

Chapter 12

Central Bankers as Saviors?

What is the role of the central banker? The answer to that question depends on one's view of the monetary system over which that banker presides.

For advocates of the gold standard, the question can be a “trigger.” The term “central banker” is often anathema to their dogma. For one thing, the system needs no such actor. If every country, and every bank in every country, and every banker within every bank within every country, simply follows the rules of “the game,” the market will ensure performance. After all, the gold standard is a natural, “automatic” system. It rewards and punishes bankers according to their fidelity. The objective is simple: the job of the governor of the Bank of England—a *private* institution—is “to use its resources and engage in activities designed to increase [the Bank’s] profits.”¹ The means are simpler still: all the bankers need do is protect their reserves. They raise and lower interest rates—mechanically, without emotion or agency—as their gold holdings dictate. So if they could have had a machine to do it, the shareholders of the Bank of England might well have capitalized its instantiation. As it was, they had to nominate one decrepit director after another to serve a two-year term tightening and loosening the purse strings as required to keep the reserves static and the dividends flowing.

Despite being descended from two such directors, Montagu Norman rejected this view categorically. More than any of his predecessors, he recognized the pivotal role that a central banker can play in determining the direction of the economy. He had these views from his earliest days at the Bank. But Keynes’s analysis of the US Federal Reserve in the *Tract* seems to have opened Norman’s mind to the great possibilities of inter-central bank coordination and intervention. Thus, the answer to the question of the role of the central banker changed radically in this period, in large part due to a most unexpected confluence of outlook between Keynes and Norman. Both would have disclaimed it, but we shall see that Keynes and Norman both believed that central bankers could—and should—serve as “saviors.”²

Leading Germany in from the Wilderness

The collapse of the UK's Conservative government at the end of 1923 happened to coincide with the rise of Hjalmar Schacht to the presidency of Germany's Reichsbank. His ascent was no less surprising than was Baldwin's fall. He was relatively unknown beyond Germany. Within Germany, he was rather better known—infamous—for his questionable financial dealings. Schacht brought equal parts acumen and ambition to all of his endeavors. But he had been molded directly by Gustav von Schmoller—the ultranationalist, the adviser to the kaiser, and the father of German nationalist mercantilism. Following Schmoller, Schacht scoffed at the classical liberals' attempts to distinguish politics and economics. *Au contraire*: one must be used to serve the other.³ Embracing this maxim, in thought and in practice, would similarly take Schacht to the heights of wealth and power as the German Empire rose again.

But in 1915, it cost him his job. Since October 1914, Schacht (under Major von Lumm) had administered banking in occupied Belgium. This gave him direct control over the distribution of millions of francs worth of occupation banknotes. When Deutsche Bank “applied for a very considerable delivery of these notes,” Schacht was sure to “procure” some for his sometime employer (the Dresdner Bank) “so that they might not be behind” their competitor. Lumm later cast this as “an improper action.” Following Schacht's resignation, he was dogged by rumors that he had “issued several millions of counterfeited banknotes to the Belgians” and embezzled the legitimate notes.⁴

In November 1923, Hitler's Beer Hall Putsch inspired Schacht to return to public service. “I realized,” he later recounted, “that Germany was in danger of succumbing to *Communism* and felt it was my duty not to shirk a task which . . . lay within my power to fulfill.”⁵ Schacht was appointed to the post of commissioner for national currency, where he had the unenviable task of subduing Germany's hyperinflation. He was just the man for the job. His gambit was to issue *redenmarks*, a new currency ostensibly backed by mortgages on land. The program was viewed as a remarkable success, but it was not enough. Schacht set his sights on returning Germany to the gold standard as president of the Reichsbank.

The trouble was that he, by his own account, was almost universally distrusted by the banking and business community in Berlin. To clear his name for double-dealing, Schacht used

his increasingly powerful political connections to have numerous official inquiries conducted.⁶ But their nonfindings simply were not believed. When the Reichsbank board considered his application in December 1923, only three of its forty or so members lent him their support. But it did not matter. President Friedrich Ebert overruled them. He wanted Schacht, and he got Schacht.⁷

Montagu Norman also wanted Schacht. Even before he had met Schacht, he seems to have thought that this was a man with whom he could work.⁸ Schacht's (essentially) first act as Reichsbank president was to reach out to Norman to request a meeting. Norman invited him to come to London "immediately," which he did.⁹ Much to Schacht's surprise, Norman himself received him at Liverpool Street Station late on New Year's Eve, 1923. Schacht was even more surprised when Norman invited him to join him at the Bank the very next morning. "I hope we shall be friends," Norman said warmly.¹⁰

On January 1, 1924, the two men—virtually alone in the Bank of England—hatched a scheme that is almost unbelievable. With the Dawes Committee on reparations being formed, Norman assumed that Schacht would hope to coordinate their approach. This was true, but Schacht wanted to take bolder, swifter action. Hoping to bypass the "many complications" that come with ratifying such international agreements, Schacht asked Norman for a loan directly. Yet this was not a loan to fund the government or to help Germany manage its billions of pounds of reparations obligations. Schacht wanted the money to found another bank, "based entirely on gold," "*in addition to* the Reichsbank."¹¹

But by "on gold," Schacht really meant "on sterling." He would start with a capital of £10 million. Half of that, he assured Norman, he could somehow find in Germany. "The remaining half," Schacht declared, "I should like to borrow from the Bank of England."¹² With the Bank's endorsement, Schacht would then raise at least as much from the private London banks. At the time, the Reichsbank and the German government combined had just over £37 million in gold reserves.¹³ Schacht was angling to increase these reserves by 50 percent in one fell swoop. From the standpoint of the Bank of England, its £5 million loan would be nearly 4 percent of its own reserves—hardly an inconsequential sum.¹⁴

Norman was flabbergasted. Surely Schacht did not intend that the Bank of England should take an ownership position in a new German bank? He did not. Instead, Norman would

simply extend a loan for three years. Who would direct this bank? Of course, it would report to the Reichsbank—and thus to Schacht. Who would be its borrowers? Here came the rub: “The loans will chiefly be used . . . to finance Rhinish-Westphalian industries.”¹⁵

At the time, a syndicate of French bankers had joined with Rhinish banks and secured the consent of the German government to set up “their own Central Bank in the Rhineland which will issue their own bank-notes independently of the Reichsbank.”¹⁶ They had just written to Norman, asking him to make introductions to English bankers who might participate in the venture. This was precisely the kind of cross-border economic integration at the heart of the European Coal and Steel Community several decades later. Here were commercial liberals trying to make the borders matter less in the mid-1920s.

But to Schacht, the inheritor of Schmoller’s ultranationalist mercantilist tradition, it was anathema. The financial stabilization of the Rhineland by an Anglo-French-German endeavor would further internationalize the region, encouraging its “regrettable separatist tendencies.” German peoples should only look to Germany for their support and direction. “The Reichsbank’s attitude is entirely clear and unequivocal,” Schacht said. “It is definitely opposed to . . . [any] project which seeks to restrict its own supreme power in matters of currency within the German Reich.”¹⁷

Instead, Schacht’s new bank, and the alliance with Norman, would push the francs out of Germania. They would be replaced by pounds. Here came the boldest part of Schacht’s scheme: The new bank would not just be capitalized with British capital. It would also issue banknotes *in* pounds sterling.¹⁸

The proposal was virtually unprecedented. The Bank of England would encourage the central bank of a foreign—sometime belligerent—power to issue its own pounds sterling. Since the Cunliffe Committee, the UK’s official policy had been to roll back the rights of private note issue in Scotland and (Northern) Ireland. Yet here was Norman granting this right to the Germans. On paper, that foreign bank would be responsible alone for defending its own issue. But if the Bank of England and English banks had collectively sunk £10 million (or more) into this bank, could Norman really refuse to serve as its lender of last resort?

More important, the Bank of England would have little or no capacity to regulate the behavior of this German bank. Norman ought to have shuddered at the prospect that these pound

notes might find their way back to the UK in the form of claims on the Bank's gold holdings. Surely Schacht did not intend to found his bank "on gold," as he had said, by taking the Bank of England's own gold? Schacht promised that its loans and its notes would go to promote "those German industries which are able to resume export trade."¹⁹ That alone would be a tough sell in the UK—the Bank of England rationing credit to the Treasury and producers at home while it funded the industrial redevelopment of the UK's greatest foreign competitors.²⁰ This is precisely the kind of internationalism decried by those producers who testified before the Cunliffe Committee. And that is merely what Schacht—whom Norman had never met prior—said he would do with the money. Could Norman actually control how Schacht spent the pounds he borrowed or the pounds he printed? It is not as though Germany had ever defaulted on its foreign debts or debased a currency.

Yet after sleeping on it for just one night, Norman threw himself into Schacht's scheme. Over the next several days, Norman took Schacht around London, introducing him to leading policymakers and bankers. Among these others, Schacht's reception was often lukewarm; but Norman was undeterred.²¹ Within mere days, Norman had arranged the deal. The Bank of England would advance £5 million for three years at just 5 percent interest.²² At the time, interest rates in Germany, "even for financially sound debtors," were around 10 percent.²³ And "no mention was made of guarantee or security," Schacht happily reported. "Norman was satisfied with an ordinary, simple undertaking on the part of the Reichsbank."²⁴

But Norman did not stop there. He steered the London banks away from the Franco-Rhinish scheme and toward Schacht's new bank. He soon garnered another £15 million for the Reichsbank. And he showed Schacht the reply he had sent to the French syndicate: "He was unable to give . . . the name of any English bank that would be willing to join the French syndicate."²⁵ Norman's letter, Schacht said, "meant the death-blow to Rhineland separatism."²⁶

As he journeyed back to Germany, Schacht's secretary remarked, "I have never seen you so cheerful." One does not wonder why. He arrived in England amid persistent rumors of double-dealing and hardly secure in the post of Reichsbank president. He left three days later with half as much in sterling as the German government and Reichsbank (combined) had in reserve. He borrowed this at just 1 percent above Bank rate with no security and perhaps the worse credit in the world.

