MONTAGU NORMAN

A STUDY IN FINANCIAL STATESMANSHIP

BY

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PREFACE

To forestall disappointment the author wishes to make it quite clear that this book is not intended as a biography of Mr. Montagu Collet Norman. It does not pretend to give an intimate account of every aspect of Mr. Norman's life, nor does it attempt to solve the riddle of his character—a fascinating task worthy of the pen of a Lytton Strachey, but which is unlikely to be undertaken in Mr. Norman's lifetime. He shrinks from publicity, and no author should disregard his feelings as far as his private life is concerned. As for his public activities, they are a different story. They are part of post-war history, and cannot, therefore, escape critical examination. The intention of the author has, therefore, been to confine himself to the appreciation of Mr. Norman's Governorship. He does not aim at describing Mr. Norman as a man, but as a banker and as a statesman. Although Chapter II gives some particulars, hitherto not generally known, about his ancestry and his career before he became Governor of the Bank of England, all these facts are either traceable from public records by anyone who takes the trouble to do so, or they are sufficiently widely known in banking circles to be regarded as public property. These facts are only given inasmuch as they throw some light on the origins of Mr. Norman's policy, which to some extent can be explained by influences of heredity and environment.

Notwithstanding this self-imposed restriction of the scope of the book, the author feels he owes an apology to Mr. Norman for having made him the subject of this book without asking his authorization. But he felt that circumstances amply justified his decision to devote a book to Mr. Norman's public career. His personality has been one of the main forces that have affected banking, currency, and even politics during the last twelve years, and, in the interest of the study of contemporary history, such an important factor has to be dealt with according to its merits. Nor is the author the first to mention Mr. Norman in print. In fact, as a result of the events of the last twelve months, he has become one of the most criticized personalities of our generation. Prominent politicians and cheap demagogues, distinguished economists and crazy currency cranks, leading bankers and obscure financiers, have all made him their target. He has even become a frequent subject for popular cartoonists, the surest sign of fame. All this criticism, whether well-informed or ill-informed, authoritative or irresponsible, only deals with a certain range of his policy and activities. The critics examine Mr. Norman's work only from the particular angle they happen to be interested in. The author attempts to provide a more complete and balanced picture of his policy and his work. The book lays particular stress upon the part Mr. Norman played behind the scenes in political developments. In this respect the author claims to provide new material of facts.

As far as Mr. Norman's monetary policy and central banking policy is concerned, there is a wealth of material, which has not hitherto been adequately drawn upon, in Mr. Norman's evidence before the Macmillan Committee. For the convenience of the reader this evidence is reprinted in full in the appendices in this book. This material has to be used, however, with discrimination, as Mr. Norman, in accordance with the traditions of the Bank of England, may not have cared to give away too much in a public inquiry. His remarks should be appreciated in conjunction with other material available about his policy.

As the reader will be able to judge for himself, the book is neither an indictment nor a vindication of Mr. Norman's policy. While the author endeavours to examine in a spirit of understanding many of the charges raised against Mr. Norman, at the same time he also raises new points of criticism. He has tried to be impartial, although we are still too near to the events, and too closely concerned with the controversy aroused by Mr. Norman's activities to be completely free from prejudices.

P. E.

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August, 1932.

CHAPTER I

INTRODUCTORY

THE history of Great Britain since the war has been characterized by an unusual absence of political leadership. None of those who have governed the destinies of the nation from Downing Street between 1918 and 1932 have been able to uphold the best traditions of British statesmanship. During a period in which Italy produced a Mussolini, France a Poincaré, Russia a Lenin and a Stalin, Germany a Stresemann, the politicians of the nation which through many centuries has acquired a reputation for statesmanship, failed to live up to the high standard established by their predecessors. None of the Governments that have succeeded each other since the war have been able to give a lead to Europe, in accordance with British traditions. If, in spite of this, the British nation has maintained its prestige for its statesmanlike qualities, the credit is due to a man whose sphere of activity has been outside politics. This man is Mr. Montagu Collet Norman.

His personality would stand out even in a generation that had produced many prominent political leaders. As it is, the mediocrity of his contemporaries in the political field sets him in particularly strong relief. The firmness with which he has pursued the aims he has set for himself has been in sharp contrast to the series of feeble compromises that has characterized the official British foreign policy. There is no doubt that he has attained a prominence unequalled by any other banker of this generation, or, indeed, of any previous generation. For it is not only in the sphere of central banking and monetary policy that he has become a world figure. It may be said without hesitation that, although he has never been a politician, he has been the greatest statesman in Great Britain since the war.

There have been few public men whose activities have aroused such strong disagreement as those of Mr. Montagu Norman. To some extent this can be accounted for by the highly controversial character assumed by his work during an abnormal period. But apart altogether from this, he is one of those dominant personalities towards whom we cannot remain indifferent. We must admire him or hate him. Indeed, opinions about his policy, his achievements, his ability, and his character differ widely. His friends regard him as a superman who has approached the ideal more than anybody else in his generation. In their eyes he simply cannot be wrong, and everything he has done is right, even though it may not appear so on the surface. Thus, notwithstanding the failure of his policy of restoring sterling to pre-war parity, they maintain that that policy was the right one. They consider him the saviour of civilization, who has consolidated Europe, and has prevented post-war economic chaos from leading to collapse and Bolshevism. They regard him as the greatest financial genius of our era, and one of the finest characters that has ever existed, with a personal charm that is proverbial among his friends. His opponents and enemies represent him in a totally different light. They regard him as the evil genius of post-war Europe, who has spelt ruin at home and caused strife abroad. His reign of governorship is regarded as a long series of mistakes both in policy and in execution. In many quarters doubts are cast upon his ability, and the view is held that he has obtained his high reputation for expert knowledge merely owing to the strength of his personality. Those who meet him as an opponent at the conference table consider his attitude intolerably aggressive and unreasonably temperamental.

Throughout history great men have always aroused such controversy. Their policy is bound to meet with the enthusiastic approval of some, and is bound to provoke the violent disapproval of others. Petty jealousy on the one hand, and flattery on the other, also account for the discrepancy between the pictures of great men painted by various people. Nor has Mr. Norman's personality contributed towards reducing the diversity of opinions. His friends can hardly imagine him to be anything but charming, but the frankness with which he shows his dislike is hardly suitable for converting enemies into friends. The period during which he has displayed his activity was rich in controversial material. The list is formidable ; it includes the return of the pound to its pre-war parity in 1925 ; his monetary policy which assumed particular importance in the prevailing abnormal conditions ; his external policy which aroused lively controversy at home and abroad. Lastly, the attitude of the Bank towards industry which was the subject of heated debates. Any one of these questions would have been in itself amply sufficient to divide the Press, banking, political, and academic circles into two camps. As it is, the quantity of controversial material has created an unbridgeable gulf between Normanites and anti-Normanites. Both camps are inclined to exaggerate to the utmost in their judgment of Mr. Norman.

The truth lies somewhere between the two extremes, though, in the author's opinion, it is in many ways nearer to the conception of Mr. Norman's friends than to that of his enemies. Possibly his ability as a currency expert may be overrated ; there are undoubtedly many others who excel him in knowledge of technical detail. But then, it is not among the indispensable requirements of statesmanship to possess a knowledge of details. Possibly his judgment has not always been sound, nor his instinct always right. But then, he has worked in a period when developments have defied all rules, and when it has been more a matter of luck than skill to strike the right line. He undoubtedly possesses a great deal of initiative, but the minds of many of his contemporaries work far quicker.

His principal source of strength is not so much his ability as his character. He has undoubtedly his limitations as a banker, currency expert, statesman, and financial diplomat. He could bear no comparison with some of his critics, utterly un-English in their brilliance, but he unites in himself those virtues and failings of the British character which have proved successful throughout the centuries, even though they may have been from time to time overshadowed by the meteoric genius of some adversaries. Great Britain did not produce a Napoleon, but the stubborn competence of her statesmen and soldiers outweighed in the long run his dazzling genius. Possibly Mr. Norman got the worst of the argument in debates at conferences or while giving evidence before the Macmillan Committee, where quickness of mind was the determining factor. Possibly his French opponents in financial diplomacy may have defeated him in 1931, because they were more subtle and less tradition-ridden. Taking the long view, however, it is his steadfast character and not the brilliant genius of his opponents that stands the better chance of succeeding.

The reason why Mr. Montagu Norman has succeeded in making his influence felt in the world of finance as well as in politics lies undoubtedly in the fact that his policy and his opinions have been thoroughly British. He is the personification of the principles which have governed Great Britain for centuries in these two fields. To return to pre-war parity, to withstand the temptation to take the line of least resistance in monetary policy as well as in international relations, to pursue a policy aiming at the balance of power on the Continent, has been in accordance with the best British traditions. Even the mistakes he has made have been essentially British. It is indeed difficult to imagine anything more characteristically British than the attempt of 1925 to pay twenty shillings in the pound irrespective of the sacrifices involved. As a statesman and diplomat he had the typically British failing of not knowing when he was defeated, and the typically British virtue of not kicking his opponents when they were down.

Anyone who sets himself the task of finding fault with Mr. Norman's policy and activities has indeed ample material at his disposal. Having been in a responsible position during an extremely difficult period, it would have been impossible for him, or for anyone else in his place, to avoid making mistakes. He has been, in fact, subjected to an immense amount of criticism.

Mr. Norman's critics usually accuse him of representing an extreme point of view. The fact, however, that he has been attacked from diametrically opposite points of view seems to indicate that he must have been following a middle course, even if he did not always steer exactly in the centre. His monetary policy has been accused of being too orthodox, but it has also been accused of not being sufficiently orthodox. His foreign policy has been attacked on the grounds of being not sufficiently British, but it has been attacked also for being too exclusively British. He has been criticized for being too much under the influence of the antiquated traditions of his bank, but also for disregarding these traditions. He has been accused from time to time of being too timid and conservative in his policy, but he was also charged at least as often with being too bold and radical.

We are all too closely interested in the controversy to form an unbiassed opinion as to Mr. Norman's merits and demerits. Moreover, he has not yet concluded his work, and some of his achievements have yet to bear their fruit. History alone will be able to appreciate the wide and enduring results of his work. There are, however, already certain achievements on the credit side of his balance sheet, which may be regarded already at this stage as being of permanent value. These achievements are as follows :—

(1) Mr. Norman has succeeded in introducing a progressive spirit into the Bank of England without sacrificing essential traditions.

(2) He has strengthened Great Britain's reputation as an honest debtor who does her utmost to meet her liabilities in the face of great difficulties.

(3) He has contributed more than any other living human being to the reconstruction of Europe, thereby providing the world with a breathing space that has enabled it to bear the sufferings of the subsequent crisis.

(4) He has contributed more than anybody else towards the development of the science and art of central banking.

(5) He has inaugurated the movement of co-operation between central banks which has already produced satisfactory results, and has immense possibilities for further developments.

(6) Thanks to his influence Great Britain has followed the traditional balance of power policy which, under his guidance, has assumed a new, constructive character.

(7) The Hoover Moratorium, which may be regarded as the beginning of the end of reparations, was to a great extent due to his advice.

It is true that the debit side of his account is also heavy. While his critics may have exaggerated, there is no doubt that the list of those unfavourable developments for which he is wholely or partly responsible is fairly long. The following are its most important items :—

(1) The Bank of England has failed to take a sufficiently active hand in the solution of the readjustment of Industry to new conditions.

(2) Mr. Norman has made Great Britain pay too heavy a price for upholding her reputation as an honest debtor.

(3) He has failed to take adequate measures for the defence of sterling.

(4) On various occasions, especially in his dealings with foreign affairs, he has not always been sufficiently diplomatic.

(5) After the suspension of the gold standard he pursued too timid a policy, and failed to take advantage of the immense possibilities provided by the flight to the pound early in 1932.

The following chapters will examine in detail the debit and credit sides of Mr. Norman's activities. It is left to the reader to make up his mind after taking into consideration all the facts and arguments whether or not the balance is in Mr. Norman's favour. In order to arrive at a fair judgment, it is essential that a broad view should be taken. Any individual act should be considered in relation to Mr. Norman's work as a whole. It is necessary to bear in mind that he was not a mere technical expert and should not be judged as such. For, mistakes that are unforgivable in a technical expert are overlooked and forgotten if committed by a statesman of Mr. Norman's calibre. They disappear in significance if regarded from a historical perspective. Academic economists whose world is limited to monetary policy may condemn Mr. Norman for having failed to change the Bank rate when, in their opinion, a change would have been necessary. But the future historian will not be influenced by the immediate consequences of recent events, and will not think in terms of the Bank rate. He will be able to regard the events of our days dispassionately, with a right sense of proportion, and will be able to balance achievements against omissions according to their true importance.

CHAPTER II

A BANKING CAREER

AMONG the outstanding personalities of our generation is hardly one whose history is less well-known than that of Mr. Norman. His biography in *Who's Who* extends to barely ten lines. It is as follows :—

"**NORMAN, Rt. Hon. Montagu Collet,** P.C. 1923; D.S.O. 1901; late the Bedfordshire Regt., 4th Batt.; Governor, Bank of England 1920; Lieut. City of London; b. 1871; *e.s.* of late F. H. Norman, Moor Place, Much Hadham, Herts. *Educ.*; Eton; King's College, Cambridge. Served South Africa, 1900–1 (dispatches, Queen's medal 4 clasps, D.S.O.). *Address:* Thorpe Lodge, Campden Hill, W. 8. *T.*: Park 3751. *Club:* Athenæum."

Newspaper articles dealing with his career add very little to this information, and inquisitive journalists trying to satisfy the curiosity of their readers about the details of the earlier stages of Mr. Norman's career have so far failed. It is largely owing to the screen of secrecy that surrounds the personality of Mr. Norman that he has acquired the reputation of being a mystery man. And yet, there is nothing mysterious either about this ancestry or about his early career. Mr. Norman is a descendant of several banking families. In direct line his family has been engaged in banking for three generations only. His great-grandfather, George Norman, was born in 1756, and was sheriff of Kent from 1793, was a merchant of standing in Norwegian timber trade, and his son, George Warde Norman, was the first member of the family to be engaged in banking. On his mother's and grandmother's side, however, Mr. Norman is the descendant of old banking families, and is related to the banking aristocracy which for centuries past has played a leading part in the City. During the second half of the nineteenth century the Norman family came to be regarded as one of the leading banking dynasties; its members were found among the partners of three leading banking firms, at the same time, Martin & Co. (now Martins Bank), Baring Brothers, and Brown, Shipley & Co.

George Warde Norman was the first ancestor on his father's side to be associated with the Bank of England. In many ways, Mr. Montagu Norman has inherited his character and qualities. We propose therefore to deal with his history at some length. Born in 1793, George Warde Norman became a director of the Bank of England in 1821, and remained a director until 1872. He declined the governorship when it was his turn to take the chair, but became a member of the Treasury Committee of the Bank in 1840 and fulfilled there duties for some years. In his obituary notice, appearing in the *Economist* of 9th September, 1882, it is stated that, though it is usual when a member of the Bank Court declines the Governorship that he should retire from the Board, "Mr. Norman's services were, however, so much valued by his fellow-directors that he was requested to continue to be a member of their body." This in spite of the fact that he had introduced into the Court a critical spirit, and had never concealed his opinion when it did not agree with the official policy of the Bank. During the crisis of 1847 he played an important part in advising the Bank how to cope with the emergency. He was indeed regarded as one of the most prominent bankers of his day, and his opinion carried weight within and outside the Bank.

George Warde Norman represented the ultra-conservative school of thought on banking and currency. Seemingly it runs in the family—our monetary radicals may suggest—though it is impossible to fail to realize the progress of the family during three generations, in accordance with the general trend of evolution. What is considered to-day as extreme conservatism was regarded as revolutionary radicalism in George Warde Norman's days. In his pamphlet entitled *Remarks upon Some Prevalent Errors with Respect to Currency and Banking and Suggestions as to the Legislation as to the Renewal of the Bank's Charter*, published in 1833, he supported the view that the object of note issue was merely to serve the convenience of the public by replacing cumbersome gold coins by notes which are more easily handled. He was a determined opponent of any note issue in excess of the actual gold reserve. In this respect, his grandson holds much more advanced views ; even our extreme monetary radicals must admit as much. After all, it was under his governorship that the fiduciary issue—the very thought of which had horrified his grandfather—was raised from £19¾ millions to £275 millions. Some people may nevertheless suggest that he stands for what is extreme conservatism in our days, just as George Warde Norman stood for what was extreme conservatism in the first half of the nineteenth century.

Indeed, it is only fair to admit, in some respects Mr. Norman is even more conservative than was his grandfather. He does not, for instance, believe in the public discussion of any differences of opinion about the management of the monetary policy of the country. Apart from a short preface he contributed to Kisch and Elkin's book on *Central Banks* and to Acres' book *The Bank of England from Within*—both of them non-committal and non-controversial—he has never published anything. His grandfather, on the other hand, made extensive use of the contemporary Press to express his opinion, and if he disagreed with the official policy, he made no secret of it. Apart from the pamphlet mentioned above, his other published works included *An Examination of Some Prevailing Opinions as to the Pressure of Taxation in This and Other Countries* (1850), *Letter to Charles Wood, Esq., M.P. on Money and the Means of Economising the Use of it* (1841), *Remarks on the Incidence of Import Duties with Special Reference to the England and Cuba Case* (1860), *Papers on Various Subjects* (1862), *The Future of the United States* (paper read before the British Association at Belfast in 1874.) He also contributed a number of articles to the *Economist* and other newspapers. His writings indicated a critical spirit. His grandson, on the other hand, resents criticism in public, and on a proprietors' meeting of the Bank of England he administered a gentle rebuke to one of the distinguished clients of the Bank who expressed his criticism in print instead of communicating his grievance to the Governor behind closed doors. The difference between his attitude towards criticism and that of his grandfather is crystallized in the fact that George Warde Norman chose to remain independent while Mr. Montagu Norman was prepared to assume the responsibilities of office.

Holding no official post, George Warde Norman was also more at liberty to take an interest in party politics. He was a staunch Liberal and Free Trader. His interests did not confine themselves to banking. He was the last surviving original member of the Political Economy Club, and led an intellectual life. He belonged to the select group of bankers who, in the nineteenth century, combined intellectual pursuits with their business occupations, such as Lord Overton, Grote, Raikes, Currie, Hodgkin, and others. He was particularly friendly with George Grote, the banker and historian, and it was at his suggestion that Grote wrote his History of Greece. George Warde Norman was very much interested in Italian, French, and Norwegian literature, and Latin poetry. He had an interesting collection of Norwegian books. Possibly Mr. Montagu Norman inherited from his grandfather the intellectual and artistic strain in his character, though he is in a less fortunate position than was George Warde Norman, as he has less leisure.

