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Shocking Intellectual Austerity: The Role of Ideas in the Demise of the Gold Standard in Britain
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Abstract
Britain's 1931 suspension of the gold standard remains one of the most shocking policy shifts of the past century. Conventional explanations focus on changing international conditions alongside the rise of social democracy: when Britons refused to shoulder the increasing costs of defending the exchange rate, the Bank of England was "forced" to abandon the gold standard. This article refocuses attention on policymakers' causal ideas at critical moments. Drawing on numerous primary sources held in several archives, it reveals a cleavage within the Bank over the appropriate response to the flight from sterling. Following the nervous collapse of the Bank's governor, the deputy governor shifted the Bank's strategy from making defensive rate hikes to pursuing fiscal austerity. He then "temporarily" suspended gold convertibility in a gambit to forestall the election he (incorrectly) assumed would unseat the gold standard's supporters in Parliament. When the unintended experiment with a managed float proved successful, Keynes was able to persuade policymakers to embrace the new exchange rate regime.

Reducing the standard of living of the workmen by 50% . . . would be the effect of departing from the gold standard.

— Philip Snowden, Labour Chancellor (August 1931)

First and foremost, the Bank rate should be reduced as rapidly as may be to say 3 percent . . . we want cheap money and plenty of it to stimulate industry.

— Frederick Phillips, HM Treasury (February 1932)

Britain's 1931 departure from the gold standard system remains one of the most shocking policy shifts in the history of the global economy. For centuries, London had been the keystone of the international gold standard. When sterling came under attack in summer 1931, Britain's most powerful interests dictated that the standard be defended whatever the cost. The British Parliament answered the call by passing one of the most austere budgets in history. Yet on 18 September the Bank of England abruptly, unilaterally suspended the gold standard, leading the world into the era of flexible exchange rates.

From Polanyi's "great transformation" thesis to Kindleberger's hegemonic stability theory, Britain's suspension is the central case in several of the most influential analyses of international political economy.[1] This scholarship focuses on changing systemic conditions alongside the rise of social democracy. The former forced policymakers to choose between internal and external adjustment, and the latter ensured that they acceded to emerging demands for domestic stability.

We know now that "the international gold standard was a central factor in the worldwide Depression. Recovery proved possible . . . only after abandoning the gold standard."[2] Armed with hindsight, scholars have puzzled "why countries stayed wedded to gold for so long."[3] But in the case of Britain, this puts the question the wrong way. Before Britain "demonstrated the feasibility of devaluation without inflation," most policymakers did not know that they even "could" leave gold—let alone that they should.[4]

Drawing on numerous primary sources held in several archives, this article constructs an alternative account of Britain's departure from gold. It contends that this shift crucially depended on the ideas held by key actors. Prior to suspension, British policymakers believed that leaving gold would precipitate financial chaos and increase unemployment. The Bank's mistaken responses to the 1931 financial crisis, however, led to an ostensibly "temporary" suspension of the gold standard. This generated an unintended experiment with an unexpected result: the low, flexible exchange rate stimulated the domestic economy without generating hyperinflation. Recognizing the benefits of this newly discovered equilibrium—long heralded by Keynes—even the most ardent defenders of the gold standard embraced the new paradigm.

Revisiting this case promises to enhance our understanding of ideas' influence on foreign economic policy. Conventional models of exchange rate politics maintain that fixed-exchange-rate regimes collapse "when politicians are either unwilling or unable to muster the political and/or economic resources needed to defend the exchange rate peg."[5] Such models assume that

[1]See Polanyi 1957; and Kindleberger 1986.
[2]See Eichengreen 1992, xi; and Wandschneider 2008, 171.
[3]Eichengreen 1992, 23.
[4]See ibid., 237, 270; and Eichengreen and Temin 2000, 202.
[5]Leblang 2003, 552.

actors recognize the full range of policy options and those policies' implications for their interests.[6]

Exchange rates, however, are more difficult for actors to grasp than other areas of foreign economic policy.[7] It is probably even truer here than elsewhere that "interest groups may . . . be unable . . . to act in support of policies that favor their interest."[8] This complexity increases the significance of actors' ideas because their theories of monetary political economy are more likely to be limited or wrong.

My analysis reveals how such cognitive limits are expanded. Previous models of the origins of policy paradigms focus on intellectuals' theoretical development and policymakers' deliberate experimentation. However, Britain's experience in 1931 shows how unintended policy experiments can elucidate new policy options unexpectedly.

The Puzzle: Britain's Abandonment of Gold

On 21 September 1931, Parliament voted to abandon the gold standard. As a formal matter, the Gold Standard (Amendment) Act suspended the Bank of England's obligation to convert pound notes into gold at the official price. As a practical matter, it relieved Britain from subordinating macroeconomic policy to the maintenance of exchange rate stability. After an initial, defensive interest rate hike to 6 percent, the Bank steadily cut interest rates.[9] By July 1932, Bank rate was at 2 percent, where it remained until August 1939.[10]

In early 1932, the Bank was granted a £150 million fund to intervene in the exchange market, directly influencing sterling's market value. But rather than a step back toward gold, the account was created "to keep *down* the pound."[11] By 1933, the transition was complete: the exchange rate regime had moved from fixed to flexible, and the exchange rate had moved from "high" to "low."[12]

In Britain, "cheap money . . . served to initiate the housing boom and hence general recovery."[13] Breaking the "gold fetters" actually strengthened Britain's ties to its empire. Most of its members followed the metropole off gold.[14] Combined with the Ottawa Agreements' reinvigoration of historical trade linkages, the emergence of a "sterling bloc" diverted trade and investment into intra-imperial exchanges.[15] Britain's devaluation also fostered goodwill among its overseas possessions by reducing the burden of their sterling debts.

The turn toward the empire, however, "symbolized a radical change in the structure of international economic relations."[16] The devaluation was widely viewed as a beggar-thy-neighbor competitive exchange rate depreciation. The secretive operations of the Bank's exchange fund only heightened concerns that Britain sought to shift the burden of adjustment

[6]Frieden 1993.
[7]Actors are more likely to understand a "tariff" than a "managed float."
[8]Woods 1995, 170.
[9]Howson 1975, 87.
[10]Keynes, Vol. 21, 112n.
[11]Hopkins to Chancellor of Exchequer, 6 April 1932, National Archives, T 171/301.
[12]Frieden 1994.
[13]Howson 1975, chap. 7.
[14]Eichengreen and Sachs 1985, 929.
[15]Eichengreen and Irwin 1995, 4.
[16]Cairncross and Eichengreen 1983, 27.

abroad.[17] Twenty-five countries responded by devaluing likewise. Others levied tariffs, import restrictions, and exchange controls to relevel the playing field.[18]

Britain's departure was not only one of the most significant events in the history of global capitalism. It was also one of the most surprising. Since 1717, Britain had suspended convertibility just twice—both times in the context of war.[19] In each case, Britain not only reinstated the fixed regime after hostilities ceased, but it actually returned at the prewar parity. The 1931 abandonment of gold cut against centuries of policy—including what had been championed as recently as 1925.[20]

Britain maintained this tradition for good reason. Its fixed regime was correlated with its ascent. Conventional wisdom—bolstered by classical economic models—maintained that the "unshakable British commitment to gold" had garnered wealth, power, and prestige.[21] The Central Europeans' ruinous hyperinflation in the 1920s provided fresh evidence that "there is no alternative to the international gold standard as an international monetary system."[22]

The primary beneficiaries of this policy—traders and financiers—were intimately connected to Britain's policymakers.[23] Indeed, they were often one and the same.[24] Beyond the City of London, the British economy had been organized around the premise that sterling was "as good as gold."

Yet Britain was one of the first major economies to leave gold.[25] Although it left in the midst of a financial crisis, it had weathered such storms before.[26] Additionally, the gold standard's much-vaunted network effect militated against Britain's exit.[27] Relative to other countries, Britain left gold "early," when "economic conditions did not necessarily warrant such a move."[28]

The nature of Britain's departure was also exceptional. Germany, Austria, and neighbors slid off gold gradually. Initially, they raised interest rates. Austria went to 10 percent.[29] Germany went as high as 15 percent. Then each country slowly tightened capital controls.[30] When the pressure persisted, they opted for implicit depreciation rather than overt devaluation. Austria maintained the official parity even as "the domestic price of gold and the black market discount rose . . . to 40 percent above par."[31] Germany "continued to try to target [its] exchange rates at levels prescribed by the gold standard even after 'leaving.'"[32]

Britain, by contrast, left abruptly and boldly. The Bank did not push interest rates past 4.5 percent—two points below their high in the 1929 crisis.[33] Nor did it impose capital controls prior

17Howson 1975, n. 195.
18See Chernow 1990, 334; and Frieden 2006, 184.
19Frieden 2006, 184.
20This cuts against Eichengreen 1992, 282.
21Ibid., 142–47.
22Papers of Sir Richard Hopkins, 23 September 1931, NA, T 175/56.
23Frieden 1993, 155, 158.
24Edward Grenfell was exemplary. Chernow 1990, 330.
25Bernanke and James 1991, 42, 64.
26See Cairncross and Eichengreen 1983, 44–52; and Hallwood, MacDonald, and Marsh 1997, 181–83.
27See Eichengreen 1996, 5–6; and Wolf and Yousef 2007, 246–47.
28Wandschneider 2008, 170–71.
29Eichengreen 1992, 269–70.
30Clarke 1967, 193–201, 219.
31Eichengreen 1992, 270.
32Bernanke and James 1991, 64.
33Cairncross and Eichengreen 1983, 49.

to suspension. Instead, it severed the pound's link to gold in a single stroke. While other departures were de facto, Parliament passed a law that announced "the suspension of the Gold Standard." Thus, "the 1931 devaluation of sterling [was] foreseen by few and desired by fewer."[34] How can we explain this revolutionary shift?