It is harder to understand Norman's enthusiasm for the scheme. Schacht had sold this as a means to cultivate an Anglo-German alliance at the center of a rehabilitated Europe. "Just think, Mr. Governor," Schacht explained, "what prospects such a measure would afford for economic collaboration between Great Britain's world Empire and Germany."²⁷

Those scholars who have investigated this have broadly followed this perspective. Norman's biographer views this as a "practical" effort intended "to end the financial chaos of Germany with or without an agreed political plan."²⁸ For others, Norman was even more ambitious. He saw this as a means "to strengthen the pound by having other European central banks hold some of their reserves in sterling rather than gold." In these views, "Schacht was only a useful instrument, the means to a greater end" that "Norman went out of his way to cultivate."²⁹

Yet from an orthodox perspective, it is hard to see the upside for the Bank of England, let alone how this would bring the world closer to the gold standard. If Schacht's scheme failed, it was a costly venture at a time when the UK could hardly afford it. But what if it succeeded, and the Reichsbank's sterling notes passed interchangeably with the Bank of England's sterling notes? This would not have brought Germany any closer to resuming the gold standard there, any more than "dollarization" today helps a country build its own stable currency. Indeed, this scheme could even become a substitute for a gold standard in Germany, instead of a complement or a precursor to it.

It also reduced Britain's capacity to restore its own gold standard. Prior to this, the Bank of England had attempted to cultivate a "sterling exchange system," encouraging foreign countries to keep sterling balances in London rather than taking gold home. But this was obviously a technique to prop up sterling by *dissuading* capital (especially gold) outflows. From an orthodox standpoint, the outflows to fund Schacht's scheme—and the extra "pounds" he disseminated—would both drive *down* the value of sterling. With the clock ticking, and the race to resume convertibility now underway, it beggars belief that the governor of the Bank of England could have cast its capital across the Channel.

In all of its efforts to cultivate central banks abroad in this period, the Bank of England never proposed that these foreign banks issue sterling banknotes.³⁰ Indeed, Norman's predecessors and the Cunliffe Committee had taken exception to the emission of "pounds" by

even the Scottish and Irish banks. They tolerated their wartime expansion as an “emergency measure,” but they wanted to confine their production—especially as legal tender—as much as possible.³¹ One can only imagine Cunliffe’s reaction to the prospect of Norman sending Bank notes to sometime belligerents so that they could multiply the “pounds” as they pleased. Cunliffe, after all, was the very man who led the charge to impose reparations on Germany. Yet here was his successor returning that gold to Germany. Most broadly, the Schacht scheme directly contradicted the marching orders issued by the Cunliffe Committee: reduce the quantity of sterling notes in circulation, concentrate and grow Britain’s gold reserves, and drive the value of the pound back up to its prewar parity.

Previously, we saw Norman’s challenges to Cunliffe personally and to Cunliffe’s particular gold standard dogma. We saw his support for capital controls and his resistance to Bradbury’s efforts to implement the Cunliffe Committee’s prescriptions across 1918, 1919, and 1920. Now we start to see the shape of Norman’s positive agenda, the outlines of his own gold standard dogma. Soon enough, he would present this vision explicitly to the successor to the Cunliffe Committee: the Chamberlain-Bradbury Currency Committee.

Another Cunliffe Committee

In late January 1924, Labour, now a plurality, formed a government in coalition with the Liberals. This was the UK’s first Labour government. Keynes’s *Tract* had started to make waves, and many wondered aloud whether the new government would be willing to continue the deflation necessary to restore the gold standard. Tom Johnston, a radical Labourite, tested the waters in the first few weeks of Ramsay MacDonald’s government. In mid-February, he asked his fellow Scotsman and Labourite if he had considered “the ruinous effects upon trade and employment, caused by the policy of currency deflation and the effort to re-establish a free market for gold in London.” He did not assault the gold standard as yet, but he called for the government “to set up a Royal Commission of inquiry into our whole monetary system.”³²

MacDonald ruled it out, out of hand. “The reappointment of a Committee on currency and foreign exchanges at the present time would be premature and inexpedient,” he replied. Then

came the magic words: “The Government are still guided by the conclusions of . . . the Cunliffe Committee.” After all, Baldwin’s capital controls were not set to expire for the better part of two years. Arthur Samuel, a Conservative, pressed the issue: “As this is a matter of grave importance, will the Prime Minister state whether he agrees with . . . the question?” But MacDonald did not take the bait: “I confine myself to the answer which I have given.”³³

Beyond the House of Commons, that proved insufficient. In the spring, Schuster “bold[ly] . . . state[d] publicly that a return of the pound sterling to its old parity with the US dollar was . . . not impossible before so very long. That would mean the restoration of the pound sterling to . . . the old sovereign, in fact.” At the time, sterling was trading at only \$4.38 (10 percent below the prewar value).³⁴ The idea that sterling could get to either “before so very long” caused quite the stir. Schuster was asked to address the Liverpool Chamber of Commerce.³⁵

Schuster offered the chamber a bold restatement of the orthodoxy and an explicit response to the gauntlet thrown down by Keynes. “New theories are in the air,” Schuster foreboded, “supported by a very brilliant set of advocates.” “The Cambridge School,” he termed them, “. . . have set forth their proposals in very eloquent and attractive terms.” What is more, the critique was not wrong: “The professors point out . . . not without a certain amount of justice . . . the instability of the value of gold owing to its varying supply and demand.” But the trouble lay in their prescribed antidote: “They wish to substitute for [gold] a currency . . . [managed] by an undefined . . . body of men in order to stabilize prices.” At best, this was merely “an experiment.” More likely, this would prove to be the same fallacy committed by monetary cranks and profligate policymakers across the ages. For the orthodoxy, England’s greatest rivals offered the most instructive examples: “The effect . . . of issuing mere paper is . . . terribly demonstrated by what has happened in Russia and Germany.”³⁶

Schuster was not only one of the world’s most powerful bankers, but he was formally connected to industry through his position in the Association Chambers of Commerce. So he appreciated both perspectives better than most. He categorically rejected Keynes’s contention that there was a conflict between the interests of finance and those of industry. “[The producers’] cry has been loud: ‘Stabilise your exchanges,’” he noted. “And in some quarters,” he continued, “there . . . is still a belief that the City of London . . . had it in its power to do so.” But this was wrong. The real power, for good and for evil, resides in Westminster. “The remedy has been

pointed out so many times,” Schuster declared, “. . . balanced budgets, a currency based on something substantial, something that is of value in the international market, the total cessation of paying for the country’s debt by the issue of paper money.” All of these things required policymakers, not bankers, to take the difficult but virtuous path.³⁷

The good news is that it was well within their means to do so. For one thing, Schuster argued, the “cordial and confidential relations which are known to exist between the Bank of England and the Federal Reserve Board could be depended upon to work in such a way as to prevent movements that might be injurious to either country.” But Schuster insisted that the UK could return on its own if necessary. “Is our currency so debased as the pessimists would lead us to believe?” he asked. He then listed the figures of the pound notes in circulation and the various reserves. In total, £153 million of gold backed more than £407 million in notes, a rate of 37.5 percent—“not a bad percentage and, I think, amply sufficient both for any internal and external demands likely to arise.” This sum, Schuster noted gleefully, exceeded the minimum reserve figure specified by the Cunliffe Committee. The time to return, he insisted, was nigh. Would the policymakers have the courage to begin taking overt steps on the road?³⁸

At this point, MacDonald came to see that this issue would not be dispatched so easily. With encouragement from the Bank of England, he put the issue onto the agenda. By June, he had formed the Committee on the Currency and Bank of England Note Issues. We know well now that simply implementing the regressive deflation and austerity prescribed by the Cunliffe Committee was bound to harm the working class disproportionately. After all, the return to gold in 1925 did lead to the backlash that was the 1926 General Strike. So with the benefit of hindsight and guided by social scientific theory, we might expect the Labour government to have packed this committee with soft-money heretics—or at least to have included some serious, well-respected critics like Keynes.

In fact, Labour’s leaders did just the opposite. They chose exclusively from the list provided by the governor of the Bank of England.³⁹ And so the newest currency committee was really a rump of the Cunliffe Committee—and the most influential members at that: Bradbury, Pigou, and Farrer. To this, it added Otto Niemeyer, a highly orthodox Treasury official and the wunderkind who had beat out Keynes in the civil service examination two decades earlier.⁴⁰ The committee was chaired by Austen Chamberlain, who served as Conservative chancellor until he

was made secretary of state for foreign affairs (in November 1924). At that point, Bradbury himself took over the chair and led in the production of the committee's final report. Thus, MacDonald must have had every expectation that the Chamberlain-Bradbury Currency Committee was just the Cunliffe Currency Committee by another name.⁴¹

This was not an accident. In June, the Liberal MP Ernest Simon pressed the Labour government for weakness. He queried Chancellor Philip Snowden: "In view of the widely held opinion that the policy of a return to a gold standard by further deflation, as laid down by the Cunliffe Committee, is likely to result in an increase of unemployment, the Government will reconsider their policy on this question?" Simon, it seems, had been reading his Keynes. But Snowden's reply was unequivocal: "We are opposed to inflation[,] . . . we are generally guided by the Report of the Cunliffe Committee, and . . . we hope to see a return to the gold standard as soon as possible."⁴² As he had assured a Conservative colleague, "The possibility of an early return to the gold standard is constantly under consideration."⁴³

Indeed it was. Three days later the new currency committee interviewed its first witness: Governor Norman, the archbishop of Threadneedle Street.