George Warde Norman married a daughter of Henry Stone, a partner in the banking firm Stone and Martin (which later became Martin & Co. and is now Martins Bank). As is well known, this banking firm is one of the oldest in existence; it can be traced back to the middle of the sixteenth century, when it was one of the prominent firms of goldsmiths in Lombard Street. On his grandmother's side, Mr. Norman's banking ancestry is thus lost in antiquity. His family was associated with banking from the very origin of that profession in this country.

George Warde Norman had six sons, one of whom was the late Frederick Henry Norman, the father of Mr. Montagu Norman. Frederick Henry Norman was a partner in the banking firm of Martin & Co. He had been educated at Eton and Cambridge, and had, up to the time of his joining the firm, practised as a barrister. He married the daughter of Sir Mark Wilks Collet, a partner in the firm of Brown, Shipley & Co. Himself a descendant of bankers, Sir Mark Wilks Collet was a director of the Bank of England from 1866 until his death in 1905. He was Deputy-Governor from 1885–7, and Governor from 1887–9. It was during his Governorship that Lord Goschen carried out his famous conversion scheme in 1888. Sir Mark Wilks Collet was created a baronet in the same year in recognition of his services in connection with this transaction.

Among the other sons of George Warde Norman, Charles Lloyd Norman was a partner in the firm of Baring Brothers. The family seat, The Rookery, Bromley, Kent, is at present owned by Mr. Archibald Cameron Norman, son of Charles Lloyd Norman. The intellectual traditions of the family were carried forward by various members, among others Mr. Philip Norman, sixth son of George Warde Norman, who takes a keen interest in painting, has exhibited painting at the Royal Academy and elsewhere, and has published various books and articles on antiquarian and topographical subjects. He takes a special interest in London buildings and churches, and has written several prefaces to catalogues of pictures of old London.

Mr. Montagu Collet Norman was born in 1871. He has one brother, Mr. Ronald Collet Norman, who was for some years Chairman of the London County Council. Both brothers were educated at Eton and Cambridge. Little is known about Mr. Montagu Norman's school record at Eton, and he left King's College after only one year, it is said, owing to a disagreement with his director of studies. During his school days he did not attract much attention, as he was certainly not an infant prodigy. Had anybody ventured to prophesy at the time that an honorary degree would be conferred upon him in about four decades it is doubtful whether any of those who knew him at Eton or at King's would have believed it.

While in our days Economics occupies an important place among the subjects of the Schools which are to produce the " upper ten " in politics, banking, and public administration, until comparatively recently it was still tabooed in these conservative seats of learning. Thus, in Mr. Norman's school days there was not much chance for him to acquire either at Eton or at Cambridge any knowledge of the " dismal science ", even in its most abstract and academic form, let alone its practical application. On the other hand, he had every opportunity to acquire or to strengthen those qualities in his character which have made him the despot of Threadneedle Street, and which in international relations have got him the well-earned reputation of being a very good friend and a formidable enemy. Those qualities must have been inherent in him, but his education may have played a certain part in developing them.

On leaving King's College in 1890 he joined the banking firm of his grandfather, Brown, Shipley & Co. Amidst the dazzling palaces that have been erected lately to house London's banks, the headquarters of Brown, Shipley & Co. disappear with unassuming modesty. Their building is hidden away in the quaint, narrow passage of Founders Court, opposite the Lothbury side of the Bank of England. Thousands of people pass by that passage every day without taking notice of the existence of the banking house. For the general public, the name of Brown, Shipley & Co. may not convey so much as that of some of the banking houses whose firm has been a household word all over the world for generations past. But for anyone in the City, or in the international banking community of any country, the name is a hallmark of sound banking. The house works on cautious lines, seeks no spectacular expansion, and maintains a conservative class of first-rate international clientele with which it has been connected for generations. Its partners have the willpower to say " No " when an affirmative answer appears on the surface more in accordance with the immediate interests of the firm.

It is difficult to imagine a more appropriate setting for the early stages of Mr. Norman's banking career than this unassuming house in Founders Court. Possibly these surroundings may have fostered his conservative policy, and his dislike of publicity. He has learnt in his youth that genuine work can be done without any flourish of trumpets. Early association with some more pushing firm might possibly have influenced him in quite a different way ; conceivably he might have assumed a more aggressively go-ahead attitude, and post-war financial history might have assumed a different course. As it is, he restored the pound to its pre-war parity notwithstanding the tempting advantages of another solution. He had the strength of mind to say " No " when, after the war it was suggested that sterling should be stabilized at a lower level, though a different answer appeared to be more in accordance with the immediate interests of the country. And he had the strength of mind to say " No " when it was suggested over and over again that all evils of the country should be cured by inflation, notwithstanding the tempting immediate advantages of such a course.

He spent part of the time of his banking *apprentissage* in New York with the banking firm Brown Brothers & Co. (now Brown Brothers, Harriman & Co.), the New York and Philadelphia associates of his grandfather's firm, and a house which had a world-wide reputation for conservative banking. At the time when Mr. Norman was in New York to learn his profession, the late James Brown, one of the leading figures in the history of American banking, was one of the partners. It is conceivable that his dominant personality may have had some influence upon Mr. Norman. In any case, during his stay in the United States he established some lasting connections and associations, and acquired a knowledge of American mentality which has been very helpful to him in later years in his efforts to establish close co-operation between London and New York.

After his return to London he rejoined Brown, Shipley & Co., became a holder of procuration, and in 1900 he was admitted to partnership. In the same year, however, he joined the army, and took part in the South African War as an officer in the Bedfordshire Regiment. He distinguished himself during the campaign, was promoted to the rank of captain, and was given the D.S.O. He is apparently one of those people who do thoroughly whatever they happen to take up, whether banking or soldiering. It seems quite possible that, had Mr. Norman chosen to remain in the Army he would have attained a leading position, and he might have made history during the Great War as a general instead of making history after the war as a financial statesman. He certainly possesses that common denominator of ability which was bound to raise him into prominence, no matter what branch of activity he chose to take up.

Fate willed it that he should fight his war as a banker, not as a soldier. After the conclusion of the South African War he returned to his banking firm, where he remained a partner until 1915. In 1907 he was elected a Director of the Bank of England at the comparatively young age of 35, while eight years later he became a Deputy-Governor. It is owing to the exceptional conditions prevailing during the war that he became definitely associated with the Bank of England. Before the war it was the practice that each director in turn became Deputy-Governor for two years, and was then elected Governor for the following two years. They all retained their partnerships in the merchant banking firms they represented on the Court of the Bank of England, and resumed their functions as private bankers after the termination of their period of Governorship. Each one in turn became Deputy-Governor and Governor, whether or not he was qualified to hold that post, and each one had to give way to the next on the list after two years' Governorship, no matter how eminently he was suited to hold that post. Amidst the comparatively normal conditions prevailing before the war the system worked on the whole satisfactorily. The problems that confronted the Governor and Deputy-Governor were then less complicated, and their work was not even " a full-time job ". Two hundred years' practice had established a routine, and the Bank, with its experienced permanent officials, did not make great demands on the Governor. The difficult problems brought forth by the war necessitated, however, a change in the system. Both Governor and Deputy-Governor had to devote their whole time to the Bank, and it has become undesirable to interfere with the continuity of their work. Thus, Lord Cunliffe remained Governor throughout the war, until his death in 1920, while Mr. Norman retained his post as Deputy-Governor from 1915 until after Lord Cunliffe's death he was elected Governor. Had the old system of taking the Governorship in turns been maintained, Mr. Norman would probably have become Governor in 1917 and would have relinquished his post two years later. Although he would have remained a Director of the Bank, his close association with it would have ceased. As it is, he has come to be associated permanently with the Bank. As his duties as Deputy-Governor prevented him from attending to his duties as a partner of Brown, Shipley & Co., he resigned his partnership so as to be able to devote his full time to the Bank of England. It is hardly necessary to point out that his decision involved a considerable financial sacrifice, as the salaries of the Governor and of the Deputy-Governor are remarkably small, and represent only a fraction of the income of a partner of a prosperous private banking firm.

At the age of forty-nine, Mr. Norman had reached the highest post any banker could dream of attaining. He had attained an office already enjoying unique prestige in Great Britain, and soon to be revered throughout the world. He had assumed the power which he was to wield, for good or evil, for many years to come, which was to be increased in his strong hands, and which was to become one of the leading factors in post-war history.

CHAPTER III

PROGRESS v. TRADITIONS

THE Bank of England building, which was until a few years ago a symbol of the survival of traditions in a changing world, has become a remarkable exhibition of contrasts. Soane's windowless walls with their impressive simplicity have remained intact, but above them a bold superstructure is now being erected. At the time of writing the building operations have reached a sufficiently advanced stage to give an idea of the changed character of the architectural masterpiece that is to house the Bank of England for the next hundred years. With its rows of columns, bright windows, balconies, with the bold lines of its roofs and the provocative sculptures above the main entrance, the completed centre and eastern wing of the superstructure rise as a sharp but not unpleasing contrast to the surrounding original walls. The western wing is, however, still untouched, and it will be some time before the progress of building operations can reach Princes Street. There Soane's wall in its old dignity and gloom still monopolizes the picture, and nothing disturbs the artistic effect of Tivoli Corner.

A few yards from Princes Street, at the Lothbury side, there is an entrance which has a sinister fascination. It is a characteristic remnant of the original Bank building, which, in its sombre austerity is reminiscent of the prison scene in *Fidelio*. If we allow ourselves to be carried away by our imagination and forget for a moment that we are in the twentieth century and in the centre of the modern banking world, we have a strange feeling of facing a mediæval castle. It would not be surprising if we were to read one day that in the course of excavations in this part of the building skeletons had been discovered chained to the walls—the remains of wicked critics of the Bank in centuries gone by, who were careless enough to enter its premises and paid the price of their temerity.

A glance above the walls is sufficient to bring us back to reality. There we can see from a distance the essentially modern spectacle of gigantic cranes, and the army of builders on the labyrinth of scaffolding, working their way towards the western wing. It is interesting to note that this part of the building, where the offices of the Governor and the Court room are situated, has been left to be the last to resist the modernizing forces. But within a few years, this corner has also to share the fate of the rest of the building. Its original character will be sacrificed to practical requirements. Soane's walls will, however, be maintained intact, and the bank building, even after completion, will continue to represent a striking contrast between ancient and modern. It will remain a symbol of the slow process of imposing new organization upon the old traditions.

It is this contrast that characterizes the governorship of Mr. Montagu Norman. When he succeeded the late Lord Cunliffe, Soane's building was still untouched, and so were the antiquated traditions of the Bank of England. Internally and externally the Bank was a mediæval citadel. In the country which has created the democratic parliamentary system, and in the City which had been the earliest and staunchest supporter of Parliament against the Crown, the Bank of England survived as the last stronghold of autocracy. Being a chartered company owned by its stockholders, the Bank of England was independent of Government and Parliament. In many respects it is still a State within a State. It has extensive freedom of action, and its directors are responsible only to the stockholders. Even this responsibility is more theoretical than real, for, as experience has shown, any stockholder attempting to raise a vital issue at the meetings would face an impenetrable hedge of evasive answers. As far as the world knows the Bank is governed by its Court of Directors, but if the Governor is a strong man, his authority is absolute.

For over two centuries the City, Westminster, Whitehall and the whole country have submitted to the despotism of the Bank. The system, on the whole, worked satisfactorily, and there was no reason for discontent. Although the Bank's policy was occasionally criticized, such criticism was generally ignored, and most of the time the Bank pursued its course with the minimum amount of interference. " Never explain, never apologize " was the policy adopted towards any criticism whether in Parliament or in the Press. The Bank had indeed little reason to complain of the attitude of the Press during the years preceding the war. Until recent years no respectable paper would have admitted any criticism, however mild, against it. Indeed, such was the awe of City Editors towards the sacrosanct character of the Bank of England that whenever possible they even avoided mentioning it by name. The Third Commandment, " Thou shalt not take the Name of the Lord thy God in vain, for the Lord will not hold him guiltless, that taketh His Name in vain," was indeed well observed in the financial Press, and many ingenious synonyms have been devised to indicate what may not be mentioned. Whenever writers in City columns referred to " certain quarters " or " the Hidden Hand ", it was generally understood that they meant the Bank of England. Those who were somewhat bolder went so far as to refer to the Bank as " our central institution " or " the authorities ". It was not until a few years ago that an irreverent generation of financial journalists began to refer to the Bank by name.

The windowless walls that surround the Bank provide a remarkable symbol of its attitude towards the external world. In a literal sense it is these walls which have sheltered the Bank from the inquisitive eyes of the external world. Metaphorically speaking, they have provided a bulwark to defend the Bank's traditions, and to resist external influence. The decisions taken behind those walls were immune from outside interference, and in most cases they remained hidden from those outside the walls. The Bank did not consider it necessary to take its protégé the Discount Market into its confidence. The tradition "never explain, never apologize" has been applied strictly even in relation to those with whom the Bank must have regular dealings, and who form part of the system of which the Bank itself was the centre. It would be contrary to the Bank's traditions to give any indication to anyone as to its policy, intentions, and wishes. The City is left completely in the dark. Even the high officials of the Treasury, with whom the Bank works in close co-operation, have occasionally found it difficult to obtain information. The half-yearly stockholders' meetings have always been regarded as purely formal affairs, and those who attend them go away little the wiser as to the monetary situation or the Bank's policy. As for the Press, it was treated with a contempt which would not have been tolerated from any other institution, but which was richly deserved for the servility with which Editors and journalists have refrained from criticism.

It is impossible to imagine anybody more suitable than Mr. Montagu Norman to uphold the despotic traditions of the Bank. He is as characteristic a Governor of the Bank of England as Francis Joseph was characteristic as a Habsburg Emperor, or Lord Roberts was characteristic of an old-type military commander. Being descended from bankers on both his father's and his mother's side, he inherited the respect of these traditions. Throughout his whole banking career he has been accustomed to regard the prerogatives of the Bank, which have hardly been affected by the turmoil of the war, as unassailable. Having been elected a Director of the Bank in 1907, he spent thirteen years in the atmosphere of the Bank before he became Governor. Those who have ever been inside the Bank must agree that not thirteen years but thirteen minutes spent amidst its atmosphere are sufficient to create a profound impression upon one's mind. Few of the authors of newspaper articles who refer to the Bank, whether with reverence or with sarcasm, as "the temple of high finance" realize how appropriate the expression is. Whoever enters the Bank from the thundering traffic and turmoil of Threadneedle Street, must feel as if he had stepped into a church. Majestic silence reigns amidst the walls of the tall and dark corridors. The Garden Court—which, unfortunately, is doomed to disappear shortly—seems like an oasis of peace amidst the hustle of modern life. There is something about the halls and passages that makes you talk in a subdued voice, and makes you walk on tiptoe. It casts its spell upon the casual intruder, and it leaves its mark on the mind of the regular visitor.

There is no need to have banking traditions by inheritance or environment to be deeply impressed by this atmosphere. There is a story that a brief visit to the Bank was sufficient to convert Lord (then Mr.) Snowden from an advocate of the nationalization of the Bank into a strong opponent of the idea. It seems probable that even the boldest monetary reformer would not escape the spell of this atmosphere. Is it thus surprising that Mr. Norman with his traditions and experience should assimilate himself to it so completely? His character fitted him for the rôle which he was to fill. He is said to be a born despot, who has all the qualities enabling him to reign supreme in the citadel of Threadneedle Street. It is a kind of natural despotism which does not require to be enforced by means of fear-inspiring severity. In this it differs fundamentally from the despotism of his friend and late colleague, Dr. Hjalmar Schacht, the dictator of the Reichsbank between 1923 and 1930. All the members of the staff of the Reichsbank, even those in the highest positions, trembled when they were summoned into the presence of their chief, and few, if any, of his fellow-directors ever dared to contradict him. Mr. Montagu Norman, on the other hand, inspires no fear, but a desire to collaborate with him, and assist him in his task in every possible way. Although he is subject to the influences of his artistic temperament and his opponents at conferences have often good reason to complain of the way he treats them, most of the time he is friendly to those working with him and under him, and has a kind word for everybody. But there is something in his personality which makes opposition to his will extremely difficult. The author was told by one of the Directors of the Bank that on one occasion he went to the Court meeting with the determination of taking up a firm stand against the policy pursued by Mr. Norman on a certain matter, but in his presence his determination evaporated. A few words from the Governor were sufficient to disarm him. After the meeting he was furious with himself for having given in so easily, and decided to be on his guard next time. But on the next occasion he could not help doing the same. And this instance is by no means isolated. The occasions on which the Court of Directors definitely opposed and rejected anything suggested by Mr. Norman were very rare indeed.

It is a curious contradiction of fate that the metamorphosis of the Bank of England to meet changed requirements should begin exactly during the régime of such a typical representative of its century-old traditions as Mr. Montagu Norman. It was his destiny to change the outward appearance of the Bank from a mediæval citadel to a comparatively modern building. And it was equally his destiny to break with several of the Bank's traditions, deeply as they were rooted in his character. But the trend of evolution was too strong even for the Bank of England, and even for Mr. Norman, to resist it.

The Bank of England could no longer surround itself completely with the windowless walls. Conditions have changed since the war. The conception that the Bank of England is a private business enterprise, and that its activities, like those of any other joint stock company, are only the concern of its stockholders and directors, has given way to a broader conception that the Bank is a public institution with heavy responsibilities to the nation. Had the Governor been a man of average strength, he would have yielded completely to the current. Mr. Montagu Norman, however, put up a strong fight against it, and only yielded step by step to overwhelming pressure. He has, indeed, succeeded in retaining a great part of the prerogatives of the Bank in defiance of political parties and the Press. Although in accordance with changed requirements he had to erect a modern superstructure over the foundations of the Bank, the windowless walls still stand intact, as on the day when he became Governor.

The period of Mr. Montagu Norman's governorship witnessed a silent struggle between the traditions of the Bank and the requirements of progress. It would be a mistake, however, to regard Mr. Norman as a stubborn opponent of all progress who only yields reluctantly to the pressure of necessity. Although the windowless walls prevent the outside world from casting a glance into the Bank, from behind those walls the developments in the outside world are followed with keen interest.

