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# The Gold Standard and the Great Depression

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BARRY EICHENGREEN AND PETER TEMIN

The Great Depression typically appears in the historical literature like an earthquake or plague. Its effects are noted, but its causes are neither explained nor located in conditions under the control of historical figures. We think this is a mistake: the Depression was the result of actions taken by historical personages for reasons that are explicable using the techniques of historical research. Even if the initial impulse behind this contraction was beyond the control of individuals, the reasons why those caught up in the catastrophe could not or did not arrest it in the years following its onset are tied up in their positions and views. We argue that the most important barrier to actions that would have arrested or reversed the decline was the mentality of the gold standard. This world view, held by those making economic policy, sharply restricted the range of actions they were willing to contemplate. The result of this cultural condition was to transform a run-of-the-mill economic contraction into a Great Depression that changed the course of history.

The gold-standard mentality and the institutions it supported limited the ability of governments and central banks to respond to adversity; they led to the adoption of policies that made economic conditions worse instead of better. In response to balance-of-payments deficits and gold losses, governments could only restrict credit with the goal of reducing domestic prices and costs until international balance was restored. Critical to this process was the effort to reduce wages, the largest element in costs. As the English economist F. C. Benham summarized the conventional understanding in 1931,

The loss of gold or the higher bank rate, then, can restore international equilibrium only by reducing internal prices. Of these, the most important is the price of labour. Wages and other incomes from labour may be reduced. This will have a double effect. On the one hand, wage-earners and others will have less to spend on everything, including imports. On the other hand costs will be reduced in all industries, including export industries. Imports will be checked and exports stimulated until the two flows once more balance.<sup>1</sup>

In the increasingly structured and politicised labour market of the 1920s and 1930s, however, wages lacked the flexibility they had once possessed. The fluidity

<sup>1</sup> F. C. Benham, 'The Balance of Trade', in William Beveridge ed., *Tariffs: The Case Examined* (London: Longman, 1932), Ch. 18, 250–1.

of labour costs was limited by the spread of unionism, the growth of internal labour markets, and a general preoccupation with the relationship of one's wage to that of others. For all these reasons, the gold-standard adjustment mechanism no longer operated as before.<sup>2</sup> Contemporaries unfortunately found it impossible to break out of the established mindset even when this radical change in circumstances rendered ineffectual and even perverse the application of conventional remedies.

The role of the gold standard in the Great Depression has been noted in the historical literature. Typically, however, the monetary regime is discussed only in passing and is portrayed as a minor element of the larger social environment.<sup>3</sup> While recent surveys of European history mention the gold standard among a list of possible causes of the Depression, they do not emphasise its role.<sup>4</sup> Accounts of the Depression in the United States, in contrast, hardly mention the gold standard at all.<sup>5</sup>

We argue that these limited treatments paint a misleading picture. Although the Depression was a complex event, reaching around the globe and lasting for the better part of a decade, there now exists agreement among most economists that the gold standard was a key element – if not the key element – in the

<sup>2</sup> To be sure, even prewar levels of flexibility might not have sufficed to resolve the turmoil of the 1930s. The deflationary shock in 1929 was superimposed on radical shifts in the pattern of international settlements, requiring extensive changes in prices and costs for external balance to be restored. But, as we describe below, these problems did not penetrate the consciousness of those beholden to the gold-standard mentality, who refused to question the advisability of their deflationary course.

<sup>3</sup> Historical monographs about the Depression tend to shy away from its causes entirely, focusing instead upon its impact on some cause or group. Patricia Clavin, *The Failure of Economic Diplomacy: Britain, France and the United States, 1931–36* (New York: St. Martin's Press, 1996); Laura Hapke, *Daughters of the Great Depression: Women, Work and Fiction in the American 1930s* (Athens, GA: University of Georgia Press, 1995); Martin Pugh, *State and Society: British Political and Social History, 1870–1992* (London: E. Arnold, 1994); John B. Goodman, *Monetary Sovereignty: The Politics of Central Banking in Western Europe* (Ithaca: Cornell University Press, 1992); Nancy E. Rose, *Put to Work: Relief Programs of the Great Depression* (New York: Monthly Review Press, 1994); Kevin Starr, *Endangered Dreams: The Great Depression in California* (New York: Oxford University Press, 1996); Stefano Luconi, 'Machine Politics and the Consolidation of the Roosevelt Majority: The Case of Italian Americans in Pittsburgh and Philadelphia', *Journal of American Ethnic History*, Vol. 15, no. 1 (1996), 32–59. This clearly does not apply to the discussion of Brüning's policies in Germany. See Knut Borchardt, *Perspectives on Modern German Economic History and Policy* (Cambridge: Cambridge University Press, 1991); Harold James, *The German Slump: Politics and Economics, 1924–1936* (Oxford: Clarendon Press, 1986).

<sup>4</sup> T. C. W. Blanning, ed., *The Oxford Illustrated History of Modern Europe* (New York: Oxford University Press, 1996); Asa Briggs and Patricia Clavin, *A History of Europe: Modern Europe, 1789–1989* (New York: Longman, 1997).

<sup>5</sup> John A. Garraty, *The Great Depression* (New York: Harcourt Brace Jovanovich, 1986); John A. Garraty and Robert A. McCaughey, *The American Nation: A History of the United States Since 1865* (New York: HarperCollins, 1991); T. H. Watkins, *The Great Depression: America in the 1930's* (Boston: Little, Brown, 1993); Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States* (Princeton: Princeton University Press, 1963); Michael A. Bernstein, *The Great Depression* (Cambridge: Cambridge University Press, 1987); Christina D. Romer, 'The Nation in Depression', *Journal of Economic Perspectives*, Vol. 7, no. 2 (1993), 19–40.

collapse of the world economy.<sup>6</sup> Similarly, recent work by economists demonstrates that abandonment of the gold standard was the critical precondition for recovery.<sup>7</sup>

But while economists have shown how the gold-standard policies of the 1930s were destructive of the world economy, they have failed to explain why policy makers adhered to these policies in the face of economic catastrophe. If policies aggravated the contraction, in other words, why were they continued? While economic models are necessary to understand the effects of the gold standard, the constructs of history – mentality, discourse and mass politics – are needed to understand adherence to this policy.

Our argument is that the mentality of the gold standard was integral to the ideology of the those segments of society that controlled economic policies, including central bankers and national politicians in Europe and the United States. This mentality was sustained through a discourse that reinforced its hold on those international classes. It shaped their interpretation of the Depression and led them to maintain the policies that intensified the economic slump. The world economy did not begin to recover when these people changed their minds; rather, recovery began when mass politics in its various guises removed them from office.

We do not assert that one idea alone was sufficient to produce the Great Depression. The Depression had a multitude of contributing factors amply enumerated in the recent literature.<sup>8</sup> But understanding this catastrophe fully requires

<sup>6</sup> Peter Temin, *Lessons from the Great Depression* (Cambridge, MA: MIT Press, 1989); Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression* (New York: Oxford University Press, 1992); Ben Bernanke, 'The Macroeconomics of the Great Depression: A Comparative Approach', *Journal of Money, Credit and Banking*, Vol. 27, no. 1 (1995), 1–28. Ehsan U. Choudhri and Levis A. Kochin, 'The Exchange Rate and the International Transmission of Business Cycle Disturbances: Some Evidence from the Great Depression', *Journal of Money, Credit, and Banking*, Vol. 12, no. 4 (1980), 565–74; Barry Eichengreen and Jeffrey Sachs, 'Exchange Rates and Economic Recovery in the 1930s', *Journal of Economic History*, Vol. 12, no. 4 (1985), 925–46; James D. Hamilton, 'The Role of the Gold Standard in Propagating the Great Depression', *Contemporary Policy Issues*, Vol. 6, no. 2 (1988), 67–89; Jose Manuel Campa, 'Exchange Rates and Economic Recovery in the 1930s: An Extension to Latin America', *Journal of Economic History*, Vol. 50, no. 3 (1990), 677–82; Ben Bernanke and Harold James, 'The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison', in R. G. Hubbard, ed., *Financial Markets and Financial Crises* (Chicago: Chicago University Press, 1991), 33–68.

<sup>7</sup> It is striking that the historical literature on recovery from the Great Depression typically makes no reference to the list of causes found at the start of the narrative. Yet, as a matter of both history and logic, the factors which eventually brought the Depression to an end could not have been unconnected to those which initially brought it on. Recovery, in other words, was due in large part to the demise of the gold-standard ideology. The world economy could only recover when the contractionary policies of the gold standard were abandoned. Our aspiration in this paper is therefore to show how economic decline and then recovery are both part of a single story.

<sup>8</sup> For present purposes, those recent contributions can be said to have begun with Friedman and Schwartz, *Monetary History*. Writing about the United States, Friedman and Schwartz concentrated on policy actions (and inaction) by the Federal Reserve System, which they characterised as mistakes. More recent work has revealed that the Fed continued to act in the early 1930s according to patterns it had established in the previous decade. David C. Wheelock, *The Strategy and Consistency of Federal Reserve Monetary Policy, 1924–33* (Cambridge: Cambridge University Press, 1991). These patterns, as we will describe later, were designed to defend and maintain the gold value of the dollar against attack, not to stabilise the economy. Kindleberger expanded the focus of the economic literature to encompass the world depression. Charles P. Kindleberger, *The World In Depression, 1929–1933* (Berkeley: University of

fathoming, not just enumerating, those factors, and understanding how they interacted with the structure of the economy and society to amplify and propagate their effects. Here the gold standard was a key factor. Our argument therefore ties together previous contributions in ways that reveal their essential unity.

