two key claims. Firstly it has argued that the existing literature on the political economy of exchange rate policy-making is problematic and that a more useful means of understanding the subject is provided from a Marxist perspective. Secondly, it has claimed that such an approach offers a new means of interpreting and assessing Britain's return to the gold standard in 1925. This concluding chapter summarises the arguments supporting these claims, and draws some implications for future research.

Exchange Rate Policy-Making and the Return to Gold

Conventionally, the subject of exchange rate policy-making has been understood from the analytical perspectives of 'rational choice', 'country characteristics', or 'interest group' approaches. These approaches however have been shown to be problematic. In particular, it was argued that their failure to consider the fundamental question of social form precludes an understanding of the internal constraints that are imposed upon the policy-making activities of the core executive by the wider framework of the state and capitalist society. In contrast, this thesis has presented an alternative approach based on a Marxist methodology which begins precisely by considering the question of social form. From this perspective, the apparently disparate phenomena of capitalist society are understood as internally related forms of social relations that are determined during the course of social reproduction, and which are constituted by the development of class struggle. By viewing political and economic activity as integral parts of a unified social whole, this approach may therefore offer a more useful means of conceptualising the

framework within which core executive behaviour takes place, and hence may offer a more useful method for analysing the development of exchange rate policy-making. From this viewpoint, it is argued that exchange rate policy-making should not be seen as the result of an interaction between equally rational public and private actors, as deriving from a particular combination of national structural characteristics, or as the outcome of interest group pressure, but should instead be seen as a component part of a wider governing strategy made by the core executive with a view to providing favourable conditions for capital accumulation, to containing and regulating class struggle, and for improving their freedom of manoeuvre for the pursuit of high political activity.

This alternative approach to exchange rate policy-making has provided the basis for a reassessment of Britain's return to the gold standard at the prewar parity in 1925. Conventionally, the motivations underlying this policy are understood in terms of an eclectic mix of factors such as a desire to return to prewar conditions, to reduce postwar unemployment, or because of the undue influence of the City over the core executive. These traditional analyses however, have been shown to contain a variety of shortcomings. These include an overemphasis on ideational factors such as 'prestige' and 'tradition' at the expense of material considerations in the policy-making process, the use of an insufficient time-frame for analysis, and an absence of empirical evidence concerning the disproportionate influence of financial capital. In contrast, this thesis has argued that the return to gold at \$4.86 was designed to address long-term economic and political difficulties within the British state. In economic terms it is claimed that the policy was designed to impose financial pressure upon capital and labour through the use of a deliberately overvalued exchange rate in an attempt to improve competitiveness and

efficiency, and to encourage an adjustment in Britain's pattern of economic activity away from old and declining industries and into newer and more advanced lines of production. In political terms it is argued that the policy was adopted in order to help reduce and contain class unrest, and to shield the core executive from the adverse consequences of their tight economic policy stance through the depoliticisation of monetary and economic policy-making.

The empirical evidence in support of this argument was founded on three key pillars. Firstly, that by the 1920s Britain was facing severe political and economic difficulties which the core executive were increasingly anxious to address; secondly, that state managers were aware that any resolution of these problems would not only be difficult, but would risk exacerbating class unrest and would therefore be politically and economically dangerous; thirdly, that they believed a return to gold at the prewar par would help to resolve these difficulties by the imposition of financial pressure and by the depoliticisation of monetary and economic policy-making.

The first of these pillars began with an examination of Britain's growing economic and political difficulties from the last third of the nineteenth century. These were expressed in the form of a relative economic decline, a progressively outdated pattern of economic activity, and an increasingly militant challenge from the labour movement which became increasingly acute during the period of the Great Unrest from 1910. These pressures were further exacerbated by the impact of the First World War. Economically, the conflict intensified Britain's relative decline through high inflation, the depletion of its resources, a loss of foreign markets, and by the expansion of state control over the economy, which deterred private enterprise and helped to sustain uncompetitive practices. In political terms,

the war added to domestic instability as inflation and state expansionism led to an intensification of overt class struggle, politicised economic conditions and policy-making, and raised the expectations of capital and labour as to the future economic policy behaviour of the state. In addition, these factors also served to constrain the policy-making freedom of the core executive in their response to the crisis.