Mr. Norman did not hesitate to discard some of the traditions of the Bank when he considered it desirable from the point of view of the constructive policy he has adopted. Thus the movement of co-operation between central banks which he inaugurated, constituted a revolutionary innovation for the Bank of England. The establishment of close business relations with other central banks has made it necessary to bring the Bank's antiquated organization up to date by the establishment of new departments. Founded at the end of the seventeenth century, the organization of the Bank had scarcely changed for the last two hundred years. Mr. Norman found it at practically the same stage as it settled down after the end of its initial experimental stage. Incredible as it may sound, a few years ago the Bank of England did not possess either a statistical department or even a foreign exchange department. A story is told that on the occasion of a meeting between Mr. Norman and the head of a continental central bank, the latter asked if he could send someone from his organization to study the statistical methods of the Bank of England. The answer was evasive ; Mr. Norman was not anxious to confess that the Bank of England was at that time the last place where anybody had a chance to study statistical methods, for the simple reason that it had no statistical department, or indeed any statistical methods at all. Before very long, however, this shortcoming was remedied. A much more important gap was the absence of a foreign exchange department. The methods by which the Bank of England transacted foreign exchange business even a few years ago were touchingly primitive. Although even to-day it does not possess an adequate organization, considerable progress has been made in the right direction during the last two years or so. Indeed, more has been done to bring the Bank of England up to date during the twelve years of Mr. Norman's régime than during the hundred years between the Bullion Committee and the Cunliffe Committee.

The Bank's attitude towards the Money Market has also undergone a considerable change during Mr. Montagu Norman's Governorship. Since the war it has been exceptionally important that there should be close co-operation between the various sections of the Money Market. To that end it was inevitable that the hitherto watertight cloak of secrecy should be loosened to some extent. The "policy of the windowless walls" could not be maintained in its entirety. It is to the credit of Mr. Norman that he has duly realized this. During the last few years it has been a comparatively frequent occurrence for him to communicate to the heads of the Discount Market what he would like the market to do, and on such occasions it was inevitable that he should take them into his confidence to some extent. It is true that he did not go very far in this direction. The Bank of England still remains the most secretive financial institution in the world.

Mr. Norman has to some extent departed from the Bank's traditions by establishing closer relations with the Press. At the beginning of his régime he took into his confidence only the City Editors of one or two leading newspapers, leaving the rest of the Press to discover the line they were to take as best they could. Subsequently he decided to modify his attitude. He must have realized that to use one particular privileged newspaper as his mouthpiece had certain disadvantages. The public may take it too much for granted that everything appearing in that paper is " inspired ", and this may not always be beneficial to the interests of the authorities. The Market still remembers one black Friday in September, 1929, when the newspaper which for many years had been the favourite channel through which Mr. Norman communicated with the external world, foreshadowed a rise in the Bank rate. Although on this occasion the forecast happened to be the individual opinion of the City Editor of that newspaper, the market had no means of knowing this, and acted upon it as if it had been an inspired warning. As a result, the Bank was left landed with the bulk of the Treasury bills offered on that day. This experience has induced Mr. Norman to enlarge his circle of acquaintances among the Press. In any case, the precision with which the newspaper in question had been able to tell time after time on Thursday morning what the Bank rate decision was likely to be, was becoming somewhat embarrassing. Some of the more ambitious directors of the Bank who disliked being regarded as figureheads, began to resent having to read on Thursday mornings in their favourite newspaper what they were going to decide at noon, and eventually it was agreed that in future neither the Governor nor the Deputy-Governor should receive representatives of the Press from Wednesday morning—when the Treasury Committee of the Bank meets—until after the announcement of the Bank rate decision on Thursday.

It is to the credit of Mr. Norman that he has realized the advantages of the intelligent use of the Press. Apart from his personal contact with the leading City Editors, he has also authorized the leading officials of the Bank to receive representatives of the Press, and to give them as much information as is in accordance with the interests of the Bank. In January, 1932, he startled the newspaper world by the bold innovation of appointing a leading financial journalist to take charge of the publicity of the Bank, a move which must have made many of his predecessors turn in their graves, but which was certainly in accordance with the changed requirements.

The most revolutionary breach with the traditions of the Bank during Mr. Norman's reign was the establishment of the Bankers' Industrial Development Company under the control of the Bank of England. The object of this company was to assist in the financing of the rationalization and reconstruction of industries. This was obviously in contradiction to the traditional policy of maintaining the Bank of England as a bankers' bank. In many quarters suspicions were entertained that Mr. Norman decided upon this departure in order to help Lord (then Mr.) Snowden to disarm those sections of the Labour Party which urged the nationalization of the Bank on the grounds that it did not at present adequately assist industries. In practice the change proved to be less revolutionary than it appeared at first. The main function of the new Company with its elaborate organization, was to examine and reject the applications for financial assistance received from every imaginable kind of enterprise, from the Iron and Steel industry to the Film industry. Industrialists came to realize before long that to seek the aid of the Bankers' Industrial Development Company was sheer waste of time, railway fares, and postage. The principle involved in this breach with traditions is, nevertheless, of great importance.

In many respects the prerogatives of London's financial citadel are still intact. As before, the Bank does not tell the world more about its business than it considers desirable. In this respect Mr. Norman has succeeded in upholding traditions in face of an increasing demand for more publicity from Parliament and from the Press. Although the Bank Return was slightly expanded on the occasion of the unification of currency notes and bank notes, it is as obscure and uninformative as ever. The origin and destination of gold shipments continues to be withheld from the public. Questions asked from time to time in the House of Commons as regards the Bank's business are invariably left unsatisfied, and inquisitive M.P.s are told that the Chancellor of the Exchequer is not in a position to give information about the affairs of a business concern.

The efforts of the Macmillan Committee to throw more light upon the machine of the Bank of England failed also almost completely. Although the evidence of the Deputy-Governor, Sir Ernest Harvey, contains some interesting technical details, neither he nor Mr. Montagu Norman gave away anything essential; indeed, the evidence of Mr. Norman is a study in noncommittal and evasive answers. The Governor has a genius for not answering the questions he does not wish to answer. Enterprising journalists who, on the occasions of his frequent journeys, attempted to interview him, found that in answer to their questions on delicate subjects such as the nature of his negotiations, he spoke about the likelihood of fair weather during his crossing. Although he could not very well deal with the distinguished Macmillan Committee in the same way, metaphorically speaking he was, nevertheless, talking of the weather in answer to the questions with which he was bombarded by various members of the Committee. "It may be so, or it may not be so," "That depends upon the circumstances," were characteristic replies. With his keen sense of humour, he must have thoroughly enjoyed the game, while those members of the Committee who were longing for the moment when they could cross-question him, were becoming increasingly exasperated by his answers.

Mr. Norman was equally successful in maintaining the tradition of the windowless walls as to the independence of the Bank's discount rate policy. In this respect he has not tolerated any interference either by Governments or by Parliaments, and least of all by the Press. Amidst industrial depression the demand for a low Bank rate was a very popular war cry, and politicians and newspaper magnates made extensive use of it. Mr. Norman did not allow himself to be influenced, however, either by the vigorous attacks of City Editors of evening papers, or by the arguments of Chancellors of the Exchequer who, with one eye upon the electorate, would have preferred to see a lower Bank rate than was justified by purely technical considerations. He must have been aware that whatever discount rate policy he chose to follow would be criticized and attacked either by the orthodox adherents of extreme deflationism, or by the Keynes-McKenna school, or conceivably by both. Thus the best course he could possibly take was to disregard critics, and to do what *he* considered to be in the best interests of the country. It would be indeed absurd to imagine that the Bank rate should be determined by plebiscite or even by Parliamentary vote. So long as Mr. Montagu Norman is at the head of the Bank there is no need to be afraid of such misplaced application of democratic principles. Nor is he ever likely to submit to the dictation of the Press Lords.

Thus, although Mr. Norman has yielded to some extent to the force of circumstances necessitating a compromise between progress and traditions, as far as fundamental principles are concerned the windowless walls are maintained, and continue to provide a bulwark against external interference, irrespective of any changes which have taken place or will take place beyond them. Having adjusted the policy and organization of the Bank to the changed situation, he has, in fact, saved the traditions which would have inevitably collapsed under pressure had he attempted rigidly to uphold them.

CHAPTER IV

THE MISTAKE OF 1925

If, as we have seen in the previous chapter, Mr. Norman has been anxious to uphold traditions regarding the relations of the Bank with the external world, it goes without saying that he has been guided by the same spirit as to fundamental questions of policy. In fact, while he may have been willing to compromise on questions of form, he was uncompromising to the utmost when questions of principle were at stake. One of these questions of principle was was that of the restoration of the pound to its legal value. The return of the pound to pre-war parity in 1925 was the first outstanding event under Mr. Montagu Norman's governorship, with which his name has come to be closely associated. We do not propose to give a historical survey of the developments which led to it. They have been described over and over again, and there is little new that could be usefully added to what has become a matter of general knowledge on the subject. Our task is confined to examining the part Mr. Norman played in bringing about a return of the pre-war pound. With our present knowledge of the events which have followed 1925 it is agreed almost unanimously that the return to pre-war parity was a mistake. We shall attempt to examine, inasmuch as it was a mistake, how far Mr. Norman should be blamed for it.

The management of the monetary policy of a country is in the hands of its central bank, which has, and should have, a free hand to attend to routine business necessitated by the task of maintaining the stability of the currency. When it comes, however, to decisions as to fundamental questions such as the level at which a currency should be stabilized, no Government can ever relinquish the right to have the last word on the matter. The choice of the rate of stabilization is an act of Government. The task of the central bank is confined to advising the Government as to the course it should adopt, and to executing the latter's decision whether or not it is in accordance with the advice given. Thus, officially, the decision to raise the pound to 4·86 dollars did not rest either with the Bank of England or with Mr. Montagu Norman, but with the successive Governments holding office between the Armistice and 1925. Their intention of restoring the pound to its pre-war value was generally taken for granted. Any opposition to that policy could have well been expressed in Parliament and in the General Elections that followed each other closely between 1918 and 1925. As there was no such opposition it may be said that the responsibility of the successive Governments was shared by the successive Parliaments, and the latter's responsibility again was shared by the electorate representing the country as a whole.

In pointing out the fact that Mr. Montagu Norman cannot be held officially responsible for the mistake of 1925, we do not wish to exonerate him from moral responsibility for that fatal act; for although officially the decision was in the hands of the Government, in reality the policy followed by statesmen of such different qualities as Mr. Lloyd George, Mr. Bonar Law, Mr. Baldwin, Mr. Snowden, and Mr. Churchill, was largely inspired by Mr. Montagu Norman. In this respect the part he played was similar to that of the senior permanent officials who, to a great extent, govern the country irrespective of changes of Government. The politicians who come and go usually follow the advice of the permanent officials and thus a certain continuity of governance irrespective of personal and political changes is secured. It is true that, when it comes to questions of fundamental policy, politicians may hold strong views of their own, and cannot afford to disregard the wishes of their followers in the House of Commons; they may have to go occasionally against the advice of the permanent officials. There was no such conflict in the case of the policy aiming at the restoration of the pre-war pound. Mr. Norman's advice was, as far as is known, fully endorsed by the permanent officials of the Treasury, and was not seriously opposed either in Parliament or in the country.

There was, it is true, a movement demanding the stabilization of sterling at a lower level. Several highly distinguished economists and bankers advocated that policy, and certain industrial interests were also in favour of it. The Labour Party while out of office showed itself mildly critical of the revalorization of the pound, but in 1924 when it assumed power did not in any way change the policy. The predominant majority of politicians, as far as they held any views at all on the subject, were decidedly in favour of returning to the pre-war parity, and their attitude received tacit endorsement from the country.

To say that all this was due to the personal influence of Mr. Norman would be to pay the highest possible compliment to the strength of his personality. It does not often happen in a constitutional country that an individual can carry away Government, Parliament, and electorate to such an extent on a question of fundamental importance. Throughout history there have been dictators in various countries who, partly by brutal force and terrorism, and partly by the strength of their personality, have succeeded in imposing their wills upon their nation. In democratic Great Britain, however, the only weapon at the disposal of Mr. Norman was his commanding personality. He had not even the advantage of being able to support his policy with the weapons of oratory. Apart from his short speeches at the stockholders' meetings of the Bank, and from a few remarks he made at a banquet at the Mansion House in 1930, he has never made a speech in public. By personal contact with permanent officials and Cabinet Ministers he may have influenced them—though some of the Treasury officials and Chancellors of the Exchequer he had to deal with were men who held very pronounced views of their own, and could not be regarded as mere puppets in Mr. Norman's hands—but his influence did not extend to the rank and file of the House of Commons. As to the general public, until a few years ago most people ignored his very existence. In 1925 his name conveyed very little to nine out of ten regular readers of newspapers. It is only during the last few years that, thanks to the atmosphere of mystery that surrounds him, his name has come to stir up popular interest. Once he was established in the minds of the public as the strong and silent man, the number of those who blindly trusted his guidance rose rapidly. But in 1925 his influence upon the public was small.

Why is it, it may be asked, that his policy has been adopted and carried out almost without contradiction? The answer is because it was characteristically British, and so thoroughly in accordance with British traditions that politicians and the public took it for granted as the only possible policy for this country. As the driving force behind the scenes who has been responsible for the adoption of the monetary policy of 1925, Mr. Norman was something more than a mere individual. He was something impersonal, a symbol, the personification of British character, the living conscience of the nation, which could not possibly have tolerated a deliberate default, and simply had to make an attempt to follow century-old traditions in paying twenty shillings in the pound, no matter how immense the sacrifices it involved.

Those who condemn the policy of raising the pound to its pre-war parity are, therefore, wrong in criticizing Mr. Norman individually for the mistake that was made. If they attack him they should do so on the ground of having been so typically British in his policy. In condemning him they condemn British honesty ; in repudiating him his critics repudiate the very basis of British character that has built and maintained the Empire, and that has secured to the nation an unequalled reputation for commercial and political integrity. Admittedly there is a great deal to be said for such criticism. The question may be raised whether it pays to be honest in a dishonest world. Taking a short view the answer is decidedly in the negative. British industry had to pay a heavy price for the policy of honesty, and France reaped the reward for the deliberate default implied in the choice of the rate of stabilization of the franc. The example of France and Great Britain during the last few years is certainly calculated to produce a demoralizing effect, and to increase the number of those who believe that honesty does not pay. Nor is it possible, unfortunately, to hold out the benefits of the policy of honesty in the long run against the tempting benefits of the opposite policy in the short run. The efforts to maintain the pound at its parity having failed, this country is possibly deprived of the reward of its honesty even in the long run. And yet, it seems certain that if the calendar could be turned back to 1925 and Great Britain were to be confronted once more with the dilemma she had then to decide upon, she would choose again the same course. So long as there was the slightest chance of paying twenty shillings in the pound, she would not attempt to take the line of least resistance by stabilizing her currency at a lower level. If in 1932 or 1933 she decides to stabilize sterling at a lower level, it is because events have proved that it is impossible to stabilize it at par.

The question to be answered when examining the policy of 1925 with critical eyes is whether or not it was obviously a hopeless attempt to restore and maintain sterling at its pre-war parity. It is true, it may be argued, that even if it was foredoomed to failure, Mr. Norman was right in advocating the return of the pre-war value of the pound as a gesture to the world to show that Great Britain did her utmost to meet her liabilities under the most difficult circumstances. This view is, however, decidedly exaggerated. No responsible statesman would sacrifice important interests for the sake of such a gesture. While it would be decidedly magnanimous towards old holders of sterling, it would hardly be fair to prospective holders who would be induced to acquire sterling by the creation of a false feeling of security. Thus, it is impossible to accept the view that Mr. Norman was right in his policy even if his attempt was obviously doomed from the very outset.

Mr. Norman himself has never considered it necessary to give any information about the reasons responsible for his decision to favour the restoration of sterling to its old parity in 1925. Questioned about it by the Macmillan Committee only five or six years after the decision, he surpassed himself in evasiveness by answering that he could not remember the sequence of events. If he was unwilling to explain in 1930, it is most unlikely that he would ever do so after the collapse of sterling, since any explanation might be taken for an attempt to vindicate himself, which is the last thing he would ever think of doing. Rather than volunteer the briefest of explanations in defence of his policy, he would go down to history as the cause of all our troubles. For this reason alone, it is the duty of his critics to be as fair to him as is humanly possible.

With our knowledge of 1932 it is very easy to say that the attempt to restore and maintain sterling at its old parity was doomed to failure. But in order to give a fair judgment of the policy of 1925 we shall have to try to forget all that we have learnt and experienced during the last seven years. We shall have to try to forget that in 1926 the attempt to adjust wages resulted in a violent general strike and a prolonged coal strike; that instead of following our example, several countries—France in the first place—stabilized their exchanges at an unduly low level; that the Wall Street boom and the subsequent slump checked the tendency towards the redistribution of gold accumulated in the United States; that the French gold hoarding policy brought about a downward trend of the international price level; that the financial power acquired by France through the unduly low stabilization of the franc was used in such a way as to bring about a financial crisis without precedent; that the crisis immobilized British external investments which would have otherwise been available for the defence of sterling pending the readjustment of wages and prices to the world level. These and many other considerations which are now a matter of general knowledge could not have been foreseen in 1925 by anybody. Those who triumphantly point out that they have been right all along have been right mostly for the wrong reasons. They were opposed to the restoration of the pound to the rate of $4·86 on general grounds, not because they had foreseen any of the events and developments which have led to the failure of Mr. Norman's policy.

As the author explained in detail in his book, *The Tragedy of the Pound*, it appeared reasonable in 1925 to assume that sterling could with an effort be maintained at its pre-war level. Although there were several considerations against that assumption, on balance it did not at the time require an unwarranted optimism to believe that the difficulties caused by the revalorization of sterling would be of a temporary nature. Those who accuse Mr. Norman of a lack of foresight may be right, for, after all, the proof of the pudding is in the eating. It is hardly fair, however, to expect him to foresee events which were not foreseen by anybody else.

Moreover, it is by no means certain that, had sterling been stabilized at a lower rate, things would have turned out more favourably to this country. It is possible, and even probable, that the devaluation of the pound would have become the signal for an international race in currency devaluation. Presumably our bad example would have been followed all over the world, and countries which stabilized their currencies after 1925 would have chosen a level at which their industries would have been able to compete with their British rivals, in spite of a low level at which sterling had been stabilized. Even countries which had stabilized their currencies before Great Britain would have probably changed the rate of stabilization. With the possible exception of the United States, the price level in most countries would have thus been lower than in Great Britain, and the inevitable tendency to readjustment would have assumed the form of a declining level of gold prices with all the adverse consequences experienced during the last three years. Owing to the rigidity of her wages Great Britain would have been at the same disadvantage as she actually has been. It is highly doubtful whether the crisis would not have swept sterling off its new parity, which would have been much more detrimental to British prestige than was the abandonment of the old parity, the untenability of which has been abundantly proved. Thus it seems probable that the policy advocated by Mr. Norman's critics would have failed to the same extent as his policy. As it has not been attempted, these critics are now in a position to claim to have been right all along, which only shows how much easier it is to criticize than to govern.

