Volume III

After the Gold Standard, 1931-1999

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Philip Snowden's Speech to the House of Commons, 1931: Philip Snowden, the Chancellor of the Exchequer in the new National Government, announced the "temporary" suspension of sterling's convertibility with gold little more than six years after the United Kingdom had re-established the gold standard.

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Mr. P. SNOWDEN: This is a Bill for the temporary Amendment of the Gold Standard Act, 1925, and the Amendment takes the form of suspending Section 1, Subsection (2), which reads as follows:

> "the Bank of England shall be bound to sell to any person who makes a demand in that behalf at the head office of the Bank during the office hours of the Bank, and pays the purchase price in any legal tender, gold bullion at the price of three pounds seventeen shillings and ten pence halfpenny per ounce troy of gold of the standard of fineness prescribed for gold coin by the Coinage Act, 1870, but only in the form of bars Containing approximately four hundred ounces troy of fine gold."

The Bill is a one Clause Bill with three Sub-sections, the first of which reads :

> "Unless and until His Majesty by Proclamation otherwise directs, Sub-section (2) of Section (1) of the Gold Standard Act, 1925, shall cease to have effect, notwithstanding that Sub-section (1) of the said Section remains in force."

The second Sub-section proposes to indemnify the Bank of England for having to-day acted upon the suspension of that Sub-section of the Gold Standard Act, 1925. The third Sub-section, a very short one, reads :

> "It shall be lawful for the Treasury to make, and from time to time vary, orders authorising the taking of such measures in relation to the exchanges and otherwise as they may consider expedient for meeting difficulties arising in connection with the suspension of the gold standard.
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> This Sub-section shall continue in force for a period of six months from the passing of this Act."

This Bill will be available in the Vote Office as soon as the House has given permission for its introduction. I ought, perhaps, to add that this will not affect the free gold market in London. There will be no restrictions on the importation or exportation of gold, and any gold sent to London for sale, for example that from the South African mines, will, like any other commodity, fetch its market price, whatever that may be. Also, there will, of course, be no impediment placed upon the free withdrawal of gold which has been put into the safe custody of the Bank of England by foreign Governments or by foreign central banks. All that is changed is that the right under the Sub-section of the 1925 Act to take from the Bank of England gold in bars is suspended. Finally—and I only say this because of an unreasoning fear that appears to prevail abroad—where we are under obligations to make payments in dollars or other foreign currencies, as for example some of the War Bonds that were issued in New York, we shall, of course, continue to meet our obligations, punctually in those currencies.

So much, then, for the provisions of the Bill. The situation which it is intended to meet, though it has been precipitated by recent events, has been maturing for a considerable time. Obviously, the fall in the general price level affected the capacity of the primary producers of the whole world to meet their obligations, with consequent effect upon their credit in the markets. A vicious circle was set up, banks and investors becoming more and more reluctant to lend their capital to. potential borrowers, and these borrowers becoming more and more insolvent owing to the impossibility of obtaining the usual financial accommodation. The, actual crisis started with the collapse of the. chief bank in Austria last May and with the crisis which followed in Germany. The tying up of funds in Germany had an immediate effect upon the London market, because London is the centre of international banking, and it was known, of course, that we had been lending to Germany. Once foreign centres became nervous, the difficulties of our situation came to the front. There was much criticism abroad of our Budget, our expenditure upon unemployment, our ad-verse balance of trade; these were all seized upon and exaggerated. To meet that situation the Bank of England about the beginning of August raised a very large credit, no less than £50,000,000, from the American and French central banks to meet the withdrawals, but within a couple of weeks these resources were practically exhausted.

At that stage the National Government came into being, and the plans which we announced for balancing the Budget had the immediate effect of restoring confidence. For some days the stream of withdrawals fell sharply, and we hoped that it might dry up. Unfortunately, however, we could not present a united front. […] Speeches were made and articles were written by prominent people advocating inflation and repudiation, which had a most damaging effect. There was political uncertainty, and the news of the unrest that occurred in the Navy was recorded in scare headlines in every foreign newspaper. At the same time, in the general atmosphere of nervousness, difficulties developed in foreign countries, and people began to scramble to liquidate their positions.

This was as much due to nervousness about their own position as to a loss of faith in sterling. The Government raised further credits to a total of £80,000,000 in New York and Paris, and I should like to take this opportunity of expressing our thanks to the Governments and Banks in both countries for the readiness with which they helped us. But, in the circumstances, even this further credit did not prove sufficient, in the last few days the withdrawals accelerated very sharply. On Wednesday, it was £5,000,000; on Thursday, £10,000,000; on Friday, nearly £18,000,000, and on Saturday, a half day, over £10,000,000.

