Shocking Intellectual Austerity: The Role of Ideas in the Demise of the Gold Standard in Britain

Extended Citations

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This document contains *extended* citations for the article, “Shocking Intellectual Austerity: The Role of Ideas in the Demise of the Gold Standard in Britain.” Each of these citations uses the original citation number found in the published version of the article. It also includes all of the original material in those footnotes. The citations here, however, include extended quotes and exegesis. A “Process Transparency” headnote (below) also provides methodological information about the way evidence was selected and analyzed.

These citations have been produced with an eye to the standards of “active citation,” and standards developed in the Data Access and Research Transparency (DA-RT) process of the American Political Science Association.[[1]](#footnote-1) These standards recommend citation of source excerpts with analytical/interpretive annotations for any “empirically contestable” claims, but not for general theoretical and background citations.

Unfortunately, current publication processes, (highly) limit online availability of primary sources. Publishers (understandably) balk at the prospect of hosting thousands of pages of original documents—the rights over which are not always clear. At the same time, those archives and libraries in possession of the documents typically forbid the dissemination of their holdings. Last, providing hyperlinks to original documents is often not possible—since they are seldom available online—and providing hyperlinks to catalog entries is generally not reliable. Thus, the documents cited have been listed using their (current) physical location and call number. These, too, often change. Wherever this has occurred with cited materials, the current and former references are listed.

**Process Transparency**

In this study, wherever possible, primary sources have been consulted, cited, and quoted. Nearly all of these primary sources were consulted in their original form at archives and libraries in the United Kingdom and the United States. These primary sources are quoted and discussed at length in these extended citations. (A small portion of these—such as the writings of JM Keynes—have been published in edited volumes. Such materials are available at major libraries around the world and do not require the same kind of reproduction.) Where useful, secondary sources have also been quoted and discussed.

The vast majority of the materials cited here have been consulted and cited by previous scholars researching these topics. There is, in short, a definite amount of extent material related to the decisions analyzed in this article. Only a few scholars, however, have consulted all of these materials. For the most part, this is due to the comparative narrowness and depth of my treatment of Britain’s departure from the gold standard. (Many previous accounts, for instance, treat the British case as one among many.) Additionally, some of the materials I consult (such as the Minutes of the Treasury Committee of the Bank of England) were still sealed at the time that previous scholars were working. Those scholars, however, had the advantage that they were able to interview many of the participants in the events analyzed here. (All of the major figures considered here died in the last century. I was unsuccessful in several attempts to reach the descendants of Sir Ernest Harvey.) Thus, the discussions in this appendix often attempt to use the different perspectives afforded by different kinds of materials to triangulate the ‘truth’—or, really, the set of possible truths.

A conspiracy lies at the heart of my account. It is different in crucial respects from the so-called “bankers’ ramp” subsequently decried by the Labourites. But it is a kind of ramp nevertheless. As such, my account expects that various figures—such as Ernest Harvey at the Bank—had incentives to ensure that he did not leave behind a paper trail documenting his attempts to oust the Labour Government. Similarly, the Labour leaders had incentives to generate a paper trail that demonstrated (for posterity) the valor of their political sacrifices. Simply put, these documents do not speak for themselves. This makes the enterprise undertaken here—in this appendix—all the more important.

I have tried to achieve comprehensive analysis of the materials produced by the key figures at the key moments in this drama. Of course, there are many gaps; and there is no way of knowing the size, nature, or importance of those gaps. For instance, Montagu Norman’s diary contains rich details of his daily interactions. But we know from other records that he had meetings and telephone calls that were not recorded in that diary. How many such interactions did he have? Similarly, there is a large number of pre-numbered telegrams that have not survived. Were these “missing” telegrams deliberately destroyed after they were sent & received? Or were they merely drafts that were discarded and never sent? Last, Ernest Harvey left behind far fewer papers than did the other major figures in this drama. Did he simply generate less material? Or did his deliberately manicure the materials that remained?

Ultimately, the materials consulted here cannot be said to “prove” the veracity of the particular interpretations that underpin the accompanying article. They can show, however, that those interpretations are not demonstrably wrong—meaning, I am not aware of any currently available material that invalidates (or disconfirms) my account. It is for the reader to decide whether this account best fits the data. This appendix seeks to maximize the amount of data available to the reader as she or he embarks upon that enterprise.

**Extended Citations**

1. Polanyi 1957; and Kindleberger 1973.

2. Eichengreen 1992, xi; and Wandschneider 2008, 171.

3. Eichengreen (1992, 23) asked, “Ultimately, the question is why countries stayed wedded to gold for so long, and why those that abandoned the gold standard failed to pursue expansionary policies more aggressively. Why were some more inclined than others to release their gold fetters?”

Eichengreen’s questions (explicitly) motivate two recent studies. Wolf and Yousef 2007, and Wolf 2008.

4. Eichengreen 1992, 237, 270; and Eichengreen and Temin 2000, 202.

5. Leblang 2003, 552.

6. Frieden 1993.

7. Actors are more likely to understand a “tariff” than a “managed float.”

8. Woods 1995, 170.

9. Howson 1975, 87.

10. This background information is derived from the editors’ headnote to some of Keynes’s papers. It reads, “The same day [30 June 1932], Bank rate fell to 2 per cent, where it was to remain until August 1939.” Keynes, Vol. 21, 112n.

11. The Treasury documents reveal both that the Treasury had embraced the new approach to monetary management and that it was unwilling to admit this publicly. As Richard Hopkins put it in one memo, “In submitting the original proposal, I said that I would send on subsequently a note explaining why measures similar to those now proposed did not need to be adopted when last our currency was unstable, viz. before 1925. Of course the real answer leaps to the eye of anyone instructed in these matters. What is new is the desire to keep down the pound. We cannot however put it quite as bluntly as that, and the following notes have therefore been compiled to serve as a defence if we are ever challenged along this line of argument.” Hopkins to Chancellor of Exchequer, 6 April 1932, (UK) National Archives, T 171/301. Emphasis in original.

12. Frieden 1994.

13. Howson 1975, chap. 7.

14. Eichengreen and Sachs 1985, 929.

15. Eichengreen and Irwin 1995, 4.

16. Cairncross and Eichengreen 1983, 27.

17. Howson 1975, 195 (note 127).

18. Chernow 1990, 334; Frieden 2006, 184.

19. Frieden 2006, 184.

20. This cuts against Eichengreen 1992, 282.

21. Frieden 1993, 142-47.

22. In the days following the suspension, Harry Siepmann recapitulated the orthodox view. “That is, perhaps, why many people are saying (or implying) and some newspapers are printing that we have gone off the gold standard in order to go onto something else. The public should be told, and the sooner the better, that there is no alternative to the gold standard as an international monetary system.” He closed by alluding to the central European experience of the previous decade. “The upshot of it all is that calamity can result in nothing but calamity. The ‘advantages’ of a depreciating (not a depreciated) currency can best be seen when they are perpetuated, so far as they can be; that is to say, when the temporary gains are prolonged by more and more depreciation. But what we are being told is that it may be quite a good thing to take a small dose of something which, when raised to the power of n. leads to the results that have been seen in Austria, Hungary and Germany. Of strychnine it may be true; but this analogy with economics is false.” Papers of Sir Richard Hopkins, (UK) National Archives (hereafter Hopkins Papers), 23 September 1931, T 175/56.

23. Frieden 1993, 155, 158.

24. Edward C. “Teddy” Grenfell was exemplary. Chernow (1990, 330), describes him thus, “The messenger was Teddy Grenfell, who had triple authority--as a Bank of England director, a Conservative member of Parliament from the City, and the senior Morgan Grenfell partner. Pitiless toward Labour politicians and staunchly opposed to their program of nationalizing industry, he had a scathing opinion of MacDonald, whom he found coarse and gutless.”

25. Australia and New Zealand devalued in Spring 1930, but they “retained links to sterling.” Canada, Argentina, Brazil, and Spain severed links to gold more overtly; but this was not unusual for them. Bernanke and James 1991, 42, 64.

26. See Cairncross and Eichengreen 1983, 44-52; and Hallwood, MacDonald, and Marsh 1997, 181-83.

27. Eichengreen 1996, 5-6; and Wolf and Yousef 2007, 246-47.

28. Wandschneider 2008, 170-71.

29. Eichengreen 1992, 269-70.

30. Clarke 1967, 193-201, 219.

31. Eichengreen 1992, 270.

32. “An objection to this definition is that some countries continued to try to target their exchange rates at levels prescribed by the gold standard even after ‘leaving’ the gold standard by our criteria; Canada and Germany are two examples.” Bernanke and James 1991, 64.

33. Cairncross and Eichengreen 1983, 49.

34. Cairncross and Eichengreen 1983, 102.

35. See Kindleberger 1973, 290; Eichengreen 1992, 7; Simmons 1994, 21; and Broz 1997.

36. See Keynes, 2:22-23; and Kindleberger 1986, 290-91.

37. Eichengreen 1996, 74.

38. Eichengreen 1992, 262; and Accominotti 2012.

39. Eichengreen and Temin 2000, 183-84.

40. Frieden 1994, 84.

41. Frieden 1993, 147.

42. Eichengreen and Flandreau 1997, 25n.

43. Polanyi 1957, Ch. 19.

44. See Eichengreen and Jeanne 2000, 18; Hall 1989, 376; and Simmons 1994, 281.

45. See Eichengreen and Jeanne 2000, 18; and Eichengreen and Temin 2000, 202.

46. Ruggie 1982, 388, 391.

47. Kunz 1987, 184.

48. See Ruggie 1982, 391; Wolf & Yousef 2007; Eichengreen and Temin 2000, 200; Eichengreen, 1992, xi, 73-75; Howson 1975, 77; and Simmons 1994, 21.

49. Ruggie 1982, 392.

50. Kunz 1987, 185.

51. For instance, there was almost no explicit discussion of devaluation in Parliament in the six weeks prior to suspension.

Edward Wise was unique in overtly advocating devaluing the pound: “I would like, in the first place, to register a strong protest against the attempts that are being made—an attempt has been made again this afternoon by a right hon. Gentleman whose contributions to our discussions are always welcome, and an attempt was made earlier by the Chancellor of the Exchequer on the wireless and again by one of the officials of the Bank of England the other night—to delude the working people of this country into believing that the choice before them is this Budget., these economies, this deliberately organised attempt to reduce the standard of life, or a headlong flight from the pound and a disastrous collapse of currency such as happened in Germany and Austria. The right hon. Gentleman gave us very picturesque and very interesting accounts of the difficulties experienced in Berlin and other countries during the hopeless deterioration of their currency. I was there part of the time, and what he said is quite true, but it is irrelevant to the present issue. There is no proposal that in this country the pound should be allowed to fall to an unlimited extent in a wild panic. There are proposals for devaluation to a defined and limited extent. He referred to that at the end of his speech, but that is an entirely different proposition.” 256 Parliamentary Debates, House of Commons (5th series) (1931), 332–36.