Norman's New Orthodoxy

Norman's testimony in June before the Chamberlain-Bradbury Committee offers new insight into his particular gold standard dogma. Famously enigmatic, Norman was loath to explain himself. He did not write books, as did Keynes, Pigou, and Hawtrey. Nor did he write even extensive memoranda, as did Bradbury. Up to this point, we have reconstructed Norman's views and gleaned his motives from correspondence, some speeches, Bank meeting minutes (of sometimes contested accuracy), and his extensive (and infamous) diary entries. Within his extant oeuvre, this testimony constitutes Norman's first sustained discussion of the gold standard. It is all the richer because Bradbury and company had the chance to press the governor, on the record, on his unconventional approach. Having already argued with Norman about capital controls following the armistice, Bradbury must have expected that he and Norman might clash again. But the whole committee must have been floored when it became clear that Norman's actual

understanding of the gold standard had more in common with the views advanced by Keynes than with anything in the Cunliffe Committee reports.

Norman made a fine start. “I agree entirely with the [Cunliffe] Committee (whose report I am trying to carry out),” he announced.⁴⁴ He similarly believed that “the less internal circulation [of gold] . . . the better.”⁴⁵ And he wanted there to be “an arrangement with the bankers by which they did not hold gold.”⁴⁶ Of course, this was a repudiation of the version of the gold standard advanced by his predecessor, Cokayne. But the Cunliffe Committee had endorsed this approach, and it was now the reigning dogma. On this point at least, the Cunliffe Committee reports were still the law of the land.

There was considerable drift, however, on the all-important sequencing of the restorative actions. The drift was so profound that the committee’s chairman himself did not recognize it. “It comes as a complete surprise to me,” Chamberlain confessed, “that your proposal should be that the first step should be to reestablish the free export of gold and your second step the amalgamation of the notes. . . . I think [the Cunliffe Committee] intended to deal with the note issue first and then as soon as that was done—.”⁴⁷ Norman interrupted him, explaining that the Cunliffe Committee had specified precisely the reverse sequence.⁴⁸ Norman was right about this.

But Norman’s plan differed from the Cunliffe Committee plan in a different, more significant way. He claimed to “accept the general statement in the Cunliffe Report . . . [that] we should endeavor to hold 150 millions of gold with open exchanges and free markets for a couple of years” before fixing the fiduciary issue. But that is not at all that he proposed. He insisted that the capital controls, which the Cunliffe Committee had unanimously condemned, be formally extended for “so long a period as three years.”⁴⁹ “[Even] if, as I should anticipate, the parity were to be reached infinitely more quickly,” Norman continued, he did not want the controls to be removed prior to the specified date. This period, with the exchanges legally constrained, was required for the authorities to determine “very reasonably, very fairly, what the fiduciary issue should be.” The amalgamation would then occur essentially straightaway—“the day, or the week, or the month after” convertibility was legally restored.⁵⁰

Bradbury must have been shocked. Limitations on capital flows, whether from German submarines or parliamentary acts, insulate the exchange rate from market forces. It was only by working to keep the reserve levels at the required minimum in the face of unbridled market

forces that the monetary authorities would learn how much total currency the UK could afford to circulate. Bradbury had formulated these ideas in the earliest days of the Cunliffe Committee meetings, he had fought Cunliffe to have them included in the committee's report, and he would fight Norman, if necessary, to see them embraced here and now.

But Norman's dogma held the dollar value of the pound as the key metric. And he brought to the fore an entirely different view of the workings of exchange rates. For him, the exchange rate is not determined by underlying market conditions but by market psychology. The mere announcement of his plan would "immediately" cause the exchange rate to "rise rapidly and strongly."⁵¹ "The great thing . . . to put it to parity," he explained, "is to show we have confidence in [sterling]. At present we are leading the whole world to believe that we have no confidence in it."⁵² Speculators, in other words, needed to be reassured that convertibility would be resumed at a clear, inviolable date. The date was distant, of course, but this was necessary to reassure "the man in the street" that he would not have to endure the policies required to raise the exchange rate 12 percent in as many months. Initially, Norman stated that he did "not think [this] would be very reasonable toward the community."⁵³ But then he clarified that he did "not think [this] would have the *appearance* of being very reasonable."⁵⁴ It was thus necessary for Norman to think about what speculators would think about what "the man in the street" would think about what Norman would do. That might seem convoluted, but Norman insisted, "It is much more . . . a question of the psychology of the announcement than of the facts."⁵⁵

This surely figured into Norman's resistance to an early amalgamation of the Bank and Treasury note issues. After all, what could appear worse than the venerable Bank of England suddenly taking on hundreds of millions of pounds of additional liabilities? But Norman also did not see them as his responsibility. When Chamberlain asked him about this specifically, Norman exclaimed, "I should be extremely unwilling . . . that the Bank should assume that great liability which at present the Treasury cannot escape. It is a legacy of the war."⁵⁶ The Bradburys were Bradbury's problem, Norman believed.

Of course, this was beside the point. The Treasury notes were legal tender. In law and in practice they had the same value as the Bank's notes. This is also how the architects of the notes had understood things. During the Cunliffe Committee hearings, Governor Cunliffe asked Bradbury, "The currency notes are all payable in gold, are they not?" Bradbury replied, "I

believe so under the [1914 Currency and Banknotes] Act.” Bradbury *knew* so, as he had personally insisted upon this proviso in 1914.

Of course, the regime created in 1914 entailed more than just the formal specifications of the Currency and Banknotes Act. The informal norms, such as the bankers’ use of moral suasion, combined with the formal restrictions under the Defence of the Realm Act and then Baldwin’s capital controls (of 1920) to dissuade the holders of all pound notes from trading them for gold to be sent abroad. So the Bank was not (yet) regularly compelled to convert the Treasury notes into gold sovereigns. But the regime also meant that the Bank was not obliged to convert its own notes into gold regularly either. When the time came to change that law, it could have easily required the Bank to convert all types of “pound” notes—Treasury notes and Bank notes—at par.⁵⁷ For now, Norman was playing for time—and insisting that HM Treasury continue to do the hard work of retiring the Bradburys.

Their namesake was none too pleased. “It is however difficult,” Bradbury interjected, as he finally came into the discussion. He was piqued, but he was also disquieted by an apparent contradiction in Norman’s analysis: “He told us . . . the immediate effect of such an announcement made with the authority of the Government would be an immediate and substantial rise in the dollar exchange. Then a little later he said, in order to restore parity in twelve months it meant a rise of 1% a month.”⁵⁸ Norman reasserted his emphasis on the role of the “psychological” effect. “I would not be surprised,” Norman declared, “to see it go half way [toward par] within a few days.” But Bradbury could hardly swallow this. How could merely *announcing* the resumption of gold exports at some distant date cause sterling to appreciate 6 percent in a matter of days? Moreover, Norman was trifling with the whole of the British economy on the basis of his own subjective views about the “sentimental” factors that move speculators. Bradbury was indignant. “As far as Economics are concerned,” he said didactically, “the effect of this policy is to produce something which, from an industrial point of view, would be quasi-catastrophic.”⁵⁹

Yet Norman still would not budge. “I do not think it would be quasi-catastrophic,” he maintained. Again, he asserted, “the present lowness of the Exchange is in part due to the fact that nobody has any confidence in it.”⁶⁰

Rather than material variables trumping the ideational, Norman argued that the psychological factors were themselves driving the real economic consequences. This same fixation on the “sentimental” variables prompted further challenges to the policies enshrined in the Cunliffe Committee report. Norman agreed that the “desire to have free internal use of gold” was “much weaker . . . than many people suppose.”⁶¹ Yet Norman thought the expected “psychological effect” argued against the suspension of convertibility (cashing in of notes for gold sovereigns).⁶²

Bradbury scarcely knew how to reply. Norman’s fixation on the “psychological” dimension was orthogonal to the mechanistic materialism—the “automatic machinery”—that undergirded the Cunliffe Committee’s orthodoxy. In that traditional view, international gold movements “automatically” drove changes in the domestic quantity of money that, in turn, drove changes in domestic prices—and vice versa. The only job of the monetary authority was to ensure that “notes . . . always stand at absolute parity with gold coins of equivalent face value, and that both notes and gold coins stand at absolute parity with gold bullion.” There was no need—or room—for central bankers to manipulate this process, to anticipate the “sentiments” of speculators or to manipulate their confidence other than by plainly following these simple rules. Indeed, this was the whole point of the gold standard, as the Cunliffe Committee put it: “The creation of banking credit was so controlled that banking could be safely permitted a freedom from State interference which would not have been possible under a less rigid currency system.”⁶³

Taken aback by Norman’s radical departure, Bradbury redeployed this old model. “Many people, like myself, hold old-fashioned views about currency,” he began. Such people argue that “it is absolutely essential to get back to a stable gold exchange and also owing to industrial conditions in Great Britain we cannot contemplate a return to anything except the old gold parity.”⁶⁴ They believe “that the invasion of America by large quantities of gold” will cause, “sooner or later . . . a general rise in gold prices.”⁶⁵ Given that assumption, “would it not be better to wait for a bit and get our parity when gold comes down to sterling rather than put sterling up to the present artificial rate for gold?”⁶⁶

Bradbury was alluding to the so-called “rules of the gold standard game,” in which surplus countries allowed gold inflows to increase their money supplies and thus depreciate the

exchange rate. But Norman questioned this premise. Following Keynes's poignant critique, Norman argued that the gold inflows would not necessarily force the rise of American (and global gold) prices, since "the Federal Reserve people . . . can sterilize the gold . . . for a long time to come."⁶⁷ They "have complete control of their prices," and it would thus depend upon political rather than economic factors, Norman insisted.⁶⁸

Here the dogmatic disagreements between Bradbury and Norman come sharply into view. Bradbury was of the old school, holding "old-fashioned views about currency." As he wrote into the Cunliffe Committee reports, the first move must be to reestablish the free gold market. This was a prerequisite to allowing the pound to "automatically" find its price in terms of other currencies. For those currencies whose monetary authorities followed the same "old-fashioned" approach, their exchange rates ought to remain relatively stable. The Cunliffe Committee's *First Interim Report* was clear: "When these conditions [of gold parity at home] are fulfilled, the foreign exchange rates with all countries possessing an effective gold standard are maintained at or withing the gold specie points." And thus the system depended on each country taking the appropriate measures at home—what was sometimes called "self-help."

