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The Heyday of the Gold Standard, 1820-1930

1925 April 28

Winston Churchill's 1925 Budget Speech. As Chancellor of the Exchequer in 1925, Winston Churchill announced the British Government's intention to return to the international gold standard at its pre-war parity. Note that the level of reserves deemed necessary to support a return to the gold standard (£150 million) was the amount indicated as necessary by the Cunliffe Commission in 1918 [see document above, paragraph 47] Importantly, this did not include the reintroduction of gold coins into the domestic money supply. Britain's return to international financial orthodoxy coincided with the return of Holland, Australia and several other major trading nations and briefly re-established the international gold standard. However, the return at an exchange rate of £1 to \$4.66 proved to be at too high a level and the British economy was soon caught in the grip of a deflation that lasted until the country was forced off gold in 1931.

RETURN TO GOLD STANDARD.

But before I come to the prospects of 1925 I have an important announcement to make to the Committee It is something in the nature of a digression, and yet it is an essential part of our financial policy Ever since the Spring of 1919, first under War powers and later under the Gold and Silver (Export Control) Act, 1920, the export of gold coin and bullion from this country, except under licence, has been prohibited By the express decision of the Parliament of 1920 the Act which prohibits the export was of a temporary character That Act expires on the 31st December of the present year, and Great Britain would automatically revert to the pre-War free market for gold at that date Now His Majesty's Government have been obliged to decide whether to renew or prolong that Act on the one hand, or to let it lapse on the other That is the issue which has presented itself to us. We have decided to allow it to lapse. I am quite ready to argue the important currency controversies which are naturally associated with a decision of that kind, but not to-day—not in a Budget speech. To-day I can only announce and explain to the Committee what it is that the Government have decided to do, and I will do that as briefly as I can.

A return to an effective gold standard has long been the settled and declared policy of this country. Every Expert Conference since the War—Brussels, Genoa—every expert Committee in this country, has urged the principle of a return to the gold standard. No responsible authority has advocated any other policy. No British Government—and every party has held office—no political party, no previous

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holder of the Office of Chancellor of the Exchequer has challenged, or so far as I am aware is now challenging, the principle of a reversion to the gold standard in international affairs at the earliest possible moment. It has always been taken as a matter of course that we should return to it, and the only questions open have been the difficult and the very delicate questions of how and when.

[...]

So much for the principle. There remain the questions of time and of method. There is a general agreement, even among those who have taken what I think I am entitled to call the heterodox view—at any rate, it is the view which we on this bench do not accept—that we ought not to prolong the uncertainty, that whatever the policy of the Government, it should be declared, and that, if we are not going to renew the Act which prohibits the export of gold coin and bullion, now is the moment when we ought to say so. It is the moment for which the House of Commons has patiently waited at my request—and I express my obligation because I have not been pressed on this matter before—the moment at which it was, after long consideration, judged expedient that decisions should be made and actions taken. This is the moment most favourable for action. Our exchange with the United States has for some time been stable, and is at the moment buoyant. We have no immediate heavy commitments across the Atlantic. We have entered a period on both sides of the Atlantic when political and economic stability seems to be more assured than it has been for some years. If this opportunity were missed, it might not soon recur, and the whole finance of the country would be overclouded for a considerable interval by an important factor of uncertainty. Now is the appointed time.

We have therefore decided, although the prohibition on the export of gold will continue in form on the Statute Book until the 31st December, that a general licence will be given to the Bank of England for the export of gold bullion from to-day. We thus resume our international position as a gold standard country from the moment of the declaration that I have made to the Committee. That is an important event, but I hasten to add a qualification. Returning to the international gold standard does not mean that we are going to issue gold coinage. That is quite unnecessary for the purpose of the gold standard, and it is out of the question in present circumstances. It would be an unwarrantable extravagance which our present financial stringency by no means allows us to indulge in. Indeed, I must appeal to all classes in the public interest to continue to use notes and to make no change in the habits and practices they have become used to for the last ten years. The practice of the last ten years has protected the Bank of England and other banks against any appreciable demand for sovereigns or half-sovereigns. But now that we are returning publicly to the gold standard in international matters with a free export of gold, I feel that it will be better for us to regularise what has been our practice by legislation I shall therefore propose to introduce a Bill which among other things, will provide the following :

First, That until otherwise provided by Proclamation the Bank of England and Treasury Notes will be convertible into coin only at the option of the Bank of

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England;

Secondly, That the right to tender bullion to the Mint to be coined shall be confined in the future by law, as it has long been confined in practice to the Bank of England.