Colonel Josiah Wedgwood offered only tepid support: “Suppose that we do ‘unpeg’ the exchange. Will anything very terrible happen? We did it before. France did it; and Belgium did it. To-day France, after wiping off four-fifths of her national and municipal debt, and four-fifths of her private debts, sees greater prosperity, aye, has greater power and greater ease in borrowing money than we have. Belgium managed to do it even better than France. Will not the Government consider how Belgium managed it? I think I am right in saying that in Belgium the franc never went down below the price at which it has been stabilised. There was no panic; it was an ordered business. Will the Government consider the possibility of devaluing the pound without plunging this country into the peril of a flight from the pound, the peril of a collapse far greater and far worse than the actual figures of our adverse balance of trade would warrant?”

“...We know on these benches that inflation is an extraordinarily difficult thing to start, and it is very unpleasant at the end, but as we are going to be forced into that it would be better if the Government made their plans so as to limit the amount of inflation, and determine the value to which the pound should sink.”

“...Let us consider what will happen a fortnight, a month, or two months hence when credit will be exhausted. What will the Government do then?”

“...The only thing that I would beg this House and the Government to look for is how to let the currency go without disaster, realising that, bad as it may be for everybody who has lent money, it is the sole salvation for the industries of this country, overburdened as they are with debt and unable to export their goods with overhead charges such as they are at the present time. I still do not know how I am going to vote to-night. I am hoping to listen to a speech from a real currency expert, which may perhaps settle my views, but at the moment I can only say that the much despised, much condemned, and often ridiculed Trade Union Congress seems to have more sense than any party in this country.” 256 Parliamentary Debates, House of Commons (5th series) (1931), 87-94.

The other MPs who spoke explicitly about "devaluation" warned of its dangers and proposed alternatives:

Robert Boothby: “I do not think that hon. Members opposite are entitled to cross-examine me. They know, or they ought to know, that the reason why France occupies such a strong position is that the French devalued the franc. I am certain we should all agree that if we had stabilised the pound immediately after the War lower than it is now, we should be in a much better position. It is easy to be wise after the event, and I am the first to admit that at that period of 1918 or 1919, we bit off more than we could chew. But it is no good now trying to argue what we might have done in 1918. The question which confronts us is what should be done in the circumstances which arose three weeks ago. It is all very well too for hon. Members opposite to talk about controlled inflation but if we allowed ourselves to be hurled off the gold standard against our will in a state of something like industrial collapse they would find it very difficult to control anything. If the pound had been allowed to go three weeks ago, nobody can say where it would have stopped.” 256 Parliamentary Debates, House of Commons (5th series) (1931), 575-76.

Major Archibald Church: “The crisis came upon the country. That is the one thing we have to face. The crisis was upon us. I agree with every hon. and right hon. Member who has spoken that it is one thing to go off the pound deliberately, to devalue your pound to, say, 16s. in the pound, and another thing to be tumbled off the pound.”  256 Parliamentary Debates, House of Commons (5th series) (1931), 593-94.

Samuel Hammersley: “There is £4,000,000,000 of British money invested abroad, and I believe we shall find it extremely difficult to collect the interest on this unless we do something in the way of devaluation. I admit that momentarily you will lose by devaluing the pound in respect of British money invested abroad, but we should not permanently lose because we should make it easier for our debtors to pay us, which would tend to the greatest revival of trade.”

“The right hon. Member for St. Ives made another suggestion, that devaluation would put the export trade out of business. That is entirely the reverse of the fact.”

“...I agree entirely with the Prime Minister when he said that the fact that it had been decided to see that the pound was in fact saved, should not be taken as pre-judging the question as to whether it was not desirable to devalue the pound. I do not feel as a Conservative Member that it is the duty of Conservative Members to stand united by this present Government and present to the world some kind of suggestion that we believe in the omniscience of the financial advisers who have given us such bad advice.” 256 Parliamentary Debates, House of Commons (5th series) (1931), 762-64.

Philip Noel-Baker: “The hon. Member for Stockport (Mr. Hammersley) who has just sat down has been listened to with great acceptance by nearly every hon. Member on these benches. We agree almost to the last word he uttered with his diagnosis of the situation, and some of us are beginning to believe that devaluation by one means or another, sooner or later, is an operation which will have to be carried through. For my part, I say quite frankly that I shall be very sorry to try it until we have tried the method which the Macmillan Committee proposed, of raising prices by international co-operative action. I do not agree with what I take to be his view, that that process would take so long. In any case I would only welcome devaluation when that attempt had been made and had failed, and I would only welcome it if it were carried through in co-operation with the debtor nations who, we may be sure, would be glad to act with us in the matter.” 256 Parliamentary Debates, House of Commons (5th series) (1931), 764-68.

52. The famous formulation is from Keynes’s *Tract on Monetary Reform* (1923), “In truth, the gold standard is already a barbarous relic. All of us, from the Governor of the Bank of England downwards, are now primarily interested in preserving the stability of business, prices, and employment, and are not likely, when the choice is forced on us, deliberately to sacrifice these to the outworn dogma, which had its value once, of £3. 17*s* 10 ½*d* per ounce. Advocates of the ancient standard do not observe how remote it now is from the spirit and the requirements of the age. A regulated non-metallic standard has slipped in unnoticed. *It exists.*” (Emphasis in original.) Keynes Vol. 4, 138.

Keynes greatly exaggerated the rumors of the gold standard’s death. (He may have done so for political reasons.) In 1925, Winston Churchill took Britain back onto the gold standard at the prewar parity. Eichengreen (1996, 59) describes the subsequent history: “But the relationship between British and foreign prices had not been restored. The fact that the exchange rate had moved before the price level meant that British prices were too high, causing competitive difficulties for the textile exporters of Lancashire and for import-competing chemical firms. Sterling's *overvaluation* depressed the demand for British goods, aggravating unemployment. It drained gold from the Bank of England, forcing it to raise interest rates even at the cost of depressing the economy. The slow growth and double-digit unemployment that plagued the British economy for the rest of the decade are commonly laid on the doorstep of the decision to restore the prewar parity.”

The week before the suspension, an “utterly depressed” Keynes lamented to a friend, “I have now come quite clearly to the belief that devaluation is the solution for this country...In private there are many who agree with me in their hearts, but I am almost alone in openly saying so. At present there is a vast wave of so-called patriotic propaganda to the contrary, which is trying to righten the people with most fantastic accounts of what would happen if we slipped our anchor.” Keynes Vol. 20, 603-06.

53. Those few within the Bank willing to consider suspension often backtracked when conditions changed. In mid-August, Harry Siepmann flirted with Keynes’s proposed coordinated devaluation. Moggridge 1992, 525-26. Days after the suspension, however, he vigorously defended the gold standard and the old parity. Hopkins Papers, 23 September 1931, T 175/56. (See note 22.) Such inconsistency explains Keynes’s vacillation on whether there would be sufficient political support to deliberately leave gold. Keynes, Vol. 20, 485–87, 590–612.

54. Keynes, Vol. 20, 54.

55. Sayers 1976, 407.

56. Eichengreen 1992, 282.

57. Sayers 1976, 407.

58. Capoccia and Keleman 2007. Previous scholars have glossed over this crucial cleavage. Clay 1957, 385- 86; Sayers 1976, 393; and Boyce 2009, 314-323. Einzig (1932a, 140-42) is an exception. The vicissitudes of this internal struggle explain what Simmons (1994, 230) called the Bank’s “erratic” policies.

59. See Odell 1982, 367–76; Ruggie 1982, 382; Goldstein 1988; Haas 1992, 14; Woods 1995; Blyth 2002, 10; and Legro 2005, 35.

60. Goldstein and Keohane 1993, 11-12.

61. Hall 1989, 390.

62. See Bleich 2011, 60; Irwin 1989; McNamara 1998; and Morrison 2012.

63. Hall 1993, 291.

64. Irwin 1989; and Morrison 2012.

65. Pelc 2011.

66. Frieden 1994.

67. Bordo and Kydland (1995) show that reality was more nuanced than this mentality allowed. As this paper shows, however, few Britons possessed this insight in 1931.

68. The higher costs of collective action ought to mitigate special interest capture.

69. Capoccia and Kelemen 2007, 341.

70. Goldstein and Keohane 1993, 12.

71. Goldstein 1988.

72. This is a high bar. Chwieroth (2010) shows that actors often swallow immense cognitive dissonance without such reevaluation.

73. Moggridge 1970.

74. See Accominotti 2012; Ahamed 2009, 4; Eichengreen 1992, 280-81; and Toniolo 2005, Ch. 4.

75. Howson 1975, 75.

76. See Eichengreen 1992, 281; and Williamson 1992, 282.

77. The Bank raised Bank rate to 6% in both the 1890 Baring Crisis and the Sterling Attack of 1906. It raised Bank rate to 7% during the 1907 Financial Crisis. Accominotti 2012, 30. In 1929, Bank rate was raised to 6.5%. Cairncross and Eichengreen 1983, 49.

78. “In the course of the ensuing discussion it was clear that general opinion amongst the [Clearing] Bankers was opposed to the idea of any credit…In conclusion the hope was expressed that the Bank would not hesitate to have recourse to the weapon of Bank Rate to whatever extent night prove necessary.” Minutes of the Committee of Treasury, archives of Bank of England (hereafter Treasury Minutes), 27 July 1931, G14/316.

Kunz (1987, 84) correctly reports, “The private bankers were opposed to the idea of any credit but preferred that if a credit were obtained it should be from New York not Paris. They also urged the Bank of England to make use of the traditional weapon of Bank rate.” But then she suggests that Norman “took the opportunity to tell [Treasury official Richard] Hopkins that the clearing bankers doubted the efficacy of Bank rate and were thus in favour of a credit. This was obviously the opposite of what the bankers had said and was not the last occasion where an official of the Bank of England would mislead the Government.”

Hopkins, however, reported to Chancellor Snowden, “The Governor told me at the end of this meeting that the reperesentatives [of the banks and bankers] were very anxious to avoid a collapse and doubted the efficacy of increased Bank Rate and increased fiduciary issue by themselves to effect this end.” T175/51, 27 July 1931. This clearly shows that the credits would be secondary tools if the primary tools—particularly Bank rate increases—failed to work “by themselves.” Thus, Norman evidently did not mislead the government.

79. Otto Niemeyer is exemplary. Niemeyer was a highly regarded Treasury official who, together with Norman, had persuaded Winston Churchill to return Britain to the gold standard in 1925. In 1927, Norman hired him away from the Treasury to work, in effect, as an emissary for the Bank abroad. Howson 2008. Hearing of Harvey’s suspension while he was abroad, Niemeyer immediately penned a stinging memorandum. He wrote, “it seems to me a mistake with £135m. gold (say £85m. net [after repaying the £50m. credit]) to have gone off gold on Monday Sept 21. I believe foreign fears arising from the Navy incident were waning: ditto similar fears about election (on which definite denial would have given some confidence): and that there was at least a chance of getting through - which shd. have been tried for another day or so, coupled with a 10% Bank Rate.” See Treasury Minutes, 21 September 1931, G14/316.