### The gold standard as a defence against chaos

The First World War was a massive shock to the economy and society. Ford Maddox Ford's tetralogy, *Parade's End*, captured the mood in Britain, which felt the shock keenly, but the sense of a new and unpleasant world respected no national borders.<sup>9</sup> The bygone world had been an international one. John Maynard Keynes's famous passage in *The Economic Consequences of the Peace* is often interpreted as testifying to Britain's dominance of the late-nineteenth-century international economy, but it also provides a vivid picture of the global scope of the markets of the age.

The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch [sic] his servant to the neighbouring office of a bank for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable.<sup>10</sup>

According to Keynes's reminiscence, educated Britons, and their counterparts in other countries, saw markets of worldwide scope as the normal state of affairs.

California Press, 1986). Kindleberger emphasised the role of the missing hegemon: no longer London, not yet New York. But why was a hegemon needed? It was to manage the gold standard as it had been managed from London before the Great War. Kindleberger's argument therefore is one aspect of the view presented here, not an alternative to it. Several writers have seized on the level and inflexibility of wages as a cause of the Depression. Borchartd and James have argued this view for Germany; Bernanke more generally. Knut Borchartd, *Perspectives on Modern German Economic History and Policy* (Cambridge: Cambridge University Press, 1991); Harold James, *The German Slump: Politics and Economics, 1924–1936* (Oxford: Clarendon Press, 1986); Bernanke, 'The Macroeconomics of the Great Depression'. As noted already, the argument that wages were too high was a part of the gold-standard rhetoric of the time; high wages were a problem within the gold standard. While the modern discussion isolates wage rigidity as an important component of an essentially Keynesian view of the Depression, contemporary policy makers tried to arrest the decline by cutting wages – a response that led to disaster.

<sup>9</sup> Ford Maddox Ford, *Parade's End* (New York: Albert and Charles Boni, 1924–8).

<sup>10</sup> John Maynard Keynes, *The Economic Consequences of the Peace* (London: Macmillan, 1919), 11–12.

Businessmen, bankers and their professional offspring moved easily among cities from Moscow to Chicago, or at least from Berlin to New York. The gold standard symbolised the mentality and patterns of conduct of these intellectual and economic elites. It was integral to the emergence of what Keynes referred to as ‘the investing class’, for whom saving and investing were both a duty and a delight. ‘The morals, the politics, the literature, and the religion of the age joined in a grand conspiracy for the promotion of saving. God and Mammon were reconciled.’<sup>11</sup>

More concretely, saving and investing were encouraged by the stability of money values. The gold standard, which promised stable prices and restrained the financial freedom of governments, was the guarantor that thrift would be rewarded.<sup>12</sup> As an international system, it stabilised exchange rates worldwide. And this exchange rate stability encouraged unprecedented levels of foreign investment. That countries like Britain and France had invested a quarter to a third of their savings abroad, fuelling the expansion of the international economy, was a consequence of the gold standard and at the same time a powerful support of it.<sup>13</sup>

In order to maintain the policy of buying and selling gold at a fixed price, governments had to conduct their affairs within certain bounds. This discipline in turn promoted economic stability in the countries that adhered to the system.<sup>14</sup> The ability of governments to maintain this discipline was taken as a marker of the extent of the civilised world. The struggling countries of Latin America and eastern Europe kept trying and failing to adopt the gold standard, making adherence a hallmark of a developed economy. Asian and African societies out of the orbit of European and American industry made no effort to join this club.<sup>15</sup>

For all these reasons, reconstructing the gold standard after the First World War (it was suspended during this war as in past wars) was seen as essential for recovering what was good in prewar society. Internationalism might never be as absolute as before, but the gold standard could still resume its essential functions. As Benjamin Strong, governor of the New York Federal Reserve Bank, put the point in a 1925 memo to Montagu Norman, governor of the Bank of England:

<sup>11</sup> John Maynard Keynes, *A Tract on Monetary Reform* (London: Macmillan, 1923), 9–10.

<sup>12</sup> As Keynes pointed out, ‘so rooted in our day has been the conventional belief in the stability and safety of a money contract’, that the law in many countries required those who oversaw trust funds to invest exclusively in gilt-edged bonds. Keynes, *A Tract on Monetary Reform*, 11.

<sup>13</sup> On foreign investment and the gold standard, see Herbert Feis, *Europe: The World’s Banker* (New Haven: Yale University Press, 1930); Harry D. White, *The French International Accounts, 1880–1913* (Cambridge, MA: Harvard University Press, 1933); and Michael Edelstein, *Oversees Investment in the Age of High Imperialism* (New York: Columbia University Press, 1982).

<sup>14</sup> Michael Bordo and Hugh Rockoff, ‘The Gold Standard as a Good Housekeeping Seal of Approval’, *Journal of Economic History*, Vol. 56, no. 2 (1996), 389–428.

<sup>15</sup> A. G. Ford, *The Gold Standard, 1880–1913: Britain and Argentina* (Oxford: Clarendon Press, 1962); Marcello de Cecco, *Money and Empire: The International Gold Standard* (London: Blackwell, 1974); and Barry Eichengreen and Marc Flandreau, ‘The Geography of the Gold Standard’, in Jorge Braga de Macedo, Barry Eichengreen and Jaime Reis, eds., *Currency Convertibility: The Gold Standard and Beyond* (London: Routledge, 1996), 113–43, are three treatments of less-developed countries’ battles to establish and defend gold convertibility.

Mr. Norman's feelings, which, in fact, are shared by me, indicated that the alternative – failure of resumption of gold payments – being a confession by the British Government that it was impossible to resume, would be followed by a long period of unsettled conditions too serious really to contemplate. It would mean violent fluctuations in the exchanges, with probably progressive deterioration of the values of foreign currencies vis-à-vis the dollar; it would provide an incentive to all of those who were advancing novel ideas for nostrums and expedients other than the gold standard to sell their wares; and incentive to governments at times to undertake various types of paper money expedients and inflation; it might, indeed, result in the United States draining the world of gold with the effect, that, after some attempt at some other mechanism for the regulation of credit and prices, some kind of monetary crisis would finally result in ultimate restoration of gold to its former position, but only after a period of hardship and suffering, and possibly some social and political disorder.<sup>16</sup>

This litany of evils speaks of dark forces – financial and intellectual – that would be unleashed by the failure to restore prewar monetary arrangements. It echoes the sermon preached to young Stephen Daedalus which told of the cumulative horrors of hell endured by those who abandoned the Catholic Church.<sup>17</sup> The irony, of course, is that Strong's memo anticipated events that eventually came to pass in the 1930s but were in fact precipitated by adherence to – not abandonment of – of the gold standard.

But that was in the future; the past appeared to offer tranquility. This is not to deny that there had always been economic fluctuations. Twenty years of deflation starting in the 1870s added to the burden on farmers with fixed mortgage obligations, increasing pressure for agricultural protection and fomenting a populist revolt against open markets. US politics disturbed currency markets during the presidential campaign of 1896, when William Jennings Bryan protested that the monetary standard threatened to 'crucify mankind upon a cross of gold'. Investors had reason to wonder whether the United States would continue to honour its obligation to sell gold at a fixed price. Their nervousness sent interest rates soaring and disrupted international financial transactions. But the disruption was short-lived; it was put to rest by the US Gold Standard Act of 1900, which affirmed the United States' commitment to the system. The controversy was not in the minds of many in the aftermath of the Great War.<sup>18</sup>

More vivid and revealing was another prewar crisis: the Baring Crisis of 1890. Speculation in South American land had been encouraged amid a tremendous expansion of Argentinean government debt. Eventually the Argentine government found itself unable to service its accumulated obligations, and the London banking firm of Baring was caught in the ensuing debacle. William Lidderdale, governor of the Bank of England in 1890, understood his role: the Argentineans could do what they wanted, but their excesses were not to threaten the gold standard. By involving

<sup>16</sup> Strong Memorandum, 11 Jan. 1925, quoted in Temin, *Lessons from the Great Depression*, 14.

<sup>17</sup> James Joyce, *Portrait of the Artist as a Young Man* (New York: B. W. Huebsch, 1922).

<sup>18</sup> Charles Calomiris, 'Greenback Resumption and Silver Risk: the Economics and Politics of Monetary Regime Change in the United States, 1862–1900', in Michael Bordo and Forrest Capie, eds., *Monetary Regimes in Transition* (Cambridge: Cambridge University Press, 1994), 86–132; Jeffrey Frieden, 'Monetary Populism in Nineteenth-Century America: An Open Economy Interpretation', *Journal of Economic History*, Vol. 57, no. 2 (1997), 367–95.

a British firm in their dealings, they created conditions where their problems could generate panic in London and jeopardise the stability of the international system.<sup>19</sup>

To avoid a panic, Lidderdale had to accumulate reserves, discouraging thoughts that the Bank might run short, and encourage creditors not call in loans that might destabilise the markets. The first goal was accomplished by selling bonds to the government of Russia, borrowing through Rothschilds from the Bank of France, and securing guaranteed offers of loans from London joint-stock banks. The second was achieved by reaching an understanding with the banks not to liquidate loans they had made to bill brokers financing the American trade.<sup>20</sup> When one bank began to do so nonetheless, Lidderdale informed its manager that if it continued to call in loans, he would close its account at the Bank of England and announce his action in the press. He gave the manager an hour to decide.<sup>21</sup> In this high-handed way, Lidderdale was not so much exhibiting the power of the Bank of England to maintain the gold standard as revealing the need for both international and domestic co-operation.