Simultaneously with these two provisions, the Bank of England will be put under obligations to sell gold bullion in amounts of not less than 400 fine ounces in exchange for legal tender at the fixed price of £3 17s. 10 ½ d. per standard ounce. If any considerable sum of legal tender is presented to the Bank of England the bank will be under obligation to meet it by bullion at that price. The further steps which are recommended by the Currency Committee, such as the amalgamation of the Bank of England and Treasury Note issues, will be deferred, as the Committee suggest, until we have sufficient experience of working a free international gold market on a gold reserve of, approximately, £150,000,000. It is only in the light of that experience that we shall be able to fix by permanent statute the ultimate limits of the fiduciary issue. All that will be in the Bill.

The Bill also has another purpose We are convinced that our financial position warrants a return to the gold standard under the conditions that I have described. We have accumulated a gold reserve of £153,000,000. That is the amount considered necessary by the Cunliffe Committee, and that gold reserve we shall use without hesitation, if necessary with the Bank Rate, in order to defend and sustain our new position. To concentrate our reserves of gold in the most effective form, I have arranged to transfer the £27,000,000 of gold which the Treasury hold against the Treasury Note issue to the Bank of England in exchange for bank notes. The increase of the gold reserve of the Bank of England will, of course, figure in their accounts.

Further, the Treasury have succeeded in discreetly accumulating dollars, and we have already accumulated the whole of the 166 million dollars which are required not only for the June payment but also for the December payment of our American debt and for all our other American debt obligations this year. Therefore—and it is important—the Treasury will have no need to go on the market as a competitor for the purchase of dollars. Finally, although we believe that we are strong enough to achieve this important change from our own resources, as a further precaution and to make assurance doubly sure, I have made arrangements to obtain, if required, credits in the United States of not less than 300 million dollars, and of course there is the possibility of expansion if need be. These credits will only be used if, as, and when they are required. We do not expect to have to use them, and we shall freely use other measures in priority. These great credits across the Atlantic Ocean have been obtained and built up as a solemn warning to speculators of every kind and of every hue and in every country of the resistance which they will encounter and of the reserves with which they will be confronted if they attempt to disturb the gold parity which Great Britain has now established. To confirm and regularise these credit arrangements, which I have had to make provisionally in the public interest, and to deal with the other points that I have mentioned, a short three-clause Bill will be required. The text of it will be issued

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to-morrow, and we shall ask the House to dispose of it as a matter of urgency.

These matters are very technical, and, of course, I have to be very guarded in every word that I use in regard to them. I have only one observation to make on the merits. In our policy of returning to the gold standard we do not move alone. Indeed, I think we could not have afforded to remain stationary while so many others moved. The two greatest manufacturing countries in the world on either side of us, the United States and Germany, are in different ways either on or related to an international gold exchange. Sweden is on the gold exchange. Austria and Hungary are already based on gold, or on sterling, which is now the equivalent of gold. I have reason to know that Holland and the Dutch East Indies—very important factors in world finance—will act simultaneously with us to-day. As far as the British Empire is concerned—the self-governing Dominions—there will be complete unity of action. The Dominion of Canada is already on the gold standard. The Dominion of South Africa has given notice of her intention to revert to the gold standard as from 1st July. I am authorised to inform the Committee that the Commonwealth of Australia, synchronising its action with ours, proposes from to-day to abolish the existing restrictions on the free export of gold, and that the Dominion of New Zealand will from to-day adopt the same course as ourselves in freely licensing the export of gold.

[...]

Thus over the wide area of the British Empire and over a very wide and important area of the world there has been established at once one uniform standard of value to which all international transactions are related and can be referred. That standard may, of course, vary in itself from time to time, but the position of all the countries related to it will vary together, like ships in a harbour whose gangways are joined and who rise and fall together with the tide. I believe that the establishment of this great area of common arrangement will facilitate the revival of international trade and of inter-Imperial trade. Such a revival and such a foundation is important to all countries and to no country is it more important than to this island, whose population is larger than its agriculture or its industry can sustain—[HON. MEMBERS: "No!"]—which is the centre of a wide Empire, and which, in spite of all its burdens, has still retained, if not the primacy, at any rate the central position, in the financial systems of the world.

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Source: Great Britain, Hansard Parliamentary Debates, House of Commons, 1925, columns 52-58.