These difficulties, and their persistence into the postwar period, formed the context within which the gold standard policy developed. A return to severely high levels of industrial unrest in 1919 further constrained the high political freedom of the authorities and added to political instability, while the onset of an economic boom led to an over-expansion of old industrial sectors and sustained uncompetitive practices and inflation by insulating Britain's economy from pressure for adjustment. From 1920 to 1922 efforts to impose deflation in order to clear the way for a return to gold were assisted by the onset of a fierce slump, but failed to produce any significant economic breakthrough. Moreover, despite the withdrawal of the state's directly visible wartime economic controls, economic conditions and policy-making remained live political issues, class unrest remained a major concern, and representatives of both capital and labour continued to direct much of their discontent at state officials, forcing the authorities to relax their approach by the end of 1922. Between 1923 and the return to gold in 1925 the constraints and difficulties of managing the domestic circuit of capital with a discretionary and politicised mode of economic policy regulation continued to be readily apparent. While labour militancy, unrest, prices, and wages all began to subside, disquiet continued to flare intermittently and economic conditions remained poor. The growth of newer industrial sectors remained insufficient to offset Britain's continuing relative economic decline, capital and labour

were still resistant to any significant modernisation and adjustment, while pressure over economic conditions and policy-making continued to constrain the core executive's high political freedom of manoeuvre.

For the second pillar of the argument it is clear that while the authorities were increasingly keen to address these ongoing difficulties, they were nonetheless acutely aware that doing so would risk exacerbating class unrest and would therefore be politically and economically dangerous. Ever since the deliberations of the Cunliffe committee in 1918, the core executive had recognised that the process of forcing down prices and wages and of decontrolling the economy would not only be difficult and economically painful, but that it would also carry the risks of intensifying class unrest and heightening political criticism. Measures to implement deflation in 1919 were postponed for fear of the social and political consequences, while the eventual introduction of such measures during 1920-1922 abundantly revealed the difficulties involved in this process. Though prices and wages both fell, the level of economic adjustment achieved remained insufficient to overcome Britain's competitive deficiencies, while rising economic and political difficulties forced the suspension of this strategy by 1922. Although this was followed during 1923 by the adoption of a 'waiting policy' in the hope that US inflation would obviate the need for a significant reduction in domestic prices, the dangers of deflation remained present and state managers were increasingly anxious to keep economic policy issues off the political agenda. A resurgence of labour unrest during the first half of 1924 served as a pertinent reminder that class discontent had not been eradicated, while the persistence of global political and economic tensions over issues such as reparations and war debts now also made the resolution of Britain's problems ever more complicated.

The third pillar of the empirical evidence demonstrated that the core executive saw a return to the gold standard at the prewar parity as offering a key means of helping to overcome these problems. Initially, the gold standard mechanism was primarily seen as a way of preventing a resurgence in inflation, deemed to be a main cause of declining competitiveness and social unrest, and was to be implemented only after a prior period of deflation had reduced prices and wages and restored the pound to par. The re-establishment of sterling on gold would then help to maintain favourable conditions for capital accumulation by ensuring exchange rate stability, by securing international confidence in the pound, and by providing a credible anti-inflationary framework for economic policy-making. The regime would also help to reduce and confine the expectations of capital and labour, would simplify the management of monetary policy by placing it on an 'automatic' basis, and would help to displace class struggles over economic conditions away from the state through the depoliticisation of monetary and economic policy-making.

By 1924 however, state managerial opinion on a return to gold was undergoing a strategic shift in emphasis. With officials having been unable to enforce a sufficient deflation, and with US inflation having failed to materialise, a return to gold at \$4.86 itself came to be seen as a useful means of imposing financial discipline on capital and labour. By deliberately setting the par value of sterling at a relatively high rate given domestic levels of prices and wages, officials recognised that this, and the all-round tight economic policy stance it would necessitate, would put competitive pressure upon the whole of Britain's economy. The old export sectors would be forced to reduce their production costs (primarily wages), to cut prices, adopt more efficient production methods, and adjust to newer and more advanced sectors of production more attuned to the changing demands of

the world economy. This would also enable those producing for the domestic market to reduce their costs and prices, and would put the City under pressure to adopt more prudent financial practices. In this way, the return to gold would not only ensure that Britain remained internationally competitive, but would now force it to become so.