Writing in the year following the suspension, the Swarthmore economist Herbert Fraser similarly condemned Bank policy. He wrote, “[The Bank] raised the rate to 3 1/2 per cent on July 23 and to 4 1/2 per cent on July 30, where it remained during the crisis until the departure form the gold standard on September 21, when it was raised to 6 per cent. This was not following the ‘rules of the gold standard,’ as laid down by Great Britain in pre-War days. It is not consistent with her own practice nor with the advice she gave to nations in financial difficulties. That Great Britain should go off the gold standard with the bank rate at 4 1/2 per cent seems unbelievable. That the rate was not pushed up to 8 or 10 per cent in July 1931 crated an unfavourable impression abroad, and caused foreigners to believe that, after all, the British authorities would not make a real fight for the gold standard, thereby increasing the panic feeling. But the real heart of the problem was the extreme unwillingness to carry through a deflationary policy.”

80. See Cairncross and Eichengreen 1983, 79-82; and Eichengreen 1992, 282. See also Hallwood, Macdonald, and Marsh 1997, 184-85.

81. Eichengreen and Jeanne 2000, 17.

82. Eichengreen and Jeanne 2000, 17, 20; and Eichengreen and Temin 2000, 199-200.

83. Eichengreen 1992, 282.

84. Eichengreen and Jeanne 2000, 17.

85. Simmons (1994, 231n) cites Emile Moureau’s memoirs, in which he recollected that Norman had expressed some sensitivity to the unemployment rate. She writes, “In conversations with Moreau, Norman indicated the extent to which it would be politically difficult to counter the effects of the French sales of pounds by raising the bank rate.” It is not obvious, however, that this secondhand retrospective should trump the extensive evidence that Norman consistently prioritized sterling’s stability over employment rates.

86. Simmons 1994, 236.

87. Testifying before the Macmillan Committee, Norman was asked, “Let me put it in this precise form. You have from time to time to consider whether you will raise or lower the Bank Rate, which is one of the chief functions of the Bank of England. Have you in view when you raise or lower the Bank Rate what are or may be the consequences to the industrial position of the country?” Norman replied, “I should answer by saying that we have them in view, yes, but that the main consideration in connection with movements of the Bank Rate is the international consideration, and that especially over the last few years so far as the international position is concerned—certainly until the last few weeks—we have been continuously under the harrow.” Minutes of Evidence taken before the Committee on Finance and Industry, 26 March 1930, (UK) National Archives, T 200/8.

88. Simmons 1994, 46, 230.

89. Williamson (1992, 296) argues, “Far from supposing the Bank to be trying to dictate, MacDonald and Snowden asked for daily reports from Harvey.” He cites the Thompson-McCausland report, which claims, “The Prime Minister also requested that as long as the crisis continued, he should be kept informed in detail of the daily position and that the Deputy Governor should make it a practice to call on him after breakfast each morning.” Lucius Thompson-McCausland, “Crisis of July–Sept 1931,” archives of Bank of England, G14/ 316, 23.

As noted in the bibliographic exegesis (below), however, the Bank’s (Thompson-McCausland) report was biased and inaccurate.

90. Sayers 1976, 596-97. Accominotti (2012, 28) similarly notes, “the clearing banks had no representative.”

91. “Seven out of the 24 members of the Court of Directors were partners in merchant banking firms in 1931.” Accominotti 2012, 28. In a footnote, he lists the specific individuals: “Kenneth Goschen from Goschens & Cunliffe, Edward Charles Grenfell from Morgan Grenfell, Charles Jocelyn Hambro from Hambros, Sir Robert Kindersley from Lazards, Sir Edward Peacock from Barings, Frank Tiarks from Schröders, and Walter K. Wigham from Robert Fleming.”

92. Sayers 1976, 599.

93. Orbell 2004. Just as Norman preached, Barings minimized its exposure to commercial credit in the late 1920s. Under Peacock, it thus avoided the calamity that befell other merchant banks in July 1931. Accominotti 2012, 18.

94. Williamson 2004.

95. Eichengreen 1992, 284.

96. Howson 1975, Ch. 4.

97. George L. Harrison Papers, archives of Federal Reserve Bank of New York (hereafter Harrison Papers), 28 July 1931, file 3115.2. The precise date of a conversation in late July 1931 is of particular note. The memorandum includes a typed date: "Tuesday, July 29, 1931, 12:40 PM." Yet, 29 July was actually a Wednesday. This was noticed subsequently, and "Tuesday" was struck through, with "Wednesday" interlineated. This correction aligns the day and the date, and it seems to fit better better with the events recorded in Norman's diary (Bank ADM34/20). On the 28th, Norman had meetings into the early evening. It is unlikely he had a chance to speak with Harrison at length. On the 29th, however, Norman had both opportunity and motive. His diary notes: "1230 about - left C[ommittee of] Treas[ur]y + went home about 3 o clock. Queer." If the Harrison conversation took place on the 29th, it reveals much about the causes of Norman's collapse earlier that day. In this interpretation, the division between Norman and Harvey must have erupted in the middle of the Committee of Treasury meeting. Norman departed soon thereafter. In the early evening, he spoke with Harrison (12:40 PM New York Time). Speaking (presumably) in the privacy of his own home, Norman desperately sought reassurance. His poor health that evening (and for the next week) also explains why the conversation as not recorded in his diary.

Harrison’s notes report: ”I told Governor Norman that I was surprised that he had thought a credit was necessary. He said there were two schools of thought: one, that action at home should be taken to correct their position; the other that a credit would be desirable. He, himself, favored the credit but insisted that because of the early adjournment of Parliament without the necessary legislation the whole matter was now dead...I asked why Parliamentary action would be necessary and he said largely because it was unlikely that they could provide enough commercial bills to cover the amount which he has in mind. He said he had talked the whole matter over with J.P. Morgan, and Mr. Morgan had agreed with him that he should advise me of what had been done and why no credit was now being sought, the opportunity for it now having disappeared." Harrison's notes make clear that Norman did prefer a credit, initially. But, Norman insisted, the crisis had become too large too quickly for any obtainable credits to prove sufficient. This puts Norman in the "school" of those maintaining "that action at home should be taken to correct their position." Harvey's subsequent statements to the Cabinet make clear that he was in the other school. (See Note 98.) This is corroborated by the Bank's "erratic"--as Simmons (1996, p 230) put it--approaches to the crisis: when Norman was in control, the Bank employed its traditional tools (such as Bank Rate adjustments); when Harvey was at the helm, he eschewed Bank Rate hikes in favor of pursuing foreign credits and courting the markets by pushing for a capital-friendly government budget.

98. For the relevant text in “Bank G14/316, 6 August 1931,” see note 117. In his subsequent remarks to the Cabinet, Harvey alluded to this cleavage within the Bank, which Norman first emphasized. (For Norman’s articulation, see Note 97.) Harvey made clear his position in the conflict: “There were some who thought that the Bank should have relied more on its old weapons, that it should have allowed gold to be exported freely, have raised the Bank Rate, have restricted credit, and so forth. Their foreign friends, however, had advised strongly and unanimously against this course. The crisis had been one of confidence and in such cases people were less concerned about securing the margin of interest than of safeguarding capital. The advice which the Bank had received appeared to be governed by a desire to avoid any course which might stimulate the lack of confidence and militate against the success of the French public issue.” Cabinet Minutes and Papers, (UK) National Archives (hereafter Cabinet Minutes), CAB 23/68/ 6, 100–1. Former Reference: CC 53(31).

99. Harvey’s approach was not unprecedented. In the 1928 crisis, the Bank employed direct intervention, export impediments, and foreign borrowing rather than rate hikes. Cairncross and Eichengreen 1983, 39. For “Cabinet Minutes, CAB 23/68/6, 103,” see Note 98. For “Harrison Papers, 28 July 1931, File 3115.2,” see Note 97.

100. Kunz 1987, 85.

101. The *Boston Sunday Globe* (13 September 1931, 4) summarized the perception of Norman abroad: “Hence in the last two years France has been constantly challenging British financial power, and Mr Norman, instead of coming to terms with this powerful rival, as he had done in the case of the United States, elected to fight. It has been the complaint of officials of the Bank of France that he tried to dominate them; and when he could not do so he used all his power to thwart some of their plans…[T]here is no doubt that this banking rivalry had a lot to do with the precipitation of the financial crisis and its development."

102. Norman sent a confidential cablegram to Harrison. After summarizing the daily losses, Norman continued, “...TWO The normal remedy would be progressive increases in bank rate but with present conditions in Europe and with Conference [on the German financial crisis] perhaps approaching an impasse hesitate to being at once[.] THREE I do not see any other protective measures open to us[.] FOUR How do you view the prospects[,] and what is your advice[?]” Harrison Papers, file C261, 231/31.

103. Clay 1957, 384.

104. Norman wrote the new figure—3 1/2—in his diary and circled it. Diaries of Montagu Norman, archives of Bank of England (hereafter Norman Diaries), 23 July 1931, ADM34/20.

105. Harrison Papers, 28 July 1931, file 3115.2. See Note 97.

106. "On the question of the Bank Rate the Committee reviewed the whole position and agreed…[t]hat a recommendation be made to the Court to-morrow to raise the Bank Rate to 4 1/2%.” Treasury Minutes, 29 July 1931, G14/316.

That day, an embarrassed Harvey apologized to Moret for the Bank’s decision not to accept France’s credits: “Sir Robert [Kindersley] has told me again of the strong view which you hold that the situation would be immensely strengthened if something in the nature of a credit could be opened in the United states at the same time as in Paris, so that the three Central Banks of France, America, and England, would be able to show a united front in the face of a rather distracted World. I fully share this view, but since Sir Robert left England certain difficulties have disclosed themselves which must be overcome before we can proceed with such a plan. I am doing my to overcome these and am hopeful of success, but it appears that some delay in any case is inevitable.” Deputy Governor’s Letter Book, 29 July 1931, archives of Bank of England, G3/210. Clearly, Harvey supported the view that credits should be the primary weapon. The “certain difficulties” were likely Norman’s objections to this view. But Harvey’s persistence—and Norman’s inconsistent health—seems to have made Harvey “hopeful of success.”

107. “On 28 July Norman left the Bank 'feeling queer'. Once more he took to his bed, and there he stayed, with the exception of one day, 5 August, in a state of acute mental and nervous prostration.” Boyle 1967, 267-68. Norman’s diary confirms this.

108. Treasury Minutes, 30 July 1931, G14/316. “The Deputy Governor [Ernest Harvey] informed the Committee that since the Meeting yesterday he had seen the Chancellor and had had telephone conversations with Mr. [George] Harrison: he had also attended a Meeting of Bankers.” "Mr. Harrison had told him [Harvey] that the Federal Bank would, under certain conditions, be prepared to provide a credit of $100,000,000, but that if it were necessary to provide, say, $200,000,000, he would be compelled to consult the other New York Banks and any such proceeding must of necessity take time."

109. Throughout July, Norman met with a range of London bankers regularly. Norman Diaries, July 1931, ADM34/20. In his two months as acting governor, Harvey met primarily with just the heads of the major clearing bankers—and only a handful of times. In each case, the Bank records report that Harvey “acquainted” the bankers with the Bank’s policies after they had been set. In the same period, Harvey met with the major political figures—both in government and in opposition—almost daily. See Treasury Minutes, 30 July–24 September 1931, G14/316; and Deputy Governor’s Diary, 30 July–24 September 1931, archives of Bank of England, M5/459.

