THE RETURN TO GOLD

THE new Bill, restoring the Gold Standard, which Mr. Churchill has introduced, marks an important milestone in the post-war history of British capitalism, and, indeed, also of Europe. For some time there has been much controversy as to whether it were best to continue to have a "managed" paper currency, bearing no fixed value-relation to gold and controlled merely by the credit policy of the Bank of England, or for the £ to be tied down to a gold basis by a restoration of the free export of gold? Amid this wordy controversy, now shifted to slightly different ground, the main features of the position, in themselves fairly simple, tend to be obscured; and before one proceeds to the wider political aspects of the question, it is wise first to clarify the essential points.

A country is on a gold standard when its central bank guarantees to buy and sell gold at a certain fixed price in terms of its own money (in England before the war £3 17s. 9d. per ounce troy).* This the new Bill establishes by compelling the Bank of England to give gold bars or ingots for notes—a provision which carries into practice Ricardo's century-old gold ingot plan—and also to give notes in exchange for gold at fixed pre-war rate. This provision effectively ties the value of money to the value of gold. For, if the purchasing-power of money falls (e.g. because of excessive credit issues by the banks raising prices), it will be profitable to change money into gold and send it abroad, since in that way more goods can be purchased. Since the war the paper pound has been *nominally* convertible into gold—you could get gold for it if you demanded it; but the prohibition of export of gold meant that there was no advantage in doing so. On the other hand, if the prohibition of export had been removed before the £ was restored to its pre-war value relatively to gold, gold would have flowed abroad and the Bank of England would have lost its gold reserves. For instance, at the end of March a £ would buy 4.77 dollars. If, however, one had changed a £ into gold and could have exported it to U.S.A., one could have got with the gold $4.86; and if export had been free, it would have paid merchants and financiers to do

* There is no need for gold to be in actual circulation. In fact, this is impossible at present, since the Bank of England and the Currency Note Department hold only £155,000,000 of gold, while there are £302,000,000 currency notes in circulation, and is prevented by the clause in the new Bill making it obligatory on the Bank to give gold bars for notes, but not necessarily gold coin.

this. Although the Gold Embargo Act does not expire till December, free export is at once restored by the grant of a licence to the Bank to issue gold for export.

To restore the Gold Standard, therefore, either the £ had to be raised in value to reach its pre-war parity with gold, or else there had to be a lowering of the value of gold to meet the depreciated £. Since the war the value of gold has depended on the value of the dollar, since the only important market for gold is the fixed dollar-price at which the American banks buy gold ; and hence, if through a freer issue of credit by the banks prices rose in U.S.A., the buying-power of the dollar fell and with it the value of gold relatively to other things, including the £. Up till March of this year the price-level in U.S.A. was rising, and the value of the dollar and of gold was falling* ; thereby causing the London—New York exchange to go in favour of the pound sterling. In addition, there have been increased investments of American capital in London, and this has had the effect of raising the foreign exchange value of the £ through the increased demand to buy £'s which the American transfer of funds to London has involved. It was on the hope of the continuance of these two movements that English financiers relied for an early restoration of the Gold Standard. And it was to continue the favourable movement of the foreign exchange that the Bank of England on March 5th raised its Rate from 4 to 5 per cent. in answer to the action of the Federal Reserve Bank of New York in raising its Rate from 3 per cent. to 3½.†

Now, this problem of monetary policy is only part of the much wider problem of the struggle of British capitalism for a return to stability and pre-war "progress." Depreciation of money-values, which is shown internally in the price-level and externally in the rates of foreign exchange, is the outward and visible sign of an undue strain placed on the credit system by certain abnormal circumstances—a war or a revolutionary situation or the payment of reparations or foreign debts—which capitalism cannot provide for in any of the ordinary ways. A re-establishment of money-values is only possible after an ending of these abnormal conditions : and if the re-establishment is to take the form of *Deflation*—laboriously reducing the price-level and raising the foreign exchange rate until the old

* Professor Irving Fisher's Index Number shows the following :—

	Prices as per cent. of pre-war.	Purchasing-power of dollar in pre-war cents.
1913	100	100
Average, 1924 ..	149.3	67.0
January, 1925 ..	161.9	61.8
March, 1925 (1st week)	164.1	60.9