The Great War was a larger shock to the world economy than the Baring crisis; it was beyond policy makers' range of historical experience. During the Baring crisis the Bank of England had dealt with a short-lived increase in the demand for funds, but it could not finance the war by such means. The government engaged in unprecedented quantities of borrowing, and the Bank used its powers of persuasion to discourage London financial houses from undertaking transactions in precious metal. A key provision of the prewar financial system, the right to import and export gold without restriction, was limited by the high wartime costs and hazards of ocean shipping and prohibited only in 1919. Central bank stabilization of the dollar–pound exchange rate was substituted for gold flows.

Like the Baring crisis, the war was a temporary disruption. Policy makers presumed that the gold standard was to be modified only temporarily to accommodate the imperatives of war and postwar reconstruction. Once normalcy was restored, Britain was expected to go back on to the gold standard as it had done after defeating Napoleon a century earlier. But while history's lesson was clear, the dislocation of the Great War and inflation meant that resumption would not be straightforward. The difficulty of the postwar economic problem was acknowledged when the Lords Commissioner of His Majesty's Treasury appointed a commission on the currency and foreign exchange after the war under the direction of Lord Cunliffe, governor of the Bank of England, to consider the question and report back to the government. The committee's first interim report in 1918 foreshadowed the

<sup>19</sup> A recent treatment is Roberto Cortes-Conde, *Dinero, Deuda y Crisis: Evolucion Fiscal y Monetaria en la Argentina* (Buenos Aires: Oxford University Press, 1989). See also A. G. Ford, 'Argentina and the Baring Crisis of 1890', *Oxford Economic Papers*, Vol. 8, no. 2 (new ser., 1956), 127–50.

<sup>20</sup> L. S. Pressnell, 'Gold Reserves, Banking Reserves, and the Baring Crisis of 1890', in C. R. Whitlesey and J. S. G. Wilson, eds., *Essays in Money and Banking in Honour of R. S. Sayers* (Oxford: Clarendon Press, 1968), 167–228. R. S. Sayers, *The Bank of England, 1891–1944* (Cambridge: Cambridge University Press, 1976).

<sup>21</sup> Ellis Powell, *The Evolution of the Money Market* (London: The Financial News, 1915), 527.



economic history of the interwar years. It argued that the best defence against instability was the gold standard, and invoked the stability of the past to predict that similar arrangements would guarantee stability in the future. 'In our opinion', wrote Cunliffe, 'it is imperative that after the war the conditions necessary to the maintenance of an effective gold standard should be restored without delay.'<sup>22</sup> The most important of those conditions guaranteed the free purchase and sale of gold at prewar parities. Similar expressions of the gold-standard mentality pervaded economic-policy discussions throughout the 1920s.

Given Britain's wartime inflation, which was not only high in absolute terms but exceeded the rates experienced in the United States, adopting the Committee's recommendation implied the need to reduce prices towards US levels. Restoring the prewar parity required deflation, as it had after the Napoleonic Wars. Reluctant to impose the costs of rapidly reducing wages on returning soldiers, the government postponed the actual resumption for five years. The perceived need for continuous deflation anticipated pressures that would grow increasingly intense as the decade progressed.

The same mentality shaped financial policies in France and Italy. The Italians sought to emulate Britain and deflate to establish their claim to membership in the first rank of financial and economic powers. Monetary expansion during the war had led to inflation.<sup>23</sup> Giovanni Giolitti, Italy's Prime Minister in 1920–21, prescribed the classic gold-standard medicine – deflation and reduced government services – to deal with Italy's postwar problem. He assigned a 'higher priority to financial and monetary stabilisation than to cultivating the political support of the mass parties'.<sup>24</sup> But at the same time that creating conditions to restore the gold standard was reviving the flow of capital into Italy, Mussolini was exploiting the domestic strains needed to achieve this result. The political fabric in Italy did not prove strong enough to withstand this fiscal retrenchment, which intensified the forces leading to the March on Rome.

The French, for their part, hesitated to cut public spending and balance the budget, policies which were preconditions for returning to gold. Eliminating the fiscal deficit would have undermined their claim that German reparations were needed to defray the costs of reconstructing the French economy.<sup>25</sup> Insistence that 'the Boche' should pay, based on memories of the French indemnity paid to

<sup>22</sup> Cunliffe added: 'We are glad to find there was no difference of opinion among the witnesses who appeared before us as to the vital importance of these matters.' United Kingdom. Parliament, *First Interim Report of the Commission on Currency and Foreign Exchanges After the War* (Cd. 9182: 1918, Vol. VII, 853), 5. The interim report was endorsed in the committee's brief final report. United Kingdom. Parliament, *Final Report of the Commission on Currency and Foreign Exchanges After the War* (Cmd. 464: 1919, Vol. XII, 593).

<sup>23</sup> Gianni Toniolo, *An Economic History of Liberal Italy, 1850–1918* (London: Routledge, 1990), 131.

<sup>24</sup> Douglas J. Forsyth, *The Crisis of Liberal Italy* (Cambridge: Cambridge University Press, 1993), 238.

<sup>25</sup> Stephen Schuker, *The End of French Predominance in Europe* (Chapel Hill: University of North Carolina Press, 1976); Judith L. Kooker, 'French Financial Diplomacy: The Interwar Years', in Benjamin M. Rowland, ed., *Balance of Power or Hegemony: The Interwar Monetary System* (New York: New York University Press, 1976), 83–146.

Germany in 1871, encouraged successive governments to postpone the decision of how to distribute reconstruction costs and, more generally, the costs of putting the national finances on a stable footing. This logic led Raymond Poincaré, France's respected Premier in 1923, to decide on military occupation of the Ruhr. When that step led to German passive resistance rather than increased reparations payments, the French economy was left on the verge of hyperinflation. Revealingly, the rapidly depreciating currency, whose behaviour was itself little more than a symptom of underlying inflationary pressures, was perceived as the cause of the country's financial ills. Curing the nation's ills, it followed, required stabilising the currency, a goal to be achieved by restoring a gold standard of the prewar variety.<sup>26</sup>

Germany represented the other side of the French coin. Balancing the budget and stabilising the currency might be seen as admissions that the government's obligations did not exceed its financial capacity – that the Reich could afford to make reparations after all. The incentive to inflate preceded France and Belgium's invasion of the Ruhr, but with foreign occupation of Germany's industrial heartland there was ample justification for running the printing presses full out. Hyperinflation, although an effective weapon in the country's diplomatic battle with Paris, grew increasingly disruptive of the operation of the German economy. Money creation, which as late as 1922 still stimulated the demand for the products of the German economy, grew increasingly disruptive in 1923.<sup>27</sup> As inflation ran out of control, its main effects came to be those of aggravating uncertainty and demoralizing consumers. Industrial production went into steady decline, and the opinion of influential industrialists such as Hugo Stinnes swung towards compromise, accommodation, and exchange-rate stabilisation. In 1924 these shifts in sentiment allowed stability to be re-established under the provisions of the Dawes Plan, a critical component of which was restoring the mark to its prewar parity.<sup>28</sup>

Debate over how to apportion the costs of stabilisation continued also in Britain. Labour felt that it already had paid enough. After its defeat in 1924, the Labour Party adopted a programme of 'socialism now' at the urging of economist J. A. Hobson and others, which in practice meant a minimum wage and state-provided

<sup>26</sup> That said, it might still be possible to take some advantage of the intervening depreciation of the franc. In discussions about the value at which to fix the franc in 1926, Pierre Quesnay (assistant to Governor Emile Moreau of the Bank of France), hoped that they could 'maintain the gold value of French prices below world prices and thus facilitate the life of country'. Pierre Quesnay, 'Considérations pouvant intervenir dans la détermination du taux de stabilisation', 6 Aug. 1926, AN 374 AP 5, quoted in Kenneth Mouré, 'Undervaluing the Franc Poincaré', *Economic History Review*, Vol. 49, no. 1 (1996), 140. The accomplishment of this goal, at least for a few years, generated a massive accumulation of gold in France and contributed to the crisis of the gold standard a few years later.

<sup>27</sup> As argued in Constantino Bresciani-Turroni, *The Economics of Inflation* (London: Allen & Unwin, 1937).

<sup>28</sup> Gerald Feldman, *The Great Disorder* (New York: Oxford University Press, 1993). See also Steven B. Webb, *Hyperinflation and Stabilization in Weimar Germany: Policies, Politics and Market Reactions* (New York: Oxford University Press 1989); Carl Ludwig Holtfrerich, *The German Inflation 1914–1923* (New York: De Gruyter, 1986).

family allowances.<sup>29</sup> These proposals were legitimated by the workers' contribution to the war effort. They were required because the reduction in costs required for the restoration of gold payments at the prewar parity was threatening to reduce wages.