The difficulties of Great Britain after the war were much more deeply rooted than is generally assumed. They could not have been eliminated by mere skilful monetary manipulations. Under a system of Free Trade Great Britain had become dependent to a dangerous degree upon the willingness and ability of other countries to exchange their foodstuffs for her goods. This circumstance has placed her at a grave disadvantage since the war, against which the weapon of monetary policy would have been of little avail. Lack of adaptability of industries, denounced by Mr. Norman in his evidence before the Macmillan Committee, was another severe disadvantage largely independent of the monetary factor. Moreover, the rigidity of wages caused by the excessive political power of trades unions, and by the adoption of a system of unemployment relief which was not followed by rival countries, provided another severe handicap. It is true that all these disadvantages could have been temporarily mitigated by stabilizing sterling at a lower level, but as we said above, this advantage would have disappeared if, as is probable, our example in the choice of the rate of stabilization had been followed by other countries. Thus, it would have been useless to stabilize sterling at $4 instead of $4·86 if in consequence the franc had been stabilized at a correspondingly lower level, at, say, 150 instead of 124. The disadvantage of dependence upon foreign markets to a too great extent, and rigidity of wages, could not in the long run have been mitigated by a devaluation of sterling. Nor could the comparative inefficiency of our industries be remedied by any such means. Devices provided by monetary policy could only have been palliatives, which might have disguised the real situation for some time, but would not have obviated the necessity of facing realities sooner or later. In fact, as the crisis of the pound has provided a timely warning and has checked the process of the decline of the British Empire, it was perhaps a blessing in disguise, and in the eyes of the historian Mr. Norman's policy may thus be amply justified by its results.

CHAPTER V

MONETARY POLICY

According to a saying attributed to at least three different monarchs, it is easier to govern an empire to the satisfaction of all its subjects than to regulate the temperature of a room to the satisfaction of al those present. If there is one thing which is perhaps even more difficult than this, it is to manage the monetary policy of a country without displeasing anybody. There are always some critics who regard the monetary policy as too orthodox, and there are others who believe that it is not sufficiently orthodox. No matter what the Bank rate is, it is always too high in the opinion of some people, and too low in the view of others. Whatever the volume of currency and credit may be, there will always be experts who consider it excessive, and other experts who regard it as inadequate to meet requirements. Thus, even in normal times, those responsible for the monetary policy of a country have to reckon with ample criticism.

In times of depression and crisis the governorship of a central bank is a bed of thorns, for whatever goes wrong his monetary policy is always blamed by either orthodox opinion or radical opinion, or, as is often the case, by both. In the circumstances it is only natural that Mr. Norman should be subject to a great deal of criticism on account of his monetary policy even before the crisis, and more especially since 1931.

We have seen in Chapter III that throughout his governorship Mr. Norman has endeavoured to uphold the traditions of the Bank of England as far as it was possible in face of the requirements of progress. It is this conflict between the two considerations that has characterized his monetary policy. His family traditions, and his environment ever since the beginning of his banking career, have been on the side of extreme conservatism. We have seen in Chapter II that his grandfather, George Warde Norman, represented in the first half of the nineteenth century the extreme orthodox school in money matters. His grandfather on his mother's side, Sir Mark Wilks Collet, was also a most conservative Bank Governor. His banking firm, Brown, Shipley & Co., has always been regarded as most conservative. His association with the Bank of England before his Governorship was also calculated to strengthen any inherited inclination towards sound monetary principles. On the other hand, from the moment he assumed the office of Governor of the Bank he has been confronted with situations which were entirely without precedent in the history of modern banking and in the experience of the Bank of England. In the changed circumstances the rigid application of the orthodox principles inherited from generation to generation was impracticable. It would have inevitably brought the Bank into conflict with public opinion, and it is doubtful whether the Bank would have emerged victorious from such a conflict. In such circumstances Mr. Norman had to yield to some extent to practical requirements without abandoning, however, the fundamental principles which have governed the Bank during the past.

As we have seen in Chapter III, the policy " never explain, never apologize ", which has always characterized the attitude of the Bank towards the external world, has been brought to a fine art by Mr. Norman. While most other central banks give a detailed explanation of the motives of their monetary policy, and explain the reasons of changes in their Bank rates, and in their annual reports give a detailed account of the considerations which have influenced their attitude, no such explanation has ever been forthcoming from the Bank of England. It has been considered beneath the dignity of the Bank to defend its policy against outside criticism. Even on occasions when a simple explanation would have been sufficient to disarm criticism, such explanation was not forthcoming. Mr. Norman likes to affect complete ignorance of criticism, or to mortify his critics by treating their thunderbolts as mere pinpricks. When a change in the Bank rate appeared to be unjustified in the light of the facts known to the public, it would have been easy to justify the action by disclosing certain facts not known to the critics. Mr. Norman preferred, however, to take no notice of what was being said in criticism outside the windowless walls. It is true that from time to time the newspapers which sometimes acted as mouthpiece to the Governor, published explanations, but it was never quite known whether they represented official views or the private views of the City editors concerned. This long spell of silence was only broken in November, 1931, when the evidence of Mr. Norman before the Macmillan Committee was published. Even then those who expected a full explanation of what had happened during the last few years were disappointed, for Mr. Norman took good care not to say more than was absolutely inevitable. Notwithstanding this, his evidence constitutes a valuable source of information as to his monetary policy. It enlightens us regarding his attitude on two important questions, the effect of a change of the Bank rate, and of credit expansion upon trade.

During the nineteenth century it had become customary to regard changes in the Bank rate as the most important means of influencing the economic policy of a country. Since the war this conception, in its most exaggerated form, has been growing increasingly popular. Bank rate worship has become the fashionable cult. Its high priests regard the Bank rate as an all-powerful weapon, on the use, disuse, or misuse of which depends the Welfare of the Nation, the Fate of Mankind, and the Course of the Universe. Adherents to this cult can be found in every section of opinion, intelligent or otherwise. It is supported by armchair economists surrounded by a fictitious atmosphere, and safely isolated from real life, and also by practical business men whose business instinct and common sense are unblunted by any theoretical knowledge. It numbers among its adherents bankers and trades union officials, financial experts of international standing and obscure currency cranks, statesmen, Press magnates, and street-corner orators.

It seems probable that this Bank rate worship, like so many other tendencies which have influenced economic literature at one time or another during the last 150 years, is a mere passing phase. In the course of time its exaggerations will be discarded, its rough edges worn away and economic science and monetary policy will retain what is left. At present, however, it is still at the height of its popularity.

The heads of several central banks have adopted the cult of Bank rate worship. Mr. Montagu Norman is not among them. It is clear from his evidence before the Macmillan Committee that he considers the popular views about the almighty effect of the Bank rate are exaggerated. While he admits that in the long run a difference of, say, 3 per cent in the Bank rate may have some influence upon trade, he expresses his disbelief in the effect of any single Bank rate change outsides the sphere of the money market. In his opinion, if it has a certain effect upon trade, it is largely psychological. In other terms, if the Bank rate is raised by 1 per cent it is not the additional interest burden that affects industry, but the exaggerated importance attached to the rise which tends to discourage enterprise. According to Mr. Norman, even if a higher Bank rate is detrimental to industry, the advantages of monetary stability which are obtained more than outweigh the disadvantages from the point of view of industry. This consideration should be recommended to the attention of those who insist upon discovering a conflict of interests between industry and finance. Taking a long view, monetary stability is as desirable from an industrial point of view as from a financial point of view.

Where Mr. Norman's attitude is open to criticism is that, in dealing with stability, he had exclusively stability of exchanges in his mind, and has disregarded that other consideration, the stability of prices. It was not until 1931 that the events had taught him, together with many others, that stability of exchanges is not the end itself but merely a means to the supreme end of general welfare and that it is neither desirable nor even possible in the long run to sacrifice the end for the sake of the means.

Another important point towards which Mr. Norman made his attitude clear before the Macmillan Committee is in the matter of his attitude towards credit expansionist doctrines. The idea that an increase in the volume of credit can improve trade has become very popular since the war, quite as popular as the idea of the all-powerful Bank rate. Central bank Governors have come to be regarded as the supreme controllers of prosperity. To believe popular imagination aroused by a scientific school and many pseudo-scientific writings, the Governor can regulate the trend of trade by turning the tap through which currency and credit flows into circulation. There is no doubt about it that during a period of improving trade the improvement can effectively be checked by a too narrow credit policy. The power for evil of a central bank Governor is, therefore, undoubtedly great. The state of affairs is entirely different during a period of depression if the slackness of trade is due to non-monetary causes. The post-war depression of Great Britain which manifested itself in the permanent unemployment of over a million, was due for the most part to the definite loss of markets for British coal, steel, and textiles as a result of the changed conditions brought about by the war and by technical developments. It is difficult to see how an increase in the volume of credit could have remedied this evil. As Mr. Norman put it in the course of his evidence before the Macmillan Committee, " I do not myself believe that mere provision of more money to the bankers is all that is needed to meet the difficulties of industry." It was not lack of credit facilities but a conspiracy of a number of causes, and not in the last place their own inefficiency, that have prevented British industries from recovering their lost markets. Additional credit facilities would not have brought them additional buyers. Admittedly, a credit expansion might have led to an unwarranted increase of productive capacity which, while it lasted, would have resulted in a temporary increase of purchasing power and a temporary decline of unemployment. It would have been, indeed, a complete denial of his traditions and of the influence of his environment if Mr. Norman had allowed himself to be carried away by the temptation to produce the illusion of such a short-lived prosperity by an artificial credit expansion to the detriment of stability.

As a matter of fact, Mr. Norman's evidence makes his monetary policy appear even more orthodox than it actually was. As radical elements dominated the Macmillan Committee, Mr. Norman has probably deliberately exaggerated his conservatism. Since the suspension of the gold standard, there has been a flood of criticism against him accusing him of having abandoned the sound traditions of the Bank by having failed to raise the Bank rate and to restrict credit sufficiently in order to defend sterling. Mistaken as these criticisms may be, they certainly show that the monetary policy of the country might have been in even more orthodox hands than those of Mr. Norman. As we said at the beginning of the chapter, he certainly has made concessions to practical requirements. He fully realized that it would be a fatal mistake to accentuate the industrial depression by maintaining the Bank rate unduly high, and ever since the return to the gold standard he has pursued the aim of keeping the Bank rate as low as possible without endangering the stability of sterling. He apparently realized that in spite of its independence from Government, Parliament, and public opinion, the Bank of England could not afford to defy these forces by sacrificing industrial interests for the sake of considerations of orthodox monetary policy. He has done his utmost, therefore, to satisfy as far as possible the demand for a low Bank rate, and did not listen to those fanatics of sound currency who advocated reckless deflation irrespective of its probable effect upon trade.

Many of his critics regard this policy as the main cause of the collapse of sterling, while others go even so far as to say that it was responsible for the Wall Street boom, which was the immediate cause of the world crisis. Neither of these accusations have any foundation. By maintaining the Bank rate at a high level Mr. Norman could not have saved the pound. Owing to the rigidity of wages, a high Bank rate would not have resulted in a reduction in the cost of production, and would have merely aggravated the trade depression without contributing towards the solution of the problems which were the root of Great Britain's economic troubles. Inasmuch as a high Bank rate in London would not have resulted in a correspondingly high Bank rate in every other centre, possibly it might have attracted more foreign funds, but this would have only accentuated the exodus of foreign funds in the summer of 1931. As for the conception that it was an unduly low Bank rate which caused the Wall Street boom, those who hold this view seem to ignore completely American mentality. It was not a difference of ½ per cent or 1 per cent in the Bank rate which induced them to gamble in stocks and to mortgage their incomes years ahead by buying on the hire purchase system. Long before the Federal Reserve Bank of New York lowered its Bank rate in order to enable the Bank of England to avoid an increase, a firm belief in everlasting prosperity and progressing expansion predominated American mentality. It is that belief, and not the reduction of the Bank rate, which was responsible for the Wall Street boom.

Mr. Norman's policy of maintaining the Bank rate as low as possible was fully justified, not only from the point of view of British industry, but also from an international point of view. Apart from a few comparatively short intervals, the trend of world prices has been downward ever since 1920. It was obvious that a further fall of prices was bound to accentuate trade depression, not only in Great Britain but all over the world, and that it would unduly aggravate the already intolerable burden of war debts, internal and international. In such circumstances a policy tending to check the downward trend requires no apology.

Those who criticize Mr. Norman's policy on the ground that he has kept the Bank rate too high are as wrong as those who accuse him of having kept it too low. The fact that ever since the return to the gold standard the margin of the Bank of England's gold stock above minimum requirements has always been very small, shows that the Bank of England could not afford to lose much gold by further lowering of the Bank rate. Nor could it afford to embark upon credit expansion without endangering the stability of sterling. In 1928, when the Midland Bank imported some £6,000,000 of gold from New York with the object of creating a credit expansion, the Bank of England promptly counteracted this attempted interference with the official monetary policy by sterilizing the gold imported. A policy of low bank rate and credit expansion could only have been undertaken without endangering the safety of sterling if all the leading central banks had agreed to follow a similar policy. As, however, the Bank of France was reluctant to cheapen money, and counteracted a credit expansion by sterilizing part of its gold influx, the suggestion was clearly impracticable. So long as Great Britain was on a gold basis her monetary policy had to take into account international considerations. It is partly in order to influence these considerations in favour of our policy that Mr. Norman has become the originator and chief supporter of a policy of co-operation between central banks, about which more will be said in subsequent chapters.

CHAPTER VI

TOWARDS INTERNATIONAL STABILITY

Mr. Norman has often been criticized as a man who placed international considerations above domestic considerations, and who paid too much attention to helping foreign countries to recover their stability, and too little to helping British industries to attain prosperity. Similar criticism was raised also in the United States against his great friend, the late Benjamin Strong, Governor of the Federal Reserve Bank of New York until his death in 1928. It is easy to understand such criticism in the United States, which is self-contained to a high degree, though events have recently demonstrated that her internal prosperity largely depends on international prosperity. In the case of Great Britain, however, it is obviously absurd to try to draw a line between internal and international considerations. As a result of the system of Free Trade practised since the middle of the nineteenth century, the economic system of Great Britain has undergone one-sided development, and prosperity in Great Britain has come to depend to a very high degree upon the prosperity of foreign countries. In such circumstances, and so long as the system of Free Trade remained in existence, it was of vital importance to British industries that the policy of this country should aim at restoring stability and purchasing power abroad. Had Great Britain adopted a system of protection after the war, it would have been the duty of the Governor of the Bank of England to pursue a narrow national policy aiming at the development of the home market. In fact, however, the electorate rejected protection in 1923, and the welfare of the British nation continued to remain at the mercy of the conditions prevailing abroad. Mr. Norman's policy of concentrating upon financial reconstruction in foreign countries was thus implicity approved by the verdict of the country at the election of 1923.

Another criticism against Mr. Norman's policy of assisting foreign countries was that it was inspired by political rather than by economic motives. It is a fact that in chronological order he devoted his attention in the first place to the reconstruction of ex-enemy countries. But this was because these countries had sunk deeper than other countries, and were in more urgent need of support. The chronological order in which Mr. Norman assisted various countries to stabilize their currencies and consolidate their economic positions can be explained satisfactorily on that ground alone. In any case, it is even more difficult to draw a line between political and economic motives than between internal and international considerations. As the principal aim of the traditional British foreign policy has been the balance of power, the policy pursued by Mr. Norman in assisting ex-enemy countries to consolidate their positions may well be regarded as a means to that end. In so far as this policy was inspired by political motives they were decidedly constructive, and obviously humane. There is no reason to be ashamed of such political motives.

One of the main justifications of Mr. Norman's policy is its success during the period between 1923 and 1929. It resulted in stabilization in Austria, Belgium, Bulgaria, the Free City of Danzig, Germany, Greece, Hungary, Italy, and a number of other countries. In 1923, when he first embarked upon his gigantic task, conditions in Europe were desperate. Apart from a few neutral countries which had accumulated big reserves during the war, the currency of every country was depreciated, and was at the mercy of speculative operations. In most countries inflation was the chief means of meeting Government expenditure. International trade was hopelessly disorganized; the depreciation of currencies reduced the purchasing power of all classes of the population in every country and threatened to destroy the middle classes; industry and trade worked for illusory profits which became converted into losses through the rapid depreciation of currencies; savings of generations enhanced by war profits disappeared almost overnight; indeed it appeared as if Europe were heading towards financial, economic, political, and social disaster.

It was the constructive policy pursued by Mr. Norman that has checked the process of decay, and that has set Europe on her legs again. The change for the better, thanks to this constructive policy, was spectacular. Within a few years he had created stability all over the continent. He removed the danger of a collapse of currencies in many countries, and those whose currencies actually collapsed he had assisted in establishing new monetary systems. He granted credits providing a breathing space that enabled Governments to balance their budgets, and to restore their credit at home and abroad. He paved the way for an international flow of funds thus enabling countries which had suffered through inflation to reconstruct their working capital and their savings.

The following were the means by which under the management of Mr. Montagu Norman, the Bank of England assisted Europe to consolidate her position :—

(1) The Bank of England granted direct credits to a number of central banks pending the conclusion of arrangements for a stabilization loan. Such credits were granted in almost every case when a stabilization loan under the auspices of the League of Nations was under discussion. The apparatus of the League was complicated and slow. In order to obtain its hall-mark for any loan it was necessary that all the details should pass through the Finance Committee with all its sub-committees, and should be approved by its Council. As the Council and Committees only met at intervals of three or four months, their disapproval on any point of detail

was sufficient to postpone the definite conclusion of the transaction for so many months. Meanwhile the applicants would have been exposed to the disadvantage of unstable currency, but for the willingness of the Bank of England to make an advance on the proposed loan. This was all the more important as, with a fluctuating exchange, the countries concerned would have found it difficult to issue loans on acceptable terms even under the auspices of the League of Nations. It may be safely stated that Mr. Norman's policy of assisting them during the transition period was at least as valuable a help as the assistance given by the League of Nations itself.