Altogether, during the last two months, we have lost in gold and foreign exchanges a sum of more than £200,000,000, apart from agreeing as a result of the London Conference, to lock up £70,000,000 of our assets in Germany. We informed both the United States and the French Government confidentially of the position on Friday and asked their view as to the possibility of obtaining further credits. In both cases the replies, though friendly and sympathetic, afforded no prospect of assistance on the scale that by that time was obviously necessary. On Saturday, the position had become so serious that it was quite evident that it could no longer be dealt with except by suspending the Gold Standard Act, and so the Bank of England addressed a letter in the following , terms to the Prime Minister and myself:

> "I am directed to state that the credits for $125,000,000 and francs 3,100,000,000, arranged by the Bank of England in New York and Paris respectively, are exhausted, and that the credit for $200,000,000 arranged in New York by His Majesty's Government, together with credits for a total of francs *5* milliards negotiated in Paris, are practically exhausted also. The heavy demands for exchange on New York and Paris still continue. In addition, the Bank are being subjected to a drain of gold for Holland. Under these circumstances, the Bank consider that, having regard to the above commitments and to contingencies that may arise, it would be impossible for them to meet the demands for gold with which they would be faced on withdrawal of support from the New York and Paris exchanges. The Bank therefore feel it their duty to represent that in their opinion, it is expedient in the national interest that they should be relieved of their obligation to sell gold under the provisions of Section (1) Sub-section (2) of the Gold Standard Act, 1925."

To this letter the following reply was sent:

> "His Majesty's Government have given the most serious consideration to your letter of the 19th instant in which you informed them of the grave difficulties with which you are faced in meeting the obligation placed on the Bank of England by the Gold Standard Act of 1925 to sell gold in the form of bars to any person making a demand in accordance with the Act and of the dangers which you apprehend if that obligation is maintained. His Majesty's Government are of opinion that the Bank of England should place such restrictions on the supply of gold as the Bank may deem requisite in the national interest. They will be prepared to propose to Parliament forthwith a Bill giving indemnity for any such action taken by the Bank."

Thus, with appalling suddenness, the crisis which we had striven to avert broke on our heads, and we had no alternative but to suspend the gold convertibility of the currency. We have consulted the banks as to the origin of the heavy sales of sterling, and the banks assure us that, as far as they can judge, the selling is predominantly on foreign account, and there is no evidence of any substantial export of capital by British nationals. So far as British nationals are participating in these sales they are, as I said in the House the other day, deliberately adding to the nation's difficulties. The banks and accepting houses have arranged that they will scrutinise all demands for exchange presented by British nationals with a view to preventing, as far as they can, all purchases other than for *bona fide* commercial requirements, and I am very glad to be able to tell the House that foreign banks in London have taken steps to co-operate with their English colleagues in this matter. The Government are asking in the Bill for powers to take emergency measures under the Sub-section which I have just read should these prove to be necessary or advisable in order to support and reinforce the steps which the banks are taking.

It may be suggested that before taking this extreme step, we should have allowed more of the gold reserves at the Bank to go. This is. a question to which both the Government and the Bank of England gave anxious and careful consideration. If it had appeared that the drain could have been stopped by the exportation even of a large proportion of the gold which the Bank holds, the Bank of England would not have hesitated to allow it to go. The Bank and the Government had already obtained credits abroad approximately equivalent to the total amount of gold reserve held by the "Bank, and these credits have to be repaid within one year at latest. We had to take account of this liability, and we must also maintain a certain reserve for eventual emergencies which no one can foresee. […]

We were informed that the foreign assets still held in London largely exceeded the amount of the Bank's gold, and it appeared that to allow any further export of gold simply would benefit those who showed least confidence in sterling, and it would be at the expense of those who had not withdrawn their balances, so that in the circumstances we decided that it would be contrary to the national interests to allow any further gold to go.

It is frequently suggested that we could have met the drain on our exchange by mobilising our holdings of foreign securities as was done during the War. This, was one of the first points to which His Majesty's Government directed their attention, and they made inquiries as to what possibilities there were in this matter. These inquiries satisfied them that the position at present is, for various reasons, substantially different from what it was during the War, and that, having regard to the extent and rapidity of the drain on the exchange, such resources as we might have been able to obtain would not have materially affected the drain. At the same time, these securities may well prove a reserve for the support of the exchange in the situation which has arisen, and this matter is under constant consideration.

The unequal distribution of the world's supply of gold has long been under the consideration of the British Government and the Bank of England. In fact, we have taken every possible opportunity to promote co-operation between central banks with a view to finding a remedy. So far as we are concerned, we would willingly have called a conference for this purpose. But it was made abundantly clear to us that any proposal of this kind would be unwelcome to other Powers, and therefore a conference would be foredoomed to failure. [Hon. MEMBERS : " Protection! "] It may be that the present crisis will bring home to those who have hitherto been reluctant to enter into a discussion on this matter the pressing necessity of concerted , action, and His Majesty's Government will certainly miss no opportunity of emphasising the urgency and importance of the matter.