For defenders of the gold standard the problem was not that wages would fall, of course; the danger was that they would not. The growth of trade unionism, the provision of unemployment benefits, and the existence of minimum wages for unskilled workers in industries where trade boards had been established immediately before or during the war all worked to slow downward wage adjustment. In this setting the danger was that deflation would worsen the lot of the workers not just by lowering wages but by producing unemployment.<sup>30</sup>

The wage issue was particularly contentious in the coal industry, a hotbed of labour activism. The demand for coal received a boost in 1923–4, when Ruhr supplies were disrupted by the French occupation. For the miners, these were favourable circumstances for wage negotiations, and the agreement they negotiated guaranteed a minimum wage. But when the conflict on the Continent went into remission, the demand for British coal fell, and the agreement collapsed.

The contribution of the Prime Minister, Stanley Baldwin, to the subsequent negotiations was to repeat the mantra of the gold standard: the men would have 'to face a reduction in wages' to put the coal industry on its feet.<sup>31</sup> This of course was just one way of putting industry on its feet. But it was the only way open under the gold standard, alternatives involving higher prices being inadmissible.<sup>32</sup> Calling for lower wages was the discourse of the gold standard because this call followed from the mechanics of the monetary system. Countries on the gold standard could not devalue their currencies or allow the demand for exports to determine their exchange rate. They could not expand the money supply to stimulate domestic demand, for doing so would push up prices, provoke gold exports, and weaken the currency. The only way to reduce prices was to reduce production costs, the largest of which was labour.

<sup>29</sup> H. N. Brailsford, J. A. Hobson, A. Creech Jones and E. F. Wise, *The Living Wage* (London: Independent Labour Party Publication Department, 1926).

<sup>30</sup> A large literature contests the proper characterisation of the inter-war labour market in Britain (although the vast majority of contributions are consistent with the statements in the text). For two syntheses widely regarded as the latest word, see T. J. Hatton, 'A Quarterly Model of the Labour Market in Interwar Britain', *Oxford Bulletin of Economics and Statistics*, Vol. 50, no. 1 (1988), 1–25; and N. H. Dimsdale, S. J. Nickell and N. Horsewood, 'Real Wages and Unemployment in Britain During the 1930s', *Economic Journal*, Vol. 99, no. 396 (1989), 271–92.

<sup>31</sup> Baldwin was quoted in the newspaper as saying, 'All the workers of this country have got to take reductions in wages to help put industry on its feet,' but this more inclusive statement was denied by the government. Keith Middlemas and John Barnes, *Baldwin: A Biography* (London: Macmillan, 1969), 387.

<sup>32</sup> Industrial rationalisation designed to boost productivity was of course the other way of squaring the circle. Bank of England officials, among others, hoped that this might offer a way out of their dilemma. Thus, in the second half of the 1920s Norman found himself in the peculiar position for a central banker of helping to oversee the rationalisation and consolidation of the Lancashire textile industry. But the hope that unemployment could be banished by closing down the least efficient coalmines and textile companies, consolidating operations in the most efficient mines and enterprises, and otherwise seeking to enhance efficiency proved wishful thinking, at least over the relatively short horizon relevant for business cycle analysis.

The Royal Commission on the Coal Industry, chaired by a Liberal, Sir Herbert Samuel, insisted that wages had to be lowered.<sup>33</sup> Like the Prime Minister, the Samuel Commission invoked the rhetoric of the gold standard. 'A disaster is impending over the industry and the immediate reduction in working costs . . . is essential to save it', is the way the committee put it.<sup>34</sup> The mine owners based their wage offer on the Commission's recommendation, insisting on lower wages and longer hours. From labour's point of view, pushing down wages reduced the purchasing power of the employed and implied job losses insofar as the mechanism for depressing wages was further restriction of demand. And union leaders like Herbert Smith and A. J. Cook did not share the central bankers' apocalyptic vision of a world of managed money. They were not sufficiently secure to trade current sacrifices for purported future gains. They had participated in the war effort and now expected recompense.

The result was not just a coal strike but a general strike. It ended in a defeat for labour which only hardened the unions' opposition to the constraints of the gold standard. Ultimately, that opposition would weaken both the Tory government (defeated in 1929) and Britain's commitment to the gold standard (abandoned in 1931). The Treasury tried to defuse this conflict in the late 1920s by asserting that the 'rationalisation' of industry – which even the Treasury put in quotes – was a better way to reduce labour costs than reducing wages, but the gold-standard mantra of lowering labour costs remained clear.<sup>35</sup>

Wage reductions were a bone of contention in other countries as well. German wages appeared to be higher than before the war.<sup>36</sup> More importantly, they were less flexible than in the golden age before the First World War due to changes in labour-market institutions.<sup>37</sup> The number of workers covered by collective contracts rose enormously between 1913 and the mid-1920s, and few of these contracts were national.<sup>38</sup> The fragmented structure of collective bargaining was ill-suited for co-ordinating economywide adjustments to shocks. In highly decentralised labour markets like those which prevailed before the war, wages rose and fell through free competition. If wages were too high, unemployment resulted and the competition for jobs bid them down. In highly centralised markets, the same outcome could be achieved through a single decision to adjust wages. Problems arose when markets were neither highly centralised nor highly decentralised.<sup>39</sup> Groups covered by

<sup>33</sup> The Samuel Commission also emphasised the need for rationalisation, but not to the exclusion of wage cuts.

<sup>34</sup> United Kingdom. Parliament, *Report of the Royal Commission on the Coal Industry* (London: HM Stationery Office, 1926), 236.

<sup>35</sup> United Kingdom. HM Treasury, *Memoranda on Certain Proposals relating to Unemployment* (Cmd. 3331: 1928–9, Vol. XVI, 873), 52–3.

<sup>36</sup> The debate is summarised in Borchardt, *Perspectives on Modern German Economic History*, Ch. 10; Ian Kershaw, *Weimar: Why Did German Democracy Fail?* (London: Weidenfeld & Nicolson, 1990).

<sup>37</sup> James Angell, *The Economic Recovery of Germany* (New Haven: Yale University Press, 1929); James, *The German Slump*.

<sup>38</sup> As of January 1928, 1.4 million workers were covered by Reich contracts, 3.4 million by district or regional agreements, and a still larger number by company- or plant-level contracts.

<sup>39</sup> This point is widely accepted in the modern economics literature, on the basis of the influential

collective bargaining were too large for the impact of their agreements on the labour market as a whole to be negligible, but too small for them to have the incentive to take those impacts into account. When the time came for wage concessions, no regional or industrial union was willing to move first. The spread of collective bargaining and compulsory arbitration in Germany supplanted decentralized labour markets without providing an alternative compatible with the imperatives of gold-standard adjustment.

The disturbances to be accommodated through the operation of this feeble wage-adjustment mechanism were unprecedented in scope. The First World War had weakened the position of European producers in international markets and strengthened that of other countries. European exports to Latin America having been interrupted during the war, US producers established marketing and distribution networks there and now proved difficult to dislodge. The same outcome resulted when British exports to India were disrupted and Japanese producers established a beachhead there. The financial burden of war debts and reparations then was superimposed on this shift in Europe's competitive position. So long as the United States continued to lend its balance-of-payments receipts back to Europe, adjustment could be delayed. But once the Federal Reserve Board applied the harsh medicine of the gold standard, higher domestic interest rates curtailed US capital outflows, and deflation became the only alternative.

The sanctimonious quality of restoring the gold standard is evident in the missions sent by the United States to help the Weimar economy. The Dawes Commission has been celebrated for restoring stability in Weimar. The Agent-General for Reparation Payments appointed under the Dawes Commission, S. Parker Gilbert, was clear that he saw the means for doing so as preserving the gold standard at all costs. As he explained the motivation for the Dawes Plan, 'The Experts' Plan thus established a protected system, which was intended to safeguard the German exchange against the danger of instability through excessive reparations transfers.<sup>40</sup> There was no need in Gilbert's mind to do more than assert the link between a stable exchange and a stable economy.

This link was assumed by the bankers and politicians making economic policy in the 1920s. Few dissenting voices were heard. Churchill for one expressed his concern in early 1925 that Britain's return to gold could require the Bank of England's discount rate (Bank rate) to rise, imposing 'a very serious check . . . to trade, industry and employment'. But Montagu Norman, governor of the Bank of England, denied that the gold standard and domestic conditions were related. 'Cheap money is important', he insisted, 'because nine people out of ten think so:

work of Lars Calmfors and John Driffell, 'Bargaining Structure, Corporatism, and Macroeconomic Performance', *Economic Policy*, Vol. 16, no. 1 (1988), 14–61. The model was applied to Germany in the 1920s by Barry Eichengreen, 'Wages and the Gold Standard: Perspectives on the Borchardt Debate', in Christophe Buchheim and Harold James, eds., *Zerrissene Zwischenkriegszeit: Wirtschaftshistorische Beiträge: Knut Borchardt zum 65* (Baden: Nomos Publishers, 1994), 177–203.

<sup>40</sup> S. Parker Gilbert, *Report of the Agent-General for Reparations Payments* (Berlin: The Agent General, 1925–30), 10 Dec. 1927, 172.

more for psychological, than for fundamental reasons.<sup>41</sup> Even though Norman carried the day, this was a selective reading of the evidence. When the Bank of England raised Bank rate to offset an outflow of gold, it discouraged investment and employment just as surely as it attracted foreign reserves.<sup>42</sup>

An earlier literature suggests that these ills might have been avoided had countries returned to gold at more realistic parities.<sup>43</sup> Higher prices and parities, these authors suggest, might have limited the need for deflationary adjustments in the 1920s. But they would not have removed the need for a further radical reduction of wages and prices once the Great Depression struck, a reduction that politicised markets were incapable of delivering.