(2) The constructive policy of the League of Nations was itself largely the result of Mr. Norman's influence. Although he remained behind the scenes, the Finance Committee of the League was inspired by his policy not only on questions of principle, but even on questions of detail. The various Geneva protocols on statutes of central banks of countries to be reconstructed by the League of Nations loans bear witness to this, inasmuch as they were influenced by Mr. Norman's ideas on central banking principles.

(3) Mr. Norman's constructive work was not confined to the period of pre-stabilization of various currencies; he took an active part in the final act of stabilization. At the same time as the Governments of the countries concerned obtained loans with or without the blessing of the League, a group of

central banks was formed in order to grant the central banks of those countries a credit to tide them over the initial difficulties of the period of stabilization. The Bank of England took a leading part in this group on every occasion.

(4) The Bank of England rendered valuable assistance to a number of central banks by giving them its advice. After the war a number of new central banks were formed, whose managements had had no previous experience of central banking. Mr. Norman, assisted by able and experienced experts such as Sir Otto Niemeyer and Mr. Siepmann, has devoted much of his time and energy to keeping in touch with these central banks, without having to neglect his many duties in domestic affairs, in which he had the valuable assistance of Sir Ernest Harvey and the officials of the Bank. He has often given foreign central banks the benefit of his advice. Governors and Presidents of various central banks, large and small, came to London and paid a visit to the oracle of Threadneedle Street whenever they were confronted with some awkward problem. Fortified by Mr. Norman's moral authority, they were often in a better position to overcome any difficulty on the part of their own Governments or Parliaments. Mr. Norman and the senior officials of the Bank of England paid them visits in turn and close personal contact was thus maintained.

The first country which was reconstructed through the combined efforts of the Bank of England and the League of Nations was Austria. Thanks to the credit granted to the Austrian National Bank by the Bank of England, it was possible to stabilize the krone during the lengthy negotiations that preceded the issue of the League of Nations loan in 1923. Even after the issue of the reconstruction loan the Bank of England continued to support the Austrian National Bank by placing funds at its disposal. Similar services were rendered to the Hungarian National Bank. It is understood that the Bank of England returned the interest paid on the advances granted to the Austrian National Bank and to the Hungarian National Bank for the benefit of the pensions funds of these institutions. The Bank of Danzig has also been largely supported by the Bank of England, especially during the early period of its existence. Mr. Norman also played an important part in the German stabilization. Under his initiative a group of central banks was formed which granted a substantial credit to the Gold Discount Bank. Moreover, the Bank of England undertook the issue of the British portion of the Dawes Loan at a time when the national hatred stirred up by the war had not been completely allayed, and when other banks might have been reluctant to risk unpopularity by identifying themselves with a German issue.

Although the main object of the constructive policy pursued by Mr. Norman was to assist in the stabilization of currencies, occasionally assistance was given also for other constructive purposes.

In Bulgaria and Greece it was necessary to solve the problem of refugees before tackling that of currency stabilization. Both countries obtained advances from the Bank of England on the refugee settlement loans which were subsequently authorized by the League of Nations. Later on similar assistance was given to them in anticipation of the stabilization loans issued under the auspices of the League.

The fact that Germany, Austria, Hungary, Bulgaria, and Danzig were among the first to benefit by Mr. Norman's constructive policy gave rise to suspicions that his aim was to support ex-enemy countries to the detriment of some of the ex-allies of Great Britain. The fact, however, that the Bank subsequently participated in the stabilization of the currencies of Belgium, Italy, Poland, Greece, and Roumania, is sufficient to dispose of such suspicions. The initiative for the creation of a group of central banks to grant a credit to the National Bank of Belgium for the stabilization of the franc, simultaneously with the issue of a Belgian Government loan by an international banking group headed by a British banking house, was due to Mr. Norman. The Italian stabilization scheme was also arranged in London, and Mr. Norman played a leading part in it. Even in cases when the general scheme of stabilization was not altogether approved by the British authorities, Mr. Norman did not withhold his participation in the central bank credits which were to complete the proposed transaction. In the case of Poland, for instance, contrary to the advice received from London, a scheme was worked out without the assistance of the League of Nations, and a loan was arranged by an international banking group. Notwithstanding this, the Bank of England had a considerable participation in a credit granted by a group of central banks to the Bank of Poland. The same was the case with the Roumanian stabilization scheme. In spite of the fact that the Roumanian Government decided upon adopting a Franco-American scheme and that Mr. Norman was in favour of a League scheme, the Bank of England took a substantial share in the credit arranged for the National Bank of Roumania.

Applications for assistance on the part of foreign central banks for the purpose of currency stabilization were only refused in two cases. In the case of France, Mr. Norman did not consider that he was justified in granting assistance until the French Government had balanced its budget. This refusal, which was the starting point of a financial conflict between London and Paris, culminating in the clash over the Creditanstalt affair, was fully justified, for nothing but the fear of a complete collapse of the franc could possibly induce the French Parliament to face its responsibilities in balancing the budget. Had Mr. Norman been willing to assist the Bank of France in 1924 or 1926 when he was approached for assistance he would have been less unpopular in Paris, but his assistance would have merely postponed the day when the French nation realized the necessity of heroic sacrifices in the form of economies and higher taxation in order to save the franc. Thus, his refusal to assist France was as constructive as his willingness to assist other countries.

The other instance in which he declined assistance was that of Spain. It was obvious that, as the possessor of a huge gold reserve well in excess of requirements, the Bank of Spain was in no need of external credits, and that the result of granting such a credit was to enable the Bank of Spain to withhold its excessive gold supplies. Here again Mr. Norman had a constructive purpose in declining to participate in the proposed stabilization arrangements.

Admittedly, the work of the reconstruction of Europe was not done exclusively by Mr. Norman. Among those who collaborated with him in the gigantic task the late Benjamin Strong occupies a prominent place. But for the assistance given by the Federal Reserve Bank of New York, the Bank of England would not have been in a position to help other countries as effectively as it did. After all, the problem of raising sterling to its pre-war parity and maintaining it there after 1925, was in itself difficult enough to absorb a great part of the resources of the British monetary authorities. Thanks to the friendly relations between Mr. Norman and the late Governor Strong, it was possible to obtain the wholehearted collaboration of the American monetary authorities at a time when political circles and public opinion in the United States were anything but favourable to such a policy.

The constructive policy of the Bank of England under the guidance of Mr. Norman has saved Europe from collapse and chaos. In the light of subsequent events his achievements may not be appreciated by this generation as they deserve. Admittedly, the success of his constructive efforts was short-lived. The edifice built with great care during a number of years collapsed within a few months in 1931. Under the immediate influence of this failure many people may be inclined to minimize the significance of Mr. Norman's constructive policy after the war. And yet, though Europe relapsed into crisis, Mr. Norman's work has not been completely destroyed. It is thanks to the reconstruction achieved under his guidance that Europe has shown such resistance in the face of an unprecedented crisis. But for Mr. Norman's constructive efforts, the present international crisis would have taken place soon after the war at a time when the resisting capacity of the world would have been much weaker. Ten years ago the world had not yet recovered from the material destruction of the war. The productive apparatus was disorganized; stocks of raw material, food, and manufactures were exhausted; the devastated areas of the battlefields were not yet reconstructed. In such circumstances a crisis of the dimensions of our present crisis would have meant starvation and anarchy. As it is, thanks to Mr. Norman's constructive policy, the world had a breathing space during which it could raise its material wealth above its pre-war level. The reconstruction of the devastated areas was completed; stocks were replenished, factories and fields produced as much as, or more than, before the war. Above all, the financial strength of Governments has been restored. While in the post-war currency chaos Government finance was the weakest spot in the economic situation, to-day Governments are treated as the Fairy Godmothers who must fly to the rescue of every bank, merchant, or manufacturer which gets into difficulties. Were the Governments and central banks not in a position to assist, the crisis would have resulted in a general collapse in most countries. These facts ought to be borne in mind by those who are inclined to believe that Mr. Norman's work of international reconstruction was wasted. It is largely thanks to his earlier efforts that the present crisis has not degenerated into anarchy. If and when the turn of the tide comes, the recovery will be largely assisted by the material improvements which were the fruit of Mr. Norman's constructive work between 1923 and 1929, and which to a great extent have survived the destructive influence of the crisis.

CHAPTER VII

CENTRAL BANKING PRINCIPLES

According to leading authorities on Law, had Napoleon achieved nothing except the codification of French laws, this in itself would have been sufficient to render his name immortal. Long after his conquests have been lost, and the wounds caused by his warfare have been healed, the *Code Napoléon* continues to serve as a basis for the legal system of half a continent. Similarly, long after the effects of Mr. Norman's policy have become a matter of history, and long after the controversy aroused by his activities has died down, his work as the promoter of the art and science of central banking will be regarded as a permanent contribution to progress. For it was Mr. Norman who raised central banking after its early haphazard growth to a scientific system. Before his time central banking had no recognized rules, and its development in various countries was a matter of chance. While before the war the monetary policy to be pursued by central banks had a vast literature, other aspects of central banking and the rules of their various activities were neglected almost completely by economic science. To-day central banking has become a recognized section of economic science, and it has a small but rapidly growing literature of its own.

Being an essentially practical man, Mr. Norman did not directly contribute to the literature on central banking; it is as an architect of the central banking systems of a number of countries that he has helped to develop certain rules and principles. His only contribution to the literature of central banking, apart from his evidence before the Hilton Young Committee on Indian currency and the Macmillan Committee, is a Foreword he has written to a book on *Central Banks* by C. H. Kisch and W. A. Elkin, which is recognized as the standard work on the subject. The following is the text of this Foreword:

" During a period of fifty years or more ending with the early years of the present century, the gradual development of Central Banking was taking place in various countries without being the subject of discussion, and, indeed, almost without attracting notice. No general rules were considered necessary for the guidance of note-issuing Banks, which had been developed or established on lines conforming to the particular needs and prospects of their respective countries. Such differences in practice as existed had arisen in part from the statutes governing the various Central Banks, but perhaps more from the gradual adoption of varying customs and traditions which had come to have almost the force of law.

" With the outbreak of war in 1914 the traditional practices of Central Banks were gradually abandoned under the pressure of political expedience. The following years of peace saw the scope of some existing Central Banks altered and new institutions established, and with the return of more normal conditions questions arose regarding the rightful functions and powers of Central Banks in general. Thus it became necessary to consider precisely what rules and statutes should be adopted for the purpose either of limiting or of increasing the respective powers of such Banks.

" We may trace the long period of natural growth in Central Banking, followed first by the collapse brought about by the years of war, and next by a widespread development of theory and practice, for the most part under new and definite limitations. In order to consider profitably this period of renewed development and to judge of the relative degrees of independence now possessed by Central Banks, it is useful as a background to ascertain precisely the various limitations which govern the conduct of individual Banks. This is a matter which, amid much discussion of the policies of Central Banks, seems to have attracted little attention. There appears to be no convenient record of charters, laws or statutes, nor any scientific opinion as to how much liberty or how much power of control is or should be permitted. Indeed, it seems evident that the limitations imposed on new or reorganized Banks during the last few years arise more from the fear and mistrust of political interference than from the needs of Central Banking as such. In any case, this whole question is now beginning to be studied from various standpoints and in various countries, and nothing therefore seems more useful than an examination of the statutes which govern the conduct of particular Banks. Once a ready means to do this has been supplied, further consideration of the whole question of Central Banking may proceed more usefully and hopefully. Thanks to the initiative of Mr. Kisch this means is now supplied in a book which I commend not only to bankers and students, but to all who are interested in financial reconstruction."

These remarks do not disclose much of Mr. Norman's views as to the principles upon which central banking should be founded and managed. The only point in respect of which they give some indication is as to Mr. Norman's desire for a certain degree of uniformity regarding central bank laws and practice. Apart from this, we can only ascertain his views by studying the statutes of central banks which have been reconstructed under the auspices of the League of Nations, and which have managed their policy largely under the inspiration received from the Bank of England. It is true that Mr. Norman was not solely responsible for the elaboration of central bank statutes. In fact, officially he had no connection whatever with the work which was done by the Finance Committee of the League. The names with which the elaboration of these statutes was closely associated are those of Sir Otto Niemeyer and Sir Henry Strakosch.

Both of them have worked, however, in close contact with Mr. Norman, and there is every reason to believe that in most respects they shared the latter's views on central banking principles.

Many people would be inclined to imagine that Mr. Norman had in mind to use his influence to bring about uniformity in central bank law and practice by inducing every central bank to adopt the system practised by the Bank of England. In reality, however, nothing of the kind has been done. Mr. Norman undoubtedly considers the system of the Bank of England as being ideally suited to the requirements of Great Britain, and, as we said in Chapter III, he has done his utmost to prevent any radical alterations of that system. At the same time he undoubtedly realizes that one man's meat is another man's poison, and what suits the conditions of a country with central banking practice extending over several centuries may not suit conditions in countries where central banking is a new institution. Moreover, countries which are about to establish central banks are not tied by tradition, and are at liberty to adopt a system which is more up to date than that of the Bank of England. Just as the British Constitution, being the outcome of historical circumstances peculiar to this country, would not be suitable to serve as a model for the Constitution of some newly organized country, so the system of the Bank of England would not be suitable as a pattern for central banking systems in other countries. Mr. Norman must have duly realized this, as he has made no effort whatsoever to introduce the system of the Bank of England in other countries. None of the central banks created or reconstructed since the war have adopted the division into issue department and banking department; nor have they followed the British example in regard to a fixed amount of the fiduciary issue. Also, on the insistence of the Finance Committee they had to be in many ways even more orthodox than the Bank of England in confining their activities to that of a bankers' bank.

To characterize the extent to which the post-war tendency in the evolution of central banking departed from the system established by the Bank of England, it is sufficient to recall the case of the proposed Portuguese bank reform. When the League of Nations authorities discussed some years ago the question of a loan for the Portuguese Government for the purpose of stabilizing the escudo, they sent a sub-committee to Lisbon to discuss with the Government various conditions, amongst them the reform of the Bank of Portugal. On their arrival they were informed that, in order to facilitate their task the Portuguese Government had already elaborated a reform scheme which was submitted to their approval. Much to the disappointment of the Portuguese authorities, the members of the sub-committee rejected the scheme on the ground that they considered the proposed system to be entirely out of touch with modern requirements. The Portuguese authorities were very much surprised at this, for, they said, they had based their proposals entirely upon the system prevailing in England.

While Mr. Norman and his collaborators were not dogmatic in attempting to introduce the British central banking system in foreign countries, they were often criticized for being dogmatic in aiming at too high a degree of uniformity in central banking in countries whose conditions were totally different from each other. They were also accused of being doctrinaires because they tried to force upon various countries a system which was far too advanced for their comparatively primitive conditions. While a pure central bank suited eminently the conditions prevailing in Austria or Hungary, it did not suit the less advanced conditions prevailing in Bulgaria or Estonia. The insistence of the League Finance Committee, acting upon inspiration from Mr. Norman, to detach from these banks the departments whose activities were not in accordance with the orthodox rules of pure central banking, was not received with favour by those who knew the local conditions. For instance, it was feared, and not without reason, that if central banks discontinue to allow interest on deposits, a great part of their deposits would be diverted to banks which do not deserve the confidence of depositors. Alternatively, the practice was calculated to encourage the hoarding habit, thereby reducing the meagre monetary resources of the countries concerned. Such objections were, however, waved aside by the

Finance Committee, and as the countries concerned were in bad need of a loan, they had to accept the rules imposed upon them against their wish.

Another condition upon which Mr. Norman and his collaborators insisted was that the central banks should be independent of their Governments. To that end, they insisted, rather dogmatically, that the Governments should sell their shares in the central banks. In some countries there was no difficulty in complying with this demand, but in others, such as Bulgaria or Estonia, it was extremely difficult to find buyers, owing to the lack of private capital available for such purpose. It was, indeed, difficult to expect the private banks to invest their resources in central banks in countries where the private banks depended largely upon their central banks for their supply of funds. Without regard to such considerations, Mr. Norman and the Finance Committee of the League insisted that the shares should be sold. Possibly they did not realize that the ownership of shares is not the only way to secure the Government's control of central banks, not even the most effective way. In France, where the central bank's shares are held widely by the public, the Government's control is absolute. Even where the central bank is technically independent of the Government, its Governor seldom refuses to comply with the Government's wishes on issues of vital importance. In such circumstances it may well be asked whether it was worth while to compel the central banks of countries suffering from a lack of capital to find the non-existent capitalists who are able and willing to buy their shares. Apparently they considered it desirable to secure at least the appearance of independence, even though in substance the central banks had to remain under Government control. Possibly Mr. Norman hoped that, since their independence is secured in law, the co-operation between central banks will sooner or later secure it in practice. About this, however, more will be said in the next chapter.

There is no doubt that Mr. Norman's dogmatism in the matter of central banking principles has caused considerable inconvenience to more than one country. It took several years for one or two of them to recover from the effects of reconstruction. Taking the long view, however, they stand to benefit by the adoption of a system of central banking which did not altogether suit their immediate requirements. Admittedly, the system of central banking they were forced to adopt was too advanced for their conditions, but this very fact has been responsible for a tendency towards the adoption of more advanced conditions. The inconveniences were thus temporary, while the advantages were of a lasting nature. Mr. Norman's experiments with central banks were thus on the whole successful. Even during the crisis the central banks constructed or reconstructed under his inspiration stood the test remarkably well. In many countries they provided the one fixed point amidst general chaos. As they discontinued their direct relations with industry and commerce, their direct losses caused by the failures of business houses were comparatively small, and they were thus in a better position to assist the banks in difficulties without having to fall back upon the use of the printing press for that purpose.

CHAPTER VIII

CENTRAL BANK CO-OPERATION

THERE are many reasons why Mr. Norman's governorship will be remembered long after he has ceased to hold that office. His policy of restoring sterling to pre-war parity will remain a perpetual subject of discussion between currency experts; through the part he played in international politics from behind the scenes—about which more will be said in a later chapter—he has made history, and, once it is recognized, it will not easily be forgotten; his work in the sphere of developing the principles of central banking, which was dealt with in the previous chapter, would be in itself sufficient to preserve his memory for posterity. But if there is anything that is associated with his name more closely than either of these, it is the movement for the co-operation between central banks. Just as President Wilson will be remembered as the creator of the League of Nations, so Mr. Montagu Norman will be remembered as the originator of the League of Central Banks, or, as he liked to call it, the Club of Central Banks.