110. The Bank’s Committee of Treasury voted, among other things, “That the Chancellor be Informed that the Bank are not prepared to enter into the credit without some promise of support by the Government.” Treasury Minutes, 30 July 1931, G14/316. Eichengreen (1992, 282-83) also discusses these loan negotiations.

111. Throughout Norman’s diary, the meetings of the Committee of Treasury were written (presumably in advance) neatly in pen by another party. (They are not in Norman’s hand.) Norman’s entries typically appear in pencil. On 5 August, Norman has written “Bank all day” beneath the entry for “Committee of Treasury.” Norman Diaries, 5 August 1931, ADM34/20.

112. No previous scholar has attributed the shift in policy to Norman’s brief return. Other accounts blame Harvey. See Sayers 1976, 394-96; Williamson 1992, 282-87; and Boyce 2009; 318-19.

113. “Mr. Lacour Gayet called me this evening at seven o’clock to say that Mr. Siepman of the Bank of England had been in Paris today and that he had explained to the Bank of France that the Bank of England considered it necessary to lose gold and to raise the discount rate again, in order to make the British Government understand the seriousness of their position. Governor Moret advised Mr. Siepman that he considered it very dangerous to let the situation drift that way merely with a view to convincing the British Government of facts which they ought to understand anyway, that the necessary consequence of this policy had been to create misunderstanding by the public in France and to undo much that had been accomplished by the announcement of the credit.” Harrison Papers, 7 August 1931, file 3125.2.

114. “I explained to Lacour Gayet...that I had told Harvey as I now told Lacour Gayet that I thought the proposed procedure was the most satisfactory and workable one, that in my talk with Harvey I had insisted on the importance of their maintaining sterling above the gold point, that I did not question the legal right of the Bank of England to export gold if they want to, that I did not believe the granting of the credit deprived them of that right, but that I did question the wisdom of exporting gold at this time when it was being misinterpreted all over the world as a fundamental weakness in the London position.” Harrison Papers, 7 August 1931, file 3125.2.

115. Treasury Minutes, 6 August 1931, G14/316. The minutes of the Bank’s Committee of Treasury report that Harvey informed the Committee, “Yesterday evening the Bank had been in telephonic communication with the Bank of France; M. Moret had expressed surprise at our withdrawal of support of sterling, and had said that, in his opinion, there was an implied understanding when the credit was granted that the Bank of England would ensure that there should be no further loss of Gold until the Credit had been used or even perhaps exhausted; from this it is evidence that there was a misunderstanding between the Bank of France and ourselves as to the manner in which the credit was to be used for the purpose in view.”

116. The Bank later recounted the shift, “Messages from Paris and New fork confirmed the ill effects which the break had had on opinion there, and Mr. Siepmann, who was at once despatched to Paris to make sure that such misunderstandings should not occur in the future, was confronted with the urgent advice of the Governor of the Bank of France that the sterling exchange should on no account be allowed to fall again to the gold export point. This advice was supported by the Governor of the Federal deserve Bank of New Iork. It was consequently arranged that sterling should, for the time being at least, be supported exclusively by use of the credits and not by shipment of gold.” Lucius Thompson-McCausland, “Crisis of July–Sept 1931,” archives of Bank of England, G14/ 316, 20.

117. Treasury Minutes, 6 August 1931, G14/316. The minutes read, “After discussion the Committee [of Treasury] agreed...(2) That the increased loss of confidence abroad, which might follow any immediate rise in the Bank Rate, outweighed all other considerations, and that it would, therefore, be advisable to recommend to the Court [of Directors] that no alteration be made to-day in the Bank Rate.” Later, “at the rising of the Court the Committee continued their discussion and they agreed…That the Deputy Governor should inform the Chancellor at the earliest possible moment that in the opinion of the Bank the present lack of confidence abroad might only be intensified by mere reliance on the use of Bank Rate as a means of checking the drain of gold, that some immediate action is necessary as the Bank’s resources by themselves are insufficient to hold the position for more than a short time, that in the opinion of the Bank such action should take the form of a decision by the Government to adopt early measures for the adjustment of the present budgetary position and that the Bank desire to be allowed to lay their views before the Leaders of the Opposition Parties.”

Harvey then wrote to Chancellor Snowden. (A copy of the letter is also available at the Bank in Harvey’s correspondence. Bank G3-210.) He wrote, “The Governor has I know kept you fully informed of the recent position and the anxieties which have surrounded us I am very sorry to have to inform you that the position this week has worsened rather than improved. In part this is due to an apparent misunderstanding yesterday in Paris of our present attitude regarding sterling which has been extremely unfortunate, but there are other factors in the situation which I cannot well reduce to writing which are most disconcerting.”

“However black the Governor may have painted the picture in his discussions with you, his picture cannot have been more black than [the Bank’s] to-day.”

“We are doing all that we can but our power to act is rapidly diminishing. As I tried to explain to you last week, the reports which reach us all shew that the sign which foreigners expect from this country is the readjustment of the budgetary position, and this attitude on their part has again been forcibly expressed to-day in messages from both Paris and New York. I am most anxious not to step beyond my province but I feel I should be failing in my duty if I did not say that with the prospects as they present themselves to-day the time available for the Government to reach decisions on this subject (as a means of safeguarding the value of sterling) may be much shorter than recently seemed likely.”

Harvey explained, “My Committee to-day were so apprehensive that they charged me to find proper means of informing also the Leaders of the Opposition parties in strict confidence of the actual facts concerning the loss of gold and foreign exchange of their apprehensions concerning it, but they equally charged me not to act in any way which you would regard as embarrassing to the Government. Would you see objection to my seeking—of course entirely on my own initiative—an interview with those leaders for this purpose.”

118. Snowden wrote to MacDonald, “The panic of two days ago was due to a passing misunderstanding but the root causes remain. You will note in the Deputy Governor’s letter that the Treasury Advisory Committee of the Bank (consisting of the most experienced bankers and financiers) attribute that root cause to the belief of foreigners that our budgetary position is unsound and until that is remedied, or until there is evidence that we are taking drastic steps to set it right this uneasiness abroad will continue. This point you will remember was made in the Bankers letter of which you received a copy a few days ago. Whatever real foundation there may he for this impression abroad there can be no doubt about its reality and it is up to us to take immediate action to remove it as far as possible.” J. Ramsay MacDonald Diaries, (UK) National Archives (hereafter MacDonald Diaries), 7 August 1931, PRO 30/69/260.

119. MacDonald noted in his journal, “Bank considering how much more it is justified in using [the foreign credits] or whether it is hopeless to try + keep £; situation got beyond them & only Govt. can act. We pressed them to say what they meant. Reply: the failure to balance Budget is forfeiting confidence in sterling. Something shd. be done at once to prove that Budget is to be balanced. A renewed declaration not enough but at same time full details not required." J. Ramsay MacDonald Diaries, (UK) National Archives (hereafter MacDonald Diaries), 11 August 1931, PRO 30/69/260.

120. The politicians’ perspective has already been established. The perspective abroad followed similarly. At the end of August, Francis Rodd wrote to Harvey, “As you may imagine, the formation of a national government has been a great relief, not only to those of us who were abroad waiting for something to happen, but I think to all responsible people abroad, who were dreading the consequences of further procrastination on the London position, without one exception the foreigners whom I have met in [the Bank of International Settlements] believe that had nothing happened in London, a European, if not a world-wide, disaster would have followed within a very short time. The position was being watched abroad here literally from hour to hour during those difficult days, as might have been the news of the progress of a decisive battle.” Lucius Thompson-McCausland, “Crisis of July–Sept 1931,” archives of Bank of England, G14/ 316, 41.

121. Simmons 1994, 11-12.

122. Simmons 1994, 11-12.

123. Simmons 1994, 281.

124. Snowden proclaimed, “I want to conclude by associating myself with what the right hon. Gentleman said, or rather repeating my association with the words of the right hon. Gentleman in regard to the soundness of our national position. I say this mainly to be heard, as I hope it will be heard, by foreign opinion, and I assure them that the position of this country is fundamentally sound. London still remains the best market in the world for foreign investments, and so far as I am concerned and so far as the Government are concerned, we shall take every possible step to ensure that the proud and Sound position of British credit shall be in no way impaired.” 255 Parliamentary Debates, House of Commons (5th series) (1931), 2511–14.

125. Williamson 1992, 304-05.

126. “The country was suffering from lack of confidence abroad. There was, as yet, no panic at home, but the Prime Minister warned the Cabinet of the calamitous nature of the consequences which would immediately and inevitably follow from a financial panic and a flight from the pound.” Cabinet Minutes, CAB 23/67/21, 359. Former reference: CC 46(31).

127. The minutes from a meeting between the General Council of the Trades Union Congress and members of MacDonald's cabinet report, “Mr. Snowden said there was no truth in suggestions that the banks had exercised a sinister influence. In any case whatever the causes of the present trouble might be they were actualy faced with the position they were in. Mr. Snowden said that if sterling went the whole international financial structure would collapse, and there would be no comparison between the present depression and the chaos and ruin that would face us in that event. There would be millions more unemployed and complete industrial collapse.” MacDonald Diaries, 20 August 1931, PRO 30/69/260.

128. “The Chancellor of the Exchequer informed the Cabinet of the nature of the consequences which would follow from a departure from the gold standard, So far as he was concerned, he had no doubt whatever, if he was compelled to choose between retaining the Labour Movement in its present form and reducing the standard of living of the workmen by 50%, which would be the effect of departing from the gold standard, where his duty would lie; and he felt confident that his views would be shared by every responsible Leader of the Party.” Cabinet Minutes, CAB 23/67/19, 347.

129. MacDonald tried to explain the situation to Citrine, “The Cabinet met again this morning, and its Sub-Committee, whom you saw, reported what you said to it. It felt bound, however, to proceed with its examination of the scheme about which the Chancellor and myself talked to the joint meeting yesterday. It did this in the belief that if it took another course the situation would steadily worsen, and unemplovment would rapidly increase--far more rapidly than we have known it even during this terrible time of depression. As you know, nothing gives me greater regret than to disagree with old industrial friends, but I really personally find it absolutely impossible to overlook dread realities, as I am afraid you are doing.” Trades Union Congress 1931, 515.

130. Howson & Winch 1977, 16.

131. Members of the Cabinet met with delegates from the Trades Union Congress on 20 August 1931. In the final moments of the meeting, some of the TUC representatives (such as Walter Citrine) questioned whether the crisis was truly desperate. MacDonald (and presumably some others) simply ignored these remarks. From the meeting minutes, “Mr. J.H. Thomas asked what the General Council would actually do in the desperate situation which actually confronted the Government at the Present time.

Mr. Citrine said that the Council were not convinced that the situation was quite so desperate as was alleged. There were enormous resources in the country.

Mr. MacDonald thanked the General Council representatives for attending and said the Government very much appreciated the promptness with which the Council had dealt with the matter."

MacDonald Diaries, 20 August 1931, PRO 30/69/260.

132. The TUC rejected the proposals of the National Government, “The phrase ‘equality of sacrifice’ has bcen invoked as a justification for cuts in social expenditure, but no comparable sacrifice has so far been demanded from the wealthier sections of the community. Sacrifices by the workers are intended to be certain, sacrifices by other sections uncertain. The proposals to economise at the expense of the poor are not only unjust but economically unsound. They will increase unemployment and aggravate the basic problem underlying the present crisis by reducing the consuming power of the masses.” Trades Union Congress 1931, 520.