In addition to this, the policy was still seen to offer distinct political benefits. Primarily, the return would provide state officials with a simpler means of economic policy management, and would also provide a means of shielding themselves from the potential dangers of deflation by depoliticising monetary and economic policy. Whilst it was recognised that the authorities would not be completely free from pressure, a return to gold was believed to be less dangerous than continuing with a discretionary monetary policy, and was also seen as providing an effective means of defence against any criticisms that should arise as a result of their tight economic policy stance. Placing monetary policy in the hands of the Bank of England would enable the government to absolve themselves of responsibility for it, while in turn the Bank would be able to justify their actions on the basis that they were simply following the legal remit prepared by the government. In this way, adherence to the gold standard would not only help to provide favourable conditions for capital accumulation, but would also make it easier to regulate the domestic circuit of capital, to contain class struggle, as well to improve high political freedom of manoeuvre.

In terms of success or failure, this alternative view of the gold standard strategy also provides an alternative assessment from those offered by conventional accounts, which either argue that the policy was a disaster, or which seek to absolve the policy from being primarily responsible for Britain's difficulties after 1925. Indeed, from this alternative perspective it is possible to view the return to gold as having been a relative

success. Although the strategy failed to achieve all of its economic aims, it nevertheless succeeded in fulfilling most of its political ambitions. On the one hand, although prices and wages were lower in 1931 than they were in 1925, the strategy failed to force any significant breakthrough in Britain's competitiveness, or any substantial adjustment in its pattern of economic activity. Capital on the whole remained unwilling to engage in any great modernisation, restructuring, or reorientation of production, while labour were generally successful in resisting any attempt by capital to impose a large compression of living standards. Class resistance to the financial pressure of the gold standard also formed a contributory factor in blocking the process of adjustment, with the coal and general strikes of 1926 (though not directly attributable to the gold standard) being followed by a five year industrial truce which effectively ended any prospect of significantly lower wages and prices in Britain. It was this failure to produce any significant improvement in Britain's competitiveness which led to persistently high levels of unemployment, interest rates and tax, as well as continuing balance of payments difficulties, and which therefore also increased the political pressure on the core executive, constraining their freedom of policy manoeuvre, especially over interest rates. In turn, the inability of state managers to maintain the sufficiently restrictive economic policies needed in order to force an economic adjustment also helped to sustain Britain's poor economic performance, leading eventually to the collapse of the regime amidst a confidence crisis over the budget.

Despite such failings however, the return to gold can nonetheless be regarded as having been largely successful in reducing class unrest, in easing the pressure on the core executive, and in depoliticising the issues of monetary and economic policy-making. Although this was by no means absolute, and though members of the core executive

remained under pressure from capital and labour over the poor state of the economy, such pressure was still less constricting than it had been under the discretionary economic policy regime from 1919 to 1925, and was therefore less restrictive than would have been likely should the authorities have decided to continue remaining off the gold standard. Furthermore, despite pressure over economic conditions, monetary and economic policy issues were also for the most part displaced from the political agenda, with representatives of capital and labour continuing to attribute Britain's difficulties primarily to other factors, and with state officials no longer held to be the main focus for blame and responsibility. Moreover, although economic conditions and policy-making became increasingly sensitive political issues from 1928-29, the credibility of Britain's commitment to maintain the gold standard at the par value was not seriously challenged until the crisis of 1931. This enabled the government to shift responsibility for interest rate rises onto the 'politically independent' Bank of England, and enabled the Bank to justify such actions on the basis that they were merely acting in accordance with a policy regime introduced by the government.

Future Research Implications

The implications of these findings for future research into exchange rate policy-making are not confined to this case-study of Britain's return to the gold standard, but also point the way towards a reinterpretation of other episodes of exchange rate management. As seen for example, the state managerial aims and motivations which characterised the development of the gold standard policy were also present in the development of the governing strategy and exchange rate regime during the immediate post-gold standard era.