There was already a certain amount of co-operation between central banks before the war. On various occasions central banks came to each other's rescue; the assistance given by the Bank of France to the Bank of England during the Baring crisis in 1892 is the best known, but by no means the only, example of the co-operation that existed in days gone by. Such actions were, however, infrequent, and there was no trace of any systematic co-operation apart from the groups of central banks interested in the Latin Monetary Union or the Scandinavian Monetary Union. Contact between central banks was in ordinary circumstances practically non-existent. With rare exceptions, they did not even maintain accounts with each other, and personal intercourse between the heads of central banks was exceptional. As for the idea of establishing co-operation or even exchanging views regarding monetary policy, it was simply unthinkable. Monetary policy was considered to be an essentially national affair, and most nations took special measures—such as the limitation of the ownership of shares of their central banks, or at least the possession of voting rights of these shares, to their own nationals—to exclude the possibility of foreign influence. As a matter of fact, in the normal conditions prevailing before the war there was no urgent need for permanent co-operation between central banks. The automatic working of the gold standard produced on the whole satisfactory results, and there was no need for any artificial intervention to improve its working. It seems probable that any attempt before the war to bring about close co-operation between central banks would have met with no response.

The abnormal conditions prevailing after the war have made co-operation between monetary authorities of various countries an urgent necessity. This was emphasized by the Genoa Conference of 1922. Notwithstanding this, it was by no means an easy task to break down the barriers of growing nationalism which in the monetary sphere were as strong as in any other sphere after the war. It is thanks to the initiative and untiring zeal of Mr. Norman that co-operation between central banks has been established. Thanks to his personal friendship with the late Benjamin Strong, the Bank of England and the Federal Reserve authorities began to work closely together even before the movement has gained ground in Europe. We have seen already in Chapter V the effects of their collaboration upon the reconstruction of Europe. That task in itself would have fully justified the movement. There were, however, other important motives which prompted Mr. Norman to strengthen the links between central banks, and to attempt to organize them on international lines. With the restoration of the gold standard in a number of countries, it became increasingly evident that the amount of gold available was not sufficient to cover the increased monetary requirements of the world. Already before 1927 there were signs of a scramble for gold, and many people realized that, should it assume greater dimensions, it might prove fatal to the newly established international equilibrium.

From 1927 onwards, when France entered the field as a buyer of gold on a large scale, the danger was growing rapidly. During the years that followed France's financial recovery, the attitude of the Bank of France brought a tone of discord into the harmonious co-operation of central banks. While practically every other central bank was willing to play the game, the attempts to induce the Bank of France to co-operate whole-heartedly for the sake of international stability have failed. The question was no longer to reconstruct Europe—that task was by then practically accomplished—but to preserve the result of the successful constructive policy. To that end Mr. Norman has concentrated a great deal of his time and energy to induce all central banks to play the game, so as to avoid a breakdown of the gold standard. It was often said about him in France that his object was merely to enlist central banks of other countries to pursue a policy which suited British interests, namely, to enable London to maintain her supremacy notwithstanding her diminished resources. At that time the fact that the stability of sterling and the supremacy of London was a fundamental condition of international monetary stability, was not adquately realized. Since then, experience has shown that London is indispensable as the world's banking centre, and that even if Mr. Norman's aim in advocating co-operation has been to maintain her supremacy, it was as much in accordance with international interests as with British interests. It is unfortunate that the calamity of a world crisis was necessary to make the world realize this truth.

Mr. Norman has endeavoured to establish personal contact with the heads of the largest possible number of central banks. To that end he travelled frequently abroad, and paid visits to the heads of various central banks. Until about 1927 he acted as intermediary between the Federal Reserve authorities on the one hand, and the Continental central banks on the other, as the former preferred to co-operate with the Continental central banks through the intermediary of the Bank of England. From 1927 onwards, however, when the balance of power changed suddenly through the increase of the strength of the Bank of France, direct contact between the United States and the Continent were established. The late Benjamin Strong and his successor, Mr. Harrison, paid visits to Europe, while the heads of leading European central banks paid visits to New York and Washington. From time to time conferences between heads of central banks were arranged, in which the Bank of England, the Federal Reserve Bank, the Bank of France, and the Reichsbank were usually represented. Whenever such a conference took place it was always believed that they were aiming at some momentous decision, when in fact they mostly dealt with current problems only. One of the most significant meetings was held in August, 1927, in Washington, when an agreement was reached between central banks not to interfere with each other's gold reserve without each other's consent. The aim of this agreement was to check the scramble for gold. Even before this conference most central banks conformed to this rule with the notable exception of the Bank of France, which in the spring of 1927 withdrew substantial amounts of gold from the Bank of England notwithstanding the protests of the British monetary authorities. At a meeting that took place in Paris between M. Poincaré and Mr. Norman the former is said to have declined to give an undertaking to refrain from such withdrawals on the ground that, as Great Britain enjoys the advantages of being on the gold standard, she also has to put up with its inconveniences. Mr. Norman is said to have answered to this argument that the gold standard existed for the purpose of normal commercial requirements, and not for enabling central banks to increase their gold stocks at the expense of other central banks, and especially not for enabling central banks which are not on a gold basis to take advantage of the freedom of other gold markets. Although he did not succeed in convincing M. Poincaré, subsequently the French authorities realized that it was advisable for them to fall into line with the attitude adopted by other central banks. From the Washington Conference in 1927 until after the suspension of the gold standard by Great Britain in 1931 there has been no direct withdrawal of gold by central banks unless it was with the consent of the central banks from which gold was withdrawn. Moreover, most central banks went so far as to refrain from buying gold in the open market in London without the consent of the Bank of England. A practice developed by which the Bank of England bought gold in the open market on account of various continental central banks desirous of replenishing their supplies. Through the co-ordination of their demands and the avoidance of competition, it was possible to acquire the gold at a slightly more favourable price.

Unfortunately, while the letter of the agreement of 1927 was observed during four years, its spirit was systematically violated by the Bank of France. While refraining from making any direct withdrawals, that bank pursued a policy which resulted in a constant flow of gold from London to Paris between 1929 and 1931. Owing to its attitude, Mr. Norman's endeavours to mitigate the evil effects of the scarcity of gold by means of co-operation between central banks have failed to attain their object.

The gold problem was by no means the only object for which Mr. Norman endeavoured to establish co-operation between central banks. His aim was to induce his foreign colleagues to allow international considerations to play an important part in their general monetary policy. The question of changes in the Bank rate in various countries has become subject to exchanges of views between central banks. In more than one case various central banks have actually been induced to make a change, or to abstain from making a change in the Bank rate, by considerations which, before the movement for co-operation, would hardly have played any part. Even though these cases were not the rule but merely isolated exceptions, the practice was adopted for a long time to communicate Bank rate decisions in advance to the leading central banks, so as to enable them to take their decisions in the light of this knowledge. The simultaneous changes of Bank rates by several central banks shows the significance of the adoption of this practice. Unfortunately the system was not free from abuses. It happened on more than one occasion that the information as to impending Bank rate decisions communicated to foreign central banks has leaked out, and this has placed the London foreign exchange and discount markets at a disadvantage.

Mr. Norman has made a special point of inducing foreign central banks to transfer their London accounts to the Bank of England. He was anxious that central banks should only work with each other, and should be each other's sole representatives in their respective centres. He had an easy task in persuading the central banks stabilized or reconstructed under the auspices of the League of Nations to fall in with his wishes in this respect. After all, these central banks have largely depended upon the Bank of England for the supply of foreign credits, and it was not advisable for them to disregard Mr. Norman's wishes, even though in many cases they would have preferred to maintain direct contact with other London banks. It is only with considerable reluctance that several foreign central banks closed their accounts with various joint stock banks and banking houses with which they had well-established relations. Nor did the facilities provided by the Bank of England compensate them altogether for the loss of their connections. The business methods of the Bank of England were antiquated, especially as regards foreign exchange transactions. Until quite recently it had no foreign exchange department, and the primitive way in which foreign exchange business was transacted did not always suit the convenience of foreign central banks. There was a certain amount of discontent amongst them, and the London banks who were thus deprived of some of their valuable clients, also strongly resented what they considered to be unfair competition. Their grievance was all the stronger as the Bank of England, while declining to allow any interest on deposits of British banks, was prepared to pay interest on deposits of foreign central banks. Unfair as this discrimination may have appeared, it was necessary to allow the central banks approximately the same terms as they received from their former connections, otherwise moral pressure in itself might not have sufficed to induce them to transfer their accounts to the Bank of England.

In spite of the ill-feeling caused by his policy, Mr. Norman insisted on carrying it out, and to a great extent he succeeded in doing so. Apart from the fact that closer business relations are calculated to strengthen the links between central banks, he was prompted also by considerations of greater importance. He was anxious to keep the development of the system of the gold exchange standard under close control. Under that system a number of central banks used foreign currencies as the basis for their note issues; as a result, the same amount of gold served as the basis for currency and credit in two countries. If practised on a large scale this system could easily lead to international credit inflation. This danger could be minimized by concentrating all foreign balances of central banks in the hands of the central banks in whose currencies the balances are held. In doing so the extent of the duplication of credit could be regulated, and its evil effects could be reduced. Although the danger of an international credit inflation was not actually great at any moment, it was advisable to take preventive measures, and the effort to acquire control over foreign central bank balances was the most effective step to that end. It is thus obvious that Mr. Norman's policy, unpopular and inconvenient though it was, was justified by considerations of public interest.

While the central banks which depended upon the goodwill of Mr. Norman for support have been willing to transfer their accounts to the Bank of England, other central banks were less inclined to do so. Among them the Bank of France deserves particular mention, because of the exceptionally large amount of its sterling assets. In June, 1928, at the time of the legal stabilization of the franc, its sterling assets amounted to some £140 millions—in addition to the large amounts of sterling owned by the French Treasury—and even in September, 1931, at the moment of the suspension of the gold standard in Great Britain, their amount was still some £62 millions. A great part of these balances were employed in the Bill market, while considerable amounts were placed on deposit with the joint stock banks and financial houses, either directly or through the intermediary of the London branches of the leading French banks. These funds completely escaped the Bank of England's control. Our authorities were left in the dark about the amount of the French official balances, and could not follow the changes in their amount. There was no way of preventing the adverse effect of an inconvenient employment of the French funds. Considering that both Mr. Norman and the gold exchange standard were subject to much criticism from the French side, it is perhaps not superfluous to point out that, inasmuch as the maintenance of large foreign balances by the Bank of France has led to unwanted developments in the sphere of international credit, it was largely due to the unwillingness of the French authorities to fall in with Mr. Norman's idea of concentrating their sterling funds in the hands of the Bank of England.

The regulation of the use of the gold exchange standard was not the only object behind

Mr. Norman's disapproval of direct relations between a central bank and a commercial bank of another country. There is reason to believe that Mr. Norman's attitude in this respect was prompted also by considerations of a totally different nature. His conception of a central bank is that it should be a state within the state. This implies immunity from interference on the part of the political authorities of their respective countries, and also the observance of the rules adopted in the intercourse between sovereign powers. A Government cannot officially communicate with the subject of another Government otherwise than through diplomatic channels. Mr. Norman was apparently anxious that a similar rule should be adopted by central banks. If a foreign central bank were desirous of transacting business in London, it should do so through the intermediary of the Bank of England. In Mr. Norman's eyes direct relations between a foreign central bank and a London bank are contrary to the professional etiquette which he has tried to develop in the intercourse between central banks.

It seems probable that what Mr. Norman has had in mind was an alliance between central banks which could and should if necessary defy Government interference. His hope was that the Club of central banks might become something like the Hanseatic League in a different form and with a wider scope. Before very long, however, he had to realize that in this respect his endeavours were doomed to failure. The number of countries in which the central bank enjoys independence in law and in fact similar to that of the Bank of England, is very small. In most countries central banks are in practice little more than Government departments. In such circumstances it is impossible to expect them to serve any interest other than those of their own Government.

The most important step in the course of the endeavours to promote co-operation between central banks has been the establishment of the Bank for International Settlements. In his evidence before the Macmillan Committee, he referred to that step as the climax of the endeavours to establish co-operation between central banks. As usual, he remained entirely behind the scenes, as he was not a member of any Committee nor a participant in any conference which was concerned with the establishment of that bank. In spite of this he had more to do with it than anybody else. The scheme was the logical outcome of his idea of a Club of central banks. It was meant to place the movement of co-operation on a more concrete basis, and to create a central organization which would provide a permanent link between central banks. It was to provide opportunity for personal contact between heads of central banks, to which Mr. Norman has always attached great importance. It was also to provide the means for the codification of the rules of co-operation, and to enforce a certain discipline among central banks. This was

Mr. Norman's idea of the bank. Other experts who had a share in its creation may have had altogether different ideas. Sir Josiah Stamp wanted the bank mainly because he hoped that it would be able to check the downward trend of world prices. Sir Charles Addis may have regarded it as an organization which would provide the means for the assistance of financially backward countries, such as China, where additional credit would create its own security. The German experts may have regarded the bank scheme as a convenient alternative to the irksome and humiliating system of supervision and interference established by the Dawes scheme. M. Quesnay and the French financial general staff may have regarded the establishment of the bank as a convenient way of reducing London's importance as an international banking centre, thereby assisting in their endeavour to capture the lead for Paris. The American *haute finance* may have regarded it as an instrument with which the tendency towards the isolation of the United States in relation to Europe could be overcome. But Mr. Norman regarded the bank first and foremost as an administrative organization for the service of the movement of co-operation between central banks. Subsequent events were to show that this conception of the bank's scope was the correct one. The bank did not succeed in arresting the decline of world prices; nor has it been able, up to the time of writing, at any rate, to provide the means for the exploitation of backward countries; nor was its substitution for the Dawes organizations of any value from a German point of view; nor was its establishment at Basle detrimental in the long run to London or advantageous to Paris; nor did the bank provide a bridge across the Atlantic to bring the United States nearer Europe. But it did provide a permanent channel for co-operation between central banks. In fact, during the crisis, when a outburst of financial nationalism in every country brought about a general setback in the movement of co-operation, the Bank for International Settlements remained practically the only channel through which contact between central banks was maintained. During the period when central banks, following the example of their Governments, adopted the slogan of "each man for himself", and "the survival of the fittest", the monthly board meetings of the Bank for International Settlements constituted a link between them which has maintained continuity of co-operation in form if not in substance.

CHAPTER IX

THE "MYSTERY MAN" MYTH

It has become a commonplace of newspaper articles in the British and foreign Press to refer to Mr. Montagu Norman as the "mystery man of high finance". Actually, although the public takes a keen interest in anything that in their eyes appears mysterious, very often they are inclined to see a mystery where there is none. There always must be a mystery man in high finance, just as there is always bound to be an oldest man in every village. If the existing mystery man dies or ceases to be mysterious, then the next most mysterious man automatically takes his place. During the war and for some years after the Armistice the title was awarded to Sir Basil Zarharoff. In his case there was every justification for the choice, because the subject certainly was mysterious in every way. Few people had any authentic information about his origin. Occasionally he was referred to as a Greek, his name suggested that he was a Russian, while some people regarded him as a Turk, others spoke of him as an Armenian. His early youth was entirely obscure, and nothing whatsoever is known about his ancestry. Hundreds of stories were in circulation as to the ways in which he made his fortune, and estimates as to its amount varied within extremely wide limits. His name was linked with every revolution, change of régime, and war scare in no matter what part of Europe during the post-war period. His influence was suspected anywhere and everywhere. During the last few years, however, the interest of the public in him has gradually vanished. It has been known for some time that since his wife's death he has lost interest in business activity, and has gradually reduced his active participations in every direction. Although from time to time reference is made to him in the Press, his movements stir up but little curiosity.

His place in public imagination was filled by Mr. Montagu Norman. While there was every justification for regarding Sir Basil Zarharoff as a mystery man, there is practically none as far as Mr. Norman is concerned. His origin and ancestry are a matter of public knowledge. They can be easily ascertained in the public records. As we said in Chapter II, he comes from a well-known banking family both on his father's and his mother's side, which have produced several prominent men. Nor was there anything mysterious about his early years. His education followed the conventional lines for young men of his class, and if the earlier stages of his banking career are somewhat obscure, it is simply because as a young man he was not sufficiently prominent to attract attention. There is, moreover, a tacit understanding between his friends and early associates to respect his shyness of publicity. His financial position deserves little interest, and is not calculated to stir up imagination; he is known to be well off without being fabulously wealthy.

Why is it, one may ask, that in spite of this, public opinion all over the world is unanimous in regarding him as *the* mystery man of high finance? The explanation lies in part in his intense dislike for publicity, and in part in his somewhat unconventional habits and pursuits.

We live in an age of publicity. There is keen competition between newspapers to satisfy the curiosity of their readers about the movement, manner of life, and activities of prominent personalities. Many of them are willing to assist editors and reporters in their task, for self-advertising is highly profitable. Some of them go so far as to take the initiative by appointing Press agents whose task is to disseminate information about them, and to keep them constantly before the eyes of the public. They go out of their way to make speeches, appear in public places in the company of somebody who happens to be very much in the limelight at the moment, such as a popular film actor, or a boxing champion, or a stunt flyer. They are not happy unless they see their name in print every day, and unless they see their photograph published every week. Many careers have been made by this method of self-advertising.

Mr. Norman has contempt for any publicity of this kind. He is inclined to fall into the other extreme by doing his utmost to avoid even normal and legitimate publicity that inevitably accompanies anyone who has gained prominence in public life. Apart from his speeches at the Bank meetings, and a speech he made at a banquet at the Mansion House, he is never known to have made any public speech. He hardly ever attends any public functions, and leads a retired life. He is by no means afraid of moving about amidst the public. Occasionally he is seen at a concert, and he is often seen travelling on the Central London Railway between Notting Hill Gate and the Bank. But he is never present at places and functions where his name would be included in the list of those present. It is unthinkable to see him at Ascot, at fashionable receptions, or at first nights or private views. If he wants to see a play or an exhibition he goes on an ordinary day when there is no likelihood of any Press man being present to note his attendance. He has never written an article, and his only contribution to literature are two prefaces which he wrote for *Central Banks* by Kisch and Elkin, and for *The Bank of England from Within* by Acres, a book in two volumes published by the Bank itself. Apart from these, and his remarks at the stockholders' meetings of the Bank, his evidence before the Indian Currency Commission and the Macmillan Committee, are the only written records of his utterances. He has never authorized an interview, and when he is unable to escape the reporters who besiege the ship in which he arrives or departs, they have to be satisfied with a few noncommittal remarks usually irrelevant to their rather direct and pressing questions.