Previous Explanations: It's the Politics, Stupid

Even in ideal conditions, the gold standard suffered from "considerable latent instability." Before World War I, Britain's "leadership" and support from other major powers had stabilized the system.[35] The "Carthaginian peace" of 1919, however, both upset the delicate prewar economic balance and reconstructed states' identities and interests.[36] The breakdown of international cooperation undermined the credibility of states' commitments to the gold standard, inviting speculative attacks.[37] Financial markets remained intertwined, ensuring that crises propagated like contagion.[38] At the same time, postwar adjustment and increasingly sticky wages made gold standard commitments more painful than ever.[39]

However, international dynamics are only half the story. "Policies that implicate the exchange rate," Frieden reminds us, "call into play well-defined economic interests."[40] As a result, countries chose to "go on or off gold . . . in the context of often bitter debates among groups in society that had vested interests for or against the fixed-rate standard."[41]

Virtually every subsystemic analysis of the gold standard's demise follows in the tradition of Polanyi's *The Great Transformation*—the "*locus classicus* of political-economy analysis of the gold standard."[42] Throughout the interwar period, Polanyi argued, policymakers became increasingly unwilling to subordinate "questions of social organization . . . to the needs of the restoration of the currency."[43]

Rationalist exponents of the Polanyi thesis insist that workers' increasing organization and empowerment enabled them to resist the austerity required to maintain the peg. Scholars have focused on the party in power and the independence of the monetary authority.[44] In Britain, "the rise of the Labour Party, the growth of trade unionism, and the prewar extension of the franchise" ensured that "deflation that once might have elicited mute acceptance . . . provoked hunger marches and mass demonstrations."[45]

Constructivists acknowledge the role material changes played in political representation but they emphasize the broader shift in "attitudes concerning the role of the state in the conduct of national monetary policy." "Demands for social protection," after all, "were very nearly universal, coming from all sides of the political spectrum and from all ranks of the social

[34]Ibid., 102.
[35]See Kindleberger 1986, 290; Eichengreen 1992, 7; Simmons 1994, 21; and Broz 1997.
[36]See Keynes, Vol. 2, 22–23; and Kindleberger 1986, 290–91.
[37]Eichengreen 1996, 74.
[38]See Eichengreen 1992, 262; and Accominotti 2012.
[39]Eichengreen and Temin 2000, 183–84.
[40]Frieden 1994, 84.
[41]Frieden 1993, 147.
[42]Eichengreen and Flandreau 1997, 25n.
[43]Polanyi 1957, chap. 19.
[44]See Eichengreen and Jeanne 2000, 18; Hall 1989, 376; and Simmons 1994, 281.
[45]See Eichengreen and Jeanne 2000, 18; and Eichengreen and Temin 2000, 202.

hierarchy."[46] "Neither management nor labour nor their representatives in Parliament were willing to pay the price" to save the gold standard.[47]

These explanations—systemic and subsystemic, rationalist and constructivist—are often combined to claim that the gold standard's demise was overdetermined and inevitable.[48] Such a synthesis differs little from Polanyi's original story. Developments in the global economy, particularly after World War I, made maintaining the gold standard increasingly painful. Diminished international cooperation combined with Britain's relative economic decline to exacerbate its difficulties. At the same time, a newly empowered working class harnessed evolving "social purpose" to resist the austerity necessary to defend gold.[49] Simply put, Britons abandoned the gold standard because "a consensus in favour of making major sacrifices for this battle of Britain did not exist."[50]

The Argument: Policy Choices Depended Upon Actors' Ideas

These accounts impute incredible prescience to the actors responsible for Britain's departure. They assume both that Britons knew how to save the gold standard and that they recognized that abandoning the gold standard could alleviate unemployment. Yet, neither was obvious.

Prior to suspension, few Britons advocated leaving gold.[51] Keynes, of course, was exceptional. After he correctly prophesied the disastrous "economic consequences" that followed the 1925 return to gold, few could deny the brutality of the "barbarous relic."[52] But most still saw it as a necessary evil. Although depreciation might provide a "temporary" stimulus, the orthodoxy insisted, preserving these "ill-gotten gains" required "more and more depreciation"—a formula for hyperinflation.[53] Keynes's elucidation of the modern alternative proved decisive—but only after the Bank had suspended convertibility for altogether different reasons.

To say that the gold standard was deeply rooted in Britain is not to say that it was easy to maintain it there. Whenever the market exchange rate threatened to drop below the gold export

[46]Ruggie 1982, 388, 391.
[47]Kunz 1987, 184.
[48]See Ruggie 1982, 391; Wolf and Yousef 2007; Eichengreen and Temin 2000, 200; Eichengreen, 1992, xi, 73–75; Howson 1975, 77; and Simmons 1994, 21.
[49]Ruggie 1982, 392.
[50]Kunz 1987, 185.
[51]For instance, there was almost no explicit discussion of devaluation in Parliament in the six weeks prior to suspension. Edward Wise was unique in overtly advocating devaluing the pound. 256 Parliamentary Debates, House of Commons (5th series) (1931) 332–36. Colonel Josiah Wedgwood offered only tepid support (87–94). The other members of Parliament (MPs) who spoke explicitly about "devaluation" (Robert Boothby; Major Archibald Church; Samuel Hammersley; and Philip Noel-Baker) warned of its dangers and proposed alternatives (575–76, 593–94, 762–68).
[52]See Eichengreen 1996, 59; and Keynes, Vol. 4, 138. The week before the suspension, an "utterly depressed" Keynes lamented to a friend, "I have now come quite clearly to the belief that devaluation is the solution for this country…In private there are many who agree with me in their hearts, but I am almost alone in openly saying so. At present there is a vast wave of so-called patriotic propaganda to the contrary, which is trying to frighten the people with most fantastic accounts of what would happen if we slipped our anchor." Keynes, Vol. 20, 603–6.
[53]Those few within the Bank willing to consider suspension often backtracked when conditions changed. In mid-August, Harry Siepmann flirted with Keynes's proposed coordinated devaluation. Moggridge 1992, 525–26. Days after the suspension, however, he vigorously defended the gold standard and the old parity. Papers of Sir Richard Hopkins, 23 September 1931, NA, T175/56. Such inconsistency explains Keynes's vacillation on whether there would be sufficient political support to deliberately leave gold. Keynes, Vol. 20, 485–87, 590–612.

point, the Bank of England had to divine the forces at work. On the one hand, exchange rate pressure could result from transitory phenomena, such as a "temporary disturbance" or a momentary loss of confidence.[54] In these cases, the official parity reflected the long-run equilibrium, and the Bank typically intervened with reserves to prevent herd mentality from exacerbating small fluctuations. On the other hand, exchange rate pressure could also follow from evolving economic fundamentals. If the supply of—and/or the demand for—the pound were to significantly change, the official parity would become over- or undervalued. To maintain the parity, the Bank would adjust interest rates to reequilibrate supply and demand at a rate within the gold band. Determining the cause of any particular crisis was rarely straightforward. As the Bank's historian puts it, "central banking is an art, not a book of rules."[55]

British economic stability depended on the Bank's capacity to thread that needle. Overreacting—by resorting to interest rate adjustments whenever a fluctuation occurred—might inspire panic and generate violent shifts in domestic macroeconomic conditions.[56] Underreacting would risk the exchange rate regime. "While there was no obvious right or wrong," Sayers explains, "inept handling could have had rapid and cumulative effects in accelerating the flight from sterling."[57]

This is precisely what occurred in 1931. Britons were committed to maintaining the gold standard, but those responsible for its defense misjudged the causes of the flight from sterling. At this "critical juncture," the Bank's governors divided over the appropriate policy response.[58] Following the collapse of the Bank's governor, the deputy governor shifted Bank strategy from making defensive rate hikes to pursuing fiscal austerity. He then prematurely suspended gold convertibility in a gambit to save the gold standard coalition in Parliament from electoral defeat. This generated an unintended experiment that tested the central prediction of orthodox theory: leaving the gold standard would precipitate uncontrollable inflation. When this did not occur, Britons discovered that a managed float was a viable—indeed, a desirable—policy option.

The Model: Learning from Experiments

A large body of scholarship on the "dynamics of policy learning" shows that ideas define crises and construct identities and interests.[59] A smaller set of scholars focus on how ideas define the range of recognized equilibria and specify the means by which these equilibria could be reached.[60] Most of these scholars, however, concede that ideas "do not acquire political force independently of the constellation of institutions and interests already present there."[61] By contrast, I proceed along an "informational vein," where ideas are selected based on "objective, environmental stimuli."[62]

[54] Keynes, Vol. 20, 54.
[55] Sayers 1976, 407.
[56] Eichengreen 1992, 282.
[57] Sayers 1976, 407.
[58] Capoccia and Keleman 2007. Previous scholars have glossed over this crucial cleavage. See Clay 1957, 385–86; Sayers 1976, 393; and Boyce 2009, 314–23. Einzig (1932a, 140–42) is an exception. The vicissitudes of this internal struggle explain what Simmons (1994, 230) called the Bank's "erratic" policies.
[59] See Odell 1982, 367–76; Ruggie 1982, 382; Goldstein 1988; Haas 1992, 14; Woods 1995; Blyth 2002, 10; and Legro 2005, 35.
[60] Goldstein and Keohane 1993, 11–12.
[61] Hall 1989, 390.
[62] See Bleich 2011, 60; Irwin 1989; McNamara 1998; and Morrison 2012.