Norman's dogma was thoroughly internationalist. Deeply influenced by the Keynes critique, Norman recognized that the major central banks routinely broke the rules. Because of its disproportionate share of world gold reserves and its position as a perennial surplus country, the United States effectively controlled the world gold price. So binding the pound to a specific price of gold really meant binding the UK economy to US monetary policy. In these conditions, Bradbury's "gold standard" became, in effect, a "dollar standard," like it or not. For Keynes, this was reason enough to abandon the orthodoxy entirely. Norman, however, did not give up so easily. For him, the name of the new gold standard game was to steer global gold markets through relationships among leading central bankers. He thus looked past the epiphenomenal global gold market to the substructure of elite networks. In contradistinction to Marx, Norman followed Keynes in "descend[ing] from heaven to earth."⁶⁹

At this point, Pigou intervened. Wearing by the Bank governor's hand-waving, the economist demanded precision. He asked, "How much of the gap between the present level in parity was due to psychology and how far to the comparative price level?"⁷⁰ Norman rebuffed him: "I am afraid I cannot divide the two."⁷¹ Pigou then asked, "Do you think it would be

possible, by any kind of calculation of purchasing power parity to give an estimate?”⁷² Norman again questioned Pigou’s premise: “Personally, I would not know where to turn for such a calculation and I am not sure that I would really believe such calculations if they were made because they are very experimental . . . don’t you think?”⁷³ In fact, he could turn to Pigou himself, who had published several articles on the subject.⁷⁴ Pigou knew the limitations of such analyses as well as anyone, and yet this was the necessary starting point. Surprised, and likely offended, Pigou asked if it were not “possible, after consideration, to get some sort of idea?”⁷⁵ Again, Norman insisted upon focusing on “the moral side” rather than “the material.”⁷⁶ “The only way I should try and make a shot at it,” he said, “would be to ask a certain number of people in whose opinions I have confidence, add them together and divide and on the whole I should trust the result.”⁷⁷ Such a “calculation,” Norman maintained, would be more reliable than Pigou’s nuanced analysis of meticulously compiled price indices.⁷⁸

The barb must have stung. Norman, who had quit his studies at Cambridge after just a year, appeared to condemn its chair of political economy. So Pigou tried to shift to less contentious ground: politics. “From a political point of view,” he asked, “if it was understood you would not meet such a tremendous rise in price it would make things much easier?”⁷⁹ “You mean fall in price,” Norman snapped back, correcting him. “It would make it much easier but I do not think you can avoid a big fall in price.”⁸⁰

There was no getting around it. These men, despite professing belief in the same faith, had irreconcilable differences over questions of market ontology and economic epistemology. At particularly tense moments, the disagreements boiled over into sharp rebukes, just as they had when Cokayne insulted Cunliffe and Bradbury in his 1918 testimony. So these currency committees were no Camelots. But what ecumenical council is?

Confession

Norman’s perspective and, particularly, his proposals were unusual to say the least. They directly contradicted the Cunliffe Committee doctrine. More broadly, they did not seem designed to speed the UK back onto the gold standard at the prewar parity. Indeed, Norman himself would

renounce most of these proposals—although not his dogma—within just a few months. But in the summer of 1924, Norman was determined that the UK should delay its return. As ever, Norman’s approach defies easy explanation. But some hints emerge from his unusual—and unusually strong—relationship with Hjalmar Schacht.

Throughout Norman’s testimony, the committee thought in terms of macroeconomic conditions that shape long-term patterns of investment. But while the committee was thinking principally about *investors*, Norman was thinking about *speculators*. He stressed, “Not only . . . private individuals [in the UK] . . . send their money abroad to invest it in the United States,” but “the Far East spurns sterling now and flies to dollars.”⁸¹ Norman also “[knew] of many people in Europe, banking people, countries, who avoid London and send their money to America.”⁸²

How could Norman be so certain about their thinking? Because he had financially backed them. At one particularly tense moment in his testimony, Norman blurted out, “I myself am lending at this moment several millions of pounds which have been used by the borrowers to obtain dollars, and I say that is very bad for sterling.”⁸³

The confession is astonishing. Here was the governor of the Bank of England admitting that he had a stake in the direction of the dollar-sterling exchange rate at the same time that he was dictating the approach the British monetary authorities would take. This was not a misunderstanding or a mistranscription. Indeed, this was the *revised* version of Norman’s words, after he had carefully edited the transcript. In the original, Norman was recorded as saying that the “several millions of pounds . . . have been used *to secure that country in* dollars.”⁸⁴

In the case of Montagu Norman, the country that was “that country” at this point was generally Germany. He was almost certainly referring to the extraordinary £5 million that he had advanced to Schacht a few months prior.⁸⁵ Schacht had promised to use the money to found a bank that deepened Anglo-German economic ties, including by issuing sterling notes. His Golddiskontbank was established in March, and he “did print Golddiskontbank notes payable in pounds sterling.” But as Schacht later recounted, the notes “were never put into circulation because in the interval the Reichsmark had achieved, and thereafter maintained, its gold parity.”⁸⁶

Yet Norman’s testimony suggests that there may have been more to this story. If Schacht had spent the pounds to purchase US dollars, it was a bear position against the pound. The

generous interpretation is that Schacht had simply concluded that dollars would be more useful to German manufacturers than would be pounds. After having bested Norman in the race back onto gold, the power to emit pounds was far less valuable in the summer of 1924 than it had promised to be just six months prior. In this case, it would merely be a costly transaction for the UK. In his testimony, Norman had complained, “We are contributing to put the whole of Europe on a better plan than ourselves.”⁸⁷ He warned specifically, “In a few years’ time the German Mark will be a far more popular currency than the British pound.”⁸⁸

It is also possible that Schacht’s maneuver was really an outright speculative attack. Just as Britain’s first Labour government came to power, he borrowed £5 million in sterling—not enough to make a difference for Germany but more than enough for a speculator to make a killing. Then, if Norman’s testimony were indeed referring to this, Schacht spent those millions of pounds to buy US dollars—adding to the downward pressure on sterling. With an interest rate of just 5 percent and a three-year term (but with no repayment penalty), Schacht was thus perfectly positioned to short the pound. If Norman’s proposed announcement of new delays on the return to gold then sent sterling sliding—as orthodox theory would suggest and as Bradbury *did* suggest—Schacht could then use his dollars to buy far more pounds than he had borrowed, keeping the difference as a tidy profit. This was a simple, familiar scheme in which a speculator could use public connections for private gain. It was precisely the kind of malfeasance with which Schacht was charged throughout his career. Certainly, Schacht’s many detractors in Berlin had warned that one should expect nothing less from him.

Such was the stuff of international finance in these troubled times. In this period, \$150 million of National Defence Bonds were stolen—and never recovered—from the French treasury.⁸⁹ More than likely this was an inside job, and the French had nobody to blame but themselves. But they could blame—and they did blame—German-led speculators for the misfortunes of the franc. Throughout the spring of 1924, the French exchanges were in almost constant convulsions, with the franc often shifting more than 10 percent against the dollar in a single day.⁹⁰ Much of this followed from the psychological factors Norman had emphasized, as even rumors related to international reparations negotiations could send markets into a frenzy. But the French prime minister, Raymond Poincaré, brought the matter before the National Assembly. He claimed to have documents that proved a “plan for an offensive against the

franc.”⁹¹ The cabal, he claimed, was headed by German foreign minister Gustav Stresemann—Schacht’s old friend and the very man who had convened Schacht’s previous exculpatory inquest.⁹² Schacht himself ensured that Germany never fell victim to such attacks. When the mark began to slide in April 1924, he preempted the speculators with immediate, unilateral capital controls—just the sort of controls that Norman had defended so vigorously.⁹³

Poincaré’s claim was convenient, but it was also plausible. With the French marching through the Ruhr, would not the German nationalists “[carry] on the collective struggle for existence with the harshest national egoism, with all the weapons of finance,” just as Schacht’s mentor Schmoller had instructed them to do?⁹⁴ Even after his numerous acquittals by friendly and unfriendly governments alike, even after the “persecution” that attended his denazification, even after (finally) denouncing Hitler, Schacht still refused to apologize for his many efforts to propel Germany past its rivals in the 1920s.⁹⁵

What was Norman’s part in all of this? There is no evidence to suggest that Norman personally profited from this or any other such scheme.⁹⁶ At first blush, it may seem that Norman was taken in and duped by Schacht. After all, Norman had known the novice central banker for merely a few hours before backing his scheme. In that case, Norman had strong incentives to see the scheme through, lest his own judgment be called into question.⁹⁷ To play on Keynes’s “old saying,” if Schacht had borrowed £5000, he would have been at Norman’s mercy; but as Schacht owed the Bank £5 million, Norman was at his—all the more so for a loan that was highly unconventional and entirely unsecured.⁹⁸

But such an interpretation is defied by the fact that the mutual trust—and affection—between Schacht and Norman only increased in the decades that followed. If Norman felt betrayed or used by Schacht, he never showed it. Indeed, the two made common cause in their approach to the Dawes Committee that same summer, even as the overwork led to another nervous collapse for Norman.⁹⁹ Whatever else it may reveal about Norman, his relationship with Schacht epitomizes the new approach to the international monetary standard system that these men were pioneering.

As we have seen, the orthodoxy cast a world in which monetary authorities reacted to market forces, helping along the largely automatic, natural mechanisms of macroeconomic adjustment. This meant that the specific individuals in authority hardly mattered because they

were closely following simple, hard, and fast rules governed by “the market.” Last, the orthodoxy conceptualized the international gold standard system as the mere assemblage of national economies operating according to that same set of standard rules. This meant that each country could, and should, implement its commitment to that common standard without regard for the commitments and actions of others.