133. The TUC approached the question of devaluation gingerly. “The question arises whether the pound sterling can be maintained at its present parity with other currencies. The establishment of this parity in 1925, on the basis of an error in calculation, resulted in further deflation with its consequent injury to the export trades.”

“While devaluation (i.e., lowering the value of sterling in terms of other currencies by raising the Bank price for gold) would have the effect of reducing the purchasing power of the pound, it would also reduce the commodity value of the War Debts and other fixed charges and would directly stimulate the export industries. Its adoption would theoretically be the most effective means within the power of this country, if we have to act alone.”

“As a practical policy this method was rejected by the MacMillan Committee on Finance and Industry, but the General Council have suggested elsewhere their belief that this country may yet be driven to such an expedient if world conditions do not improve.” Trades Union Congress 1931, 518.

Note that TUC was willing to broach the possibility of a devaluation, but they did not fully endorse it.

134. Williamson 1984, 796.

135. MacDonald summarized the meeting with the representatives of the Trades Union Congress, which “included Hayday, Citrine, Bevin, Pugh, Walkden M.P. Their statement was that they were not to support the policy indicated by us in the afternoon, that we could balance the Budget by taxing the rentier, suspending the Sinking Fund (all) & such like, but no economies. Chancellor replied & I observed that all I had to say was that their observations did not touch our problem arising out of immediate financial necessity. They withdrew. It was practically a declaration of war. I was very tired & snatched a few minutes' rest whilst Henderson once more told us what he had proposed days ago & how everything had been initiated by him - except the things opposed by the T. U.C. people. He surrendered.” MacDonald Diaries, 21 August 1931, PRO 30/69/1753.

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

137. “The Prime Minister stated that he would at once submit to the Leaders of the Opposition Parties and the Representatives of the Bank of England the proposals as set out in C P . 203 (31) Revise, with the addition of the suggested Sinking Fund proposal.” Cabinet Minutes, CAB 23/67/18, 335. Former Reference: CC 43(31).

138. “In the considered opinion of the Bankers, the proposals would not only not produce the required effect, but would probably worsen the position by further diminishing confidence. At the subsequent meeting with the Representatives of the Leaders of the two Parties, all those Leaders had made it quite clear that the proposals were wholly unsatisfactory, and that none of them would give them any support…[T]he present financial resources would he exhausted within the next few days. The Party Leaders had made it clear that if the crisis occurred, the sole responsibility must rest with the Government, and in the most correct possible fashion they had suggested that His Majesty should be consulted.” Cabinet Minutes, CAB 23/67/19, 343–44. Former Reference: CC 44(31).

139. “The collapse of British credit will hit no one more hardly than the poor, and British credit is in very grave danger. The £50,000,000 credit recently granted to the Bank of England is approaching exhaustion, and within a few days further large credits must be obtained. They will be unobtainable unless some scheme is produced which either this or some other Government can carry through, and which will satisfy those to whom application has been made that in supporting sterling they will be supporting a currency possessing a first-class life. Such a scheme has been too long delayed, and the whole Cabinet know that if they really wish to save sterling they have only a few hours in which to do it...There has been talk, as was inevitable during a crisis so prolonged and so uncertain of a National Government of all parties, or alternatively of a combination of Conservatives with Liberals or of Liberals with Labour...[I]t is a stupendous task for any conceivable leadership to reverse the whole trend of a national policy which the Labour Party have made peculiarly their own; and there were signs last night that Mr. MacDonald was no longer strong enough to undertake it.” *London Times* 24 August 1931, 11.

Williamson (1992, 360n) notes, “The editorial was written by Coote, but presumably used information from Dawson, who may have obtained this indirectly from Chamberlain or Baldwin, or directly from Peacock: see Dawson diary, 22—4 Aug. 1931.”

140. Williamson 1992, 360.

141. “The Deputy Governor then informed the Committee of the course of events and stated that he had been asked whether the Bank and the City generally would view favourably the formation of a National Government, with Mr. Ramsay MacDonald as Prime Minister, to carry through the proposals already prepared by Mr. MacDonald and Mr. Snowden. The Committee were of opinion that this would in all the circumstances be the best possible arrangement and agreed that the Deputy Governor should ascertain the views of the leading Clearing Bankers.” Treasury Minutes, 24 August 1931, G14/316.

142. Williamson 1984, 799-804.

143. Nicolson 1999, 462-63.

144. “In conclusion, the Prime Minister said that it must be admitted that the proposals as a whole, represented the negation of everything that the Labour Party stood for, and yet he was absolutely satisfied that it was necessary in the national interests, to implement them if the country was to be secured.” Cabinet Minutes, CAB 23/67/21, 360. Former reference: CC 46(31).

145. MacDonald closed his entry for 21 August with, “I was depressed & saw nothing but a great humiliation to us all. The T.U.C. undoubtedly voice the feeling of the mass of workers. They do not know & their minds are rigid & think of superficial appears & so grasping at the shadow lose the bone.” On the 23rd, he noted, “Am preparing a statement if I resign to give to the press at once. I commit political suicide to save the crisis. If there is no other way I shall do it as cheerfully as an ancient Jap.” MacDonald Diaries, 21–24 August 1931, PRO 30/69/1753.

146. Arthur Henderson led all but a few of the Labour MPs in revolt. His speech following the formation of the so-called “National” Government must have represented the views of those outside of MacDonald’s new government:

“I hope the House will accept it from me that never on any previous occasion during the eight and twenty years that T have been a member of this House have I risen to address it with a greater feeling of embarrassment than I do to-day…I want to say this, that whether the withdrawal of our colleagues be long or short, whether it be temporary or permanent, it is a direct loss to the labour movement. The next point is the position of the new Government. I notice that it is described as a National Government. I hold that neither by its composition nor the manner of its formation is it entitled to call itself a national Government. We have the largest party on this side of the House, notwithstanding the bakers dozen of defections which have taken place, and how a Government can be described as a national Government which lacks the support of the party representing the largest number of Members of this House I fail to understand.” 256 Parliamentary Debates, House of Commons (5th series) (1931), 25–27.

147. Eichengreen & Temin 2000, 202, 207.

148. Simmons 1994, 230.

149. For active citation, see note 139. *London Times* 24 August 1931, 11.

150. Clarke 1967, 208.

151. Marquand 1977, 655.

152. “As [Harvey] had said before, however, future prospects must, in his view, depend upon the course of political developments here. In reply to a question. Sir Ernest Harvey said that he thought that a programme giving total results similar to those which had been indicated to him by the late Government and including the points which he himself had then indicated as desirable for the satisfaction of foreign holders of1sterling, would prove adequate unless it should appear later that such a programme was likely to lead to interminable political wrangle. If the measures were passed rapidly the results should be good, always assuming that they were not followed by a rapid worsening in the position of the balance of trade.” The key here is Harvey’s insistence that the budget be “passed” by Parliament rather than bogged down in “interminable political wrangle.” Cabinet Minutes, 3 September 1931, CAB 23/68/6. Former reference: CC 53(31).

153. Williamson 1992, 367; and Eichengreen 1981, 20.

154. MacDonald spoke with passion, “The position that those of us in responsible positions had to face was that there was something like a typhoon approaching and, unless we could avert it, it would pass over us leaving widely strewn wreckage behind.”

Later in this speech, “We maintain that if instant action had not been taken as regards this specific crisis, it would have meant that sterling, as I have said, would not merely have gone off gold or at least would have been reduced—I am not making any pronouncement. At any rate, that is a reasonable matter for discussion and consideration. But that is not what would have happened the other day—the pound sterling would not have had its content of gold diminished to a certain extent by a careful management and in the course of carrying out a plan; it would have tumbled. One day it would have been 20s. and the next day 10s., and it would have tumbled without control. [Interruption.] I am not scaremongering; I am giving you some history. That happened in Berlin. What, then, would have happened? Hon. Members who are representing Labour but not more adequately than I am and than I shall be doing, have to remember what would have happened if nothing had been done to avert what was maturing over our heads. Sterling, as I say, would have gone off the gold standard without management or control. It would have tumbled.” 256 Parliamentary Debates, House of Commons (5th series) (1931), 13–25.

155. “I wish to bring the House back to the actual situation in which it finds itself. This is an emergency. Everything that the House is being asked to do at this moment in connection with the particular piece of work which we have in hand is of the nature of an emergency, and the Bill, the Second Reading of which I am now moving, is an emergency Bill.”

Later in the speech, “The Bill that is before the House lays down procedure which is as drastic as the proposals that it contains. Neither is palatable, but both are necessary. I hope hon. Members opposite, whatever their feelings and passions may be, will know perfectly well that an emergency measure like this is distasteful to me, and that I should never propose or dream of proposing it unless I was driven by my sense of national necessity.” 256 Parliamentary Debates, House of Commons (5th series) (1931), 419-21.

156. Chamberlain agreed that the stakes were immensely high, “We have had speeches from various right hon. Members opposite purporting to give the effect of the conversations which had taken place, and in view of that fact and of the fact that the Leader of the Opposition gave the House his account of those conversations, or what he said had been reported to him in those conversations, I think I, as one who took part in them, am also entitled to give my version of what took place. There was no ultimatum. There was no demand for a specific increase in the economies. There never was a demand for a specific cut in unemployment benefit. Our views were put forward as suggestions, as honest expressions of opinion as to what we thought would be the steps necessary to avert the crisis which had brought us to the verge of national ruin—[Interruption]—and I am sure the House will be relieved that I can tell them to-night that in every particular I can confirm the figures given to the House this afternoon by my right hon. Friend the Home Secretary and that those were the figures which were given to us during those conversations.” 256 Parliamentary Debates, House of Commons (5th series) (1931), 641-44.

Invoking the power of the "Treasury View," Simmons (1994, 234) declares, "Few in Britain—and fewer still in policymaking circles in the Treasury—were convinced that deficits would stimulate the economy.”

Chamberlain, however, declared to Parliament, “To make these economies is as disagreeable and distasteful a task as could be undertaken by any Government. It requires more courage—[Interruption.] A Government formed as this Government has been for a specific purpose must always be at a disadvantage. Everybody recognises that, although the measures that we have taken have for the time being averted the disaster which threatened us, in the long run they must fail unless we restore the trade balance. [HON MEMBERS: "Swallow the tariff!"] Everybody admits that these proposals must have an immediate effect on increasing unemployment, but to complete the programme we want a constructive programme to stimulate the progress of industry and agriculture. This country cannot long await that constructive programme. The sooner we conclude this business the sooner the Government or its successors will be able to begin on the work of building up.” 256 Parliamentary Debates, House of Commons (5th series) (1931), 641-44.

Thus, British policymakers recognized the implications of fiscal policy for unemployment rates. Yet, they believed that monetary stability required a gold anchor. Thus, they suborninated fiscal policy to the maintenance of exchange rate fixity—*even as they recognized that doing so exacerbated unemployment*.