Following Kuhn, most scholars have conceptualized ideas as “policy paradigms”—syntheses developed after empirical anomalies “gave rise to policy failures that discredited the old paradigm and led to a wide-ranging search for alternatives and to a process of experimentation with modifications to policy.”[63] In several prominent cases, however, policymakers began to experiment with trade liberalization even before the old paradigm had been “discredited.”[64]

Policymakers’ willingness to experiment with untested ideas is partly a function of the expected net benefits. In the case of trade liberalization, for example, these costs are relatively low. The level of liberalization is a continuous variable, and policymakers can increase or decrease the amount of liberalization with comparative precision. It is also easier to confine the experiment to a limited number of trading partners and to subsets of goods and services.

By contrast, it is far more costly to experiment with changes to the exchange rate regime. Although trade and exchange rate policies can serve many of the same ends, exchange rate policy is a far blunter instrument than trade policy.[65] Exchange rate adjustments affect virtually every facet of the domestic economy along with its relationship with the global economy.[66] As Britain’s gold standard orthodoxy argued, anything short of remaining “on gold” was tantamount to a choice to “go off.” Moreover, such adjustments liquidated credibility that could not be regained.[67] These factors raise the stakes of exchange rate policy and ought to elevate policymakers’ focus from the sectoral level to the national and international levels.[68] They also strengthen policymakers’ status quo bias.

Such a bias can be circumvented when policymakers’ mistakes lead to an unintended experiment. This model differs from the “self-reinforcing path-dependent processes” that predominate in historical institutionalist accounts.[69] Here, ideas work as “road maps.”[70] In that mode, old ideas “constrain” policymakers by limiting the range of options they consider viable.[71] But new ideas can shatter these constraints by leading actors to discover new paths to their destinations. In 1931, the results of Britain’s unintended policy experiment were so strong—and so clear—that policymakers and scholars alike were forced to rethink their core assumptions.[72]

The Narrative

The Bank’s Responses to the 1931 Sterling Crisis

Throughout the 1920s, Britain relied on income from foreign investments to offset its sizable trade deficit.[73] In summer 1931, however, a string of European bank failures threatened this precarious balance. When Germany imposed capital controls, British banks lost more than

[63]Hall 1993, 291.
[64]See Irwin 1989; and Morrison 2012.
[65]Pelc 2011.
[66]Frieden 1994.
[67]Bordo and Kydland 1995.
[68]The higher costs of collective action ought to mitigate special interest capture.
[69]Capoccia and Kelemen 2007, 341.
[70]Goldstein and Keohane 1993, 12.
[71]Goldstein 1988.
[72]This is a high bar. Chwieroth (2010) shows that actors often swallow immense cognitive dissonance without such reevaluation.
[73]Moggridge 1970.

£70 million in a stroke.[74] Foreign bankers responded to the crunch by liquidating their sterling balances.[75] Britain's deteriorating balance of payments created immense downward pressure on the exchange rate. In July alone, the Bank expended half of its international reserves (£56 million) to prop up sterling.[76]

The traditional response had been to raise Bank rate—the Bank's discount rate. This would stem capital outflows by increasing the real return on holding sterling and demonstrating the Bank's commitment to battle inflation. Raising borrowing costs would also pressure the politicians to balance the budget. The Bank had used this tool successfully in previous crises.[77] This strategy was heartily endorsed by the major London clearing banks.[78] But at the end of September, the Bank suspended convertibility with the interest rate at just 4.5 percent. Many contemporaries were dumbfounded that the rate was not pushed at least twice as high—as it had been by other countries defending their currencies.[79] Some *ex post* calculations suggest that a mere two-point increase may have been enough to right Britain's imbalance of payments.[80]

To explain this, scholars typically invoke the Polanyi thesis. "The explanation," we are told, "is that the authorities feared that interest rate increases would worsen unemployment."[81] Who were these "authorities?" In some accounts, the Bank itself relented once the unemployment rate passed a "tipping" point.[82] In others, the Bank feared "drawing fire from Labour MPs."[83] These conclusions, however, are based on little more than the recognition that Britain's unemployment rate was high.[84] There is no first-hand evidence that the Bank of England was willing to hazard the gold standard to battle unemployment.[85]

Everything we know about the "choices and values" of the Bank of England suggests the reverse.[86] Prior to the crisis, Keynes grilled the Bank's governors on the trade-off between exchange rate stability and domestic macroeconomic conditions. They eventually admitted that "the international consideration" took precedence.[87] Nor did the Bank of England bow to external pressure. Politically, it was "the most independent of central banks."[88] There were strong connections between London's financial interests in "the City" and its government in Westminster. Throughout the crisis the Bank provided the government with daily reports on the financial situation.[89] But the pressure flowed from the bankers to politicians, as this narrative makes clear.

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[74]See Accominotti 2012; Ahamed 2009, 4; Eichengreen 1992, 280–81; and Toniolo 2005, chap. 4.
[75]Howson 1975, 75.
[76]See Eichengreen 1992, 281; and Williamson 1992, 282.
[77]See Accominotti 2012, 30; and Cairncross and Eichengreen 1983, 49.
[78]Minutes of the Committee of Treasury, 27 July 1931, Bank of England, G14/316. See Kunz 1987, 84.
[79]See Treasury Minutes, 21 September 1931, BE, G14/316; and Fraser 1933, 113.
[80]See Cairncross and Eichengreen 1983, 79–82; and Eichengreen 1992, 282. See also Hallwood, Macdonald, and Marsh 1997, 184–85.
[81]Eichengreen and Jeanne 2000, 17.
[82]See ibid., 17, 20; and Eichengreen and Temin 2000, 199–200.
[83]Eichengreen 1992, 282.
[84]Eichengreen and Jeanne 2000, 17.
[85]See Simmons 1994, 231n.
[86]Ibid., 236.
[87]Minutes of Evidence taken before the Committee on Finance and Industry, 26 March 1930, NA, T 200/8.
[88]Simmons 1994, 46, 230.
[89]Williamson 1992, 296.

The Bank similarly asserted its independence from the City. The powerful clearing banks had always been excluded from the Bank's Court of Directors.[90] Merchant bankers—those most exposed in the 1931 financial crisis—enjoyed some formal representation. But they included less than a third of the directors.[91] Moreover, the 1920s brought new efforts to insulate and professionalize the Bank's staff. Appointed governor in 1920, Montagu Norman became the first of what he envisioned as a "group of whole-time professionals" running the Bank.[92] He ensured that the Bank appointed and promoted his old friend, the Canadian businessman, Edward Peacock. Hoping to extend his own influence, Norman likely pushed to have Peacock installed as a leading partner of Barings, London's most significant merchant bank.[93] Deputy Governor Ernest Harvey, by contrast, had virtually no ties to the City. The son of a vicar, Harvey spent four decades at the Bank working his way up from a clerkship.[94] Thus, if there were a "bankers' ramp" in 1931, it was conceived by these three dominant men inside the Old Lady of Threadneedle Street.

In late July 1931, a burgeoning fiscal crisis complicated sterling's defense. Projecting a £120 million deficit, the budget committee recommended £24 million of new taxes and nearly £100 million of "economies"—including a £67 million reduction in unemployment support.[95] Although this might have balanced the budget, it risked prolonging the depression. For investors, financing the deficit was a nonstarter. Faced with ballooning public debt, policymakers might be tempted to impose "haircuts" on bondholders or even resort to inflation.[96] More broadly, the revenue shortfalls signaled a weakening British economy. News of the deficit accelerated sterling's slide.

Within the Bank, "two schools of thought" arose over how to defend sterling in this context.[97] Deputy Governor Harvey zealously believed that the Labour Government's profligacy was the root cause of the flight from sterling. "The crisis," he explained, "had been one of confidence." Because "people were less concerned about securing the margin of interest than of safeguarding capital," Bank rate increases would prove ineffective. Indeed, resorting to the heavy artillery would be interpreted as a sign of panic and "stimulate the lack of confidence." Instead, sterling's "future prospects must . . . depend upon the course of political developments," meaning whether and how the budget was balanced.[98] In the meantime, the Bank could secure foreign credits to help it ride out the storm.[99] If these efforts stymied, this would only increase the pressure on the politicians to balance the budget.[100]

Governor Norman, however, did not want to leave sterling's fate in the hands of politicians or foreigners.[101] At the first sign of trouble, he elaborated a program of "progressive

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[90]Sayers 1976, 596–97.
[91]Accominotti 2012, 28.
[92]Sayers 1976, 599.
[93]Orbell 2005. Just as Norman preached, Barings minimized its exposure to commercial credit in the late 1920s. Under Peacock, it thus avoided the calamity that befell other merchant banks in July 1931. Accominotti 2012, 18.
[94]Williamson 2004.
[95]Eichengreen 1992, 284.
[96]Howson 1975, chap. 4.
[97]George L. Harrison Papers (hereafter Harrison Papers), 28 July 1931, file 3115.2.
[98]See Cabinet Minutes and Papers, National Archives, CAB 23/68/6, 100–1; and Minutes of the Committee of Treasury, 6 August 1931, BE, G14/316.
[99]See Harrison Papers, 28 July 1931, file 3115.2; and Cab. Minutes, NA, CAB 23/68/6, 103.
[100]Kunz 1987, 85.
[101]*Boston Sunday Globe*, 13 September 1931, 4.