Schacht and Norman envisioned a different world. In this world, politics trumped economics; and so the central banker should—must—play politics. In this world, market psychology was irrational, turning less on objective facts and logical analysis of cause-effect relationships than on sentiment; and so the central banker should—must—manipulate those market emotions. In this world, every monetary system, on gold or not, was inevitably linked through the global economy; and so every central banker should—must—set that country’s policies in conjunction with those existing abroad. This new world, Schacht and Norman believed, should—must—be proactively managed by a small group of elite central bankers from the world’s core financial centers.

To be sure, the differences *in practice* were less stark than they were rendered by the apostles of the different creeds. Cunliffe was more political, innovative, and internationally oriented than was the idealized monetary authority imagined by the Cunliffe Committee. And Norman was far more diffident, atavistic, and insular than was the idealized central banker he portrayed to the Chamberlain-Bradbury Committee. But Norman’s approach redefined his role onto a different scale, even if it was not into a different type. The orthodoxy had some catching up to do.

Confronting Heresy

If Norman were the first central banker of the modern age, Felix Schuster was the last major banker of the old age. His remarks that spring had galvanized the Labour government to recall the currency committee. With Schuster having appeared twice before the Cunliffe Committee, it was perhaps to be expected that he would follow Norman as the Chamberlain-Bradbury Committee’s second witness.

As if to quote chapter and verse, Schuster began his remarks to the Chamberlain-Bradbury Committee by reading from the Cunliffe Committee report. He “advocate[d] action at once.” He warned that delay actually helped the “Americans . . . [get] the advantage over us.” More important, the passage of time was likely to make the restoration *more* difficult. “The danger of making a premature announcement would be very great,” he admitted, “[but] it may be possible to do it now. In twelve months’ time . . . it may not.”¹⁰⁰

Some of the trouble, Schuster explained, came from the threat posed by Keynes. “I confess—we are talking very privately,” he told the committee. “I am very much afraid of the inflationary theories . . . for which there is great propaganda made in various quarters—Mr. Keynes’ theories in one direction, and people like Mr. Kitson and others writing in the socialist press.” While Schuster’s faith did not falter, he admitted that “those publications have more influence . . . than we generally give them credit for.”¹⁰¹

To “counteract them,” Schuster proposed “to legalize the whole position as to this currency issue.” Sadly, removing the capital controls too quickly posed the “great danger of your losing gold immediately.” But it was still possible to take bold steps back toward gold. Instead, he proposed that the Treasury notes be transferred straight away to the Bank of England with an eye to formally fixing the fiduciary limit. This was actually “the reverse” of the sequence that the Cunliffe Committee had proposed, which would have allowed the reserves to be built up before beating down the inflation. But “there is more paper than we need.”¹⁰²

It is not surprising that a banker would support deflation. But, echoing and quoting the Cunliffe Committee, Schuster insisted that this was absolutely vital to the national interest. Channeling the Keynes critique, Chamberlain raised this point directly: “[There] are certain . . . perhaps inevitable consequences of an attempt to get back to the gold standard which many representatives of our industry fear very much. . . . They are a little inclined to argue that the return to the gold standard may be in the interests of the City of London . . . but cannot be in the interests of trade.”

Schuster was strident: “There cannot be a difference of interests between the City of London and the trade of the country. The two go absolutely together.” “I speak now,” he added, “as representing the Chambers of Commerce who have discussed this matter first in their Executive Committee and then at a full meeting of their Congress; when all Chambers were

represented and there was an unanimous vote in favor of the present proposal.” Producers, he emphasized to the committee, “are in a state of uncertainty.” But “with a stabilized exchange, that speculative element of uncertainty will be removed; they feel that the cost of raw material will be considerably decreased; that will help to increase our manufactures and thereby our exports.”¹⁰³

This fit perfectly with the committee’s priors, with their own beliefs. It also fit with all of the guidance the Cunliffe Committee had received. But Chamberlain knew how important it was to be “quite clear about the opinion of the Chambers of Commerce.” He wanted to be sure that they recognized “that another step on the same road must be dearer money.” He addressed Schuster: “If you had said to them, ‘You see, before we reach this end, it will be necessary to have dearer money!’ would they have said, ‘In that case we do not want to set out at all?’”¹⁰⁴

Schuster was unequivocal: “No,” then added that “they are . . . quite prepared for a maintenance of steady money rates.” But he insisted that “traders lose much more by variations in the Exchange than by having to pay a little more for their banking.” In his opinion, “far too much is made of that fear of dear money. Whether a trader or manufacturer has to pay 4% or 5% for his advances does not affect his ultimate profits so much, when he has got the certainty of a market and knows exactly on what he has based his calculations of profit, but when the question of Exchange comes in then he is absolutely at sea and does not know.”¹⁰⁵

This was a reasonable, and informed, perspective. After all, even if money rates were dear, producers and traders knew this at the time they borrowed, and they could price this into their calculations. But a swing in the exchange rate of 5 or 10 percent in either direction, in as many months, could overwhelm the predicted profit margin.¹⁰⁶ With the currency hedging market relatively nascent, exchange rate risk was a serious challenge. On this, Keynes and Schuster agreed. “Trade with foreign countries without securing your exchange,” Schuster had said in his April address, “has of late years really become one of the wildest and blindest of all gambles, but what is to be done?”¹⁰⁷ Schuster was happy to lead the charge as the UK’s producers battled to evade it.

Yet Chamberlain was at pains to get this testament on the record in the clearest of terms. So he asked Schuster yet again to confirm that this view “[was] approved by the General body of Chambers [of Commerce], the most representative body.” Schuster was, again, emphatic: “After

the Executive meeting, I was asked to propose the resolution agreed to on their behalf to the full meeting, not of the Executive Committee, but of all the Chambers, and there again there was no question raised; there was no opposition; they accepted the resolution unanimously, and it was agreed to send a copy of it to the Prime Minister and Chancellor of the Exchequer.”¹⁰⁸

Schuster knew that this point was crucial. He knew that restoring gold would not be easy, and he knew that politically the committee needed to be sure that business was on board, despite the looming deflation. So he never flagged in the questioning as the committee worked for absolute clarity. This point was so important to him that, after the examination, he followed up with colleagues at the chambers of commerce, put the questions to them, and sent a follow-up (two-page) restatement of their position, with the chamber’s president’s explicit blessing. Given the importance of knowing the mind of industry at the time, their memorandum to the policymakers deserves quoting at length:

With regard to the Chairman’s question whether the Chambers of Commerce . . . had considered the possibility of a rise in the value of money, i[f] steps towards the restoration of the Gold Standard are taken, I may say that I am a member of the Executive Committee and of the Finance Committee of the Associated Chambers, and therefore in full cognizance of their views . . .

I was asked by the Liverpool Chamber to address them on the question of the Exchanges. . . . Somewhat to my surprise the matter was taken up immediately by a number of Chambers, and the Executive decided of their own initiative and without my moving in the matter that the question should be brought before the General Meeting of the Association of British Chambers of Commerce held on the 1st May, 1924. At a full meeting of the Executive Committee this was discussed and the Resolution to be submitted decided on, and I was asked to move it. . . . The Resolution was carried unanimously after discussion. From letters I have received and private conversations I feel that the whole Meeting was in full sympathy and well informed as to what the proposal implied.¹⁰⁹

What more could Schuster have done? His flock was unanimous and unambiguous. If any still wondered whether the gold standard set the industry against the City, soon enough the Federation of British Industries would appear and dispel that myth.

Bradbury was as eager to see Schuster denounce Keynes as Chamberlain was to see Schuster affirm industry's support for the gold standard. He paraphrased both Keynes's critique and his proposal. "We are told," he began, "that . . . a very large part of the gold in the world is now hoarded in the hands of the Americans, according to the present monetary policy of the United States, in a more or less arbitrary fashion." This, the argument ran, "makes it necessary to break away from the gold standard." "Perhaps a country like Great Britain," he continued, "might . . . for the time being fix its currency policy on the basis of maintaining stability of prices . . . and having established . . . a sterling standard . . . wait for the gold using countries to come to this standard." Saying it out loud, Bradbury could not help but admit, "That, of course, is a very ingenious kind of policy." But, he asked, "you think that is a policy which is of very little use and you would be wholly in favor of returning to gold, whatever may be [its] present imperfections?"¹¹⁰

Schuster tried evading the question, suggesting that neither he, the other bankers, nor the world had "the intellectual capacity of understanding the working of the [proposed] schemes . . . and how they can be called into practice." But Bradbury persisted: "I do not think Sir Felix does justice either to himself or to his brother bankers. I have no doubt they very thoroughly understand the suggestion." "The point," he explained, "is that the world being what it is, suggestions of this kind do not appear . . . to afford a basis for the—." "No," Schuster interjected. He did not want, or need, the heresy explained to him. Such fantastical flights could always be grounded with a recitation of the orthodox axiom, which he then invoked: "The world at large wants to see currency that is based on something which is of exchangeable value all over the world, and so far we have only gold."¹¹¹

With his wings clipped, Bradbury brought the discussion back to the Cunliffe Committee recommendations. Consideration over the finer points of implementation continued for some time. With the transcription reaching thirty-three pages, Schuster's testimony was one of the longest and most detailed. It was reminiscent of the long, deep discussions in the Cunliffe Committee several years earlier, which included several appearances by Schuster. The group

continued to disagree about specifics, even as they shared a devotion to the desired outcome: restoring the gold standard as swiftly as possible.