With economic conditions and policy-making once more regarded as key political issues, and with state officials increasingly seen to be responsible, the authorities were now under growing pressure from capital and labour, and were increasingly fearful of resurgent inflation, declining competitiveness, and class unrest. As such, the aims of the core executive during this period can also be seen as consistent with those outlined by the alternative theoretical approach to exchange rate policy-making developed by this thesis, namely the provision of favourable conditions for capital accumulation, the containment of class struggle, and the minimisation of directly visible state involvement with the economy.

In a similar fashion, the establishment of the Bretton Woods System after the Second World War, conventionally understood as an attempt by the US to impose hegemonic dominance, or as a benevolent attempt to restore global political and economic stability also appears applicable for re-examination along these lines.⁸⁸ So too does the collapse of the Bretton Woods regime and the generalised move to a system of floating exchange rates by the world's major industrial nations from 1973, especially (insofar as Britain is concerned) given the impending availability of official archival resources. More recently, the field is also replete with research examples. Recent events throughout Asia (notably the crises of 1999-2000) and the move to monetary union in Europe for instance provide excellent terrain for examination, especially with the debate on Britain's membership of the Euro poised to gather in political intensity and significance. One other primary example of exchange rate policy-making which remains ripe for reinterpretation, and one which has both clear implications for any possible participation by Britain in European Monetary Union, and clear parallels to the return to gold, is Britain's membership of the European Exchange Rate Mechanism (ERM) from 1990-1992. Using

⁸⁸ For a Marxist account of the Bretton Woods System see for example Burnham (1990).

some of the limited empirical material available for this policy decision, the remainder of this chapter shows that it is also possible to interpret Britain's ERM membership from the alternative perspective developed for the analysis of exchange rate policy-making.

The ERM was the central component of the European Monetary System established in 1979, and was a pegged exchange rate regime in which participating countries pledged to maintain their exchange rates within either +/- 2.25% or 6% of a centrally defined rate. This commitment was buttressed by a series of mutual support provisions, and was effectively underpinned by the 'anchor' role played by the system's strongest currency, the German Deutschmark. With the constitutionally independent German Bundesbank legally committed to the pursuit of low inflation, countries joining the ERM were obliged to adhere to its monetary policies in order to maintain their exchange rate within the system, thereby enabling them to import the Bundesbank's anti-inflationary credibility for themselves. Britain however, was not an original participant in the ERM, and joined the regime relatively late in October 1990. Adherence to the system lasted until September 1992, when after less than two years as a member, Britain was ignominiously forced to abandon it following a speculative attack on the pound.⁸⁹

The conventional view of this policy is that Britain's state managers joined the ERM in a bid to reduce inflation with the aim of improving the general welfare of the citizenry, and as with conventional assessments of the return to gold, the policy is also commonly thought to have been a disaster. Britain is seen to have joined at an overvalued exchange rate, forcing the maintenance of high interest rates in order to defend the pound at a time of recession, thereby exacerbating domestic economic and political difficulties.⁹⁰

⁸⁹ Gros and Thygesen (1992); Minikin (1993); Giavazzi and Pagano (1988); Eichengreen (1996); Tsoukalis (1997); Giordano and Persaud (1998).

⁹⁰ See Gros and Thygesen (1992), pp.126ff; Smith (1992), pp.164ff; Barrell *et al* (1994); Thygesen (1994); Mullard (1995), pp.99ff; Thompson (1995); Green (1996); Cobham (1997), *passim*.

Also as with the return to gold, the revisionist view of this policy claims instead that these difficulties were not simply due to having joined a fixed exchange rate regime at an overvalued rate, but to other contingent factors. Primarily, these are seen to have been the necessity for high interest rates in Germany (and hence in Britain) due to the inflationary pressures of German reunification, and the structure of the ERM itself, which is seen to have precluded sufficient policy co-operation to deal with these problems.⁹¹

Alternatively however, it is also possible to interpret Britain's membership of the ERM as the key component of a governing strategy of depoliticisation designed to provide favourable conditions for capital accumulation, to contain class unrest, and to increase the high political freedom of the core executive. Here the similarities with Britain's return to gold are again apparent. By 1990 Britain's core executive were faced with rising political and economic difficulties, were aware that their resolution would be difficult and dangerous, and saw membership of the ERM as offering a useful means of assisting them in their efforts to do so through the imposition of financial discipline and the depoliticisation of monetary and economic policy.