increases in bank rate."[102] He insisted, "to cope with such disorganisation [in the exchanges] would require 7% or 8%."[103] On 23 July, Bank rate was raised to 3½ percent.[104] Norman did inquire into obtaining foreign loans. But, the amount needed would require parliamentary action, and "because of the early adjournment of Parliament," he concluded, "the whole matter was now dead."[105] Whatever credits the Bank could secure on its own would merely "allow the Government time in which to facilitate plans for balancing the Budget." Instead, Bank rate was raised another full point at the end of the month.[106] With that, Norman collapsed. Having led the Bank through its most difficult decade to date, Norman was left with no reserves of his own. He remained bedridden for days.[107]

Norman's absence granted Harvey the opportunity to redirect the Bank's approach. He immediately reopened foreign loan negotiations.[108] Beyond the shift in strategy, Harvey also brought a difference in style. Harvey was less interested in consulting the City and more willing to play politics.[109] So, when the United States and France offered credits of £25 million each, Harvey informed Chancellor of the Exchequer Phillip Snowden "that the Bank are not prepared to enter into the credit without some promise of support by the Government."[110]

On 5 August, Norman mustered the energy to return to the Bank—just in time for the weekly discussion of interest rate adjustments.[111] His arrival refocused the Bank on its traditional mechanisms.[112] Rather than employing the credits to support sterling, the Bank "considered it necessary to lose gold and to raise the discount rate again, in order to make the . . . Government understand the seriousness of their position."[113] The policy shift, however, confounded the markets. Assuming that the credits had been exhausted, sterling's slide was "misinterpreted all over the world as a fundamental weakness in the London position."[114] Shocked that their credits were not being used as intended, the French and the Americans demanded that the Bank reverse course.[115]

When Norman stayed home again on 6 August, Harvey happily complied. He empowered the foreign banks to fully utilize the credits to buoy sterling above the gold export point.[116] Once

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[102]Harrison Papers file C261, 231/31.
[103]Clay 1957, 384.
[104]Diaries of Montagu Norman, 23 July 1931, BE, ADM34/20.
[105]Harrison Papers, 28 July 1931, file 3115.2.
[106]Minutes of the Committee of Treasury, 29 July 1931, BE, G14/316. That day, an embarrassed Harvey apologized to Moret for the Bank's decision not to accept France's credits. Deputy Governor's Letter Book, 29 July 1931, BE, G3/210.
[107]Boyle 1967, 267–68.
[108]Treasury Minutes, 30 July 1931, BE, G14/316.
[109]Throughout July, Norman met with a range of London bankers regularly. Diaries, July 1931, BE, ADM34/20. In his two months as acting governor, Harvey met primarily with just the heads of the major clearing bankers—and only a handful of times. In each case, the Bank records report that Harvey "acquainted" the bankers with the Bank's policies after they had been set. In the same period, Harvey met with the major political figures—both in government and in opposition—almost daily. See Treasury Minutes, 30 July–24 September 1931, BE, G14/316; and Deputy Governor's Diary, 30 July–24 September 1931, BE, M5/459.
[110]See Echengreen 1992, 282–83; and Treasury Minutes, 30 July 1931, BE, G14/316.
[111]Diaries, 5 August 1931, BE, ADM34/20.
[112]No previous scholar has attributed the shift in policy to Norman's brief return. Other accounts blame Harvey. See Sayers 1976, 394–96; Williamson 1992, 282–87; and Boyce 2009, 318–19.
[113]Harrison Papers, 7 August 1931, file 3125.2.
[114]Ibid.
[115]Treasury Minutes, 6 August 1931, BE, G14/316.
[116]Lucius Thompson-McCausland, "Crisis of July–Sept 1931," BE, G14/316, 20.

again, the Bank embraced the doctrine "that the increased loss of confidence abroad, which might follow any immediate rise in the Bank Rate, outweighed all other considerations." "However black the Governor may have painted the picture," Harvey explained to Chancellor Snowden, "his picture cannot have been more black than [the Bank's] to-day." "We are doing all that we can," Harvey claimed, "but our power to act is rapidly diminishing." Instead, "the sign which foreigners expect from this country is the readjustment of the budgetary position." To increase pressure on the Labour Government, Harvey also sought "to lay [the Bank's] views before the Leaders of the Opposition Parties." Thus began Harvey's relentless campaign to badger the politicians into balancing the budget.[117]

Snowden passed the desperate message to Prime Minister Ramsay MacDonald: "You will note . . . the belief of foreigners that our budgetary position is unsound and until that is remedied . . . this uneasiness abroad will continue...Whatever real foundation there may be for this . . . there can be no doubt about its reality and it is up to us to take immediate action to remove it."[118] MacDonald accepted Harvey's diagnosis entirely. He noted in his journal, "Bank considering how much more it is justified in using [the foreign credits] . . . Situation got beyond them & only Govt. can act...the failure to balance Budget is forfeiting confidence in sterling."[119]

Austerity Politics and the Division of Labour

Believing that the mantle of the international gold standard rested on their shoulders, how did the politicians respond?[120] Conventional models of exchange rate politics predict that opinion would have divided along party lines: "The preference of the conservatives was to . . . defend the currency; that of the Left was to devalue."[121] Since the 1929 election, Labour had enjoyed a plurality in Parliament. With MacDonald, a socialist, at the head of the government, Simmons counts Britain's suspension foremost among those that "occurred . . . in the presence of left-wing governments for which the costs of deflation were intolerable."[122]

This account, however, does not fit the facts. The crucial cleavage developed not between the parties but within the Labour Party. Following Labour's division, MacDonald headed a coalition dominated by the Conservatives. No historian could characterize the government that presided over the suspension as a "left-wing progressive polit[y]."[123]

In late July, Snowden announced that the Labour Government would take "every possible step to ensure that the proud and sound position of British credit shall be in no way impaired."[124] He then endorsed the combination of retrenchment and broad-based tax increases demanded by

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[117]Minutes of the Committee of Treasury, 6 August 1931, BE, G14/316.

[118]J. Ramsay MacDonald Diaries, 7 August 1931, NA, PRO 30/69/260.

[119]Ibid., 11 August 1931.

[120]Lucius Thompson-McCausland, "Crisis of July–Sept 1931," BE, G14/316, 41.

[121]Simmons 1994, 11–12.

[122]Ibid., 11–12.

[123]Ibid., 281.

[124]255 Parl. Deb., H.C. (5th ser.) (1931) 2511–14.

the bankers.[125] When the cabinet objected in August, MacDonald "warned . . . of the calamitous . . . consequences which would immediately and inevitably follow from a financial panic and a flight from the pound."[126] Snowden foreboded, "if sterling went the whole international financial structure would collapse, there would be no comparison between the present depression and the chaos and ruin that would face us."[127] Safeguarding the pound was in the interest of every Briton—especially those in the working class. "Departing from the gold standard," Snowden declared, would "reduc[e] the standard of living of the workmen by 50%."[128] MacDonald similarly warned, "the situation would rapidly worsen and unemployment would rapidly increase."[129]

Armed with Keynes's arguments, the Trades Union Congress (TUC) challenged the bankers' diagnosis and prescription.[130] They were "not convinced that the situation was quite so desperate as was alleged."[131] Moreover, "proposals to economise at the expense of the poor are not only unjust but economically unsound." "They will increase unemployment and aggravate the basic problem underlying the present crisis by reducing the consuming power of the masses."[132] Ideally, Britain would lead the world in a coordinated reflation. But "devaluation . . . would theoretically be the most effective means within the power of this country, if we have to act alone."[133]

Even before the TUC attacked, MacDonald faced the unenviable task of brokering a compromise between the bankers and his more radical cabinet members.[134] The TUC, however, narrowed the range of bargains acceptable to the politicians. First, its "declaration of war," as MacDonald termed it, raised the political costs of compromise.[135] It also provided the "ideological cover" renegades would need to rationalize their defection.[136] But the TUC's analysis must have been persuasive—few would have revolted if they believed that doing so invited Armageddon. In effect, the TUC's alternative perspective on the crisis lowered the costs the radical cabinet ministers expected to bear if bargaining with the bankers failed.

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[125]Williamson 1992, 304–5.

[126]Cabinet Minutes and Papers, NA, CAB 23/67/21, 359.

[127]J. Ramsay MacDonald Diaries, 20 August 1931, National Archives, PRO 30/69/260.

[128]Cab. Minutes, NA, CAB 23/67/19, 347.

[129]Trades Union Congress 1931, 515.

[130]Howson and Winch 1977, 16.

[131]J. Ramsay MacDonald Diaries, 20 August 1931, NA, PRO 30/69/260.

[132]Trades Union Congress 1931, 520.

[133]Ibid., 518.

[134]Williamson 1984, 796.

[135]J. Ramsay MacDonald Diaries, 21 August 1931, NA, PRO 30/69/1753.

[136]Schonhardt-Bailey (2006, 42) describes ideas playing a similar role in Britain's 1846 repeal of the Corn Laws.