### **Defending the gold standard in the midst of chaos**

Like the Baring crisis and the Great War, the Great Depression was a shock to this happy world. It started out as an economic contraction like those before it. This unexceptional downturn then was converted into the Great Depression by the actions of central banks and governments. Economic policies did not alleviate the Depression; rather, they worked to intensify it. Actions that worked well in prewar prosperity had damaging results as economies contracted in the early 1930s.

Policies were perverse because they were formulated to preserve the gold standard, not to stabilise employment. Maintenance of the gold standard would in time restore employment, central bankers thought, while attempts to increase employment directly would fail. The collapse of output and prices and the loss of savings as banks closed in the early 1930s were precisely what the gold standard promised to prevent. Reconciling outcomes with expectations consequently required interpreting these exceptional events in unexceptional terms. Where the crisis was most severe, blame was laid on the authorities' failure to embrace the gold-standard mentality. The Federal Reserve Board and the Bank of England, it was alleged, had succumbed to the lure of managed money. Having refused to obey the rules of gold standard, they had committed 'abuses of credit', sterilising international gold flows and preventing them from exerting their normal stabilising influence on credit conditions. This in turn had prevented prices and costs from adjusting.

Louis Germain-Martin, the French Minister of Finance in 1932, 1934 and 1935, argued that the attempt to use monetary policy to manipulate prices, in violation of

<sup>41</sup> D. E. Moggridge, *British Monetary Policy, 1924–31* (Cambridge: Cambridge University Press, 1972), Appendix 5.

<sup>42</sup> This is the theme of Barry Eichengreen and Olivier Jeanne, 'Currency Crises and Unemployment: Britain in 1931', in Paul Krugman, ed., *Currency Crises* (Chicago: University of Chicago Press, 2000).

<sup>43</sup> See for example Donald Moggridge, *The Return to Gold, 1925: The Normal Conquest of \$4.86* (Cambridge: Cambridge University Press, 1969); I. J. Hume, 'The Gold Standard and Deflation', in Sidney Pollard, ed., *The Gold Standard and Employment Policies Between the Wars* (London: Methuen, 1970), 122–45.

gold-standard strictures, was responsible for the Depression.<sup>44</sup> Cheap credit had fuelled an unsustainable boom, culminating in the inevitable crash, financial distress and slump. French economist Charles Rist saw the slump as resulting directly from the artificiality of the preceding boom.

The increased production would have provoked a general decline in the price level earlier if efforts had not been made from all sides to stimulate consumption artificially and to maintain it at a level superior to that corresponding to real income. It is there, in our view, that it is necessary to seek the specific origin of the present crisis.<sup>45</sup>

Prices and costs had to fall to reconcile growing domestic and international transactions with an inelastic supply of monetary gold. Thrift, that intrinsic Victorian predicate of the gold standard, would bring this about if central banks did not manipulate interest rates to stimulate consumption unnaturally.

The same view prevailed in Washington DC and in the regional branches of the Federal Reserve System.<sup>46</sup> As unemployment spiralled upwards, Lynn P. Talley of the Reserve Bank of Dallas wrote to George Harrison of the New York Federal Reserve Board that his directors were not 'inclined to countenance much interference with economic trends through artificial methods . . .'.<sup>47</sup> Treasury Secretary Andrew Mellon advised President Hoover that the only way to restore the economy to a sustainable footing was to 'liquidate labor, liquidate stocks, liquidate the farmers, liquidate real estate . . . purge the rottenness out of the system . . .'. 'People will work harder', Mellon insisted, and 'live a more moral life'.<sup>48</sup> Those espousing the puritanical strand of gold-standard dogma grew more strident as unemployment mounted. Hoover himself regarded the gold standard as 'little short of a sacred formula'.<sup>49</sup> Any deviation he dismissed as 'collectivism', an all-embracing label for economic and social decay.

The failure of governments single-mindedly to embrace this liquidationist dogma only made things worse, in the prevailing view. Hoover, under the influence of industrialists like Henry Ford concerned with the maintenance of purchasing

<sup>44</sup> Louis Germain-Martin, *Sommes-nous sur la bonne route?* (Paris: Payot, 1934), 20–1.

<sup>45</sup> Cited in Kenneth Mouré, *Managing the Franc Poincaré: Economic Understanding and Political Constraint in French Monetary Policy, 1928–1936* (Cambridge: Cambridge University Press, 1991), 33.

<sup>46</sup> In the US case, the monetary strictures of the gold standard mentality were reinforced by the newly created central bank's own particular policy doctrine, the so-called Burgess–Reiffler–Strong doctrine. According to that approach, a close relative of the real-bills doctrine, commercial banks were reluctant to borrow from the Fed and would do so only when in need. Hence, the Fed should take member bank borrowing as an indicator of the stance of monetary policy and pursue an expansionary policy when member bank borrowing was high. Thus, when member bank borrowing turned down after 1929, it was not viewed as appropriate for the Fed to artificially expand money and credit. There is no incompatibility between this view and our emphasis on the gold standard; indeed the two are logical complements. On the Burgess–Reiffler–Strong doctrine, see Elmus Wicker, *Federal Reserve Monetary Policy 1917–1933* (New York: Random House, 1966); Wheelock, *Strategy and Consistency*.

<sup>47</sup> Talley to Harrison, letter, 15 Jul. 1930, cited in Friedman and Schwartz, *Monetary History of the United States*, 372.

<sup>48</sup> As famously cited in Herbert Hoover, *The Memoirs of Herbert Hoover: The Great Depression, 1929–1941*, 3 vols. (New York: Macmillan, 1951–52), III, 30.

<sup>49</sup> Harris Gaylord Warren, *Herbert Hoover and the Great Depression* (New York: Oxford University Press, 1959), 280.

power, was reluctant to see wages fall. Whether due to the President's great popularity at the outset of the Depression or the intimacy of his ties with business, Hoover's high-wage policy was surprisingly effective.<sup>50</sup> 'It is indeed impossible', wrote the labour economist Leo Wolman in 1932, 'to recall any past depression of similar intensity and duration in which the wages of prosperity were sustained as long as they have been during the [present] depression.'<sup>51</sup> Thus, when the downturn hit and the demand for labour fell, wages failed to follow. This made the incidence of the gold-standard prescription of deflation, followed faithfully by the Federal Reserve, exceptionally uneven: it produced pockets of unemployment and spawned failures among banks which had extended loans to firms in labour-intensive industries, which now found their profits and capacity to repay squeezed.<sup>52</sup> By 1932 the failure of the high-wage policy in the face of the Fed's deflationary monetary stance had become manifest and was rejected by prominent businessmen such as James A. Farrell of US Steel.

The same lesson was drawn by Clement Moret, the newly appointed governor of the Bank of France. As he explained to his shareholders in January 1932:

In order to bring the depression to its conclusion, it would have been necessary to stop the abuses of credit that have contributed so largely to the creation and spread of the crisis. In fact, there has been no movement towards a sufficient contraction of banking credits, so powerful were the efforts brought into play to maintain at any cost, by an artificial policy of cheap and easy money, the spirit of enterprise and the taste for speculation. This tendency has undoubtedly served to increase the disorders it was intended to mitigate.<sup>53</sup>

Britain was subject to the economic crisis, in this view, because the Bank of England had thwarted the gold standard's operation. 'The real cause of the formidable crisis with which the world is struggling', the French economist Charles Rist wrote in January 1931, 'is none other than the mistaken monetary policy which England has followed for the past ten years.' He continued more explicitly that 'an artificially low Bank rate and open market purchases had prevented production costs, including wages, from being forced down'.<sup>54</sup> The only option now was to let adjustment run its course. Expanding the money supply in violation of gold-standard precepts would only encourage further speculative excesses, leading to another crash and an even more catastrophic depression. Joseph Caillaux, chairman of the French Senate's Finance Committee, echoed Mellon in arguing that weak enterprises had to be purged by deflation to permit the financial excesses of the 1920s from continuing to debilitate the international system.<sup>55</sup>

Where the Depression was late in arriving, this good fortune was ascribed to

<sup>50</sup> This is a theme of Richard Vedder and Lowell Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America* (New York: New York University Press, 1993).

<sup>51</sup> Leo Wolman, *Wages in Relation to Economic Recovery* (Chicago: Holmes & Meier, 1932), 2–3.

<sup>52</sup> A point argued by Vedder and Gallaway, *Out of Work*, 121–3.

<sup>53</sup> Mouré, *Managing the Franc Poincaré*, 37.

<sup>54</sup> Mouré, *Managing the Franc Poincaré*, 36.

<sup>55</sup> Joseph Caillaux, *The World Crisis: The Lessons Which it Teaches and the Adjustments of Economic Science Which it Necessitates* (London: Cobden-Sanderson, 1932).



unqualified acceptance of the gold standard's dictates. That France was initially spared its worst effects was attributed to the strength and stability of the franc, the Bank of France's determination to comply with the dictates of the gold standard, and its seemingly inviolable gold reserve. Gallic conviction of the virtues of gold, evident in the pronouncements of Jenny, Germain-Martin, Moret and Rist, was reinforced by the country's experience a decade before. France had suffered a socially divisive inflation in the first half of the twenties, when gold convertibility was in abeyance. The budget had run out of control until the government again was subjected to gold-standard discipline. Commentators came away convinced that disregard for the gold standard led to financial excesses, economic chaos and social turmoil.