Perhaps the most important consequence of the discussion was that it seems to have sparked Keynes's invitation to give evidence. Schuster still lumped Keynes together with Kitson and the other cranks. But he feared the power of these ideas, and he pressed the committee to confront them directly. Bradbury knew that there was more to it than that, and he evidently wanted to have a fuller discussion of these radical, but "ingenious," ideas. Pigou, too, knew better than to ignore the power of Keynes's intellect—and his pen. While he was absent this day, his subsequent work on the committee suggests that he also had been pondering Keynes's critique. So the committee invited Keynes to testify. It marked Keynes's first serious chance since his apostasy to make his case in person. No doubt, Keynes relished the opportunity.

The Inquest of JM Keynes

In contrast to Norman, Keynes was quite well known by the Chamberlain-Bradbury Committee even before he appeared before them. He had known Pigou since his undergraduate days at Cambridge.¹¹² He worked at the Treasury (largely under Bradbury) for five years during and after the First World War. During that time, he was a stalwart exponent of the old orthodoxy. Indeed, in the first part of 1920, Keynes vigorously pressed Chamberlain (who was then chancellor) to implement the orthodoxy's recommended austerity, raising interest rates as high as 10 percent if necessary.¹¹³

Much had changed in the ten years since Keynes had rushed down to London to help Bradbury save the gold standard at the war's outbreak. He was now the most serious critic of that system and of the Cunliffe Committee dogma that supported it. His editorials and now his *Tract on Monetary Reform* were attracting ever more attention from the figures at the highest level. So the Chamberlain-Bradbury Committee knew well what Keynes would say. Keynes, however, was wholly unprepared for the committee's response.

Keynes was invited on July 4, 1924, precisely one year after Baldwin's "non-flationist" speech in Parliament. The invitation quoted the committee's terms of reference on "whether the

time has now come to amalgamate the Treasury Note Issue with the Bank of England Note Issue.”¹¹⁴ If those terms were ambiguous, the inclusion of the Cunliffe Committee’s *First Interim Report* was a strong clue that this new committee intended to implement the very orthodoxy that Keynes had renounced.¹¹⁵ In the event, Keynes visited the committee the next week with entirely the wrong mindset.

Keynes’s biggest cognitive block was precisely that which had led him astray the previous summer: he still believed that he had won. After a brief opening remark, Bradbury pushed back: “You are really directing your observations to the position which exists so long as the exchange is below parity?” The mention of “parity” caught Keynes unaware. Had not Baldwin abandoned the fixation on “parities” and moved to Keynes’s suggested method of targeting price levels instead? Keynes responded, “The existing rule is a relic of the time when it was the policy of the Government to carry out a progressive deflation. . . . That policy, after falling gradually into desuetude, was expressly abandoned by the Government of the day just over a year ago when Mr Baldwin made his famous non-flationist speech. Unless . . . that policy is reversed, it would be foolish to maintain a rule the object of which is . . . contrary to . . . the policy of the Government.”

At the time, Keynes was perhaps the only person who thought that “Baldwin [had] made [a] famous non-flationist speech.” As we saw, it was not a speech as much as an evasion. It was not Baldwin but Young who deployed this new standard. And it was hardly “famous.”¹¹⁶ Nevertheless, Keynes launched into his “ideal system,” which was really a summary of the *Tract*.¹¹⁷

At this point, a perplexed Bradbury asked Keynes to clarify his reference to “the transitional period.” “Transitional to what?” Bradbury asked. “Until there has been some final declaration as to . . . our ultimate currency policy,” Keynes replied. Evidently, he had missed the Labour prime minister’s unambiguous declaration a few months prior that “the Government are still guided by the conclusions of the . . . Cunliffe Committee.”¹¹⁸ Instead, Keynes returned to his starting point: “We are left with a criterion which was explicitly adopted by Mr Baldwin, on behalf of the Government of the day, a year ago, of maintaining the price level steady.” That assumption, which had proved so useful intellectually, was now becoming a practical limitation.

Keynes had placed far too much stock in Baldwin's refusal to meet Young's challenge, and he was now perilously behind the times politically.¹¹⁹

Keynes's homily continued, with only a few brief interruptions, until Chamberlain confronted him with the key question of the day: What will happen when the government resumes the gold standard? As Baldwin's capital controls were really the last vestige of the wartime controls, the question was really this: "What would be the effect of lifting the embargo on the movement of gold . . . restoring the free market in gold for export[?]" Keynes was taken aback. To his mind, the answer was obvious but the question irrelevant. He replied, "A considerable amount of gold would flow, and the exchange would be immediately restored to parity." Chamberlain questioned whether there really were the threat of "a great drain of gold," but Keynes was insistent: "Certainly after a time all the gold would have left the Bank of England and there would still be unsatisfied demands. If you were to offer more gold for sterling and make no other change, the demands for gold at this reduced price for export to America would be bound in the end to swamp you. Therefore that policy would have to be combined with a drastic credit restriction." The further consequences of this would be devastating. "All our exports would cost 12% more in the world market . . . [and] our export trade would be absolutely cut from under our feet," Keynes argued.¹²⁰

It was a troubling prophecy. But it was a possibility that the authorities had considered and ruled out repeatedly. For them, the benefits of exchange rate stability far outweighed the costs of deflation. Their position turned out to be wrong, but it was not unreasonable. Nevertheless, Keynes could hardly believe that the committee was still planning to restore the free movement of gold. And the committee could hardly believe that Keynes could not believe it.

Chamberlain pressed the "practical" question: "The embargo expires on the 31st December 1925. What would you do under those circumstances?" Keynes was taken aback: "This leads into rather big questions." "We are unable to keep them out," Chamberlain exclaimed. Keynes then made explicit the assumption that had guided his thinking for more than a year: "I hold very strongly that the Treasury or the Bank of England . . . [must] in perpetuity keep a hold over both the import and export of gold. I should favor a permanent system of allowing both export and import of gold only by license of the Treasury or the Bank of England. That would mean that the rates at which gold was flowing in or out, and the level of prices and

so forth, would be under their control.” Denying “the advantages of the supposed free gold market,” Keynes insisted, “I see no reason whatever why the existing method of controlling gold imports and exports should not be made a permanent policy.”¹²¹

If the committee members were shocked, they should not have been so. This is just the position that Norman appears to have pressed upon Bradbury across 1919 and 1920: that it was “essential to maintain [the] prohib[iti]on ag[ain]st Export of Cap[ita]l.”¹²² And it was of a piece with the position that Norman had just vigorously defended a fortnight prior: returning to “the gold standard” required extending Baldwin’s capital controls.

Reminded, perhaps, of the governor’s analysis, Chamberlain invoked the “psychological” factor that Norman had stressed. Chamberlain worried “that a great many people . . . would treat that as rather a serious declaration . . . [and] as a confession on the part of the British Government of economic weakness?” Chamberlain asked. Of course, Keynes did not deny the meaning of such an announcement: “It would be a confession that it was not absolutely certain that we could return to the gold standard by the 1st January 1926.” But, Keynes assured the committee, such an announcement was hardly meaningful: “The opinion that we shall return to a gold standard on the 1st January 192[6] is hardly held by anyone.”¹²³

“Hardly held by anyone”—except for all of the members of this committee, the Labour chancellor and prime minister, the leaders of the Conservative opposition, the City bankers, the speculators, the unions, the workers, the general public, and the foreign exchange market. Expressing his belief on an empirical matter, Keynes hardly could have been more wrong. But on a theoretical matter, he hardly could have been more insightful. The issue is that all of these different actors defined “the gold standard” in radically different, mutually incompatible ways. The dissensus within the orthodoxy did little to prompt any renunciation of the church or its trappings. Keynes’s failing was that he assumed these actors—starting with Baldwin’s non-inflationist speech—had come to grips with the reality that the gold standard, however imagined, was a false idol.

And so the committee then asked Keynes specifically about that most important icon in this Church of England: the gold sovereign. Chamberlain confirmed that Keynes thought “that we ought not to attempt to restore the old parity of the sovereign.” “That is not an essential part of my views,” came the reply. “My own belief,” Keynes explained, “is that the policy I

advocate—price stability—would almost certainly lead to a restoration of the parity of the sovereign, because I . . . believe that American prices will . . . rise in time. . . . I am against hurrying the day.” But what about when the two did not go together, Chamberlain and Niemeyer asked. Keynes was clear on the priority. He would grant the monetary authorities the freedom to adjust the official gold price as necessary. “We should then be our own masters,” he announced.¹²⁴

Thus, Keynes answered as many iconoclasts had done. He was not insisting upon an end to icons as such. But the casting of that idol, the gold sovereign, must be defined by the true objective, overall price stability, rather than the other way around. In this way, Keynes professed, his reformation would serve the religion’s true mission.