Firstly, the development of the ERM policy was set against a backdrop of rising political and economic difficulties from the 1970s. A continuing deterioration in productivity and output growth was matched with entrenched and persistent inflation, exchange rate instability and industrial unrest, while the postwar mode of economic policy regulation based upon discretionary state intervention had once more turned economic conditions and policy-making into overtly political issues.⁹² Moreover, by the mid-1980s the initial attempt by the Thatcher-led Conservative government to address these problems

⁹¹ Barrell *et al* (1994), pp.120-34; Eichengreen (1996), pp.167-92; Taylor (1996); Tsoukalis (1997), pp.150-60.

⁹² de Brunhoff (1978), pp.129ff; Fine (1979), pp.178-84; Holloway (1996), pp.132ff; Burnham (1999).

through a domestically-based strategy of monetarism was widely seen to have failed. Though helping to reduce producer prices and unit labour costs, and though helping to erode the strength of organised labour through the disciplining effects of recession and unemployment, the politicised character of economic conditions and policy-making had not been diminished, and the attempt to control or even measure the money supply had proved to be virtually impossible, making the management of the domestic circuit of capital increasingly difficult.⁹³

This failure led several members of the core executive, most notably Nigel Lawson (the Chancellor), and Geoffrey Howe (the ex-Chancellor, and now the Foreign and Commonwealth Secretary) to the view that membership of the ERM would offer a better means of addressing Britain's difficulties. It would they claimed, not only help to provide exchange rate stability, but would also help to reduce and contain the expectations of capital and labour, and to impose a credible anti-inflationary discipline upon the economy by sending a clear signal that continued uncompetitive practices would not be accommodated through a depreciation in the exchange rate. Moreover, this credibility would also ensure political benefits by removing the issue of monetary policy away from the direct control of the core executive, thus providing officials with an easier means of regulating economic policy, and effectively insulating them against pressure from capital and labour for any relaxation of economic policy, or for any increase in state intervention.⁹⁴

Despite wide support for ERM membership from Ministers, Bank of England and Treasury officials, the press, British business, and labour opinion however, entry was continually vetoed during the 1980s by Thatcher. This, she thought, would not only be an

⁹³ Lawson (1992), Chs.5-8, 39-40; Thatcher (1993), ps.566, 688-9; Butler and Butler (1994), ps.374-5, 384; Economic Trends. Annual Supplement, 1994. Table.1.20; Thompson (1995), pp.251-2; Buller (1999), p.698; (2000), p.321.

⁹⁴ Lawson (1992), Ch.39, Annexe II, and *passim*; Thatcher (1993), pp.694-7; Howe (1994), ps.112, 448-50.

'admission of failure' on the part of domestic economic policy, but would also impose an unacceptable constraint on the government's freedom of manoeuvre, and would run the risk of needing politically damaging levels of interest rates to defend the pound.⁹⁵ As such, the government continued to operate with a discretionary economic policy regime throughout the rest of the decade. This however failed to make any substantial improvement in Britain's economic or political difficulties (though labour unrest declined during the second half of the 1980s), and by 1990 these appeared to be deteriorating significantly. Unit labour costs, commodity prices, interest rates, and unemployment were all rising, output and productivity growth were falling, discontent from capital and labour over economic conditions was growing, and the government's electoral popularity was in decline.⁹⁶ Of particular concern to the core executive was that rising inflation would now not only continue to undermine Britain's competitiveness, but that it would lead to a return to the high levels of political and social unrest of the 1970s. As John Major (the new Chancellor) described the scene, there was now an increasing 'atmosphere of crisis' within Britain, the government were 'steering the economy in a fog', and its economic policy was 'falling apart'.⁹⁷ Officials also recognised however that addressing these difficulties would be difficult and unpopular. As Norman Lamont (the Chancellor from November 1990) explained, the process of reducing inflation would entail 'high interest rates, frustrated hopes, bankruptcies, and lost jobs', and as Major later confessed to have recognised, the government would 'not have an early recovery in the polls'.⁹⁸

⁹⁵ Thatcher (1993), pp.692-700; TUC Annual Report 1989; Lawson (1992), p.111, Chs.39-40; ps.418-20; Howe (1994), ps.274-5, 448-50; Thompson (1995), pp.253ff. Also see comments by C. Smith 27/3/1990. Hansard, Cls.370-1; B. Sedgemore 15/6/1990. Hansard, Cls.592-602.