Similar views prevailed in other countries that had suffered high inflation. As Karl Helfferich, banker and one-time German finance minister, put it in the sixth edition of his classic work, *Money*, abandoning the gold standard would make money a 'bone of contention between brutal interests'.

a fight would result between the interests concerned, and this fight would, in the absence of an objective criterion, be decided in advance, not by reason and justice but by brute force only. On the one side we should have all those who owe money fighting for the greatest possible issue of money and for the largest possible diminution in the value of money, and on the other side we should have creditors and all those in receipt of fixed salaries, dividends, and wages who would be interested in the preservation and the increase in the value of money. The fight which would be waged round the value of money would, more than any other economic conflict between various interests, necessarily lead to the demoralisation of economic and of social life.<sup>56</sup>

That the solution to the Depression might lie in rejecting gold was beyond the pale. The British Committee on Finance and Industry (the Macmillan Committee), reporting on financial problems in summer 1931, was prepared to entertain the heresy of a tariff before recommending that the gold standard be abandoned. Even internationalist politicians such as Ramsay MacDonald were prepared to turn their backs on nearly a century of free trade before jeopardising sterling's hallowed status.<sup>57</sup> Keynes, the committee's leading intellectual light, had opposed Britain's return to gold at the prewar parity, arguing that the proper target for monetary policy was internal price stability rather than exchange rate stability, but once the decision was made he reconciled himself to it. In 1930 he was unwilling to recommend going off gold, which he saw as the linchpin of the international financial system and essential for financial stability.<sup>58</sup> But as the Depression deepened his desperation grew. He 'was willing to try anything – a tariff, quotas, a national

<sup>56</sup> Karl Helfferich, *Money*, trans. Louis Infield (New York: Adelphi, 1927), 621.

<sup>57</sup> Philip Williamson, *National Crisis and National Government: British Politics, the Economy and the Empire, 1926–1932* (Cambridge: Cambridge University Press, 1992); Robert Boyce, *British Capitalism at the Crossroads, 1919–1932* (Cambridge: Cambridge University Press, 1987).

<sup>58</sup> Only when he grew convinced that the gold standard was doomed in the summer of 1931 did Keynes recommend accepting the inevitable and abandoning convertibility. See Moggridge, *The Return to Gold*; Peter Clarke, *The Keynesian Revolution in the Making, 1924–1936* (Oxford: Clarendon Press, 1988).

treaty on wages, profits and rents, foreign lending restrictions – anything except suspending the gold standard, which was too drastic to contemplate'.<sup>59</sup>

The gold standard consequently was not abandoned. Its rhetoric was deflation, and its mentality was one of inaction. Central banks stood ready to withstand financial panics like the Baring crisis but not to preserve output and employment. The Federal Reserve System inferred from low interest rates and excess bank reserves that no panic was in sight and counselled inaction. But when there was a threat to the US commitment to gold in 1931, it responded by raising interest rates and driving the country deeper into depression.

Support for the gold standard, however, was not as strong as the Rock of Gibraltar. A Labour prime minister, no friend of the Bank of England, had resided in Downing Street since the summer of 1929. Hoover, a Republican in the White House, announced in March 1930 that 'the worst effects of the crash on unemployment will have been passed during the next sixty days'.<sup>60</sup> But the recovery for which he hoped did not materialise, and the odds on his re-election lengthened. While both the Bank of England and the Federal Reserve Board enjoyed independence of action, their autonomy was not guaranteed. In Germany, support for Brüning also weakened, forcing the Chancellor to govern by decree.

The authorities may have been hesitant to abandon the gold standard, but the rise of unemployment rendered them increasingly reluctant to defend it. Balancing the budget was a conventional remedy, but governments were hesitant to raise taxes or cut support for veterans, pensioners and the unemployed in the deepening economic distress. Left-leaning governments like Britain's were least prepared to apply such cuts, but they also had to convince the markets of their fiscal rectitude if their defence of the gold standard was to succeed. If they proved reluctant to raise taxes, the markets might attack, and the government would fall for having failed to defend the financial foundation of the nation. If they did raise taxes, they would be blamed for failing to defend the interests of their core constituency and fall anyway. Currency traders saw that officials had no way out. As Philip Snowden, the Labour Chancellor of the Exchequer, succinctly explained the sterling crisis in his autobiography, 'The opposition of the Labour Party to the Budget proposals had given the impression abroad that the country was not united'.<sup>61</sup>

Nor were central banks prepared to raise interest rates as required to defend the system. When the sterling crisis struck London in July 1931, the Bank of England, confronted by a 20 per cent unemployment rate, hesitated to raise its discount rate for fear of lengthening the dole queues. It waited nearly two weeks to raise Bank rate. When the first increase failed to halt gold losses, the rate was raised again. But this was the last change until the suspension of convertibility on 19 September. According to Kunz, 'With business already very depressed, neither management nor

<sup>59</sup> Boyce, *British Capitalism at the Crossroads*, 293.

<sup>60</sup> *New York Times*, 8 Mar. 1930; Warren, *Herbert Hoover and the Great Depression*, 119.

<sup>61</sup> Philip Snowden, *An Autobiography* (London: Nicholson & Watson, 1934).

labour nor their representatives in Parliament were willing to pay the price which such a high Bank rate would exact'.<sup>62</sup>

The authorities were cornered. Panic flights of hot money, unleashed by the realisation that countries like Britain had no escape from this dilemma, soon dwarfed the trade deficits and external debt service that dominated the balance of payments at other times. Central banks joined the fray, liquidating their foreign securities to avoid capital losses in the event of a foreign devaluation. Even true believers like Herbert Hoover were forced to acknowledge that gold and financial flows had become 'a loose cannon on the deck of the world'.<sup>63</sup>

The central bankers of the main industrial countries drew together in an effort to keep the ship afloat. Norman was in daily communication with Harrison of the Federal Reserve Bank of New York. He called on 8 July 1931 to say that he had heard from Luther, head of the Reichsbank, that Luther was going to fly one of the new aeroplanes to London the next day for an hour, then travel to Dover together with Norman. Luther would go to Paris to consult with Moret of the Bank of France, while Norman continued on to Basle.<sup>64</sup> This small group of men in continuous motion effectively imposed their vision on a world largely oblivious of their day-to-day decisions.

In this environment the gold standard became an engine for deflation. Supplies of money and credit depended on the quantity of gold and convertible foreign exchange held by central banks. As uncertainty mounted about the stability of key currencies, central banks liquidated their foreign-exchange balances and scrambled to replace them with gold reserves. The share of foreign exchange in global monetary reserves fell from 37 per cent at the end of 1928 to a mere 11 per cent by the end of 1931.<sup>65</sup> But there was only so much gold to go around. Central banks jacked up interest rates in a desperate effort to obtain it, destabilising commercial banks and depressing prices, production and employment. Bank closures disrupted the provision of credit to households and firms, forcing the former to cut their consumption, the latter to curtail production.<sup>66</sup> Deflation magnified the burden of outstanding debt, forcing debtors to curtail their spending still further in the effort to maintain their creditworthiness.<sup>67</sup> As the gold-exchange standard collapsed back into the pure gold-based system that observers like Moret associated with financial stability, markets were destabilised as never before.

The obvious response was foreign support like that which Lidderdale had organised in 1890, at the time of the last great peacetime financial crisis. Now, however, such support was more difficult to assemble. When the Credit-Anstalt

<sup>62</sup> Diane B. Kunz, *The Battle for Britain's Gold Standard* (London: Croom Helm, 1987), 184.

<sup>63</sup> Hoover, *Memoirs*, Vol. III, 67.

<sup>64</sup> Stephen V. O. Clarke, *Central Bank Cooperation, 1924-31* (New York: Federal Reserve Bank of New York, 1967), 194.

<sup>65</sup> Ragnar Nurkse, *International Currency Experience* (Geneva: League of Nations, 1944), Appendix A.

<sup>66</sup> The most influential recent statement of this mechanism is Bernanke, 'The Macroeconomics of the Great Depression'.

<sup>67</sup> This is the famous debt-deflation view of the Depression of Irving Fisher, 'The Debt-Deflation Theory of Great Depressions', *Econometrica*, Vol. 1, no. 4 (1933), 337-57.

crisis struck Vienna in May 1931 and Austria sought foreign help, the French, led by the nationalist Pierre Laval, demanded that Austria first renounce all intention of forming a customs union with Germany. Although New York and London provided some assistance, Brussels and Rome sided with Paris. When the crisis spread to Berlin and the German government solicited aid abroad, Moret demanded that Chancellor Brüning first withdraw his request to reopen reparations negotiations and halt the construction of pocket battleships. Harrison of the New York Federal Reserve Bank agreed to contribute to the German loan only if the Reichsbank limited its credit to the banks, rendering that assistance useless for supporting the German financial system. The masochistic strand of the gold-standard mentality grew stronger as the crisis built.<sup>68</sup>

This mentality extended to the economic advisors of the governments and central bankers. Lionel Robbins, the youngest member of the Macmillan Committee, argued that 'If it had not been for the prevalence of the view that wages rates must at all costs be maintained in order to maintain the purchasing power of the consumer, the violence of the present depression and the magnitude of the unemployment which has accompanied it would have been considerably less'.<sup>69</sup> As always in the rhetoric of the gold standard, lower wages would have allowed the deflation required by the monetary system.