Following the TUC disputation, MacDonald's radical cabinet ministers dug in their heels. None proposed devaluation. But half of his cabinet voted against Harvey's "very substantial economies . . . effected on Unemployment Insurance." On 21 August, they balanced the budget—but with merely £56 million of cuts, including a £22 million reduction in unemployment support. That afternoon, MacDonald approached the Bank and the opposition leaders with the best budget he had been able to squeeze through his cabinet.[137]

The Bank replied that it was not only "wholly unsatisfactory" but that it would "probably worsen the position by further diminishing confidence." Having given up on the Labour government, Harvey played for its imminent ousting. The Bank foreclosed further cabinet negotiations by informing MacDonald—and the leaders of the opposition—that its reserves would not last more than a few days.[138] This sensitive information then leaked to the press, where it fueled demands for a change of government.[139] It also cost the Bank nearly £12 million, its largest single-day loss yet.[140] Convinced that forming a "National Government" was now "the best possible arrangement," the Bank broached the possibility with leading financiers.[141]

MacDonald was unwilling to capitulate. He made one last overture to his dissenting ministers, calculating that they might be more willing to compromise if they were certain that doing so would save the gold standard. So he proposed asking the U.S. financiers if promising greater economies would dispose them to make a firm commitment to support the pound. A third of the cabinet immediately voted against the "humiliating" gesture.[142] In any event, the Americans proved unwilling to make such a promise. When Harvey delivered the news to the cabinet, "pandemonium [broke] loose."[143] The Labour Government had disintegrated.

MacDonald acknowledged that the bankers' demands "represented the negation of everything that the Labour Party stood for, and yet he was absolutely satisfied that it was necessary in the national interests, to implement them."[144] He admitted "the T.U.C. undoubtedly voice the feeling of the mass of workers," but he questioned their understanding of the crisis: "They do not know & their minds are rigid." Committed to the plight of workers, MacDonald ignored their demands to advance their interests. He did so knowing that it meant, in his words, "political suicide." On 24 August, MacDonald gave himself over to the Conservatives and formed a "National Government."[145] There was nothing "national" about it. Most of the Labour

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[137]Cabinet Minutes and Papers, NA, CAB 23/67/18, 335.

[138]Cab. Minutes, NA, CAB 23/67/19, 343-44.

[139]*London Times* 24, August 1931, 11. See also Williamson 1992, 360n.

[140]Williamson 1992, 360.

[141]Minutes of the Committee of Treasury, 24 August 1931, BE, G14/316.

[142]Williamson 1984, 799–804.

[143]Nicolson 1999, 462–63.

[144]Cab. Minutes, NA, CAB 23/67/21, 360.

[145]J. Ramsay MacDonald Diaries, 21–24 August 1931, NA, PRO 30/69/1753.

MPs went into opposition. MacDonald served as the government's titular head, but the Conservatives called the shots.[146]

A National Solution?

Eichengreen and Temin argue that the Conservatives "hesitated to stay the course for fear of inciting a political backlash."[147] In fact, the National Government did everything it believed necessary to save the gold standard. It embraced "budget orthodoxy . . . with puritanical devotion."[148]

Finance welcomed the Conservatives' ascent. Markets had panicked in the face of the collapsing government and rumors that the Bank's credits were "approaching exhaustion."[149] Once news broke that a National Government had been formed, however, sterling rallied to its best position in weeks.[150]

The foreign bankers received the formation of a National Government equally well. With the Conservatives on the ascent, the French and Americans assumed that a balanced budget was assured. On 28 August, the Bank announced the receipt of new credits totaling £80 million.[151]

If Harvey's interpretation of the run on sterling were correct, resolving the budget crisis ought to have restored confidence. But Harvey had misread the markets. Departing from the Bank's tradition of defensive rate hikes generated uncertainty about sterling's future while reducing the return on holding sterling. By early September, the flight from sterling had resumed. But rather than rethinking his strategy, Harvey resumed badgering the politicians—this time to push the budget through Parliament.[152]

Within just a few days, the National Cabinet embraced a budget designed to satisfy the bankers.[153] The matter then passed to Parliament. The government, MacDonald explained, faced "something like a typhoon." It was not possible to merely devalue slightly. Britain faced a binary choice between monetary stability and a currency that "tumbled without control." He invoked the specter of German hyperinflation: "I am not scaremongering; I am giving you some history. That happened in Berlin."[154] When Labourites attacked, MacDonald insisted, "This is an emergency." "I hope hon[orable] Members opposite . . . know perfectly well that an emergency measure like this is distasteful to me, and that I should never . . . dream of proposing it unless I was driven by

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[146]256 Parl. Deb., H.C. (5th ser.) (1931) 25–27.

[147]Eichengreen and Temin 2000, 202, 207.

[148]Simmons 1994, 230.

[149]*London Times*, 24 August 1931, 11.

[150]Clarke 1967, 208.

[151]Marquand 1977, 655.

[152]Cabinet Minutes and Papers, 3 September 1931, NA, CAB 23/68/6.

[153]See Williamson 1992, 367; and Eichengreen 1981, 20.

[154]256 Parl. Deb. H.C. (5th ser.) (1931) 13–25.

my sense of national necessity." But although MacDonald's pride and political future were threatened, the issue was not.[155]

The 300 MPs who voted for the budget recognized the devastating effects it would have on the British economy. The Conservative Neville Chamberlain conceded, "To make these economies is as disagreeable and distasteful a task as could be undertaken by any Government. . . . Everybody admits that these proposals must have an immediate effect on increasing unemployment." But these painful policies were "the steps necessary to avert the crisis which had brought us to the verge of national ruin."[156]

In Westminster, Snowden's budget received "an astonishing ovation."[157] In the City of London, the reaction was largely the same, and it temporarily bolstered sterling.[158] But how did the public react to this—the most austere budget in British history?

Britons' Resolve

Conventional accounts of the public's response play up the "staged demonstrations" and "the symbolism surrounding the Royal Navy 'mutiny.'"[159] These events supposedly "served to undermine confidence and complicate the defense of the pound."[160] "Without . . . consensus or . . . a dictatorial regime which could render public opinion largely irrelevant," Kunz argues, "a drastic program on the scale necessary to be effective could not be mounted."[161]

When Parliament passed Snowden's budget, the unemployment rate exceeded 20 percent,[162] but Britons typically took the austerity measures in stride. There was no general strike as there had been in 1926. Indeed, there were few strikes of any kind.[163] *Time* described the pathetic protests: "Outside . . . Parliament little groups collected under their ringleaders shouting . . . [B]obbies did not charge but nudged them out of the square."[164] The infamous naval "mutiny" was embellished by the press. Historians agree that it was akin to "passive disobedience" or even just "a mild protest."[165] The government allowed the Admiralty to

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[155]Ibid., 419–21.

[156]Ibid., 641–44. See Simmons 1994, 234.

[157]Roskill 1972, 551–52.

[158]Sayers 1976, 400n.

[159]See Eichengreen and Temin 2000, 202; and Simmons 1994, 271.

[160]Simmons 1994, 271.

[161]Kunz 1987, 185.

[162]Eichengreen and Jeanne 2000, 11.

[163]Simmons 1994, 271.

[164]"Great Britain: England Yet Shall Stand," *Time* (Internet ed.), 21 September 1931.

[165]See Williamson 1992, 402; and Eichengreen 1992, 284.

reconsider specific, egregious cases, which pacified the sailors "without materially affecting the Budget Estimates."[166]

Throughout the crisis, the National Government appealed to Britons' distinct sense of "national purpose."[167] Kunz's suggestion that the "will . . . to fight had been lost" does incredible disservice to Britons' fortitude at the height of the Great Depression.[168] When the Bank of England drew on the reserves of the British people, it did not come up short. The issue was that the policymakers running the Bank were deeply misguided.

The Forbidden Experiment: Suspension

The standard narrative is that "Britain was forced to suspend convertibility on September 19."[169] But it was not "Britain" that suspended convertibility—it was, essentially, the Bank of England. And the Bank was not "forced" but chose to do so. This choice was the final maneuver in a campaign Harvey waged to save conservatives in Parliament from electoral defeat. Harvey, simply put, suspended the gold standard to save it.

When Parliament's passage of the bankers' budget failed to end the crisis, the Bank blamed calls for a general election.[170] If "such an Election might jeopardise the measures contemplated for dealing with the situation," Harvey cautioned, "foreign opinion might be greatly disturbed."[171] Specifically, he feared a repeat of the 1929 election in which division between the Conservatives and the Liberals granted Labour a plurality: "if they go to the country . . . on the old basis of a three-party election the results will be bad; but . . . if the election is one between the Nationalists party and the non-Nationalists, the effect will not be so disturbing."[172] Thus, Harvey believed, a carefully managed election was necessary to protect the gold standard coalition in Parliament. He soon learned, however, that this possibility was about to be obviated by Norman's return to the Bank.

Most previous accounts assume that Norman's absence from the Bank (from late July to mid-September) had little effect on the Bank's approach to the crisis.[173] Norman was indeed virtually incapacitated by his nervous breakdown. Harvey's vigorous opposition further

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[166]Williamson 1992, 402–3.

[167]Abdelal 2001.

[168]Kunz 1987, 185.

[169]Eichengreen 1992, 284. See also Clarke 1967, 204, 218.

[170]Cabinet Minutes and Papers, NA, CAB 23/68/12, 211.

[171]Cabinet Minutes and Papers, NA, CAB 23/68/6, 102.

[172]Harrison Papers, 16 September 1931, file 3117.1.

[173]See Clay 1957, 385; Boyle 1967, 269; Sayers 1976, 394; Eichengreen 1992, 281; and Ahamed 2009, 425–31. Kunz (1987, 132–35) and Boyce (2009, 321) are exceptions. But Kunz hypothesizes that Norman supported the suspension from afar; and Boyce ignores Norman's desire to use defensive Bank rate hikes. Chernow (1990, 329–30) suggests that critics within the Bank pushed Norman to accept "temporary exile."

undermined Norman's confidence in his own judgment. But Norman never surrendered the fight. His dramatic return in September proved crucial to the outcome.

