EROSION OF THE GOLD STANDARD (OLD TYPE)

1. 1914–32

It is expedient once again to make a retrospect. The gold standard was maintained in Britain during the First World War. The gold points widened very considerably, owing to the rise of insurance charges in consequence of the submarine menace. Sterling was pegged at $4.75, which was above the then gold export point. This was effected with the assistance of loans from the United States negotiated by J. P. Morgan. In 1922/23 Baldwin, the British Prime Minister, got a settlement on the terms for the repayment of these loans, and instalments were paid for a number of years. On one of the occasions of renewed negotiations about the division of German reparations, the British waived their claim to a proportionate assignment of them, viz. in accordance with damage suffered, and said that they would take no more than was required to meet their annual payments to the United States for interest on and amortisation of the war loans previously received. Thus, in a sense, they stood aside from the whole post-war settlement, their share of the German reparations simply by-passing them and going direct to the United States. During the great world slump President Hoover negotiated a moratorium in regard to German reparation payments, and in that year the British praetermitted their American debt payment. When in due course it appeared that no more reparations would be forthcoming from Germany, the British announced that it would be impossible for them, for balance of payments reasons, to pay any further instalments on the American debt. This caused great annoyance in the United States, and may have been one reason for fierce legislation by Congress to the effect that the United States Government must never in future allow any
credit to be extended to a belligerent. Britain suffered much from this legislation in the early years of the Second World War.

The gold standard was suspended by the U.K. in April 1919 and restored six years later. In the interval the pound ‘floated’.

Prior to the restoration there was some controversy about whether Britain should go back to the pre-war parity. It will be recalled that there was a similar discussion after the Napoleonic Wars. A number of experts, including Keynes, argued that she should accept the de facto depreciation, as established in foreign exchange markets, which was something less than 10%.\(^1\) During the course of 1924 the United States was in mild recession, and the Federal Reserve System took reflationary measures which tended to make the dollar ‘soft’ for the time being. Prices in the United States rose somewhat. By one of those pieces of wishful thinking, which have occasionally recurred in Britain from that time to the present day, the word went around that the Americans were all set for a new bout of inflation, so that the British could safely restore the old quotation for sterling against the dollar. Of those who agreed with Keynes that, if there was to be a return to the gold standard a new and somewhat lower parity should be established, all except one person fell away from him, so that he was almost alone in his advocacy towards the end of the period of inconvertibility. The one person was Lord Beaverbrook. Churchill was Chancellor of the Exchequer at the time of the restoration. This was the only major policy measure in his life which he subsequently acknowledged to have been mistaken. The episode caused him to attach weight to the economic opinions of Lord Beaverbrook in subsequent years, including those of the Second World War.

During the course of 1924 sterling rose in the foreign exchange market, in the first instance because of the American reflationary policy. This gave much satisfaction to the British authorities, since there is nothing that authorities like more than saying, when they adopt a course that they wish anyhow to adopt, that they are merely doing it to comply with market forces. As sterling rose, there was a growing opinion that Britain would

\(^1\) Six per cent in 1923 as a whole and 12.5% in the first half of 1924, after which the pound began climbing.