† Cf. *Notes by the Way* in April PLEBS.

parity is reached—this can only be achieved by an opposite process of a rigorous parsimony in the use of the credit system. Whereas Inflation and monetary depreciation come through a choking of the economic system by over-issue of credit, Deflation can only occur by a *starvation* of the economic system of credit. It is this latter process which the interests of the financial community have dictated for us in the last five years, and which will need to be continued if the sterling exchange is to be kept at parity. But this starvation of credit naturally arouses opposition from the industrialists, who suffer additional losses in face of the falling prices. Accordingly, there is a keen conflict inside British capitalism between the industrialists, on the one hand, as represented by the F.B.I., who desire "easier credit" and a revival of prices, and, on the other hand, the financial interests, as voiced by City Editors and the speeches of bank chairmen, who want to restore the "prestige" of the £ by a return to gold, and so enable London as a financial centre to hold its own against the encroaching influence of Wall Street. Moreover, this conflict is likely to continue after the return to gold, since gold itself may change in value, getting either cheaper or dearer, in part influenced by the credit policy of the U.S.A. banks and hence by the value of the dollar. Whichever alternative occurs will cause fresh controversy to burst forth as to the right credit policy. If gold cheapens and flows into the Bank of England, what is to be done? Is an increased issue of money to be permitted as a result, leading to freer credit conditions and a rise of prices—in a word, Inflation? Or are the bankers to buy up gold at the mint price and merely bury it in their vaults, keeping a tight hold on credit so as to keep down the price-level and buttress up the value of gold, as U.S.A. is doing now? On the other hand, if gold were to become dearer, the English banks would either have to starve industry or credit, and thereby force down the price-level and raise the value of the £, or else see their gold reserves flow abroad where it was worth more.

The other important aspect of the matter is the relation of U.S.A. to Europe. As a condition of remaining on the gold standard the American banks have continued to purchase all gold brought to them at a fixed price in dollars. In the ordinary way an inflow of gold puts more money into circulation (either actual gold or its paper equivalent), and so tends to raise prices. Up to 1920 this actually occurred, prices rising to 247 per cent. above 1913, and the purchasing power of the dollar falling to 40 per cent. of its pre-war value. This was the so-called *gold inflation*. Since then, in New York as in London, the financiers have asserted their power as creditors of the community and have restricted credit, while continuing to buy imported gold freely; and thus by 1922 they had restored the value of the dollar to 72 per cent. of pre-war. Since then it has again fallen to 60 per cent. The American bankers are, therefore, in a strangely anomalous position. Having invested in huge stocks of gold to the amount of half the world's gold supplies and 80 per cent. of their own deposit liabilities, the banks naturally wish to keep up the value of that investment. At the same time it is a barren investment, yielding no interest, and they can only preserve its value by reducing their income-bearing loans to American industry. What they gain in the stability of their investment they lose in sacrifice of sources of income. This, however, is merely an expression of the fact that American finance-capital, which came out richer from the war while Europe came out poorer, has a large investible surplus of capital, which it is eager to employ in more profitable ways than the absorption of gold. Since her rebuff in 1919 at Versailles America has ignored Europe as too poor, too unstable and too wilful. Now at last, when bankruptcy has put Europe in better mood to accept America's terms, U.S.A. finance has "come back to Europe," as all the Press so jubilantly acclaim. On the monetary side her return has meant the use of her influence, as in the case of Germany and Britain, to induce Europe to restore the Gold Standard and so to open a market for some of America's gold. To provide impoverished Europe with the power to do this, America has had to make extensive investments in Europe. America's condescension once again to aid Europe in her distress, therefore, means that the Federal Reserve Banks can sell some of their superfluous gold again abroad and can turn it into profitable foreign investments. From Europe's point of view it means that stability by a return to gold is being purchased at the expense of an increasing indebtedness to American finance-capital, of which the Dawes Scheme for Germany is merely a first step. The City Editor of *The Manchester Guardian* has, indeed, explained very clearly the essential condition of this new step. In accounting for the recent rise of the £ towards pre-war parity he said :—