Just before his first collapse at the end of July, Norman sought succor from New York Fed Governor George Harrison. While Norman hinted at the growing division within the Bank, he "was obviously very cautious over the telephone in his use of words and names," which "made it difficult for [Harrison] to understand . . . what [Norman] specifically had in mind." Norman "wanted very much to see [Harrison]," and he had already dispatched an emissary "who understands the whole situation." Norman "hoped [Harrison] would do absolutely nothing before talking with" this delegate.[174]

By mid-August, Norman had mustered the energy to travel abroad. Hoping to avoid the press speculation that would attend a visit to the United States, Norman traveled to Quebec City instead. When Harrison described Harvey's budget over the telephone, Norman had to resist discussing interest rate hikes on the open line. But he could not mask his perturbation. He "felt the proposed program was not sufficiently severe to avoid trouble later on." Instead, Britain must embrace massive deflation. "If the Government . . . did enough by way of drastic readjustment," he intimated, "then . . . they would not need a credit at all."[175]

Still hoping to see Harrison, Norman travelled to Nova Scotia slowly. In mid-September, Harrison finally agreed to meet, and Norman doubled back to Montreal.[176] The private meeting evidently steeled Norman's resolve. As Harrison informed Harvey, Norman "was much disturbed about the way the exchange situation was [being] handled . . . [I]t was most important not to peg [the exchange rate]"—meaning support it with credits rather than using Bank rate.[177] Harrison warned, "the chief reason [Norman] was hurrying home before he was quite ready to do so was to . . . handl[e] the exchange situation more satisfactorily."[178]

Harvey feared the effect of Norman's return on the ensuing election. He knew that Norman would insist on raising Bank rate ruthlessly. Harvey assumed this would provoke a backlash against the gold standard. Suspending convertibility in that circumstance would irreparably damage the credibility of Britain's commitment to the gold standard.[179]

Harvey thus implored the government "to announce . . . that in view of the National Emergency a General Election is not contemplated at the present time." Although the credits might last a fortnight, "It would be impossible with existing resources to maintain the Gold Standard during the period necessary to conduct a General Election." On 18 September, however, MacDonald resolved to hold an election in October.[180]

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[174]Harrison Papers, [28 or 29] July 1931, file 3115.2.

[175]Ibid., 23 August 1931.

[176]Ibid., 23 August–17 September.

[177]One week earlier, JP Morgan and Co. had explicitly queried "why the Bank of England does not use the classic remedy of the Bank Rate instead of apparently pegging exchange?" Lucius Thompson-McCausland, "Crisis of July-Sept 1931," BE, G14/316, 44.

[178]Harrison Papers, 16 September 1931, file 3117.1.

[179]See Prime Minister's Office: Correspondence and Papers, 18 September 1931, NA, PREM 1/97; and Cabinet Minutes and Papers, NA, CAB 23/68/13, 219–20.

Harvey concluded (incorrectly) that this decision made the suspension of the gold standard inevitable. It was only a question of whether the suspension occurred before or after the election—and who was in power at the time. Assuming (incorrectly) that an October election would deliver Parliament to the radicals, Harvey decided to orchestrate a "temporary" suspension while the gold standard coalition still controlled the government. Such a sudden suspension, Harvey calculated, would force the politicians to postpone the election. This would buy time, "giv[ing] the British government opportunity to turn around . . . its internal affairs."[181] After resolving the fiscal crisis, the (Conservative-controlled) coalition government could then restore the gold standard and hold the election when Britain had returned to a more conservative mood.

That afternoon, 18 September, the Bank elected to initiate the suspension of the gold standard. It shockingly resolved to allow gold to fall below the export point.[182] This decision not only violated the understanding established with the Bank of France.[183] It also gave the illusion that the credits had been exhausted, which accelerated sterling sales.

Meanwhile, Norman's travel itinerary leaked to the press.[184] But rather than mollifying the markets, the news fanned rumors that the governor was returning to step down.[185] Harvey could have quashed this speculation by announcing Norman's intention to resume control of the Bank. Instead, he merely expressed a hope that Norman "might be well enough to join the Court [of Directors] again before very long."[186] The statement deliberately exaggerated the uncertainty about Norman's future at the Bank: the governor chaired the Court; but, according to Bank custom, retiring governors remained on the Court to advise their successors.[187]

For these reasons, the Bank's daily loss rate nearly doubled (to £18 million) on Friday. That evening, the Bank presented MacDonald with a fait accompli: "however things were on Saturday morning it would be inevitable to suspend gold payments on Monday."[188]

The situation on Saturday was better than Harvey predicted. The sale of sterling continued, and the Bank lost £10 million. This, however, did not nearly exhaust its range of reserves. Just as important, the loss rate stopped accelerating.[189] As Harrison noted, the crisis had peaked.[190]

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[180]Minutes of the Committee of Treasury, 17–18 September 1931, BE, G14/316.

[181]Harrison Papers, 19 September 1931, file 3117.1.

[182]Minutes of the Committee of Treasury, 18 September 1931, BE, G14/316.

[183]Ibid., 6 August 1931.

[184]*Daily Express*, 18 September 1931, 3.

[185]See *Daily Mail*, 16 September 1931, 2; and Governor's Files, 18 September 1931, BE, G1/515.

[186]*Financial Times*, 18 September 1931, 5.

[187]Sayers 1976, 627–31.

[188]Prime Minister's Office: Correspondence and Papers, 18 September 1931, NA, PREM 1/97.

[189]See ibid.; and Lucius Thompson-McCausland, "Crisis of July–Sept 1931," BE, G14/316, 49.

[190]Harrison Papers, 19 September 1931, file 3117.1.

However, Harvey refused to change course. Finding this "a great shock," Harrison implored him to "fight to the last minute."[191] The French offered another credit of £50 million, but the Bank demurred. The American bankers clamored for interest rate hikes and emergency capital controls.[192] The Bank, however, categorically ruled out capital controls; and it chose not to mobilize its overseas assets.[193] It voted to raise Bank rate to 6 percent—but not until after the suspension.[194]

Thus, it was misleading to suggest that Britain's 1925 return to gold "put on the Bank rate policy a task . . . which it proved to be incapable of performing."[195] In the 1931 crisis, Bank rate did not fail the Bank. The Bank failed to utilize Bank rate.[196] Instead, Harvey requested formal authorization to temporarily suspend convertibility. Trusting Harvey that there was no other option, MacDonald acquiesced.[197] The Bank then informed the London clearing banks, and the suspension was announced the following evening.[198] So far from "consulting" the Governor, Harvey notified Norman no earlier than he informed the public: "Sorry we have to go off tomorrow and cannot wait to see you before doing so."[199] To buy extra time, Harvey even encouraged Norman to prolong his absence.[200]

Norman did just the opposite.[201] He wired instructions en route to expedite his return to the Bank. "Customs and Aliens officials" intercepted his ocean liner "midstream" on 23 September and took him past "the crowd waiting at the quayside." He then rushed "to the railway station at Liverpool just before the train was due to leave, locked himself into a first-class compartment, and at once began dictating letters to his secretary."[202] At Euston station,

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[191]Ibid., 19 September 1931.

[192]Kunz 1991, 137.

[193]Otto Niemeyer's memorandum (Minutes of the Committee of Treasury, 21 September 1931, BE, G14/316) reveals dissent within the Bank over these decisions.

[194]Ibid., 17–19 September 1931.

[195]Keynes, Vol. 20, 68. Boyce (2009, 315) similarly assumes that Bank rate would have been ineffectual.

[196]The Bank's decision to raise interest rates 1.5 percent reveals that Harvey recognized that Bank rate increases would bolster sterling's value. It also demonstrates that Bank policy was not driven primarily by a concern for the tottering merchant banks. See Accominotti 2012, 30–31, 35.

[197]Lucius Thompson-McCausland, "Crisis of July-Sept 1931," BE, G14/316, 49–50.

[198]See Minutes of the Committee of Treasury, 19 September 1931, BE, G14/316; and Sayers 1976, 412.

[199]See Kunz 1987, 134; and Governor's Files, 20 September 1931, BE, G1/515.

[200]See Governor's Files, 7 September 1931, BE, G1/515; and Boyle 1967, 268.

[201]Much confusion has attended Norman's return. Clay (1957, 399) and Boyle (1967, 268) both misquote Harvey's incredible cable to Norman announcing the suspension. Clay (1957, 399) and Sayers (1976, 415) assume that Norman did not return to the Bank until 28 September. Contemporary p2ress accounts show otherwise.

[202]See *Daily Express*, 24 September 1931, 3; and *Scotsman*, 24 September 1931, 10.

"greater precautions were taken to prote[c]t him than are usually taken to protect the king."[203] "A police inspector, two sergeants and ten constables" kept the press at bay while Norman was received by a Bank director.[204] Norman became "engaged . . . in serious conversation as soon as he stepped on to the platform." The police escorted the pair into a "waiting motor-car" "and the two drove away at once to the Bank of England."[205]

When Norman stormed into the Bank, tempers flared as he demanded explanations.[206] But recriminations were counterproductive. Too late to prevent the suspension, Norman could only hope to drive sterling back onto gold. To do so, he would have to court the market, which meant embracing the official story that Britain had been "forced" off gold. Within the Bank, he could hardly hold Harvey accountable. It was not in the Governor's province to choose his deputy.[207] Indeed, there was open discussion whether Norman's own governorship would be renewed.[208] If he wished to remain at the helm during the next crucial phase, Norman needed to regain the trust of those whom he had "left to face the music in London" while he was "on vacation in Canada."[209]

The next day, Norman met with political leaders. He also returned to the Bank, where he issued an official denial of the rumors concerning his resignation.[210] At 3:00 p.m., he departed, retreating to the country to reconcile himself to Britain's new realities.[211]

The Ascent of Cheap Money

Suspension did not ensure the gold standard's demise. After all, convertibility had been restored after the wartime suspension. The *London Times* even reported, "the suspension provided for in the Bill . . . is limited to a period of six months."[212] What made things different this time?