⁹⁶ Smith (1992), pp.164ff; Healey (1993), pp.140-7; Barrell *et al* (1994), pp.120-34; Butler and Butler (1994), pp.374-5; Economic Trends. Annual Supplement, 1994. Tables.1.20, 3.1, 3.5, 5.10; Thompson (1995), pp.259-61; Bonefeld and Burnham (1996).

⁹⁷ Major (2000), ps.138-145, 202, 660-1: Also see Norman Lamont. Hansard, 19/3/1991, Cls.165-7.

⁹⁸ Lamont 19/3/1991. Hansard. Cl.167; Lamont (1999), pp.55-6; Major (2000), ps.136-160, 661-2.

Against this background ERM membership once more appeared to offer a useful governing strategy. As Major again put it, membership would determine ‘the total framework for policy’, and would offer a ‘safe and secure discipline’ for enabling ‘the destruction of inflation’ by putting pressure on capital and labour to reduce prices (and especially wages) to internationally competitive levels. ‘The key message’ given by ERM membership he explained, was that competitive deficiencies would no longer ‘be bailed out by a devaluation of the currency’, or as Lamont conceded, “it was central to the economic discipline imposed by the ERM that earnings growth should fall to levels comparable with the rest of Europe.”⁹⁹ Such views were also held by other key members of the core executive. Robin Leigh-Pemberton, the Governor of the Bank of England, later put it for instance that ERM membership imposed ‘an external discipline on policy-makers’, establishing both the regime and the value of the exchange rate ‘as facts of life to be taken into account when taking decisions about prices and wages’. Both sides of industry, he explained, would now have ‘to recognise conditions for what they are, and adjust behaviour’.¹⁰⁰

In addition, key state officials also recognised that the regime offered distinct political benefits. By conditioning the expectations and hence the behaviour of capital and labour, the anti-inflationary credibility of the ERM would not only enable lower levels of tax and interest rates than would otherwise be possible, but would also help to protect officials from political pressure for a less restrictive economic policy stance. In turn, a clear economic policy would help to unite the Conservative Party, thus strengthening the government’s electoral prospects, while the credibility of the government’s commitment

⁹⁹ Major 15/10/1990. Hansard, Cls.928-935; Lamont 23/10/1990. Hansard, Cls.278-280; Lamont (1999), ps.36, 107, 274; Major (2000), p.137; Also see Lawson (1992), p.67; Howe (1994), p.639.

¹⁰⁰ Leigh-Pemberton (1991), pp.53-5.

would also be buttressed by the displacement of responsibility for economic conditions to an external regime. As Major astutely observed, the ERM would be seen by many as ‘a convenient scapegoat’ for Britain’s problems.¹⁰¹ With pressure growing from all sides for Britain to join the ERM, by the summer of 1990 Thatcher had finally been forced to relent, and in October Britain entered the system in the 6% band at the rate of DM2.95. As has since been made clear by various officials, this relatively high rate given domestic levels of costs and prices was also deliberately chosen in order that high interest rates would be required to defend it, thereby also helping to impose deflationary pressure on the economy.¹⁰²

The parallels with the return to gold in 1925 also extend beyond a reinterpretation of the motivations governing Britain’s membership of the ERM to produce an alternative assessment of the policy in terms of its having been a relative success. On the negative side, during the period of ERM membership GDP and output both fell, unemployment rose from 1.8 million to 2.9 million, and bankruptcies increased markedly. Productivity also failed to increase in relation to other European Union states, Britain’s global position failed to improve, and wages continued to rise above the rate of inflation. Sterling also remained under pressure within its ERM band, public support for the Conservative party continued to decline, and as the recession intensified, pressure from capital and labour for a devaluation in order to ease the pressure on the economy grew.¹⁰³

On the positive side for the authorities however, the regime enabled a reduction in interest rates from 15% to 10% by May 1992, the credibility of the government’s

¹⁰¹ Major (2000), ps.154-9, 202; Also see Thatcher (1993), pp.719-20; Bonefeld and Burnham (1996, 1998).