157. Roskill 1972, 551-52.

158. Sayers 1976, 400n.

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

160. Simmons 1994, 271.

161. Kunz 1987, 185.

162. Eichengreen and Jeanne 2000, 11.

163. Simmons 1994, 271.

164. Outside the Houses of Parliament little groups collected under their ringleaders shouting in unison "One, two three— HANDS OFF THE DOLE!" and "One, two, three—WE STAND FOR THE WORKING CLASSES, DOWN WITH THE RULING CLASSES!" British bobbies did not charge but nudged them out of the square. “Great Britain: England Yet Shall Stand,” *Time* (Internet ed.), 21 September 1931.

165. Williamson 1992, 402; and Eichengreen 1992, 284.

166. Williamson 1992, 402-03.

167. I borrow this concept from Abdelal (2001).

168. Kunz 1987, 185.

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

170. “The Prime Minister informed the Cabinet that…he had… met Sir Ernest Harvey…and Mr Peacock that afternoon. The bankers had reported a deterioration in the financial situation due to an increase in the withdrawals from London during the last few days. While the causes for the withdrawals were difficult to establish with certainty, the bankers attributed them in the main to the following reasons: (l) Lack of confidence of foreign nationals in their own financial position…(2) The adverse balance of trade...(3) The recent Naval unrest in the Atlantic Fleet...(4) An internal flight from the £...(5) The risk of a General Election. The bankers said that the financial world had been a good deal upset when a statement had been made that the National Government was only to be short-lived.” Cabinet Minutes, CAB 23/68/12, 211. Former reference: CC 59(31).

171. On 3 September 1931, Deputy Governor Ernest Harvey and his own unofficial deputy, Edward Peacock addressed the Cabinet of the new National Government. From the Cabinet Secretary’s notes, “Asked as to the probable effect abroad of the announcement of a General Election, Sir Ernest said that if it were to be thought that the result of such an Election might jeopardise the measures contemplated for dealing with the situation, foreign opinion might be greatly disturbed. If it should appear that there was a real determination in the country to make the necessary financial readjustments no harm might result. Mr. Peacock in this connection expressed the view that the talk of the present Government remaining in office merely for a period of a few weeks had been rather disturbing.” Cabinet Minutes, CAB 23/68/6, 102. Former Reference: CC 53(31).

172. “Wednesday, September 16, 1931. Sir Ernest Harvey telephone me today at 1:20 p.m. to say that they are still having a troublesome time with their exchange situation and to ask whether if the British government should decide to go to the country for a general election it would be disturbing to sentiment here with regard to startling. He explained that in his own opinion if they go to the country for a general election on the old basis of a three-party election the results will be bad; but that if the election is one between the Nationalists party and the non-Nationalists, the effect will not be so disturbing. He added that many believe in London that if the election takes place on the old party lines it will have the effect of [f]urther pressure upon sterling through increased withdrawals from London.” Harrison Papers, 16 September 1931, file 3117.1.

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

174. Harrison Papers, [28 or 29] July 1931, file 3115.2. Harrison noted, “Going back to the question of a conversion loan. Governor Norman said there were very definite reasons against this quite apart from the fact that you cannot make a loan unless your house is in order. Governor Norman then asked me whether I were coming abroad soon; that he wanted very much to see me, but hoped I would do absolutely nothing before talking with Walter Stewart, who is now on the water and who understands the whole situation inside and out as well as any one; that he has told him the whole story to relay to me.”

“Governor Norman was obviously very cautious over the telephone in his use of words and names, and made it difficult for me to understand in some cases what he specifically had in mind.” See also Note 97.

175. Harrison’s note from their telephone conversation: “I then mentioned I had asked Harvey several times whether he thought the program was adequate and while he generally implied he thought it was, I got no definite answer from him. Norman intimated that I probably would not get a definite answer from him but that he, Norman, felt that the program was inadequate; that we must not fool ourselves now; that any inadequate program would cause trouble in a year or so and that it is essential that we must force an economic adjustment now and not in a year or so from now; that the program, in his judgment, must be sufficiently drastic to place the cost of output and wages on a competitive basis with the rest of the world and unless that were done he was certain the program would not be adequate; that if the Government attacked the situation courageously and did enough by way of drastic readjustment then, in his judgement, they would not need a credit at all...The sum and substance of our conversation indicated pretty clearly, however, that Norman felt the proposed program was not sufficiently severe to avoid trouble later on and that there was no use in doing the thing halfway.” Harrison Papers, 23 August, file 3115.2.

176. Harrison Papers, 23 August-17 September, file 3115.2. Norman’s crisscrossing travels can be pieced together from the locations of phone conversations and telegrams.

177. Prior to the demise of the gold standard, the formulation “pegging the exchange rate” meant bolstering the exchange rate using reserves (and foreign credits). Thompson-McCausland reports, “For the Bank's operations, Bank Bate and gold exports, the traditional weapons in the armoury of the gold standard, were no longer available. There was indeed some questioning from New York (cabled from Messrs. J.P.Morgan & Co. of the 7th September) ‘why the Bank of England does not use the classic remedy of the Bank Rate instead of apparently pegging exchange?’ But to the Bank itself the arguments against increases in the rate appeared decisive during this period.” Lucius Thompson- McCausland, “Crisis of July–Sept 1931,” archives of Bank of England, G14/316, 44.

178. “During the course of my conversation with Harvey I told him that I had just seen Norman, that he was much disturbed about the way the exchange situation was handled and he agreed with us that it was most important not to peg it, that every peg in past history had proved disastrous, that he saw no occasion for it at this time and that the chief reason he was hurrying home before he was quite ready to do so was to see if he could not make some headway in handling the exchange situation more satisfactorily.” Harrison Papers, 16 September 1931, file 3117.1.

179. The bankers’ fixation on maintaining their carefully orchestrated budget is clear in their discussions with MacDonald the evening before the suspension. “At the conclusion of the meeting Mr. Peacock said that no one could accuse this country of not having made every effort before letting the pound go, and it was pointed out that by having balanced the Budget, whatever happened, this country had at least demonstrated her will to play the game at all costs.” Prime Minister’s Office: Correspondence and Papers, 18 September 1931, (UK) National Archives, PREM 1/97.

“As mentioned in the Press Notice (Appendix II), there was a great difference between going off the gold standard with an unbalanced Budget accompanied by uncontrolled inflation, and taking this measure not because of internal financial difficulties but because of excessive withdrawals of borrowed capital.” Accordingly, the press notice read, “His Majesty's Government have secured at the cost of painful sacrifice a balanced budget and the internal position of the country is sound. This position must be maintained. It is one thing to go off the gold standard with an unbalanced Budget and uncontrolled inflation; it is quite another thing to take this measure, not because of internal financial difficulties, but because of excessive withdrawals of borrowed capital. The ultimate resources of this country are enormous, and there is no doubt that the present exchange difficulties will prove only temporary.” Cabinet Minutes, CAB 23/68/13, 219–20. Former Reference: CC 60(31).

180. This comes from extracts of the minutes of the Committee of Treasury within the Bank: “The Deputy Governor pointed out to the Committee [of Treasury] that at the present rate the Credits would probably last less than a fortnight and after discussion it was agreed that the Prime Minister be informed that in the opinion of the Bank, (1) It would be impossible with existing resources to maintain the Gold Standard during the period necessary to conduct a General Election, (2) That if the Government were to announce without delay that in view of the national Emergency General Election is not contemplated at the present time, but that the present Government will immediately introduce measures designed to correct the adverse balance of trade (whether by the imposition of an Emergency Tariff or otherwise) and at the same time appeal to the Nation to support a scheme for voluntary conversion of Government Stocks, the announcement might induce some return of confidence at home and abroad and lead to some diminution in the withdrawal of foreign balances.” Treasury Minutes, 17–18 September 1931, G14/316.

Despite Harvey’s appeals, MacDonald replied that he saw “three alternatives, (1) To put forward proposals for an Emergency Tariff immediately, (2) To go to the Country next month [in an election] as a National Government with a strong programme and in the meantime to acquaint France and the United States with the position in the hope that they might be willing to render further assistance, (3) To abandon the Gold Standard. The Prime Minister favoured the second course…” Treasury Minutes, 17 September 1931, G14/316.

181. “Harvey then said that they have come to the definite conclusion, for which they saw no option, to suspend gold payments Monday morning. I asked him what would be the form of the announcement. He said he was not sure but that it would probably be a simple announcement that the British government had authorized the Bank of England to suspend gold payments in order to give the British government opportunity to turn around in the readjustment of its internal affairs. He said they would probably not use the word "temporary" suspension but that the form of the announcement would not in any way imply a permanent abandonment.” Harrison Papers, 19 September 1931, file 3117.1.

182. The Bank minutes record the decision but do not explain its rationale: “The Committee agreed, (1) That before taking any decisive action it would be desirable that the Bank should lose a certain amount of Gold.” Treasury Minutes, 18 September 1931, G14/316.

183. Treasury Minutes, 6 August 1931, G14/316. See material in footnote 115.

184. “‘Mr. Montagu Norman Sails for England.’ Montreal, Thursday, Sept. 17. Mr. Montagu Norman, the governor of the Bank of England sailed for Liverpool to-day by the s.s. Duchess of Bedford—Reuter.” *Daily Express* 18 September 1931, 3.

185. "Gossip in the City is busy with conjecture as to who will be the next Governor of the Bank of England.

It is believed that Mr. Montagu Norman will not seek re-election.

In the Foreign Exchange market, sterling in Paris and New York was maintained. So far, however, there appear no signs of material balances returning to London.” *Daily Mail* 16 September 1931, 2.

When the press questioned Norman, he sent a radiogram (wireless message) to Harvey, “Sunday [E]xpress prepay wireless answer concerning my rumoured retirement. [B]eing personally uninformed I ignore.” Governor’s Files, 18 September 1931, archives of Bank of England, G1/515.

In reply, Harvey assured Norman, “Your decision quite right. Enquiry doubtless caused by irresponsible note regarding health in Daily Mail.” (This is the article quoted here.) Harvey’s radiogram then immediately continued with his infamous announcement that the Bank had suspended convertibility: “Sorry we have to go off tomorrow and cannot wait to see you before doing so. Hope you are well all send greetings.” Governor’s Files, 18 September 1931, archives of Bank of England, G1/515.

186. “The Deputy-Governor...said: ‘These are difficult times, and we are glad to feel that, at any rate, we have the support of our own proprietors. I hope that, despite the difficulties through which we are still passing, next meet we may have as good a position to place before you.’

A vote of thanks was accorded to the governor (Mr. Montagu Norman), to the Court of Directors and the officials of the company.

The Deputy-Governor, replying, said he was glad to be able to report that he heard yesterday (Wednesday) that the Governor was better. He hoped he might be well enough to join the Court again before very long.

The dividend of the bank of England has been 6% actual since February, 1923.”

*Financial Times* 18 September 1931, 5.

187. Sayers 1976, 627-31.

188. “In reply to a question by the Prime Minister as to when the Bank of England would know the full extent of their difficulties the Deputy Governor said that however things were on Saturday morning it would be inevitable to suspend gold payments on Monday. He would talk to the bankers to-morrow in regard to the Bank Holiday, and should know at noon if the Holiday were needed on Monday. But they meant to do without a Holiday if it were possible.” Prime Minister’s Office: Correspondence and Papers, 18 September 1931, (UK) National Archives, PREM 1/97.