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[203]*Chicago Daily Tribune*, 24 September 1931, 2.

[204]*New York Times*, 24 September, 1931, 13.

[205]*Daily Express*, 24 September 1931, 3.

[206]Boyle 1967, 268–69. Although he mistakes the date of Norman's return, Clay (1957, 399) recounts that Norman "was profoundly depressed and . . . his temper showed it."

[207]Sayers 1976, 600, 650–51.

[208]By the time the rumors reached the foreign press, they were assumed to be true. See *New York Times*, 24 September, 1931, 13; *Time*, 5 October 1931; and *Wall Street Journal*, 24 September 1931, 1. Einzig (1932a, 144) suggests that Harvey was a favored candidate to replace Norman.

[209]*Chicago Daily Tribune*, 1 September 1931, 5.

[210]*Los Angeles Times*, 25 September 1931, 1; and "International: Pound, Dollar and Franc," *Time* (Internet ed.), 5 October 1931.gu Norman, 24–27 September 1931, BE, ADM34/20.
.), 5 October 1931.gu Norman, 24–27 September 1931, BE, ADM34/20.

[212]*London Times*, 21 September 1931, 12.

"There are few Englishmen who do not rejoice at the breaking of our gold fetters," Keynes wrote one week after the suspension.[213] Following Keynes, Eichengreen and Temin argue that democracy triumphed over the gold standard: "The world economy did not . . . recover when [political and economic leaders] changed their minds; rather, recovery began when mass politics . . . removed them from office."[214]

The opposite was true in Britain. The general election came one month after the suspension. It was "clear during the campaign," the *Times* reported, that the currency question was "the only issue." Leading Conservative Stanley Baldwin framed it as the "acid test of democracy."[215] Defying Harvey's cynical expectations, Britons rose to the challenge, granting the National Government the largest electoral mandate in modern British history.[216] Pledging currency stability, the Conservatives won 470 seats.[217] Labour, which forswore a commitment "to force sterling back to the old gold parity," lost 215 of its 267 seats. Here, "mass politics" overwhelmingly endorsed "gold-standard ideology."[218] The "cultural hegemony of economic orthodoxy" was displaced only after an unexpected experiment introduced new ideas.[219]

Financial markets had reacted to Harvey's surprising announcement "with comparative calm."[220] Hesitant to resume convertibility prematurely, the Treasury recommended "a waiting policy" to "allow sterling to settle at whatever level circumstances suggest is most appropriate." In the first week, sterling slid from the fixed rate of $4.86 to $3.40. The government then proposed a managed float: "the Bank of England should as a provisional policy endeavour to keep sterling within certain limits, by buying sterling at the lower limit and selling foreign currencies at the higher."[221] This worked better than expected, and the Treasury were pleasantly surprised at their ability to "save the pound from the danger to which . . . other currencies, similarly situated, have succumbed."[222] After falling to a nadir of $3.23 the pound stabilized

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[213]Keynes, Vol. 9, 245.

[214]Eichengreen and Temin 2000, 185, 201, 207.

[215]*London Times*, 27 October 1931, 11.

[216]Scheve and Stasavage (2010, 558) find that "mobilization for mass warfare produces demands for progressive taxation as a means of ensuring greater equality of sacrifice in the war effort." In the 1931 general election, however, the National Government was able to persuade Britons to dismantle their nascent welfare state by analogizing these "patriotic sacrifices" to those made during the World War I. Explicitly invoking the same principle of "equal sacrifice," they defended the bankers' demand for "equal" (and thus regressive) taxation rather than taxation based on "the ability to pay." See Williamson 1992, chap. 10.

[217]Indeed, the National Government used notes from the German hyperinflation as campaign props, warning the electorate that Labour would send Britain down the same path. Boyce 2009, 326.

[218]See Keynes, Vol. 21, 9; Craig 1970, 68–72; and Williamson 1992, 455–56.

[219]Gourevitch 1986, 140.

[220]"Great Britain: Run," *Time* (Internet ed.), 28 September 1931. This is likely because the Bank finally raised interest rates.

[221]Howson 1975, 81.

[222]Papers of Sir Richard Hopkins, 12 November 1931, NA, T175/56.

within a band between $3.40 and $3.80.[223] The suspension was nothing like the "very great disaster" predicted by these same officials.[224] They had no choice but to update their beliefs. As a chagrined Norman subsequently put it, "We have fallen over the precipice . . . but we are alive at the bottom."[225]

The decision to forestall a return to gold created space for the Treasury to experiment with new ideas about "the role of the exchange rate in the regulation of the economy."[226] As the Treasury investigated the possibilities, it became clear that no one had done more to develop the alternatives than Keynes.[227] In October, his staunch critic in the Treasury—Frederick Leith-Ross—reached out to him. When Keynes's push to remake the international monetary system met with intransigence abroad, he proposed that Britain form an imperial currency bloc with a fixed-but-adjustable parity vis-à-vis gold. This would allow Britain to achieve the true purpose of monetary policy: domestic price stability.[228]

Keynes did not prevail on all of the specifics of implementation, but he converted much of the orthodoxy to his broad vision.[229] While Norman questioned the Bank's capacity to manipulate the floating exchange rate, he nonetheless embraced Keynes's metrics. "We should eventually return to gold," Norman told the government in December—but only after Britain had achieved, among other things, "an active trade balance" and a "competitive price level." Prior to the suspension, Norman had religiously sacrificed Britain's current account and internal stability to maintain the gold standard. But now that Harvey had tarnished the Bank's sterling record, there was no point in returning before the depreciation had put Britain on a level footing.[230]

Frederick Phillips became Keynes's first apostle in the Treasury. "First and foremost," he proclaimed in March, "the Bank rate should be reduced as rapidly as may be to say 3 per cent . . . we want cheap money and plenty of it to stimulate industry." He insisted, "[A] (relatively) low value of the pound is desirable—not because that is a good thing in itself but because it seems the only way to prevent sterling prices following gold prices down." In April, Phillips persuaded Chamberlain (now Chancellor) to create the Exchange Equalisation Account (EAA), a £150m fund for the Bank to manage sterling's exchange rate.[231] As one contemporary journal put it, the EEA "is designed to obviate sterling fluctuations; the way is thus open for a lower Bank Rate and cheap money."[232]

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[223]Howson 1975, 87.

[224]Niemeyer Memorandum, 26 September 1931, NA, T175/56.

[225]Jones 1954, 31.

[226]Cairncross and Eichengreen 1983, 27.

[227]Howson 1975, 84.

[228]Keynes, Vol. 21, 1–4, 16–28.

[229]In this manner, Keynes came to exert considerable influence over the trajectory of British monetary policy. Cf. Williamson 1992, 13.

[230]See Papers of Sir Richard Hopkins, "The Exchange Position," 8 December 1931, NA, T175/56.

[231]Howson 1975, 86–90.

By the end of January, the Bank had acquired sufficient reserves to repay the credits from the previous year. This boosted confidence—and the pound. No longer fearing hyperinflation, Chamberlain repeatedly delayed the return to gold in favor of further rate cuts. With gold flowing into its reserves, the Bank could offer few objections. It cut interest rates to 5 percent in February and to 3.5 percent in March. By July, Bank rate was at 2 percent. The policies had their intended effect. One year later, the Treasury proclaimed, "Practically every economic signpost in this country now points to a slow but steady . . . recovery." The Conservative Government explicitly connected the recovery to the policy of cheap money, and it continued to embrace that policy until the outbreak of World War II. London's monetary elites did not look back as Britain led the world off gold and out of the Great Depression.[233]

Was the Gold Standard Salvageable?

The 1931 sterling crisis, like so many financial crises, "shows how much depends on the presence of one or more outstanding individuals willing to assume responsibility and leadership."[234] In this case, the individual who ultimately directed the defense of sterling—Harvey—relied on a proto-Polanyian perspective. However, Harvey was out of touch with reality. He misdiagnosed the causes of the flight from sterling and consequently confounded market expectations. Politically, he exaggerated Labour's willingness to abandon gold just as he exaggerated their political prospects in the 1931 general election. What if the defense had depended on an actor with different ideas about how to approach the crisis?

It is easy to imagine that counterfactual.[235] Had Norman remained healthy—or had he returned sooner—he would have ruthlessly raised interest rates. Such increases probably would have bolstered confidence.[236] They almost certainly would have alleviated Britain's imbalance of payments.[237] Thus, "if ever the action of a single individual matters, the collapse of The [Governor] has been one of the decisive . . . events of history."[238]

But even if Britain had weathered the 1931 crisis, could the Bank have preserved the gold standard in the years that followed? The Polanyian narratives maintain that the deterioration of international economic conditions and the rise of the working class combined to make the demise of the gold standard unavoidable. The economic and political challenges to maintaining the regime in Britain, however, were not as formidable as has been imagined.

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[232]Nevin 1955, 104.

[233]See Clay 1957, 421, 436; and Howson 1975, 87–88, 118.

[234]Friedman and Schwarz 1963, 411, 418. See Kindleberger 1986, 289.