¹⁰² See for example Thatcher (1993), pp.721-2; Lamont (1999), p.210; Major (2000), pp.158-65.

¹⁰³ TUC Annual Report (1991), ps.276, 284, 338; Financial Times, 4/1/92; Smith (1992), ps.193, 237; Economic Trends. Annual Supplement, 1994. Table.3.1; Jay (1994); Bonefeld *et al* (1995); Mullard (1995; 1995a); Bonefeld and Burnham (1996), p.24; Kennedy (1996), p.122; Chorney (1997), p.358; Cobham (1997), p.221.

commitment to maintain the exchange rate was largely unchallenged, and sterling remained relatively stable until the summer of 1992. Inflation also fell from 10% to 3.5%, productivity, though failing to rise in relative terms nonetheless rose for the first time since 1987, while labour unrest was also further diminished. Between 1990-92 there were now 73% fewer working days lost and 53% fewer stoppages than there were during 1985-89.¹⁰⁴ Moreover, despite calls for devaluation, the general view of capital and labour was that internal economic conditions would now have to adjust to the constraints of the ERM, and for the most part state officials remained shielded from the adverse social consequences of the recession. The majority of people in Britain attributed their economic difficulties to the poor state of the international economy, enabling the government to gain re-election in April 1992, and enabling John Major to enjoy ‘the longest electoral honeymoon’ for a post-war British Prime Minister.¹⁰⁵

In contrast to conventional viewpoints then, on this basis it is therefore possible, as with the return to gold, to view Britain’s membership of the ERM as having been a relatively successful governing strategy of depoliticisation. In turn, this also offers further support for the claim that the alternative approach to exchange rate policy-making put forward by this thesis may offer a more useful means of analysis than those of conventional perspectives. While more work in this field is undoubtedly necessary in order that these claims can either be further substantiated, refined, or refuted, on the basis of the evidence presented thus far there appear to be firm grounds for believing that it will, at least, not be the latter.

¹⁰⁴ Calculated from Butler and Butler (1994), pp.374-5; Economic Trends. Annual Supplement, 1994. Tables.1.20, 3.5: Also see Gros and Thygesen (1992); Smith (1992); Thatcher (1993), p.724; Barrell *et al* (1994); Mullard (1995a), p.100; Cobham (1997), p.221; Lamont (1999), p.8; Buller (2000), p.319; Major (2000), pp.152-65.

¹⁰⁵ Crewe (1994), p.99; TUC Annual Report 1991; Bonefeld and Burnham (1998).

Concluding Remarks

The alternative theoretical framework developed in this thesis enables researchers to analyse the political economy of exchange rate policy-making in a way which highlights the centrality of ‘class struggle’ in the deliberations of the core executive. In contrast to conventional approaches, this approach enables the political and economic phenomena of capitalist society to be analysed as integral parts of a unified social whole, and thereby enables a view of exchange rate policy-making as a component part of a wider governing strategy designed to provide favourable conditions for capital accumulation, to regulate class struggle, and to improve the high political freedom of the core executive. As with other approaches however, this framework also has its limitations. In particular, the collection of empirical evidence is crucial in order to substantiate its unorthodox theoretical claims. As such, research will therefore be largely confined to areas in which such empirical material is sufficiently available. Due to the political sensitivities surrounding much of this material however, it is likely that detailed research will remain limited to instances of exchange rate policy-making that are covered by the availability of archival resources, a methodological approach which itself contains a number of difficulties.¹⁰⁶ For this reason, a case-study of Britain’s return to the gold standard in 1925 was chosen for the analytical body of this thesis due to the ample supply of available material, while an examination of more recent policy-making episodes such as the ERM, which in turn provides a wider body of evidence against which the theoretical approach developed here can be tested, remains necessarily circumscribed.