In spite of this extreme shyness of publicity, or possibly because of it, Mr. Norman has got, and is still getting, more publicity than most people who are longing for it. In fact, it seems probable that, were he to go out of his way to get the maximum amount of publicity, he could not possibly get more than he is getting at present. The Press and the public soon get tired of reading interviews with someone who goes to print at the slightest provocation. In the long run the chances are that those public personalities who seek to avoid publicity will get more of it than those who want it and go out of their way to obtain it. It is largely because of his excessive shyness of publicity that Mr. Norman has acquired the reputation of being a mystery man. The Press has come to attach particular significance to his movements just because he has sought to conceal them. On frequent occasions his name did not appear in the passengers' list of ocean liners in which he travelled, as his passage was booked under such names as "Mr. Collet" or "Prof. Skinner". But he must have underestimated the capacity of ship reporters if he thought that by such means he would succeed in evading them. Those acquainted with the psychology of the Press must agree that he could not possibly have secured more publicity if he had engaged the best Press agent to advertise his journey on the five continents. The effect of his harmless attempt to evade publicity was exactly the opposite to what he desired. Newspapers and their readers attached exaggerated significance to his movements, and notwithstanding all denials, they were firmly convinced that he was engaged in discussing some international arrangement of immense importance.

Again, on another occasion, Mr. Norman had a meeting with his American colleague, Mr. Harrison, Governor of the Federal Reserve Bank of New York, on board the *Bremen* in which the latter sailed back to the United States. Mr. Norman went on board at Southampton, and after his conversation was concluded, special arrangements were made for conveying him to the *Majestic*, which was returning from Cherbourg to Southampton. The *Bremen* was specially stopped, and those on board witnessed the unusual sight of the picturesque though dignified figure of the Governor descending on a rope ladder into the launch that was awaiting him. Had Mr. Norman wished to announce his conversation to the world by all the modern devices of broadcasting and skywriting, he would not have succeeded in his object better than by that melodramatic scene which became known within a few hours in the remotest corners of the earth.

While his shyness of publicity has failed to protect him from a plethora of newspaper articles, it has produced an entirely unexpected and unwanted result, namely, it has got him the reputation of being a mystery man. Secrecy always stirs up the imagination of the public, and the Press is always inclined to exaggerate the significance of any event which is being concealed from it. It may well be asked whether, with regard to this, it is a wise policy to be secretive when there is really no need for it. In this respect again Mr. Norman has only followed the traditions of the Bank of England. The alternative was to be secretive only about actions which there was good reason to conceal, and to make no attempt to hide anything for which there was no reason. The disadvantage of this policy is that it enables the outside world to take notice whenever something is being concealed. If every action, important or unimportant, is surrounded with the same cloak of secrecy, the public is not in a position to know when the secrecy is justified. If Mr. Norman adopts one attitude when he goes for a pleasure trip and another when he pays a visit to a foreign country to discuss matters of vital importance, it facilitates the task of the Press in ascertaining the object of his visit. Possibly it was, therefore, expedient to state every time the Governor went abroad that he was going for a holiday. It is true that these announcements occasionally rather overtaxed the credulity of the public; for it is by no means easy to believe that the medical advisers of Mr. Norman, Dr. Schacht, Governor Strong, and Mr. Parker Gilbert (the late Agent-General of Reparations) advised them to go to the same health resort at the same time. Nor was it easy to believe that, when three or four central bank Governors travelled on the same boat to New York, this was sheer coincidence. Although the statements issued to that effect were somewhat at variance with the truth, if a lie is so obviously a lie that it deceives nobody, it thereby ceases to be a lie. Whether or not the policy of secrecy had succeeded in diverting public attention from negotiations which were carried on from time to time, it certainly had the unwanted effect of getting Mr. Norman the reputation of a mystery man.

Why is it, it may be asked, that amongst all central bank governors who participated in these negotiations it is only Mr. Norman who acquired the reputation of a mystery man? If dislike of publicity would be in itself sufficient to create such a reputation, the late Benjamin Strong, Governor of the Federal Reserve Bank of New York, would have been equally entitled to be regarded as a mystery man. There must be other reasons which have contributed to acquire for Mr. Norman this reputation.

The British public is conventional to the extreme. If anybody differs from the usual as regards manner of living, external appearance or character, it immediately suspects something sinister. The idea of the public of a central bank Governor is that he should look the part; that he should wear the conventional and dignified City apparel; that he should play golf or do something else that is human; in a word, that he should be something between the typical banker and the typical permanent official. Mr. Norman does not in the least correspond to this picture of the typical Governor. His external appearance is that of an artist rather than of a banker. Although he is a staunch upholder of tradition, he refuses to abide by tradition as to dress. He is not known to have ever taken a very keen interest in games, and, worst of all, he is known to have artistic inclinations. A central bank Governor who is an amateur of music and the arts, designs his own furniture, and who is a collector of rare timbers, is indeed something unthinkable to the average English mind.

In his private life he is even more secretive than in public affairs. While he is unable to conceal his movements when he goes abroad, he is certainly successful in keeping out of the limelight at home. He does nothing to satisfy that curiosity of the middle classes towards any minor details in the everyday activities of prominent people. Assiduous readers of the popular Press like to know what Mr. Churchill had for breakfast, and how Mr. MacDonald fared on the seventh green. Their knowledge of such details in Mr. Norman's life is negligible. The few intimate friends who would be in a position to talk about it, respect his preference for privacy, and cannot be drawn on the subject. Is it then surprising that the man in the street has come to regard him as a highly mysterious individual ?

It was suggested recently that Mr. Norman is very annoyed about the frequent references to him as a mystery man. Undoubtedly in his position it cannot be a very pleasant status to be considered the mystery man of high finance. Other people engaged in active profit making business in international finance must envy him the reputation. It is certain that this reputation has helped Sir Basil Zarharoff to a very great extent, and that it was a great asset for him. It is even suggested by some that he has deliberately built it up for himself. In the case of Mr. Norman, however, there seems to be no advantage to gain by it, and one can imagine that the parrot repetition of the phrase must occasionally bore him. At the same time, he has probably too keen a sense of humour to be really annoyed about it.

CHAPTER X

STATESMAN AND DIPLOMAT

Mr. Norman's policy, aims, and activities have not been confined to those of the conventional head of a central bank who has in normal times to manage the monetary policy of the country in accordance with the requirements of monetary stability. To fulfil this task satisfactorily amidst the abnormal conditions prevailing after the war would in itself require in addition to the qualities of a banker and a currency expert, unusual statesmanship and diplomatic skill. Mr. Norman was, indeed, a statesman and a diplomat in the broader sense of these terms. His work transcended the limits of banking activity. Directly or indirectly, overtly or from behind the scenes, he has carried out a work which should properly be within the province of a Prime Minister or a Foreign Secretary. He had no political ambitions. He did not trespass on the preserves of home politics. Throughout his career he has been a banker, and has never aimed at becoming anything else. And yet, it is an historical fact that he has played a prominent part in shaping the foreign policy of Great Britain.

It may well be asked how it is that Mr. Montagu Norman has come to exercise such influence upon external policy. Central bank governors have a well understood sphere of activity which is essentially non-political. Never before in history has a Governor of the Bank of England assumed a leading part in shaping British external policy. Nor have any foreign countries produced a central bank Governor who has exerted a decisive influence upon their foreign policy. In France the Governor of the Bank of France is practically a Government official; as a rule he is promoted to that position from the Civil Service. Even if technically he is independent he continues to act as a subordinate to the Minister of Finance. He is merely the executing hand, and has no share in shaping the policy which he has to carry out. In Germany, Dr. Schacht attempted to influence the policy of his Government, but without success. He combined the functions of a central bank Governor with those of a politician. In doing so, however, he threw himself into party politics, thereby antagonizing his Government; while president of the Reichsbank he was generally spoken of as a candidate for the presidency of the Reich. When at the second Hague Conference, in January, 1930, he attempted to force the hands of his Government, his efforts failed, and he resigned his office. In the United States the late Benjamin Strong influenced the attitude of his country towards Europe, from a financial point of view, to no slight extent, but he was unable to bring about any modification of the political policy of Washington towards Europe. Mr. Norman, on the other hand, has played an important rôle in changing political history. Being strictly above party politics, he did not antagonize any of the successive occupants of Nos. 10 and 11 Downing Street.

According to orthodox conception, the task of a central bank Governor is to raise or reduce the Bank rate and to take such other technical measures as are necessary to maintain the stability of the currency, and to benefit the general economic interests of the country. Changed conditions have, however, broadened the conception of the duties of the Governor. Monetary policy has become a matter of fundamental importance in the life of nations. Before the war a successful merchant or banker who had read Bagehot's *Lombard Street* could well fulfil the task of managing the monetary policy of the country. Since the war, however, conditions have fundamentally changed. Amidst a variety of problems without precedent the Governor must possess imagination and initiative. A mere banking expert, however well trained and skilful, can no longer satisfactorily fulfil the post, which, in prevailing conditions, requires statesmanlike qualities. Nor can the Governor confine his activities to the narrow field of the money market. The financial interdependence of nations has increased to a great extent since 1914. It would be futile to attempt to run the monetary policy of a country with an eye only to national interests without paying attention to international factors. This is particularly true of Great Britain because of her dependence for her welfare upon the prosperity of other countries. In order to be able to maintain the stability of sterling it was no longer sufficient to pursue a conservative monetary policy. It became necessary after the war to re-establish stable conditions abroad. This end could not be attained by the orthodox methods of monetary policy. It necessitated active intervention to assist countries which were in need of assistance, and co-operation with countries which could afford to grant assistance. Nor could this assistance and co-operation be limited to the sphere of central banking. It had to be part of the general policy of the country.

It is a misfortune for this country and for Europe that Mr. Norman was not officially in charge of Great Britain's political destinies during the critical post-war period. Had he been Prime Minister or Foreign Secretary, he would have undoubtedly given a much-desired lead to Europe. Even with the limitations imposed upon him by his status as a central bank Governor he was able to play a leading part. There is no doubt that Mr. Norman has had a stronger influence upon the foreign policy of Great Britain than anyone else during the post-war period. This may be due in part to the fact that his attitude towards the external policy of the country has been in perfect harmony with the traditional British constructive spirit. British foreign policy has always aimed at maintaining political, economic, and financial equilibrium on the Continent. It is in accordance with this policy that Mr. Norman has devoted himself whole-heartedly to the task of assisting in the reconstruction of countries affected by the war whether they had fought for or against this country. In order to restore and maintain the stability of sterling, he has aimed at the stabilization of the greatest possible number of countries on a gold basis. In this respect, Mr. Norman went, however, beyond the task of a central banker. The indirect defence of sterling was by no means his sole object. Apart from considerations of monetary stability, he aimed at the reconstruction of those countries in which war, famine, revolutions, and inflation had done most havoc in order that with restored purchasing power they might once more become good customers of Great Britain. In doing so, he pursued the traditional balance of power policy in a political sense, but with economic and financial means. After all, unless Germany is economically strong and prosperous it is impossible to balance the one-sided political strength of France on the Continent. In the olden days the British statesmen pursuing the balance of power policy supported the second strongest continental power by arranging secret or open alliances, and by granting subsidies and loans to the weaker countries for the purpose of increasing their military strength in order to counterbalance the strength of the larger powers. In the changed conditions the aims and methods of the balance of power policy have become more pacific. Economic strength goes nowadays a long way towards counteracting the political and military supremacy of any power who may threaten European equilibrium.

Officially Mr. Norman's work towards the desired end confined itself to assisting central banks. We have seen in detail his policy of co-operation between central banks in Chapter VII. Unofficially, however, he went a great deal further. His policy of reconstruction has made itself felt, while his name did not appear, in the League of Nations Finance Committee, in Downing Street, in Washington, in international conferences and negotiations. It is doubtful whether the extent to which Mr. Norman influenced the post-war policy of Great Britain will ever be duly measured. His friendly relations with the successive Chancellors of the Exchequer and the permanent officials of the Treasury have enabled him to exert an influence over them. Their relations were, of course, largely based on reciprocity, and they may have influenced each other mutually. While in most countries external policy is determined by the Ministry of Foreign Affairs, in Great Britain the Treasury has a strong influence on foreign policy, and when it is in disagreement with the Foreign Office, as often as not it has its way. Since the war the Bank of England has also become a factor of great importance, though this fact may be largely the result of Mr. Norman's personal influence, and possibly it may not survive him.

Mr. Norman's strength lies in his statesmanship rather than his diplomacy. As a statesman he deserves his place in the Gallery of British statesmen. As a diplomat, however, he is open to criticism. While he had the statesmanslike gift of being able to take the broad and long view, he has often betrayed a lack of the skill of a diplomat to eliminate or mitigate clashes or frictions with those who were opposed to his policy. In particular, Mr. Norman has been unsuccessful as a negotiator. He allows himself to be influenced to a too great extent by considerations of personal sympathy, and his temperament is also anything but suitable for a diplomat. His method as a negotiator lacks subtlety; it consists of a display of strength directed to impress and intimidate the opponent.

Although in some cases this method worked well, in other cases the undiplomatic attitude of Mr. Norman at the conference table may have contributed to some extent to accentuate existing conflicts of interest. He is not, however, the first great statesman in history to be a bad negotiator. The forceful style in which Napoleon conducted his negotiations served his purpose so long as it was backed up by his military victories, but as soon as he became the weaker party its advantages became converted into disadvantages. So long as Mr. Norman could rely upon the superior financial strength of Great Britain, his dictatorial method of negotiating may have been helpful. As soon, however, as his opponents realized that his punch lacked real power, he had nothing to gain, and a good deal to lose by his method.

Nor was Mr. Norman's method of negotiation the only weak spot in his diplomacy. While on various occasions he was firm when it would have been more diplomatic to be subtle, on other occasions he was accommodating when it would have been more diplomatic to display firmness. A typical example of the latter case was his attitude towards the return of Great Britain to the gold standard. In July, 1932, he mortified British public opinion by signing a manifesto issued by the board of directors of the Bank for International Settlements, declaring themselves in favour of the restoration of the gold standard in countries which had suspended it. His critics who attacked him for this missed the point as usual. Even though it is widely assumed that the return of Great Britain to the gold standard—whether in its original form or in a modified form—is only a question of time, it was a diplomatic blunder on the part of Mr. Norman to commit his country to the principle at this stage. As is well known, both France and the United States are extremely keen on the stabilization of sterling on a gold basis. Our willingness to fall in with their wishes could have been used as an important negotiating counter against which substantial concessions might have been obtained from France and the United States. They might have been induced actively to collaborate in the redistribution of gold, and to provide certain safeguards against the recurrence of the cornering of the greater part of the world's gold stock as experienced in recent years. It was decidedly a mistake to throw away this important negotiating counter by unconditionally adhering to the principle of returning to gold. Mr. Norman has given away something for nothing at a time when we can ill-afford to do so. His attitude on this question duly characterizes the shortcomings of his diplomacy.

As a statesman, however, Mr. Norman is undoubtedly of supreme ability. He was steadfast and uncompromising in pursuing the traditional British policy, when a weaker or more diplomatic statesman would have been inclined towards opportunism. He had the strength of mind to sacrifice obvious and immediate advantages for the sake of possible ultimate advantages. It may be said that under Mr. Norman's Governorship the Bank of England has represented more truly and more consistently British traditions in foreign policy than the Foreign Office. While the latter, under the rule of Sir Austen Chamberlain and Lord (then Sir William) Tyrrell, was inclined to take the line of least resistance, Mr. Norman remained faithful to the time-honoured principle of aiming at a balance of powers on the Continent. He did not abide by the "hats off to France" attitude of the official foreign policy, nor did he always fall in with the natural desire of the professional diplomats of the Foreign Office to smooth things over by avoiding the issue. It might have been easy for him to secure for the moment the stability of sterling with

French support at the cost of sacrificing British traditions. Had he been prepared to break with his constructive policy, Paris would not possibly have thought of adopting a policy of weakening London's financial power. Until the very last it might have been possible for him to conclude a compromise with the French authorities, had he been prepared to throw his constructive policy overboard. Undoubtedly he would have been inclined to yield to this temptation had he been only a banker and not also a statesman. But when the statesman in him came into conflict with the banker, the former emerged victorious.

He must have realized that in the long run an attempt to save the pound by throwing Germany and Central Europe to the mercy of the French vindictive policy would prove futile. The success of France's attempt to maintain Germany permanently in a state of inferiority would prevent the return of prosperity abroad, without which there is no hope for Great Britain to recover her own prosperity. Thus, taking the long view, it appeared more in accordance with British interests to run the risk of antagonizing France rather than to acquiesce in the consequences of a French hegemony on the Continent.

As a result of the pro-French tendency of the British foreign policy under Sir Austen Chamberlain, the Bank of England, which has pursued a foreign policy of its own, has not always been in agreement with Downing Street. In May and June, 1927, when France began to make her financial power felt for the first time, the newspapers which at that time were regarded as the Governor's mouthpiece, criticized severely the unwarranted French withdrawals of gold from London. Thereupon Lord Tyrrell, who was then the Permanent Under-Secretary at the Foreign Office, requested several Editors to refrain from attacking France on the ground that it was detrimental to the friendly relations between the two countries.

It is because he pursued the constructive British foreign policy that Mr. Montagu Norman has been accused of being pro-German and anti-French. In reality he is neither the one nor the other, but simply pro-British. The policy of concluding a compromise with the strongest continental power adopted by Sir Austen Chamberlain was contrary to the traditional British foreign policy aiming at the balance of power. While the Foreign Office vacillated between the two policies, Mr. Norman consistently pursued the one which has proved to be successful throughout the centuries. In past centuries that policy was concerned exclusively with military and political power; at present it is concerned also with economic and financial power, which is, after all, the foundation of political power. Mr. Norman must have realized that the growing financial power of France after the stabilization of the franc in 1926 was at least as great a menace to continental equilibrium as her excessive military strength. Where he miscalculated was that he relied upon American support to counteract, if necessary, the excessive growth of French financial power. Unfortunately, the Anglo-American financial alliance was largely based upon his personal relations with the late Governor Strong, after whose death co-operation on the part of the Federal Reserve authorities has become rather half-hearted. Moreover, by the time it came to the supreme test, the financial power of the United States had become paralysed by internal economic difficulties.

After the change of Government in 1929 Mr. Norman's policy was more in accordance with the official foreign policy. In Lord (then Mr.) Snowden he found a strong ally; the attitude of the two strong men towards France was identical, even though they may not necessarily have been prompted by the same motives. Their attitude towards France was uncompromising at a time when a weaker man would have played for "safety first" in buying the friendly support of the French monetary authorities at the price of a change in policy.