It did not take Bradbury long to come to the enormous practical implication of Keynes’s radical vision: it gave the monetary authorities unprecedented decision-making autonomy. Just as he had done with Norman, Bradbury challenged this abandonment of the traditional, mechanistic model of central banking. “Mr Keynes,” Keynes’s old Treasury superior began, “do you . . . attach any importance at all to the fluctuation in the amount of the reserve in the Banking Department of the Bank of England?” After all, he continued, “the traditional prewar policy of the Bank of England was to determine the credit policy of the Bank with regard to the movements in the reserve in the Banking Department.”¹²⁵ This idea was the starting point for Bradbury’s original proposal to the Cunliffe Committee, and despite Cunliffe’s own resistance, Bradbury had made it the governing principle of the Cunliffe Committee’s reports. In this traditionalist view, the Bank’s reserves alone dictated the money supply of the whole country.¹²⁶

Keynes categorically rejected this principle. “[Even] if gold flowed in or out, while I should attach some importance to the state of the reserve as one of the indications, I should not make it the sole criterion as under prewar conditions,” Keynes replied. He went further. In setting monetary policy, the Bank’s reserve figures were “useless.”¹²⁷

Bradbury might have been appalled by Keynes’s summary dismissal of the Cunliffe Committee dogma, but he nevertheless extended an olive branch. Surely Keynes would recognize the value of this symbol in the political realm? “The Bank of England, like other institutions,” Bradbury noted, “is susceptible to public opinion.” “If a variation of the Bank rate has to be justified to the public,” he continued, “. . . the only justification before the War was that

the increase had to be effected to protect the reserve of the Banking Department.” But again, Keynes stubbornly denied him. This metric was “of very little importance. . . . If the Bank waits to put up its Bank rate, until it can have this justification for the public it will always put it up too late.”¹²⁸

How then did Keynes think the Bank ought to set its monetary policy? What did he see as the barometer that the Bank ought to use? Chamberlain himself asked these questions. Keynes replied with a bewildering list:

I should pay great attention to the ease with which the Treasury was able to get its dollars over the exchange. I should watch the level of prices in America. I should watch changes in the form of the assets of the “Big Five” [clearing banks] as between advances, investments and discounts. I should watch the open market rate of discount. I should watch the new issues market, particularly the foreign new issues. . . . I should take into account the relative money rates here and in America, but I should take into account not less the money rates in Germany and France.¹²⁹

He carried on discussing relative price levels, political arrangements (such as the Dawes Plan), and subjective assessments of market confidence. One thing was conspicuously absent: the price of gold. So Bradbury asked him about this specifically. Keynes assured him that he would include this, too, among the many other factors. Bradbury cut to the chase: “You think that the unit of value in this country should be maintained by credit control, plus the taking into account of various economic causes and tendencies, of which no doubt gold value should be one, but possibly not the most important?” Keynes agreed: “That is correct.”¹³⁰

For the committee, the implication was clear: Keynes was determined to displace the old laws of Bradbury’s mechanistic gold standard with autonomous monetary authorities endowed with discretionary authority. “Would you think that the duty of credit control could properly be left entirely to the Bank of England,” “formally a private institution,” “in consultation . . . with the Treasury and other people?” Bradbury asked. Keynes answered in the affirmative and added, “I do not regard [the Bank] as a private institution. I regard it as one of our Heaven-sent institutions by which through anomalistic methods we get the advantages both of a private and of a public institution.” Just like that, Keynes reconceptualized the covenant of the Bank of England.¹³¹

When he helped to establish England's permanently fixed exchange rate, Locke's principal argument was that the sovereign had a legal obligation to preserve the metallic value of the currency. The sanctity of contract, the basis of all political authority, required no less.¹³² Keynes's suggestion that the monetary authority pursue overall price stability rather than the pound's metallic value thus rejected several centuries of orthodoxy.

Bradbury led the defense of the ancient principle. Was it "entirely consistent with the contract between the bondholder and public creditors of this country generally . . . that emergency currency should be made for the purpose of giving advantages to one party to the contract—the Government—as against the other party?" Keynes was none too worried: "I should regard it as perfectly proper, provided that the Treasury were offering a fair bargain." But the Conservatives' sometime chancellor was plenty worried. "It would be a tremendous power to put in the hands of the Chancellor of the Exchequer or the Government for the time being," Chamberlain exclaimed. It did not help that, at that time, Labour was in power for the first time. "Do you think you can trust the Chancellor of the Exchequer not to fill his Budget deficit or for the purpose of his favorite scheme to use this [opportunity] if he has it?" he asked. "I do not think there are any means of strapping down a really wicked Chancellor of the Exchequer," Keynes insisted. Instead, "I should try to throw him out of office." It was a brilliant maneuver: invoking Locke's right of revolution to supplant his monetary rigidity.¹³³

There was more than just the questions of contractual rights and obligations. Farrer opened a second front, what Smith (and later Hayek) characterized as a knowledge-problem.¹³⁴ Even if we could trust the authorities to use their discretion for the public good, how could any monetary authority possibly deduce the optimum policy from all of the factors that Keynes listed? "Do you think . . . that we have had a breed of people who are capable of taking all those considerations and acting upon them, or do you think we shall have to breed a superman to do it?" Farrer queried. "I do not foresee any particular difficulty with it," Keynes replied, even as he went on to admit that manufacturers, merchants, exporters, "City men" (bankers), and "the great mass of people all through the country" would all struggle to understand the new mechanisms.¹³⁵

The contrast was as stark as that between the Old and the New Testaments. For Bradbury, the principal advantage of the gold standard was that it tied the hands of policymakers by establishing a mechanical relationship between the quantity of gold and the quantity of money.

He and the Cunliffe Committee recognized that there must be exceptions to the rules of the game. Indeed, they explicitly acknowledged this in the *First Interim Report*. So too did orthodox theory allow for “suspending” the rules in extenuating circumstances, such as during a financial crisis or the outbreak of war. But such circumstances must be extenuating indeed. For Bradbury, even the outbreak of the Great War and the concomitant financial crisis did not warrant a suspension of the gold standard.¹³⁶ Keynes knew this better than anyone. After all, it was the memorandum he drafted, at Bradbury’s request, that had changed Lloyd George’s mind and saved convertibility then.

But now, ten years later, Keynes was determined to destroy that orthodoxy. He argued that monetary authorities could be judged—and disciplined—by ex post political processes rather than ex ante laws. He had faith in the “Heaven-sent” Bank of England. He believed that the monetary authorities could have the wisdom, and grace, to shepherd their flocks.

For the committee, Keynes’s new “system” was utopian. “You are anticipating Paradise in your suggestion,” Farrer insisted. As ever, Keynes was indignant: “If the Directors of the Bank of England are as stupid as some people think they are, our currency will break down in any case.” It was a snappy retort. But Farrer was not wrong. What “superman” could steer a monetary order unmoored from the “automatic machinery” celebrated by the Cunliffe Committee?¹³⁷

If there were anyone, it was Montagu Norman. Certainly, this is what Norman himself believed. In time, he would establish a new orthodoxy around Keynes’s apostasy, one that acknowledged the influence of market psychology and conceded the need for central bankers to collaborate to manipulate the international system. But first, Norman would have to subdue the counterreformation being orchestrated by the Chamberlain-Bradbury Committee. Ultimately, it proved easier than he might have expected.

¹ Friedman, *Capitalism and Freedom*, 133.

² Skidelsky, *Economist as Saviour*.

³ Schacht’s dissertation, entitled *The Theoretical Quality of English Commerce*, emphasized the practical aspects of the early modern English mercantilists. After finishing at the University of

Kiel, Schacht went on to what he himself called “the Schmoller Training College.” Schmoller became Schacht’s “most valued teacher,” and Schacht published numerous articles in Schmoller’s *Jahrbuch*. Schacht, *My First Seventy-Six Years*, 81–96.

⁴ Ahamed, *Lords of Finance*, 512. Predictably, Schacht resigned his post and returned to “[his] work in the Dresdner Bank,” where it was “intimated that [he] would be appointed a regular member of the board at the earliest opportunity. . . . That [he] had done some successful work as deputy manager in occupied Belgium had doubtless more than a little to do with it.” Schacht, *My First Seventy-Six Years*, 137–39. Even decades later, Schacht struggled to see why his dealings in Belgium had been viewed as improper.

⁵ Schacht, *My First Seventy-Six Years*, 182; emphasis added.

⁶ Schacht, *My First Seventy-Six Years*, 137–38.

⁷ Schacht, *My First Seventy-Six Years*, 190.

⁸ Boyle, *Montagu Norman*, 170.

⁹ Schacht, *My First Seventy-Six Years*, 191.

¹⁰ Schacht, *My First Seventy-Six Years*, 194–95.

¹¹ Schacht, *My First Seventy-Six Years*, 196–97; emphasis in original.

¹² Schacht, *My First Seventy-Six Years*, 196.

¹³ US Federal Reserve, *Banking and Monetary Statistics*, 545.

¹⁴ Capie and Webber, *Monetary History*, table III (1); 209–14.

¹⁵ Schacht, *My First Seventy-Six Years*, 197.

¹⁶ Schacht, *My First Seventy-Six Years*, 198.

¹⁷ Schacht, *My First Seventy-Six Years*, 198–99.

¹⁸ Schacht, *My First Seventy-Six Years*, 197.

¹⁹ Schacht, *My First Seventy-Six Years*, 196.

²⁰ NA T 185/1, Samuel, “Testimony,” June 10, 1918, 404.

²¹ This suggestion comes from Boyle, *Montagu Norman*, 170, based on interviews.

²² At the time, Bank rate was at 4 percent. The loan was approved retroactively by the Committee of Treasury. Bank of England, G8/55, January 9, 1924. Presumably, the loan was

mentioned to the Court of Directors as part of the weekly advances and discount, but there is no record of further discussion of it. Bank of England, G4/146, January 10, 1924.

²³ Schacht, *My First Seventy-Six Years*, 201.

²⁴ Schacht, *My First Seventy-Six Years*, 201.

²⁵ Schacht, *My First Seventy-Six Years*, 202.

²⁶ Schacht, *My First Seventy-Six Years*, 202.

²⁷ Schacht, *My First Seventy-Six Years*, 197.

²⁸ Boyle, *Montagu Norman*, 169–71.

²⁹ Boyle, *Montagu Norman*, 169–71; see also Sayers, *Bank of England*, 2:184.

³⁰ Sayers, *Bank of England*, 1:208.

³¹ Cunliffe Committee, *First Interim Report*, 4.

³² Parliamentary Debates, House of Commons, February 18, 1924, vol. 169, column 1309.

³³ House of Commons, February 18, 1924, vol. 169, columns 1309–10.

³⁴ Global Financial Data, “British Pound to US Dollar Exchange Rate.”

³⁵ The speech was subsequently published in the *Bankers’ Magazine*, by which means it reached the monetary authorities in London. NA T 160/197/3, Schuster, “Currencies: Foreign and Our Own,” April 30, 1924.

³⁶ NA T 160/197/3, Schuster, “Currencies: Foreign and Our Own”, April 30, 1924.

³⁷ NA T 160/197/3, Schuster, “Currencies: Foreign and Our Own”, April 30, 1924.