In the end, what led to that system's downfall was not just agitation on the left but the challenge to the hegemony of gold-standard ideology from the fact of economic and financial distress. The more governments rededicated themselves to gold-standard policies, the worse economic conditions became. As the patient's condition continued to worsen, even true believers began to consider unconventional remedies. So long as France, Switzerland and the Low Countries resisted the worst effects of the Depression, they could ascribe the plight of their neighbours to their failure to cleave to gold-standard orthodoxy. Once their own economies were infected and repeated doses of strychnine only aggravated the condition, not even the most conservative of diagnoses was secure.

### **Abandoning the gold standard to arrest chaos**

As the Depression deepened, opposition to this ideology gathered strength. Yet the central bankers and political leaders who espoused the gold standard clung desperately to their faith in the face of economic reality and even the disintegration of the gold standard itself.

The British, caught on the horns of this dilemma, abandoned their commitment to exchange British currency for gold at a fixed rate in autumn 1931. The government's decision to suspend convertibility was earth-shattering. For Jackson E. Reynolds, president of the First National Bank of New York, it was 'like the end of

<sup>68</sup> Edward W. Bennett, *Germany and the Diplomacy of the Financial Crisis, 1931* (Cambridge, MA: Harvard University Press, 1962).

<sup>69</sup> Lionel Robbins, *The Great Depression* (London: Macmillan, 1934), 186.

the world'.<sup>70</sup> The famous comment of Tom Johnston, former parliamentary secretary for Scotland and Lord Privy Seal, 'Nobody told us we could do that', is celebrated precisely because it so aptly summarises the prevailing sense of incredulity.<sup>71</sup> With hindsight, one can argue that this outcome is less surprising. Simmons recently has argued that unstable domestic politics, like those in Britain's contentious 1920s, made countries prone to abandon the gold standard.<sup>72</sup> But the apostasy of even a major country like Britain was not enough to arrest the economic contraction, particularly since the British regarded their action as failure and refused initially to expand.

Sustaining the gold standard required a stomach for harsh medicine, as true believers incessantly repeated. But deflation that once might have elicited mute acceptance now provoked hunger marches and mass demonstrations. In Germany, the Communist-led Reich Committee of the Unemployed took to the streets in December 1929 before the streets were taken over by the Nazis. The British National Unemployed Workers' Movement staged demonstrations. In the United States farmworkers in California and car workers in Michigan clashed with police; the 1932 Bonus Army of veterans who camped out in Washington to get their bonus had their tents in 'Hooverville' set on fire by the army.<sup>73</sup> Hunger and despair which had once led to alienation from politics and disenchantment with political parties now led workers to organise and voice their objections. Even conservative governments intellectually committed to deflationary measures hesitated to stay the course for fear of inciting a political backlash.

Nowhere was this more apparent than in Britain, where for fully a decade deflation had been associated with unemployment. Keynes, in publications like *The Tract on Monetary Reform* and in private evidence to the Macmillan Committee, educated labour leaders such as Ernest Bevin about the connections between Bank rate and unemployment. When Norman was called to testify before the committee, he met a double-barrelled attack from Keynes and Bevin. Keynes may have been reluctant to recommend that Britain abandon the gold standard, but Bevin had concluded that a replacement should be found for a system from which 'only the rentier classes stood to gain'. '[T]he deterioration of the conditions of millions of workers', he lamented, 'was too high a price to pay for the maintenance of . . . international banking in London.'<sup>74</sup> While Bevin signed the final report of the Macmillan Committee, he also drafted a dissent arguing that the gold standard should be abandoned.

But even while freeing the economy from this straitjacket, the Bank of England

<sup>70</sup> Kunz, *The Battle for Britain's Gold Standard*, 113.

<sup>71</sup> This statement is attributed to Sidney Webb by A. J. P. Taylor, *English History 1914–1945* (New York: Oxford University Press, 1965). The more conventional ascription to Johnston appears in Moggridge, *The Return to Gold*, 9.

<sup>72</sup> Beth A. Simmons, *Who Adjusts? Domestic Sources of Foreign Economic Policy* (Princeton: Princeton University Press, 1994), 286.

<sup>73</sup> Rose, *Put to Work*, 20–2; Starr, *Endangered Dreams*, 68–71.

<sup>74</sup> Philip Williamson, *National Crisis and National Government: British Politics, the Economy and Empire, 1926–1932* (Cambridge: Cambridge University Press, 1991), 195–6.

could not free itself from the gold-standard mentality. It hesitated to reduce interest rates after devaluation for fear of fuelling inflation. In the most deflationary setting the world has ever known, with prices in all industrial countries falling by 10 per cent a year, its preoccupation was inflation. It was, in one contemporary's words, 'to cry, Fire, Fire, in Noah's flood'.<sup>75</sup> As late as June 1932, economists James Meade and Roy Harrod still felt compelled to draft a circular letter to *The Times* advocating the reduction of interest rates and the remission of taxes (or at least no increase). And still the Bank of England hesitated to cut interest rates and stimulate recovery.<sup>76</sup>

As a result of the banking crisis that set the stage for Britain's abandonment of gold, the German government restricted transactions in foreign exchange. Even though Weimar did not devalue, the free purchase and sale of currency that was the hallmark of the gold standard was no longer allowed. Yet neither Brüning nor Weimar's other political leaders could free themselves from the mentality of the gold standard. They continued to speak of Germany as being on the gold standard because the mark was maintained at parity, even though currency controls violated the fundamental activity of the gold standard – as noted by the Cunliffe Commission and others – and made the maintenance of parity a purely administrative matter. Haunted by memories of hyperinflation, Brüning continued to pursue policies designed to compress spending while preaching the deflationary rhetoric of the gold standard. His famous decree reducing all prices was issued in December 1931, six months after Germany effectively had abandoned gold.<sup>77</sup>

Across the ocean, Mellon and Hoover remained staunch in their belief in the curative powers of the gold standard even as the US economy collapsed around them. The Federal Reserve Board *raised* interest rates in October 1931 to defend the dollar. This contractionary policy in the midst of rapid economic decline was the classic central-bank reaction to a gold-standard crisis. Friedman and Schwartz

<sup>75</sup> Ralph Hawtrey, *A Century of Bank Rate* (London: Longman, Green, 1938), 145. To be sure, Hawtrey was not just any observer. He was Director of Financial Inquiries at HM Treasury throughout the period.

<sup>76</sup> Basil P. Blackett, *Planned Money* (London: Constable, 1932), 75. Eventually, in the second half of 1932, the Bank saw the light. But even then, the old gold mentality continued to hold almost universal sway except in Great Britain, parts of its empire and Scandinavia.

<sup>77</sup> Brüning had mixed motives, of course. The goal of restoring prosperity vied with the aim of ending reparations. Brüning could argue he was forced by the gold standard to take deflationary actions whose results he then could use as evidence against Germany's ability to pay reparations. But these added complications do not diminish the importance of the gold-standard mentality, for Brüning could not have undertaken to prostrate the German economy without support from the rhetoric of the gold standard. For the ongoing debate over these questions – the extent to which Brüning's actions are explicable in terms of memories of hyperinflation, gold-standard considerations, the reparations tangle or simple lack of vision – see Knut Borchardt, 'Could and Should Germany Have Followed Great Britain in Leaving the Gold Standard?', *Journal of European History*, Vol. 13, no. 3 (1984), 471–97; Knut Borchardt, 'Constraints and Room for Manoeuvre in the Great Depression: Towards a Revision of the Received Historical Picture', in *Perspectives on Modern German History*, 143–60; C.-L. Holtfrerich, 'Alternativen zu Brunings Wirtschaftspolitik in der Weltwirtschaftskrise', *Historische Zeitschrift*, Vol. 235, no. 3 (1982), 605–31; Holtfrerich, 'Economic Policy Options and the End of the Weimar Republic', in Kershaw, ed., *Weimar: Why Did German Democracy Fail?* 58–91.

acknowledged the power of the gold standard in this action in their account of the American contraction:

The Federal Reserve System reacted vigorously and promptly to the external drain, as it had not to the previous internal drain. On October 9, the Reserve Bank of New York raised its rediscount rate to 2½ per cent and on October 16, to 3½ per cent—the sharpest rise within so brief a period in the whole history of the System, before or since . . . The maintenance of the gold standard was accepted as an objective in support of which men of a broad range of views were ready to rally.<sup>78</sup>

None of these individuals appear to have escaped their inherited mindset even under the most intense pressure. Brüning and Hoover maintained their deflationary policies for as long as they were in office and continued to champion them after they lost power. Even after losing the 1932 election, Hoover kept trying to enlist the president-elect in support of the gold standard. As late as February 1933, he tried to chide Roosevelt into a commitment to support the gold price of the dollar, arguing that devaluation would lead to ‘a world economic war, with the certainty that it leads to complete destruction, both at home and abroad’.<sup>79</sup> Twenty years later Hoover repeated approvingly his 1932 claim that maintaining the gold standard had been good for the United States: ‘We have thereby maintained one Gibraltar of stability in the world and contributed to check the movement of chaos.’<sup>80</sup> When Brüning said he had fallen 100 metres from the goal, he meant the end of reparations, not the recovery of employment, but he betrayed no doubt that the proper policy had been to stay within the rhetoric and framework of the gold standard even after abandoning convertibility itself.<sup>81</sup>

Given the hold of the gold-standard mentality on bankers and politicians, a change of leadership was needed to change policy. While one form of protest against mass unemployment was mass demonstrations, another was the vote. The fact that the franchise had been limited before the Great War was one reason why the ideology of the gold standard had ruled without challenge. But the gradual extension of the vote had given workers in industrial societies a new way to express their views – not as often as they may have liked, perhaps, but often enough to voice their opposition to the gold standard after two or three years of economic contraction.