When the financial history of the post-War period comes to be written, I do not think that this country will have any reason to be ashamed of its part. We set the example, both as regards meeting our obligations and of helping the reconstruction of the world, and, if we have failed, it is because we have undertaken a burden too heavy for us to bear. Certainly, it does not seem to me that other countries can afford to challenge or to condemn us for what we have done. As regards the United States, we exported to America, during and immediately after the War, actual gold to the value of £322,000,000 in discharge of our obligations. We then proceeded to fund our War Debt to the United States, and under the basis of settlement we have contributed 1,352,000,000 dollars, or over £280,000,000, representing nearly 30 per cent, of the debt at the date of funding. Though the British debt to the United States represented only 41 per cent, of the total War Debt owing to the United States, our payments to the United States represent 83 per cent, of the total payments they have received in respect of those debts. As regards France, the War loans made by the British Government to France, after deducting all offsets, amounted at the date of funding to £600,000,000, on which the British tax-payer has been paying approximately £30,000,000 a year in interest. Under the terms of settlement, the French Government pay us only 40 per cent. of this. Much more could be said, but I will only add this: America and France taken together have now acquired three-quarters of the entire gold in the world and have buried it in their vaults, where it is largely sterilised and useless for the purpose of promoting international trade.

To record these historical facts is in no way to overlook the help that we have received recently from France and from America. I have already expressed the warm appreciation of His Majesty's Government for the readiness with which they came to our help in the matter of credits. But I should also like to add this special word as regards the French banks. I am told that these banks have not played any part in the recent withdrawals from London, but have maintained their balances practically intact, and the critics of the French banks will, I hope, bear this in mind.

The credits we have raised could do little more than disguise the symptoms of the present trouble, but could do nothing to remedy the disease. There is, in sober truth, a world-wide panic on the part of the investment markets. The whole world seems to be bent upon selling securities for cash and denying the possibility of the existence of credit. Such a course cannot be pursued for very long with out, inevitably, causing the breakdown of the whole world system of credit, and, in the face of such a panic as that, we must protect ourselves.

His Majesty's Government, therefore, must ask Parliament to suspend temporarily the provisions of the Gold Standard Act and to authorise such other measures as may be necessary to protect our position. But happily we are forced to do this by reason of an exchange crisis and not because of any disorder in our own internal finances. We are securing, at the cost of painful sacrifices, a balanced Budget and our internal position is secure. It is vital for us to maintain that position. Externally, the initial effects on our exchange of the steps we are proposing may no doubt be serious, but I believe they will be temporary and that those who have confidence in sterling will not find their confidence misplaced. At the same time, I think we are entitled to look for some recognition on the part of other creditor countries of their responsibility for the present situation. Firstly, the world must learn that the existing economic system cannot be maintained […] if everybody tries simultaneously to liquidate their investments. This is playing fast and loose with the delicate machinery of credit. It may be, as I said, that the present crisis will pave the way to better international co- operation, but its immediate effects may be at least as serious for the countries which have been dependent on London for credit as they may be for ourselves; and there is a risk, of course, that for a time the machinery of inter national credit may be dislocated. I can only hope that this risk will not be realised and that, even though it may temporarily not be linked to gold, sterling may continue to serve, as it has in the past, as a medium of international trade.

That is all that I have to say in asking leave to bring in the Bill and in asking the House to pass it without delay through all its stages as a matter of extreme urgency. I do this with no light heart. Our action, no doubt, will have wide repercussions and increase the dislocation and instability for the time being of international trade and finance, but at the same time there is no need to exaggerate the difficulty. Apart from temporary panic sales, which may, of course, have to be reckoned with, I see no reason why sterling should depreciate to any substantial extent or for any length of time provided, and this is vital, that the finances of our country are administered with proper care. It is one thing to go off the Gold Standard with an unbalanced Budget and uncontrollable inflation, but it is far less serious to take this measure, not because of internal financial difficulties, but because of excessive withdrawals of borrowed money. We have balanced our Budget and therefore removed the danger of having to print paper, which leads to uncontrolled inflation. We can, therefore, face the position with calmness. The ultimate resources of this country are great, and the Government will, of course, continue to watch the situation and take such measures as may be possible to circumscribe the fluctuations of the exchange. At the moment, we have no alternative before us but to suspend the convertibility of the currency.

I venture to appeal to everyone in this place not to use words at this moment which will make things more difficult. We must get together as a nation and set-to work to build up our prosperity anew. The question of the adverse trade balance has to be dealt with, and the Government are giving that matter their fullest consideration. In the process of rebuilding, we may have to adopt, as we have done in connection with balancing the Budget, many expedients which in other circumstances would be repugnant to us. In the meantime, it is the duty of everyone to keep cool and not to aggravate the situation by panic. If we do this, our inherent strength will pull us through these temporary difficulties.

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***Source*:** *Great Britain, Hansard Debates, House of Commons,* 1930-1931, Vol. 256, columns 1289-1299.