³⁸ NA T 160/197/3, Schuster, “Currencies: Foreign and Our Own”, April 30, 1924.

³⁹ Moggridge, *Return to Gold*, 25; NA T 160/197/2, Treasury Minute, June 10, 1924; NA T 160/197/2, Norman to Niemeyer, April 16, 1924.

⁴⁰ Skidelsky, *Hopes Betrayed*, 175.

⁴¹ The committee sent a copy of the Cunliffe Committee’s *First Interim Report* to its witnesses. Keynes, *Collected Writings*, 19:238–39.

⁴² Parliamentary Debates, House of Commons, June 26, 1924, vol. 175, columns 586–87.

⁴³ Parliamentary Debates, House of Commons, June 23, 1924, vol. 175, column 78.

⁴⁴ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 5.

⁴⁵ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 5.

-
- ⁴⁶ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 5.
- ⁴⁷ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 7.
- ⁴⁸ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 7.
- ⁴⁹ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 8.
- ⁵⁰ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 9.
- ⁵¹ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 10.
- ⁵² NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 10.
- ⁵³ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 15.
- ⁵⁴ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 15; emphasis added.
- ⁵⁵ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 15.
- ⁵⁶ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 16.
- ⁵⁷ Norman might have contemplated the radical possibility that Treasury notes be traded at a discount vis-à-vis the Bank’s notes. But to depreciate the Treasury’s pound notes might have imperiled the appearance of the Bank’s pound notes. The holders of the Bank’s notes would have to ask, “Shall we be next?”
- ⁵⁸ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 16.
- ⁵⁹ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 17.
- ⁶⁰ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 17.
- ⁶¹ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 26.
- ⁶² NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 26.
- ⁶³ Cunliffe Committee, *First Interim Report*, 4.
- ⁶⁴ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 17.
- ⁶⁵ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 18.
- ⁶⁶ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 18.
- ⁶⁷ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 18; Keynes, *Collected Writings*, 4:134.
- ⁶⁸ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 18.
- ⁶⁹ Marx, “German Ideology,” 180.
- ⁷⁰ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 20.

-
- ⁷¹ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 20.
- ⁷² NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 20.
- ⁷³ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 20.
- ⁷⁴ Arthur Cecil Pigou, “Some Problems of Foreign Exchange,” *Economic Journal* 30, no. 120 (1920): 460–72; Arthur Cecil Pigou, “The Foreign Exchanges,” *Quarterly Journal of Economics* 37, no. 1 (1922): 52–74.
- ⁷⁵ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 20.
- ⁷⁶ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 21.
- ⁷⁷ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 21.
- ⁷⁸ In making explanations for Norman, Sayers inadvertently repeats Norman’s disparagement of Pigou. Sayers, *Bank of England*, 151–52. This overstates Norman’s commitment to this position as a matter of principle. In his subsequent appearance before the committee, he vigorously defended such calculations even against the skepticism of his Bank colleagues (such as Addis). More broadly, Norman did not want for offers of “expert technical analysis” from Pigou (and presumably others). Like any governor, Norman had access to all of the expertise he thought he needed.
- ⁷⁹ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 21.
- ⁸⁰ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 21.
- ⁸¹ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 29.
- ⁸² NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 29.
- ⁸³ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 29.
- ⁸⁴ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 29.
- ⁸⁵ It is difficult to determine who else could have been the recipient of millions of pounds of Bank loans. Other countries, such as Hungary, had requested loans from the Bank at the same time but had been denied. Bank of England, G8/55, January 9, 1924.
- ⁸⁶ Schacht, *My First Seventy-Six Years*, 205–6.
- ⁸⁷ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 3.
- ⁸⁸ NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 3.
- ⁸⁹ Ahamed, *Lords of Finance*, 203.

-
- ⁹⁰ Ahamed, *Lords of Finance*, 204–5.
- ⁹¹ Ahamed, *Lords of Finance*, 204.
- ⁹² Schacht, *My First Seventy-Six Years*, 189.
- ⁹³ Schacht, *My First Seventy-Six Years*, 214–15.
- ⁹⁴ Gustav Schmoller, *The Mercantile System and Its Historical Significance Illustrated Chiefly from Prussian History* (New York: Macmillan, 1896), 75–76.
- ⁹⁵ The term, of course, is Schacht’s and not mine. Schacht, *My First Seventy-Six Years*, 510.
- ⁹⁶ As for Schacht, seizures by the Gestapo and then the Red Army left him with nothing by the end of the Second World War. Schacht, *My First Seventy-Six Years*, chapter 60.
- ⁹⁷ This would explain Norman’s otherwise bizarre position that it was better for sterling if the Labour government were to announce a several-year-long delay of restoration. It would also explain Norman’s sense of urgency—the supposed threat that if the government’s announcement did not come quickly, the exchange would fall. NA T 160/197/6, Norman, “Testimony,” June 27, 1924, pdfp 28.
- ⁹⁸ Keynes, *Collected Writings*, 24:128–131.
- ⁹⁹ Boyle, *Montagu Norman*, 176–77.
- ¹⁰⁰ NA T 160/197/6, Schuster, “Testimony,” July 3, 1924, 1–2.
- ¹⁰¹ NA T 160/197/6, Schuster, “Testimony,” July 3, 1924, 2–3.
- ¹⁰² NA T 160/197/6, Schuster, “Testimony,” July 3, 1924, 4–5, 8.
- ¹⁰³ NA T 160/197/6, Schuster, “Testimony,” July 3, 1924, 9.
- ¹⁰⁴ NA T 160/197/6, Schuster, “Testimony,” July 3, 1924, 10.
- ¹⁰⁵ NA T 160/197/6, Schuster, “Testimony,” July 3, 1924, 10.
- ¹⁰⁶ The day that Schuster testified, sterling traded at \$4.32. Six months prior, it was as low as \$4.20. Across the subsequent six months, it rose to \$4.75—just eleven cents from parity. Global Financial Data, “British Pound to US Dollar Exchange Rate.” What is a knowable 8 percent Bank rate compared to an unknowable 10 percent exchange rate shift? For those who would rather not stake their fortunes in the speculative gamble of sterling instability: everything.
- ¹⁰⁷ NA T 160/197/3, Schuster, “Currencies: Foreign and Our Own”, April 30, 1924. Cf. Keynes, *Collected Writings*, 17:pdfp 8–9.

-
- ¹⁰⁸ NA T 160/197/6, Schuster, “Testimony,” July 3, 1924, 11.
- ¹⁰⁹ NA T 160/197/6, Schuster, “Testimony,” July 3, 1924, 33.
- ¹¹⁰ NA T 160/197/6, Schuster, “Testimony,” July 3, 1924, 21–22.
- ¹¹¹ NA T 160/197/6, Schuster, “Testimony,” July 3, 1924, 22–23.
- ¹¹² Unfortunately, Pigou was not present on the day of this interview.
- ¹¹³ Keynes, *Collected Writings*, 17:12–13, 179–86. The Treasury’s reactions and internal discussions are available in NA T 172/1384.
- ¹¹⁴ Keynes, *Collected Writings*, 19:238.
- ¹¹⁵ Keynes, *Collected Writings*, 19:238–39. Professor Edwin Cannan, who appeared on the same day, had better understood the committee’s purpose. He submitted a memorandum that “[took it] for granted that an eventual return to the gold standard at the old rate of 113 fine grains to the pound sterling is to be aimed at.” NA T 160/197/3, Cannan, Memorandum, July 11, 1924.
- ¹¹⁶ It did not attract the attention of the Chamberlain-Bradbury Committee or further discussion in Parliament.
- ¹¹⁷ Keynes, *Collected Writings*, 19:240–47.
- ¹¹⁸ House of Commons, February 18, 1924, vol. 169, columns 1309–10.
- ¹¹⁹ Keynes, *Collected Writings*, 19:242.
- ¹²⁰ Keynes, *Collected Writings*, 19:248–49.
- ¹²¹ Keynes, *Collected Writings*, 19:249–50.
- ¹²² Bank of England, ADM 34/8, 1.
- ¹²³ Keynes, *Collected Writings*, 19:250.
- ¹²⁴ Keynes, *Collected Writings*, 19:250–51.
- ¹²⁵ Keynes, *Collected Writings*, 19:252.
- ¹²⁶ NA T 185/2, Bradbury, “Future Dimensions of the Fiduciary Issue,” March 9, 1918.
- ¹²⁷ Keynes, *Collected Writings*, 19:252–53.
- ¹²⁸ Keynes, *Collected Writings*, 19:252–53.
- ¹²⁹ Keynes, *Collected Writings*, 19:253.
- ¹³⁰ Keynes, *Collected Writings*, 19:254.
- ¹³¹ Keynes, *Collected Writings*, 19:255.

-
- ¹³² Locke made this point repeatedly in published books and in memoranda drafted for policymakers. See his “Further Considerations concerning Raising the Value of Money” (415–18, 438), “Propositions Sent to the Lords Justices” (375–76), and “Short Observations on a Printed Paper” (352) <AU: Only the first of these three works appears in the bibliography. Would you like to add the other two?/>, in *Locke on Money*, ed. Patrick Hyde Kelly (Oxford: Clarendon Press, 1991). It is of a piece with his arguments in chapter 5 of the *Second Treatise* on the connection between the invention of money and the creation of political society. John Locke, *Two Treatises of Government*, ed. Peter Laslett, 2nd ed. (Cambridge: Cambridge University Press, 1967).
- ¹³³ Keynes, *Collected Writings*, 19:255–57.
- ¹³⁴ Adam Smith, *The Theory of Moral Sentiments* (Indianapolis: Liberty Fund, 1984), VI.ii.2.17–18; Friedrich Hayek, “The Use of Knowledge in Society,” *American Economic Review* 35, no. 4 (1945): 519–30.
- ¹³⁵ Keynes, *Collected Writings*, 19:260.
- ¹³⁶ Roberts, *Saving the City*, 54–61.
- ¹³⁷ Keynes, *Collected Writings*, 19:259–60.