¹⁰⁶ On the various problems posed by archival research see the following Appendix.

Appendix : A Note on Sources and Methods

Much of the empirical material contained in this thesis was discovered in the course of primary archive research carried out at the Public Record Office, the Bank of England, and the Modern Records Centre between 1999-2002. The methodological difficulties posed by such an undertaking are varied. A key problem for example is that the archival record may be incomplete, and that important information may have been destroyed or lost, or may never have been documented at all. Personal conversations between key actors for instance may not be recorded, while official papers, such as the minutes of Cabinet meetings, may be deliberately or unconsciously selective in the details and the conclusions they present. As such, the impressions gleaned from an examination of archive documents may therefore be misleading, while the truth of a situation may remain elusive and hidden.¹⁰⁷

In addition to these difficulties, the nature of archival research itself is also such that the discovery of important information is often as dependent upon the vagaries of fortune as it is upon the diligence and cataloguing skills of those compiling and maintaining the archive. With valuable data frequently turning up in unexpected places, a purely systematic examination of apparently pertinent documents may therefore fail to uncover all the relevant material, while by the same token, attempting to discover relevant information through an analysis of documents not appearing to be directly useful can substantially increase the time spent on research with no guarantee of reward. Furthermore, archive analysis is also subject to the problem of ‘generalisation’, relating to the question as to what extent it is possible to extrapolate the views of an institutional body such as ‘the

¹⁰⁷ On the various problems and difficulties associated with archival research see for example Lowe (1997).

Bank of England' or 'the Treasury' from the surviving and stated views of its senior figures. Equally, this difficulty also applies to wider social groups such as 'the labour movement', 'industrialists', or 'financiers', and to the problems involved in drawing wider inferences from the stated views of their senior personnel, or their 'peak' representative organisations such as the TUC or the FBI.

These difficulties however are not insurmountable. While archival records are rarely (if ever) complete, this does not necessarily mean that their use will provide a fundamentally inaccurate reflection of events or opinions. Available documentation may still contain sufficient data from which to draw conclusions, and while costly in terms of time and energy, it is still nonetheless possible to supplement an analysis of 'core' archives with an examination of indirectly useful material, and to construct a chronological picture of changing developments over a period of time. Difficulties may also be reduced by examining archives at related agencies such as the Bank of England and the Treasury, where 'cross-relevant' documentation may be present, and can be diminished further by analysing 'lower order' files (such as personal collections) in which the views and opinions of key actors may be more likely to be revealed than in 'high level' documentation such as official papers and minutes.¹⁰⁸ Furthermore, while organisations such as the TUC and the FBI may not be fully representative of their memberships, and while the views of senior figures may not correspond exactly with the opinion, or the variety of opinions present within a particular organisation, this does not necessarily preclude the drawing of wider generalisations. Indeed, the key question in this instance is not so much whether or not these organisations are completely representative, but whether or not their stated views are sufficiently representative. As such, given that the membership base of an organisation

¹⁰⁸ Ibid.

does not desert it or does not protest vigorously over the official line taken on a particular issue, then it is possible to argue that the views stated on that issue are sufficiently representative.

The process of archive research and analysis is therefore not without its methodological problems. However, while such a process is undoubtedly difficult, and while it is ultimately necessary for researchers to weigh up its relative benefits and disadvantages in terms of the time required compared to the insights one may hope to glean, primary archive documents can nonetheless provide an invaluable resource, and their diligent examination can thus enable researchers to bolster their theoretical claims with more substantive material. Indeed, given the contentious nature of much political analysis, an archive examination which proceeds with due care and caution can therefore prove to be not only illuminating, but can also prove to be empirically liberating.

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C92	:	Chief Cashier's Office : Agreement Boxes
EID4	:	Home Finance
G1	:	Governor's Files
G3	:	Governor's Diaries, Duplicate Letters, etc.
G8	:	Minutes of the Committee of Treasury
G14	:	Committee of Treasury Files
G15	:	Secretary's Files
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462	:	Finance
471	:	Finance
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