189. Thompson-McCausland explained, “From a rate of £3 to £4 million a day in the early part of the week, the withdrawals rose to £6 1/4 million on Thursday and £18 million on Friday, and on Saturday morning to £10 1/2 million.” Lucius Thompson-McCausland, “Crisis of July–Sept 1931,” archives of Bank of England, G14/316, 49. The figures themselves are noted in Prime Minister’s Office: Correspondence and Papers, 18 September 1931, (UK) National Archives, PREM 1/97.

190. I asked him whether there was not anything left to do, especially in view of the fact that withdrawals today seem to have let up so much as compared with yesterday. He said he was afraid not that they had reached the end of their tether and that so far as he could see there was nothing left to do...I asked him whether with some evidence of slowing up today there were not some restrictions which might be put in together with the $75 million leeway [in the Paris credit] that might turn the tide. Harvey was of the definite impression that there was nothing left for them to do…” Harrison Papers, 19 September 1931, file 3117.1.

191. “I repeated that the whole situation was a great shock to me and a great pity and that I hope we could keep our backs up and fight to the last minute hoping that something might happen. Harvey despondently said he thought there was hardly any chance of anything happening to change their final judgment in the matter.” Harrison Papers, 19 September 1931, file 3117.1.

192. Kunz 1991, 137.

193. Otto Niemeyer’s memorandum (Treasury Minutes, 21 September 1931, G14/316) reveals dissent within the Bank over these decisions. See note 79.

194. “…the Prime Minister had undertaken to furnish the Bank to-day with a letter authorising them to place such restrictions on the supply of Gold as they might deem requisite in the national interest, and to pass a Bill through Parliament on Monday indemnifying the Bank for so doing, and suspending Sub-section 2 of Clause 1 of the Gold Standard Act of 1925…The Committee agreed that a meeting of the Court should be held tomorrow evening and that it be recommended to the Court that the Rate of Discount be increased to 6 per cent, as from the commencement of business on Monday, the 21st September.” Treasury Minutes, 17-19 September 1931, G14/316.

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

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

197. On the 19th, Harvey formally requested that MacDonald suspend the Gold Standard Act. He wrote, “The heavy demands for exchange on New York and Paris still continue. In addition the Bank are being subjected to a drain of gold for Holland. Under these circumstances, the Bank consider that having regard to the above commitments and to contingencies that may arise, it would be impossible for them to meet the demands for gold with which they would be faced on withdrawal of support from the New York and Paris exchanges. The Bank therefore feel it their duty to represent that, in their opinion, it is expedient in the national interest that they should be relieved of their obligation to sell gold under the provisions of Section 1 sub-section 2 of the Gold Standard Act, 1925.” MacDonald replied the same day, “His Majesty's Government are of opinion that the Bank of England should place such restrictions on the supply of gold as the Bank may deem requisite in the national interest. They will be prepared to propose to Parliament forthwith a Bill giving indemnity for any such action taken by the Bank.” Lucius Thompson-McCausland, “Crisis of July–Sept 1931,” archives of Bank of England, G14/ 316, 49–50.

198. “The Committee were of opinion that subject to the views of the Committee of the Clearing Bankers and of the CommitteeofthestookExchange,theBanksshouldopenas ' usual on Monday, but that it might be advisable for the stock Exchange to be closed on that day…Mr. Peacock attended a Meeting of the Clearing Bankers in order to acquaint them with the full position and subsequently reported their views to the Committee.” Treasury Minutes, 19 September 1931, G14/316.

“At 6 p.m. on Sunday (20th) the Bank’s Court of Directors met…Later that evening the government issued the public announcement of its capitulation.” Sayers 1976, 412-13.

199. Harvey’s infamous telegram read, "Your decision [not to talk to the press] quite right. Enquiry doubtless caused by irresponsible note regarding health in Daily Mail. Sorry we have to go off tomorrow and cannot wait to see you before doing so. Hope you are well. All send greetings. Ernest.” Governor’s Files, 20 September 1931, archives of Bank of England, G1/515. This interpretation directly challenges Kunz (1987, 134), who argues, “Given Norman's exceedingly centralized management style, it being no exaggeration to say he believed that La Banque, c'est moi, it seems difficult to believe that Norman would approve of Harvey and Peacock taking a decision as major as leaving the gold standard without consulting him when they had the ability to do so and an awareness that he was conversant with the current situation. The intimacy of Norman's post 1931 relations with Harvey and Peacock would seem to indicate the Governor's approval of their activities during Norman's absence."

200. Boyle 1967 (268) quotes a telegram from Harvey that Norman received upon landing at Liverpool. It read, “We have been through terrible times and at present I am feeling rather stunned. Though the outlook is dark I hope for the best. But we have terribly missed your guidance in our troubles. Indeed we seem to have been afflicted with every possible kind of misfortune. I hope [concluded Harvey with a touch of nervous sententiousness] you are going to rest quietly for a bit.” Regrettably, the original telegram could not be found among Norman’s papers.

There does survive, however, a telegram sent by Norman’s uncle, at Harvey’s urging. It reads, ”Just returned home. Enquiries of Deputy [Harvey] and urge you postpone return some weeks. Comparatively settled water now storms probable later when all strength needed." Governor’s Files, 7[?] September 1931, archives of Bank of England, G1/515. (I infer 7 September as it was sent to Digby, which is where Norman stayed on the 7th.)

On the back of this telegram, Norman drafted a response, “Thanks kindly suggestive collusive cable but you ignore facts for weather breaking hotels closing season ended and better go elsewhere soon than remain here now--sailing D. of Bedford sixteenth please tell [Dils] family.” Norman included a date at the top: 16 September. Governor’s Files, 16 September 1931, archives of Bank of England, G1/515.

The Bank’s records contain an “extract of a cable” with slightly different wording: “Thanks kindly suggestion in collusive cables. But you ignore facts for weather's breaking, Hotel closing, season ended. I had better go elsewhere soon than remain here now." That extract is dated 11 September. Governor’s Files, 16 September 1931, archives of Bank of England, G1/515.

The references to the weather are almost certainly metaphors for the financial crisis. As such, these documents clearly show Harvey suggesting to Norman that he delay his return by “some weeks,” at the same time that Harvey insisted to the government that the Bank could not last days. Norman, however, saw through the ruse and endeavoured to return before it was too late.

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

202. I have synthesized strands from several press accounts. The *Scotsman* (24 September 1931, 10) reports:

“While other passengers were still in their cabins, Mr Norman had breakfasted and left the ship in midstream. A tender had gone alongside the Duchess when she was anchored, and Customs and Aliens officials went on board, and all formalities were gone through to enable Mr Montagu Norman to get away unobserved.

He had expressed a wish by wireless that he might be spared the ordeal of being interviewed, and it was in order to meet these wishes that special arrangements were made.”

The *Daily Express* (24 September 1931, 3) recounted how Norman had made these arrangements:

“Mr. Norman landed at Liverpool from the Canadian Pacific liner Duchess of Bedford early in the morning. He had wirelessed for a tender to put out into the river to take him from the liner, and in this way he dodged the crowd waiting at the quayside. He drove to the railway station at Liverpool just before the train was due to leave, locked himself into a first-class compartment, and at once began dictating letters to his secretary.”

203. “[Norman] landed at Liverpool by a special tender which took him off the liner Duchess of Bedford. As he was rushed to a waiting train he did not say anything to newspaper reporters except that it was a fine day. At Euston station, London, greater precautions were taken to protect him than are usually taken to protect the king.” *Chicago Daily Tribune* 24 September 1931, 2.

204. “Extensive precautions were taken in London to keep the public away from the platform of the Liverpool train. A police inspector, two sergeants and ten constables cleared an area of some square yards. Hundreds awaited the train, but none were allowed past the bodyguard. Newspapermen were informed they would not be allowed to interview Mr. Norman, and photographers were kept at a distance.” *New York Times* 24 September, 1931, 13.

The *Daily Express* (24 September 1931, 3) counted a slightly smaller police escort, “one police inspector, two sergeants and eight constables.”

It is not clear which report accurately reflects the number of police constables accurately. But the difference between eight and ten likely does not change the scene of a Bank governor determined to get to the Bank as quickly as possible.

205. “The police took extraordinary care that no one other than Sir Josiah Stamp should be allowed to speak to Mr. Norman when he arrived at Euston. A large crowd had gathered, but was kept well down the platform…A cordon was drawn round Mr. Norman’s waiting motor-car. Sir Josiah engaged him in serious conversation as soon as he stepped on to [sic] the platform, and the two drove away at once to the Bank of England.” *Daily Express* 24 September 1931, 3.

206. Although he mistakes the date of Norman’s return—and misquotes the infamous telegram—Clay (1957, 399) recounts, “Nothing could have been a greater blow: [Norman] was profoundly depressed and for a time his temper showed it.”

Boyle (1967, 268) mangled the telegram even more. But he described the scene of Norman’s return more vividly, “Poor Harvey had to suffer much unwelcome abuse later that day when the Governor arrived unexpectedly at the Bank, his face drawn with anguish, and demanded a full explanation. Even Peacock, the only man on the premises who could normally handle Norman in a tantrum, utterly failed to calm him and almost lost his own temper in the process.”

Unfortunately, neither author offers documentary evidence. Instead, the depictions must have been based on reminisces.

Clay’s (unfinished) biography of Norman was rooted in his personal experience at the Bank, working under Norman. (The editors of Clay’s biography of Norman note, “Clay was an intimate adviser of Lord Norman at the Bank from 1929.” Clay 1957, viii.)

Similarly, Boyle leaned heavily on interviews with Norman’s contemporaries. He (viii) explained, “I was particularly fortunate during the first decisive twelve months of research in finding, still alive and fully possessed of their faculties, a dozen or so of Montagu Norman's earliest contemporaries. Had I failed to run these key-witnesses to ground, or had they proved either unwilling or unable to testify with less than the perfect frankness I desired, I should almost certainly have abandoned my quest for Norman.”

Thus, it seems reasonable to conclude that while the details were not always faithfully reproduced, Norman’s demeanor attending his return was unforgettable.

207. Sayers 1976, 600, 650-51.

208. By the time the rumors reached the foreign press, they were (largely) assumed to be true:

“The Daily Mail today says it understands there is everything likelihood Montagu Norman will not offer himself for re-election as Governor of the Bank of England. The newspaper [the Daily Mail] says it has been suggested that Mr. Norman, who has been governor of the Bank since 1920, may not complete his year of office but will seek an earlier rest.” *New York Times* 24 September, 1931, 13.

“Montagu Norman, governor of Bank of England, arrives in London from Canada, accompanied by report he will not renew term but will be succeeded by Sir Josiah Stamp.” *Wall Street Journal* 24 September 1931, 1.

“London by this time had heard impressive rumors that Mr. Norman will soon be succeeded as Governor by that director of the Bank of England who was seemingly closest to the actual helm in the crisis fortnight ago, Sir Josiah Stamp, grizzled chairman of the great London, Midland and Scottish Railway.” *Time* 5 October 1931.