[235]Such a counterfactual satisfies the "minimal-rewrite-of-history," "cotenability," and "Cleopatra's nose" standards of counterfactual analysis specified by Fearon (1991, 190–93) and Tetlock and Belkin (1996, 20–25).

[236]Fraser 1933, 113.

[237]See Cairncross and Eichengreen 1983, 79–82; and Eichengreen 1992, 282.

[238]See Keynes, Vol. 2, 23. This conclusion challenges Boyle 1967, 269–72; Sayers 1976, 401; and Ahamed 2009, 431.

Just as Keynes had predicted, the decision in 1925 to restore the prewar parity imposed years of painful deflation. Britain suffered repeated financial crises. Hallwood, MacDonald, and Marsh, however, find that these crises did not significantly increase in severity.[239] And although the successive crises tested Britons' resolve, overcoming those crises strengthened the credibility of their commitment to defend sterling. At the same time, "for the 6 years until mid-1931 macroeconomic variables behaved well enough for financial markets to believe that the United Kingdom would remain on the gold standard." Throughout, the Bank's orthodox responses aligned with market expectations, and panic was averted. In 1931, however, Harvey embraced "perverse monetary policies" that drove markets away from sterling.[240] Thus, there is reason to believe that conventional monetary policy could have taken the gold standard through the 1931 crisis and beyond.

Beyond the "macroeconomic fundamentals," Britain also suffered a sharp decline in its capital account in 1931.[241] To maintain the exchange rate in the face of this balance-of-payments pressure, Britain would either need to reduce its trade deficit or generate a new way to pay for its imports. The latter appeared unlikely short of a global economic recovery. Deflation could accomplish the former, but how much further could Britons tighten their belts? Believing that Britain had drifted between Scylla and Charybdis, many scholars conclude that these pressures made departure "inevitable."[242]

As Keynes recognized at the time, commercial policy offers a way to outflank the trilemma.[243] Tariffs could have alleviated both the budget and the trade deficits. Redressing the former would stem capital flight. Alleviating the latter would allow Britain to maintain its gold standard commitments—of a fixed exchange rate and open capital markets—without having to resort to deflation.[244] On these grounds, tariffs became politically salient even before the Conservatives dominated the 1931 general election.[245] Upon being granted a mandate, they coopted Keynes's rationale to justify the protectionism they had long sought for altogether less enlightened reasons. The Conservatives needed only associate the tariff with the defense of sterling to ensure that many of Keynes's "free trade friends . . . were found voting for" the General Tariff (1932) even after the suspension had ensured that it "was no longer necessary."[246] Clearly, Britons would have been willing to sacrifice free trade on a cross of gold.

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[239]Hallwood, MacDonald, and Marsh 1997, 181.

[240]Ibid.

[241]Following Cairncross and Eichengreen (1983), Hallwood, MacDonald, and Marsh (1997, 183) examine "relative money supplies, inflation, output, the current account and the real exchange rate."

[242]See Moggridge 1970; Howson 1975, 77; Simmons 1994, 236; Williamson 1992, 413–14; and Wolf 2008. I am grateful to Donald Moggridge for helping me to understand the nature of this challenge.

[243]Keynes, Vol. 20, chap. 5.

[244]Throughout the 1930s, countries on the gold standard frequently raised tariffs toward this end. See Eichengreen and Irwin 2009; and Irwin 2012. The British case is more complicated, as Broz (2013) emphasizes.

[245]Traditionally, Labour and the Liberals had supported free trade. The 1931 crisis, however, prompted an increasing number of defections. Throughout late August, MacDonald presented tariffs as a silver bullet. But he was unable to persuade the stalwarts in his cabinet (including Snowden) to acquiesce. Marquand 1977, 616–19.

Although deteriorating economic conditions would have increased the challenges of staying on gold, the disintegrating international political environment might well have redoubled Britons' resolve. If Britain had not left gold, then most of the Empire and many of its major trading partners likely would have remained on gold as well. This would have rendered the central Europeans' suspensions all the more exceptional—and conspicuous. The Conservatives probably would not have resisted the temptation to link the European departures to the rise of fascism: fearing a repeat of 1923, the story might run, the Germans donned Nazi jackboots to stamp out inflation along their road to serfdom. Given the Conservatives' success in rallying anti-German sentiment in the 1931 election, it is easy to imagine both that the Conservatives would have drawn this contrast and that it would have been politically potent.[247]

To say that Britain could have remained on gold is not to suggest that gold might not have been abandoned elsewhere. The British case, however, remains the touchstone of the Polanyi thesis precisely because the gold standard was rooted more deeply there than anywhere else. If the gold standard were vulnerable even in Britain, it would be hard not to conclude that "international automaticity stands in fundamental and potentially explosive contradiction to an active state domestically."[248] It was only a question of time before democratic demands for state intervention swept the ancient superstition into the dustbin of history.[249]

Reimagining Britain's departure prompts us to reconsider whether social democracy invariably trumps economic orthodoxy. Subsequent cases suggest that it may not be so. In the 1970s and 1980s, a broad range of developed democracies—including Britain—proactively "disembedded liberalism."[250] In the subsequent decade, a dozen European social democracies—excluding Britain—eagerly embraced the fetters of fixed exchange rates.[251] Since then, however, liberal dreams have given way to austere reality. How much more can Europe's core wring from its frayed edges before it tears the threadbare fabric of the patchwork union?

Conclusion

Britain's abandonment of the gold standard shocked the world. Harvey's suspension was almost entirely unexpected.[252] Although it scandalized the sensibilities of the sanctimonious "lords of finance,"[253] the suspension did not bring the hyperinflation that most expected. It did, however, radically reorient the global financial system. Previously, the Bank of England had

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[246]Keynes, Vol. 9, 243.

[247]See above.

[248]Ruggie 1982, 387.

[249]See Eichengreen 1996, 43; and Kunz 1987, 184–85.

[250]Blyth 2002.

[251]McNamara 1998.

[252]Einzig 1932b, 114.

[253]Ahamed 2009, 431. Baldwin remarked that "Going off the gold standard was for [Norman] as though a daughter should lose her virginity." Jones 1954, 32–33.

been, as Keynes put it, “the conductor of the international orchestra.”[254] When that maestro abruptly exited, the symphony fell into disharmony.[255]

Beyond the economic effects, the sterling crisis had considerable intellectual and political implications. It reconstructed perspectives on the gold standard, disconfirmed central tenets of the gold standard orthodoxy, and furnished the template for modern, flexible regimes.[256] Subsequently, these insights became so deeply internalized that the canonical analyses of Britain’s departure took them for granted. Learning this lesson, however, came at the cost of tremendous political upheaval. The battle to save Britain’s gold standard initiated Labour’s interwar decline, finalized the fall of the Liberals, and inaugurated the Conservatives’ decade of “Parliamentary Dictatorship.”[257] Appeasing their imperial ambitions, the Conservatives accelerated the collapse of international cooperation. As Europe once again let slip the dogs of war, Labour was left to wonder whether this havoc could have been averted had their government not been interred along with the gold standard.[258]

For all these reasons, Britain’s abandonment of the gold standard has become the iconic case in some of the most important works in the field of international relations. By challenging these seminal interpretations, this article bolsters the call to enlarge the focus of our scholarship to include other levels and dimensions of international politics.

Over the past several decades, the “third image” of international politics has been “reversed,” displaced, and replaced. Modern scholarship begins with the “interpenetrated quality of international relations and domestic politics.”[259] Taken together, however, domestic and international politics define the context in which policy is formulated. As a burgeoning literature recognizes, the structure itself says nothing about how specific individuals perceive and react to their circumstances.[260] From military to monetary intervention, men and women still make their own history.[261]

Although the “ideas and foreign policy” genre is more vibrant than ever, mainstream “American” IR still eschews ideational variables from its analyses.[262] “Interests,” one prominent textbook explains, “are the fundamental building blocks of politics. Explanations of international

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[254]Keynes, Vol. 6, 274.

[255]Eichengreen 1992, 65–66, 287–302. Perhaps it is more accurate to suggest that the gold standard system depended on “cooperation” rather than “harmony.” Keohane 1984, 51–55.

[256]Even the Bretton Woods System was predicated upon capital controls and periodic exchange rate adjustment.

[257]Jones 1954, 20.

[258]See Norman’s reply to Wilson in Lucius Thompson-McCausland, “Crisis of July–Sept 1931,” 10 August 1943, BE, G14/316.

[259]Gourevitch 1978, 911.

[260]See Blyth 2003; Saunders 2011, 3; and Morrison 2012.

[261]Marx 2000, 329.

[262]Cohen 2007. Cohen, however, does not include the limited weight of ideational variables among the hallmarks of the “American school.”

political events begin by specifying the relevant actors and their interests."[263] Britain's departure has been the archetype of this species of explanation: knowing now that Britain's suspension served the working class, scholars have not been disappointed in their search for signs that workers ascended as the gold standard sank. The analysis presented in this article, however, demonstrates that it is not enough merely to specify actors and their interests. Explanations of political events must also explicitly reconstruct the theories, perceptions, and strategies upon which those actors relied in pursuing their interests. Otherwise analyses that begin with *cui bono* might come to end with *post hoc ergo propter hoc*.

Britain's abandonment of the gold standard was one of the greatest policy innovations in the history of the global economy. But the actors responsible for this shift did not undertake it in a moment of foresight. Nor were they perpetual "slaves of some defunct economist."[264] Britons broke their golden fetters only after they learned from the Bank's mistakes. We too ought to learn from this history, lest we continue to repeat it.

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[263]Frieden, Lake, and Schultz 2009, 42.

[264]Keynes, Vol. 7, 383.

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