> Liquid balances normally held in New York were transferred to London, where they derived the benefit of more remunerative employment (because of higher rates on money-loans) . . ; and there were considerable investments in British stock exchange securities, particularly of the short-term Government bond description. Side by side with this flow of American money for temporary investment in London there began that much larger flow of money destined for more permanent investment in Europe. *The American credits to European states and industries granted mostly after the signing of the London agreement reached enormous figures.* They included the $100,000,000 reconstruction loan to Germany, the exchange stabilisation loan of similar amount to France, a $30,000,000 loan to Belgium, loans to Greece and Hungary, to French railway companies, to the German potash industry and to Krupps, to mention only a few. The aggregate sum represented by these various credit operations it is not easy to compute even approximately, but *it must*

run into thousands of millions of dollars. . . . A large part of the proceeds of the credits must have been remitted in the first instance to London" (*M.G.C. Comm.*, Review of 1924, Jan. 29th, 1925).

The raising of the English Bank Rate in March to 5 per cent., as a step in the policy of a return to gold, is a graphic expression of the new phase in world capitalism which Mr. Ramsay Macdonald and his London agreement has introduced. High interest rates in Europe are the only way in which the funds can be attracted from America for investment in restoring Europe to stability. By virtue of thus attracting American capital and by restricting bank-credits, England is able at present to combine a favourable movement of the exchange with a growing excess of imports of goods over exports. Sooner or later, however, funds will have to flow back to U.S.A. as interest payment on the investments ; and this will reverse the present tendency, and make imports dear and exchange rates unfavourable. It has been estimated, in fact, that the present level of the exchange, which has moved towards the parity of £1 — $4.86 since Mr. Churchill's announcement, shows an over-valuation of the £—i.e., an excess over its *internal* purchasing power—of 5 to 6 per cent. Therefore, to maintain the exchange at this level, when the temporary influences of investment-buying and speculative buying of sterling have ceased, the *internal purchasing-power* of the £ will have to be *raised* this 5 or 6 per cent. by a further process of deflation. To this end the Bank Rate will have to be raised and kept high and industry starved of credit still further, until industry has been forced to adjust itself to production at a lower price-level by a reduction of wages. "Stabilisation," therefore, is only purchased by a lowering of the European standard of life ; and the ability of the financial houses of London to compete with Wall Street is only purchased at the cost of making it harder for the industrial capitalists to compete in the world's markets, and by prolonging trade depression and unemployment.

This partial restoration of equilibrium does not, it is clear, mark a return of European capitalism to "normal" pre-war conditions of capitalist progress and expansion. What is gained by temporary stability is lost in standards of life, loss of investing power, and foreign markets. European capitalism will no longer be able to appease her wage-slaves by concessions of "reforms" or to talk with anything but shifting uneasiness of an "era of glorious progress." To stave off revolution, capitalism will have to employ naked dictatorship or else make use of the social-democrats and reformists to beguile the workers. Already we see Europe having to yield ground in order to retain the "good pleasure" of America. France for the first time had to bend her wishes before the adamant desires of J. P. Morgan's at the London Conference (hailed by

Mr. Snowden, etc., as a victory for "reason" !). Now we see Britain yielding her majority share in the oil resources of Mesopotamia in favour of Standard Oil.

But politically the new stage is by no means marked by a sinking of conflicts. There are various levels of indebtedness, involving complications pregnant with disagreements. France is creditor of Germany while being debtor to America. British capitalism regards itself as being as much a creditor of Europe as U.S.A., and would rebut the suggestion that she was a part of bankrupt and debtor Europe in bonds to America. Many, indeed, seem to claim for her partnership with America in the exploitation of the rest of the world. Whether Britain and France will severally court the alliance of U.S.A. against the other, or whether in the end both will combine to bargain collectively with the common creditor, it is hard at present to say. Britain, at any rate, restored to the safety of a Conservative cabinet, is unlikely to yield place further without a struggle to maintain its position by intensive Imperial development. Albania and the Balkans—Turkey, Syria and Iraq—Morocco and Tunis—China—even still the Ruhr and the Saar—these all summon before our mind danger spots as sensitive as any between 1900 and 1914. While, therefore, the "return to gold" is the outward symbol of the ending of the immediate chaos after the war, it does not mark a return to the upward path of capitalist development. It marks a return to 1914 only in the sense of a continuance of the "skin game" of imperialist conflicts.

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