After listing the usual suspects, Einzig (1932a, 144) suggests that Harvey was a favored candidate to replace Norman. “Last, but by no means least, in many quarters it was considered highly probable that the Deputy- Governor, Sir Ernest Harvey, whose impartiality and independence from any financial interest placed him at an advantage as compared with most other directors, would succeed Mr. Norman.”

209. “Montagu Norman is probably serving his last term as governor of the [B]ank of England. It is learned that the 'the [C]ity,’ the British equivalent to 'Wall Street,' blames him for the humiliation of British finance and proposes to make him the scapegoat…Norman, who is on vacation in Canada, is especially blamed for alleged tactlessness in handling French financiers…Then came Mr. Norman's spectacular dash to Canada at the height of the crisis, leaving his associates to face the music in London.” *Chicago Daily Tribune* 1 September 1931, 5.

This article provides some sense of the running public commentary during Norman’s absence. While Norman’s colleagues at the Bank knew well the circumstances of his visit to North America, it was clear that he would have to regain the trust of both those colleagues and the public.

210. “London. Sept 24. (AP)—Rumors that Montagu Norman, governor of the Bank of England, would resign were current in financial circles to-day, but it was said at the bank that nothing was known there of such reports.

Mr. Norman, who returned here from Canada yesterday, was at his desk in the bank.” *Los Angeles Times* 25 September 1931.

“Last week as Governor Norman's train drew into London there again on the platform was big, broad Sir Josiah with the familiar round button on his right temple. "Hello, old boy!" he boomed at slender Mr. Norman. "How are you?" "Greatest Friend of New York." Next morning, from the office of the Governor of the Bank of England, it was denied that Mr. Norman will resign.” “International: Pound, Dollar and Franc,” *Time* (Internet ed.), 5 October 1931.

211. In his diary for the 24th, Norman wrote "3 [PM] to Much Hadham" with a line drawn through the remaining days. Norman surely stayed at Moor Place, the Georgian mansion that had been his family home. He returned to London on the 27th. Norman Diaries, 24–27 September 1931, ADM34/20.

212. “It is understood that the suspension provided for in the Bill, which is to be passed through all its stages in both Houses to-day, is limited to a period of six months...It will be made clear on behalf of the Government to-day that the reason for the action taken is the lack of confidence abroad.” *London Times* 21 September 1931, 12.

213. Keynes, Vol. 9, 245.

214. Eichengreen & Temin 2000, 185, 201, 207.

215. “Never before has the British democracy been called upon to take a decision which in a single day will preserve or destroy the value of British currency and the solidity of British credit. That is the issue at this election, and it has become more and more clear during the campaign that it is the only issue. There cannot be the slightest doubt that a victory for the Socialist Party to-day would mean an immediate and serious depreciation in the value of the pound to-morrow...The world rightly looks upon it as being, in Mr. Baldwin’s phrase, “the acid test of democracy”--the test whether the British nation has or has not the courage to pay its way.” *London Times* 27 October 1931, 11.

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

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

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

219. Gourevitch 1986, 140.

220. “London and New York received word of this great step with comparative calm. There were no bank runs, no rush to the stores to convert money in goods for hoarding. Bankers filled the papers with the sort of optimistic statements that doctors make to very sick patients.” “Great Britain: Run,” *Time* (Internet ed.), 28 September 1931. This is likely because the Bank finally raised interest rates.

221. Howson 1975, 81.

222. In one memo Frederick Phillips marvelled, “…the danger of inflation was real. That danger has been removed. By increasing taxation and reducing expenditure the government has eliminated the danger of being tempted or forced to cover a deficit by the attractive but insidious method of inflating credit. The country has strikingly endorsed our action, and it has been made clear to the world that we can and will save the pound from the danger to which in the past other currencies, similarly situated, have succumbed. Confidence has been restored…” Hopkins Papers, 12 November 1931, T 175/56.

223. Howson 1975, 87.

224. In the wake of the suspension, Otto Niemeyer fretted, “I start from the point of view that the suspension of gold payments, so far from being a welcome and glorious relief from unconscionable burdens, is alike for this country, for foreign countries and for the general restoration of world confidence, a very great disaster, the full dangers of which we are as yet far from realising.” Niemeyer Memorandum, 26 September 1931, (UK) National Archives, T 175/56.

225. Jones 1954, 31.

226. Cairncross and Eichengreen 1983, 27.

227. Howson 1975, 84.

228. Keynes, Vol. 21, 1-4, 16-28.

229. In this manner, Keynes came to exert considerable influence over the trajectory of British monetary policy. cf Williamson (1992, 13) who maintains, “Contemporary politicians might have considered that Keynes had valuable economic ideas, but within the whole context of assessing the practicality of policies—a judgement necessarily extending well beyond economics—he was of no more importance than, say, leading backbench MPs or the editors of *The Times*, *News Chronicle*, or *Daily Herald*. In this sense the space given to Keynes in the present study remains excessive. Nevertheless it seems justified for the negative purpose of showing that his contributions to policy debate could be ambiguous or unhelpful, and that rejection of his views did not necessarily denote prejudice or stupidity.”

230. Hopkins noted Norman’s position, “We should eventually return to gold, not necessarily at the former parity but we could not decide the rate until we had: (a)An active trade balance, (b) A settlement of reparations and war debts, (c) A budget balanced now and in future, and (d) A competitive price level. The Governor was not in agreement with those who thought that we must wait until there was agreement on the part of other countries to ‘play the gold standard game according to the rules,’ whatever this exactly might mean.” See Hopkins Papers, “The Exchange Position,” 8 December 1931, T 175/56.

231. Howson 1975, 86-90.

232. Nevin 1955, 104.

233. See Clay 1957, 421, 436; and Howson 1975, 87-88, 118.

234. Friedman and Schwarz 1963, 411, 418. Emphasis added. cf Kindleberger 1973, 289.

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

236. Fraser 1933, 113. For quotes, see note 79.

237. See Cairncross and Eichengreen 1983, 79-82; and Eichengreen 1992, 282.

238. The quote is a play on Keynes’s analysis of Woodrow Wilson in the *Economic Consequences of the Peace,* “By what legerdemain was this policy substituted for the Fourteen Points, and how did the President come to accept it? The answer to these questions is difficult and depends on elements of character and psychology and on the subtle influence of surroundings, which are hard to detect and harder still to describe. But, if ever the action of a single individual matters, the collapse of the President has been one of the decisive moral events of history; and I must make an attempt to explain it.” Keynes, Vol. 2, 23. This conclusion challenges Boyle 1967, 269-72; Sayers 1976, 401; and Ahamed 2009, 431.

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

240. Hallwood, MacDonald, and Marsh 1997.

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

242. Moggridge 1970; Howson 1975, 77; Simmons 1994, 236; Williamson 1992, 413-414; and Wolf 2008. I am grateful to Donald Moggridge for helping me to understand the nature of this challenge.

243. In 1930-31, Keynes publicly advocated commercial policy as a means to retain control over macroeconomic variables even within the confines of the gold standard. Much of this work appears in his *Collected Writings* (Keynes Vol. 20, chap. 5). See also Eichengreen 1984.

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

245. Traditionally, Labour and the Liberals had supported free trade. The 1931 crisis, however, prompted an increasing number of defections. Throughout late August, MacDonald presented tariffs as a silver bullet. But he was unable to persuade the stalwarts in his cabinet (including Snowden) to acquiesce. Marquand 1977, 616-619.

246. One week after the suspension, Keynes wrote a letter to the editor of *The Times*. The original letter opens, “Until recently I was urging on Liberals and others the importance of accepting a general tariff as a means of mitigating the effects of the obvious dis-equilibrium between money costs at home and abroad. But the events of the last week have made a great difference.” When he republished the text in *Essays in Persuasion* (1931), he added a note, “Not all my free trade friends proved to be so prejudiced as I had thought. For after a tariff was no longer necessary, many of them were found voting for it.” Keynes Vol. 9, 243.

247. See above.

248. Ruggie 1982, 387.

249. Eichengreen 1996, 43; and Kunz 1987, 184-85.

250. Blyth 2002. See Chapters 5-7.

251. McNamara 1998.

252. Einzig 1932b, 114.

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

254. Keynes, Vol. 6, 274.

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

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

257. Jones 1954, 20.

258. In August 1943, Norman wrote to Horace Wilson to respond to charges of a “bankers’ ramp.” As he explained, “From several quarters lately--including the Home Secretary himself-- we have been learning how deeply rooted is the Labour Party's belief that loss of office and influence in 1931 was the direct result of the interference of this Bank in dictating a cut in the ‘dole.’ We hare enough on our backs without having so ill-founded a charge (as I think) woven into the tissue of history through its appearance in places like the autobiography of Pethick-Lawrence and Arthur Bryant’s ‘English Saga.’” Lucius Thompson-McCausland, “Crisis of July–Sept 1931,” 10 August 1943, archives of Bank of England, G14/316.

259. Gourevitch 1978, 911.

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

261. I allude to Marx’s famous line, “Men make their own history, but they do not make it just as they please; they do not make it under circumstances chosen by themselves, but under circumstances directly encountered, given, and transmitted from the past. The tradition of all the dead generations weighs like a nightmare on the brain of the living.” Marx [1852] 2000, 329.

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

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

264. Keynes, Vol. 7, 383.

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This folder is part of the collection of the papers of George L. Harrison during his time as Governor of the Federal Reserve Bank of New York. This folder contains correspondence and typed notes from telephone conversations. The notes appear to have been typed from handwritten originals (which do not appear to have survived). This introduces the possibility for mistakes; and these notes have corrections sprinkled throughout.

Occasionally, there are conflicts between the date of the conversation and the date the notes were transcribed. In such cases, I use the date of the conversation (for clarity’s sake).

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This report was crafted by the Bank itself in 1943 to respond to criticism from Labour leaders. The Bank’s records explain, “Arising out of a recent visit to the Bank by Mr. Herbert Morrison it was evident that misunderstanding still existed of the part played by the Bank in the crisis of 1931, particularly in regard to the reduction of allowances to the unemployed. It was desirable to have an accurate secret record available and it was proposed to entrust its compilation to L. P. Thompson-McCausland. It was agreed that all relevant private papers and the Minutes of the Committee be made available.”

Montagu Norman was still the Bank’s governor at the time the report was compiled. Surely, he recognized that the report would have implications for his legacy.

The report includes a strong (defensive) bias throughout. It also reports some facts selectively and others, inaccurately. For instance, it claims that the other central banks discouraged the Bank from raising Bank rate on 5 August. “An increase in Bank Rate would only intensify anxieties without attracting funds; of that the Bank was advised both by [governor of the Bank of France] M. Moret and [president of the Federal Reserve Bank of New York] Mr. Harrison. The only remedy lay in the hands of the Government.” Thompson-McCausland 1943, 21. This, however, cuts against the subsequent repeated calls for the Bank to raise Bank rate.

Hence, the report’s rendering of facts—particularly about the amount of pressure it applied on the government—ought to be considered with some care."

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1. Andrew Moravcsik. 2010. "Active Citation: A Precondition for Replicable Qualitative Research." *PS: Political Science and Politics* 43(1): 29-35. [↑](#footnote-ref-1)