In Germany the Socialists were as committed to the gold standard as Brüning, which they showed by rejecting calls within their party for more expansionary policies.<sup>82</sup> By increasing their seats from twelve to 107, German voters transformed the Nazis from a fringe party to a presence in the Reichstag in the 1930 election. They vented their spleen on the traditional parties in July 1932, when the Nazis

<sup>78</sup> Friedman and Schwartz, *Monetary History of the United States*, 317. See also their discussion on 380–4.

<sup>79</sup> Herbert H. Hoover, ‘Lincoln Day Address, February 13, 1933’, *Commercial and Financial Chronicle*, 136 (18 Feb. 1933), 1136–8.

<sup>80</sup> Hoover, *Memoirs*, Vol. III, 189.

<sup>81</sup> James, *The German Slump*, 35.

<sup>82</sup> W. S. Woytinsky, *Stormy Passage* (New York: Vanguard, 1961), 462–72.

won 230 seats. Voting analysis has not found a strong correlation between unemployment and Nazi votes in these elections.<sup>83</sup> But it is hard to argue that the spectacular rise in the Nazi vote was independent of the contraction. The link was there, filtered through the rhetoric of protest rather than taken straight as a function of unemployment.<sup>84</sup> And whatever else might be said about it, no one could mistake the rhetoric of the Nazis for the rhetoric of the gold standard.

The choice facing voters in the United States was less clear-cut. So long as Hoover remained in office, the investing classes would shape policy. In the 1932 electoral campaign Roosevelt's policy toward the gold standard was one of studied ambiguity; while he wished to appeal to the working man and heralded 'reflation' as the cure for the nation's ills, he did not wish to antagonise financial and business interests which regarded gold convertibility as sacrosanct and left its discussion to sound-money democrats like Carter Glass. Given a choice in November 1932, the electorate voted for someone who sounded not at all like the dour mavens of the gold standard. Roosevelt fulfilled their mandate by abandoning gold shortly after taking office in March 1933 and then refusing to contemplate a return at the World Economic Conference in July. That conference held little promise in the conditions of 1933. Roosevelt blasted it before it even opened, signalling his rejection of the rhetoric of the gold standard. 'The world will not long be lulled by the specious fallacy of achieving a temporary and probably an artificial stability in foreign exchange on the part of a few large countries only', he announced. 'The sound internal economic situation of a nation is a greater factor in its wellbeing than the price of its currency.'<sup>85</sup>

Change was still three years in coming in France, where the mentality of the gold standard had been burned into popular consciousness ten years before by inflation and distributional conflict. The Bank of France possessed large gold reserves, and its appetite for more already had contributed to the disintegration of the international system in the early 1930s. Despite multitudinous changes in government, the French barred from power anyone who disagreed with gold-standard rhetoric, even after most of the world abandoned gold and their economies began recovering as a result. They organised the remaining true believers into a gold bloc in the aftermath of the abortive World Economic Conference, and they repeated the tired rhetoric of the gold standard in the face of continued economic decline.

<sup>83</sup> See Richard Hamilton, *Who Voted for Hitler?* (Princeton: Princeton University Press, 1982); Thomas Childers, *The Nazi Voter: The Social Foundations of Fascism in Germany, 1919–1933* (Chapel Hill: University of North Carolina Press, 1983).

<sup>84</sup> The electorate did not vote the Nazis into a majority position. In fact, their support fell in the second election of 1932 when Brüning's successors made the first tentative steps toward abandoning the rhetoric and policies of the gold standard. Instead, the voters conferred enough respectability on the Nazis to allow Hindenburg, the Weimar President, to invite the Nazis into the government. It was all the Nazis needed to take over German society and cause endless grief to their own and other people.

<sup>85</sup> Edgar B. Nixon, *Franklin D. Roosevelt and Foreign Affairs, January 1933–February 1934* (Cambridge, MA: Harvard University Press, 1969), I, 269. The ordeal of the Depression had altered discourse so that now the gold standard was 'artificial'. Previously, deviations from gold-standard orthodoxy were said to yield 'artificial' results.



Opposition to the status quo developed only slowly in France, for anyone who advocated modifying the gold standard was accused of reopening the distributional conflict that had seized the Republic in the first half of the 1920s. Advocates of devaluation were denounced as 'heretics'. Defenders of the parity launched a 'crusade' against devaluation. The religious fervour of the true believers was clear to see.

Slowly the heretics multiplied. Georges Boris, editor of *La Lumière*, a weekly newspaper independent of the major political parties, was among the first to call for devaluation. Another independent journalist, Raymond Patenotre, argued in 1932 for devaluation as a way of promoting economic activity and permitting the adoption of public works initiatives. Patenotre was influenced by the example of England, where there already were signs that devaluation had revived activity. The first mainstream politician to join their ranks was Paul Reynaud, who called for devaluation in 1934. A former minister of finance on the moderate right of the political spectrum and long-time supporter of the gold standard, Reynaud was converted by the persistence of the slump and, perhaps more importantly, by the inability of French governments successfully to apply the standard deflationary medicine.

By mid-1935 French opinion was 'becoming more and more reconciled to devaluation'.<sup>86</sup> But successive ministers of finance in 1934–6, Louis Germain-Martin and Marcel Régnier, and the governments they served could not reconcile themselves to the new perspective. The centrist and Radical governments of the period toyed with a variety of reflationary initiatives but only to the extent that doing so did not jeopardise the inviolable gold-standard commitment. It took the 1936 election, which brought to power the Popular Front government of Léon Blum, to transform the rhetoric and mentality of economic policy. Under the Popular Front, deflation was ruled out. The remaining options were devaluation, as in Britain, or exchange controls, as in Germany. For France, there was no question of which example to follow. Even staunch defenders of the gold standard such as Rist and Germain-Martin saw the adoption of German-style policies as unpalatable, rendering them reluctant supporters of devaluation.

### Conclusion

The mentality of the gold standard developed during the long boom of the nineteenth and early twentieth centuries. It survived the First World War and promised a safe haven for ships of state buffeted by stormy social, political and economic seas. But once those ships began taking on water, gold was a millstone around their necks. Rather than keeping their economies afloat, it helped to sink them. The world economy, most observers agree, is well endowed with self-correcting powers. When activity turns down, it tends to bounce back. Only

<sup>86</sup> Public Record Office 188/116, 'Note of an Interview with M. Monick on 16th May 1935', cited in Eichengreen, *Golden Fetters*, 370.

sustained bad policies can drive it so far from this path that it loses its capacity to recover.<sup>87</sup> And only a hegemonic ideology can convince leaders to persist in such counterproductive policies.

The gold standard provided just such an ideology, supported by a rhetoric of morality and rectitude. Its rhetoric dominated discussions of public policy in the years leading up to the Great Depression, and it sustained central bankers and political leaders as they imposed ever greater costs on ordinary people. The mentality of the gold standard proved resistant to change even under the most pressing economic circumstances. 'What is astonishing', Basil Blackett observed in 1932,

is the extraordinary hold which what is called the gold mentality has obtained, especially among the high authorities of the world's Central Banks. The gold standard has become a religion for some of the Boards of Central Banks in Continental Europe, believed in with an emotional fervour which makes them incapable of an unprejudiced and objective examination of possible alternatives.<sup>88</sup>

Ultimately, this political class and the gold-standard ideology with which it was imbued brought about their own demise. 'The hard-boiled deflationists and bitter-end liquidationists of this era simply overplayed their hands', as one contemporary put it. 'They recognized no limit of endurance on the part of the public, no end to the amount of punishment that the people could take . . . They had been run over by a steam roller they had not seen coming, namely, the human equation. They still think it wicked that this steamroller came along.'<sup>89</sup> The world paid a high price before the mentality of the gold standard was flattened by this human steamroller, removing the obstacles to economic recovery.

This history of repeated insults to the world economy is very different from that told in much of the historical literature, which seeks explanations for the Depression in the shocks and structural developments of the 1920s. Ours is a story of individuals making choices shaped by a mentality endemic in their class and supported by pervasive rhetoric. It is a story of economic decline that only reached an end when these political and economic leaders were replaced through the agency of mass politics. In this sense, the Great Depression and the subsequent recovery both resulted from a continuous historical process, not from natural causes or deep-seated flaws in the world economy.

<sup>87</sup> Perhaps the clearest recent statement of the conventional view among mainstream economists, as applied to the Great Depression, is Bernanke, 'Macroeconomics of the Great Depression'.

<sup>88</sup> Blackett, *Planned Money*, 71. And not only on the Continent: even in the depths of the Depression, people like Lionel (later Lord) Robbins could call for further deflation. Robbins continued to believe that 'no really impartial observer of world events can do other than regard the abandonment of the gold standard by Great Britain as a catastrophe of the first order of magnitude'. Robbins, *The Great Depression*, 117.

<sup>89</sup> L. D. Edie, *Dollars* (New Haven: Yale University Press, 1934), 227.