Possibly Mr. Norman may not then have realized the extent to which London depended upon French support at the time. Possibly, being thoroughly British, he did not know when he was defeated. Throughout 1930 and 1931 his attitude towards France conveyed the impression that he ignored the decline of Great Britain's financial power, and the increase of France's financial power. Up to the very last, even during the critical days of July, 1931, when it was becoming increasingly obvious that the fate of sterling was in the hands of France, he showed no desire to change his attitude towards France. It is said that at the July Board Meeting of the Bank for International Settlements at Basle after a stormy scene between him and M. Moret, the latter decided in future not to meet Mr. Norman again because of the way the latter treated him. These dramatic events will, however, have their place in a later chapter.

CHAPTER XI

GATHERING CLOUDS

ONE of the favourite arguments of Mr. Norman's critics is that while he has concentrated his attention upon reconstructing foreign countries and stabilizing foreign currencies, he has failed to take adequate steps to safeguard sterling. In reality, one of the main objects of his constructive activities in relation to foreign countries was to create conditions in which it would be easier to maintain the stability of sterling. So long as the number of countries with a free gold market was small, the strain upon any particular gold market must necessarily have been severe. He aimed, therefore, at broadening the basis of the gold standard by inducing the largest possible number of countries to adopt that system. It is conceivable that this was a mistaken policy, for most countries which have adopted the gold standard have proved to be a one-way street for gold movements, and their demand has contributed towards accentuating the ill-effects of the relative scarcity of the world's monetary gold supplies. It was not, however, on account of this factor that sterling became increasingly vulnerable from 1929 onwards, and that eventually it collapsed under the pressure. Mr. Norman is blamed for having failed to take adequate measures to safeguard sterling mainly on the following counts :—

(1) He has failed to establish friendly relations with France so as to obtain a modification of the French policy that undermined the material and moral strength of sterling.

(2) He has pursued an inflationary policy by maintaining a too low Bank rate.

(3) He has contributed towards the fall of world prices by pursuing a deflationary policy.

It is well to note the contradiction between (2) and (3) as it is characteristic of the fact that, whatever Mr. Norman did, he was certain to be criticized.

When sterling stood successfully the test of the general strike and the coal strike of 1926, it was believed that the gold standard in Great Britain was beyond danger. The special credits arranged in the United States in 1925 for safeguarding sterling in case of emergency, which were not drawn upon, were discontinued ; it was believed that sterling was strong enough to stand on its own feet without any such arrangements. As early as 1927 it became evident that it was premature to rejoice over the triumph of the pound. With the increasing strength of the Bank of France, and the growing ambitions of the French authorities, fresh threatening clouds were beginning to gather on the financial horizon. The controversy over the withdrawals of gold by the Bank of France in the spring of 1927, of which an account was given in Chapter VIII, was the first clash between Paris and London. It was followed by a series of encounters, which, for a long time, remained concealed from the public. We do not propose to go into the details of the causes and effects of this struggle which had such a fateful effect upon post-war economic evolution. Our task is merely to attempt to describe the rôle Mr. Norman has played in the fight.

There is no doubt that in addition to the conflicting interests of Great Britain and France the personal element has played an important part in increasing the tension between London and Paris. Mr. Norman has always been regarded in France with distrust, and his policy has been considered to be hostile to France. For years he has been subject to systematic attacks in the French Press, which regarded him as the successor of Lord d'Abernon, as the patron saint of Germany, and attributed to him strong anti-French sentiments. In reality, his attitude towards France and Germany was not guided by any pro-German or anti-French feelings, but was explained by his desire to safeguard legitimate British interest in creating conditions of prosperity abroad. As far as it was political, it was merely the pursuance of the traditional British continental policy, as we have pointed out in earlier chapters.

Let us admit, however, that Mr. Norman has done little or nothing to dispel the impression that he pursues a policy aiming at favouring Germany at the expense of France. His unwillingness to assist France while she was struggling with her currency problems was bound to create the impression that his policy of reconstruction was merely an excuse to help the enemies of France. Undoubtedly his refusal to grant the Bank of France a credit was justified so long as the French Government did not fund its war debt to Great Britain, and so long as no genuine efforts had been made to balance the French budget. At the same time, it would perhaps have been more diplomatic to disregard these considerations and to establish co-operation with the Bank of France at a moment when his assistance would have meant so much to France. Mr. Norman's negative attitude was used subsequently as an excuse for refusing to co-operate at a time when France had no apparent and immediate interest in doing so. During the crisis of the franc Mr. Norman missed a good opportunity to place France under obligation. Contact with the Bank of France was at that time quite inadequate ; in fact Mr. Norman is known to have deliberately abstained from visiting French health resorts for years, because he would have had to cross Paris, and he was anything but anxious to meet M. Robineau, the then Governor of the Bank of France, who might have made requests which he would have had to refuse. It is, of course, possible, and even probable, that a debt of gratitude would not have prevented France from adopting a hostile and selfish policy in subsequent years ; after all, if the assistance given by Great Britain during the

Great War was forgotten, there is no reason to suppose that a much smaller assistance given during the crisis of the franc would have been remembered. It was, nevertheless, bad diplomacy to miss the opportunity of cementing friendly relations with the French monetary authorities, and of strengthening the moral basis for the subsequent claim to co-operation on the part of France.

The attitude adopted by Mr. Norman towards the withdrawal of gold on German account was also calculated to irritate the French authorities. Towards the end of 1928 large amounts of gold were withdrawn from London to Germany, and although the Reichsbank emphasized its neutrality towards the movement, there were obvious signs to indicate that it was encouraged by the German authorities. In answer to British Press criticisms the Reichsbank issued a statement that the withdrawals were not objected to by the Bank of England. This has caused a certain amount of resentment in Paris, as Mr. Norman's protest against the French withdrawals in 1927 were still well remembered. As the French mind sees political motives behind everything, suspicions were entertained in Paris that the object of the transactions was to strengthen the German gold reserve for political purposes. The German withdrawals became the starting point of a " financial armament race " between France and Germany at the expense of the Bank of England's gold stock.

It would undoubtedly have been more diplomatic if Mr. Norman had assumed the rôle of impartial arbitrator between France and Germany instead of showing an undisguised preference for the latter. His frank adoption of the balance of power policy had perhaps a share in widening the gap between London and Paris. It seems highly probable, however, that an even more subtle attitude on his part would have been unable to modify essentially the policy adopted by France. The choice of a low rate of stabilization by M. Poincaré, and the subsequent gold hoarding and sterilizing policy pursued by the French authorities would in any case have resulted in a strong adverse influence working against sterling. It was this adverse tendency which was the main case of the failure of the efforts to maintain sterling at its pre-war parity.

We have already seen in Chapter V, dealing with Mr. Norman's monetary policy, that in his efforts to defend sterling with the aid of the normal weapons at the disposal of a central bank he was handicapped by a strong current demanding low money rates and an expansion of credit. As far as credit expansion is concerned, he brooked no interference from any quarter whether political, industrial, or financial. Notwithstanding strong opposition he refused to jeopardize the stability of sterling by exposing it to the inevitable adverse effects of a credit expansion. On the other hand, in his discount rate policy he was less orthodox. It was only with great reluctance that he consented to raise the Bank rate in February, 1929, when the combined pressure of

French withdrawals and the drain of funds to Wall Street threatened to deplete the Bank of England's gold reserve. In the course of the months that followed this increase he had to raise the Bank rate on repeated occasions until it attained $6\frac{1}{2}$ per cent in September. As this increase took place under the Labour Government, when political pressure against high money rates was at its strongest and when every rise brought forth undisguised threats of a nationalization of the Bank of England, he cannot be accused of weakness in this respect. Subsequently, however, in the crisis of 1930, when the pressure against sterling continued, he could not resist the strong temptation for reducing the Bank rate, which from a purely monetary point of view was perhaps not altogether justified. At the same time it should be borne in mind that during that period interest rates had a downward trend all over the world, and that the maintenance of a high Bank rate in London might have checked this process; as it was reasonable to assume that cheaper money would eventually put an end to the economic depression, it would have been too narrow an attitude to jeopardize this by a rigidly orthodox discount rate policy. It seems that Mr. Norman has paid much more attention to industrial interests in his discount rate policy than he is generally credited with, or even than he himself admits in his evidence before the Macmillan Committee. In doing so he has exposed himself to attacks for having neglected the use of the weapon of the Bank rate in the defence of sterling. And yet at the same time he is also accused of having sacrificed industrial interests for the sake of purely monetary considerations. The fact that he is subject to such contradictory criticisms shows that he has followed a middle course as far as circumstances permitted.

While Mr. Norman was rigidly opposed to any form of inflation, there is no ground for suggesting that he pursued a deflationary policy either nationally or internationally, and that it was his deflationary policy that has been responsible for the fall of prices. It is true that in order to restore sterling to its pre-war parity a certain amount of deflation was necessary. The feat once accomplished, there was no further deliberate deflation. On the contrary, Mr. Norman has perhaps failed to deflate sufficiently to obtain the adjustment of prices in Great Britain to the world price level. But owing to the rigidity of wages and costs in Great Britain he was unable to do so. In any case the fall of prices did not begin until 1929, and the deflation connected with the restoration of sterling to its pre-war parity had nothing whatsoever to do with it. It is natural that those advocating credit expansion should regard him as a confirmed deflationist because he refused to yield to their demands. In the eyes of inflationists anybody who is one degree less inflationary than they are is a wicked deflationist. In reality, however, Mr. Norman's policy is in no way responsible for the decline of the world level of prices. On the contrary, as he has endeavoured to maintain the Bank rate at a low level, and to check the adverse influence of maldistribution of gold, his policy may be considered to have aimed at checking the downward trend. It is only because of inadequate international co-operation that he has failed to attain his end. Thus, inasmuch as the collapse of sterling was the consequence of the slump of world prices, Mr. Norman can certainly not be held responsible for it.

CHAPTER XII

THE CLIMAX

In the annals of financial history the year 1931 will assume the same significance as the year 1914 in political history. The economic depression, which until then had the appearance of a normal cyclic crisis, became accentuated into a financial crisis without precedent. The history of the international panic brought forth by the Creditanstalt crisis is too well known to require recapitulation. In accordance with the plan of this book we shall confine ourselves to giving an account of the highly interesting rôle Mr. Norman played during those critical days.

Mr. Norman was well aware of the immense significance of the Creditanstalt crisis, and made a supreme effort to save the situation so long as it appeared possible. As soon as the difficulties of the Creditanstalt became known, he offered his assistance to the Austrian authorities. Unfortunately in 1931 he was no longer in a position to assist as effectively as he was a few years earlier. The withdrawals of French funds in 1929 and 1931 had seriously reduced the gold reserve, and the economic depression had reduced the surplus available for lending abroad. Although during the first few months of 1931 an agreement between the

British and French financial authorities had resulted in the cessation of French gold withdrawals, providing a respite that enabled the Bank of England to replenish to some extent its gold stock which had been sadly depleted in 1930, it was evident that Mr. Norman could not afford to be too generous with his assistance. The amount that had to be raised to cover the immediate requirements was 150,000,000 schillings. Mr. Norman was prepared to contribute a substantial portion of this amount, and negotiations were initiated with other central banks to raise the rest. The negotiations dragged on slowly, partly owing to the differences between the Creditanstalt and the Austrian Government, partly owing to the attitude of other participants in the proposed credits, who did not appear to have fully realized the urgency of the transaction. France had been endeavouring to benefit by the situation by obtaining political advantages as the price for her participation. Meanwhile the withdrawal of foreign funds and the flight of capital from Central Europe began to assume large dimensions. It was evident that if any grave social and economic disturbances were to occur they were likely to spread beyond Austria, and even beyond Central Europe.

It was duly realized both in British and American official circles that something had to be done in order to avert a disaster. President Hoover is understood to have intimated to the British Government that he intended to propose a one year's moratorium, but he was undecided as to the form in which the proposal should be presented. The question was discussed on the occasion of the Chequers meeting in June between the British and German Prime Ministers and Foreign Secretaries. It is a well-known fact that Mr. Norman attended that meeting, but few people are aware of the important part he played there. In order to throw light upon it it is necessary to explain the attitude of various British Goverment Departments which were far from unanimous about the proposed moratorium. The Treasury was not very favourable, as it involved a net loss of some £11,000,000, which would have further increased the formidable deficit. The Foreign Office was more approving but wanted to keep it within the framework of the Young Plan, and to make it subject to negotiations with France through diplomatic channels before any announcement was made. Mr. Henderson's personal idea was to put President Hoover's proposal through the apparatus of the League of Nations. Although Mr. MacDonald himself did not like this proposal, several members of the Labour Government supported Mr. Henderson. Anyone acquainted with the cumbersome nature of League procedure must realize what the choice of that solution would have meant. The proposal would have had to go through the system of committees and sub-committees of Geneva, and this would have provided France with an excellent opportunity to delay the scheme until the petty haggling of European politicians had exasperated American public opinion

French dominate League of Nations

sufficiently to induce President Hoover to withdraw his magnanimous offer. The idea of the League of Nations dealing with questions of war debts would in itself have been extremely unpopular in the Middle West. In any case events were developing with dramatic rapidity, and there was no time to lose. Mr. MacDonald was well aware of these considerations, but Mr. Henderson insisted upon his proposal.

It was at this stage that Mr. Montagu Norman's advice was called in, and he threw the full weight of his authority in favour of suggesting to President Hoover that he should make a direct proposal to all Governments concerned. He was aware that, in the panicky atmosphere that prevailed in international financial circles, any delay caused by League red tape and the necessity for endless conferences would deprive the scheme of its advantages. He succeeded in convincing the Government that it would be a fatal mistake to arrange the matter through the League. He was equally opposed to the suggestion that a solution should be sought within the framework of the Young Plan. To a currency expert it was obvious that by the time the apparatus set up by the Hague Agreement was set into motion, the financial panic would have reached too advanced a stage to be checked. It is a historical fact that it was the weight of Mr. Norman's advice that turned the balance of opinion within the Government in favour of advising President Hoover to take the course he actually took.

His intervention was not the act of a mere technical expert but of a statesman who was fully aware of the immense consequences of his action. Indeed, it may be said without exaggeration that, but for his influence, the Hoover Moratorium, which was the most important act since the Treaty of Versailles, would not have produced its immense effect upon the course of events. It is true that the Hoover Moratorium has been unable to stop the crisis. Although France did not dare to oppose it, she actually succeeded in reducing the psychological effect of President Hoover's gesture to a minimum by prolonged discussion over details, and by insisting upon a formula to safeguard in theory the unconditional annuities under the Young Plan. By the time an agreement was reached it was no longer possible to check the avalanche. Nevertheless it would be a mistake to underestimate the significance of the moratorium. It was the first departure from the rigid attitude adopted by the United States in the matter of war debts, and the first admission that these debts are connected with reparations. There is no doubt that the Hoover Moratorium was the beginning of the end of reparations, and war debts. And there is no doubt that Mr. Montagu Norman has played a decisive part in this.

Within a few days after the fateful meeting at Chequers events provided another supreme opportunity for Mr. Norman's statesmanship. We have said above that in May, 1931, negotiations were initiated for arranging a credit of 150 million schillings to enable the Austrian Government to support the Creditanstalt. At first France showed herself willing to participate in the transaction, but at the eleventh hour she threatened to withdraw unless the Austrian Government was prepared to abandon the Austro-German Customs Union Scheme. Had France taken up that attitude from the very beginning, it might have been possible for the other countries concerned in Austria's welfare to make arrangements without relying upon her co-operation. As it was, however, France sprung her ultimatum upon them as a surprise on the assumption that at short notice it would be impossible to fill the gap, and Austria would have to yield to political dictation. French financial diplomacy reckoned, however, without Mr. Norman. Without a moment's hesitation he informed the Austrian authorities that the Bank of England was prepared to take over the whole credit of 150 million schillings.

Possibly under the influence of his indignation over the attempt to take undue advantage of the desperate situation of Austria, Mr. Norman acted without duly considering the consequences. At that time it must have been obvious that the necessity for relying upon France's goodwill might soon arise, and a central bank Governor of the conventional type would have hesitated in such circumstances to provoke France by interfering with her plans towards Austria. Had Mr. Norman given himself time to consider the arguments for and against such intervention he might conceivably have arrived at the conclusion that it would be advisable to abstain. Instead, he allowed himself to be carried away by sentimental considerations. He acted first, and thought afterwards. But he did the right thing.

It is doubtful whether it would have made any difference if he had taken the line of least resistance. Rather than yield to political pressure the Austrian Government would most probably have allowed the Creditanstalt to collapse, in which case the Central European crisis, with all its repercussions upon sterling, would have been precipitated. It is true that by maintaining an attitude of neutrality in the Franco-Austrian affair he might have secured the goodwill of the French authorities. Subsequent events proved, however, that in face of the flight from sterling that was inevitably brought about by the Central European crisis, French support was unable to save the pound. Thus, from the point of view of the effect on sterling, it would have made little or no difference whether Mr. Norman had been on friendly or hostile terms with Paris. At the time of his action, however, it was impossible to foresee this. The reasonable assumption was that with the benevolent support of the French authorities, it would be possible to safeguard sterling against any contingency. Notwithstanding this, Mr. Norman burned his boats without hesitation. Possibly his action may not have been entirely impulsive. In going to the rescue of Austria he pursued, consciously or unconsciously, his traditional policy. To compromise with the strongest continental power at the expense of weaker countries would have defied all the best traditions that have built up Great Britain's reputation of statesmanship. Though Mr. Norman's action may be criticized as undiplomatic, it certainly cannot be regarded as unstatesmanlike.

Admittedly, Mr. Norman did not succeed in preventing the crisis in Central Europe, nor even in safeguarding Austria against the unfair French political pressure. The crisis broke loose on July 13 when Germany had to introduce restrictions on external payments; and Austria was compelled eventually to yield to the French demand in declaring that she would not proceed with the Customs Union Scheme. Mr. Norman, however, saved British prestige, as neutrality in the Austrian conflict would have been the first stage in a policy of humiliating submission to French dictation. Even if he had succeeded in saving sterling at the price of allowing France to influence Great Britain's foreign policy, the result would not have been worth the sacrifice. British prestige and self-respect would have suffered more than it did through the suspension of the gold standard.

Mr. Norman's action was applauded all over the world, but it earned him the violent hatred of France. He was the subject of ferocious attacks in the French Press, and even the French authorities were undiplomatic enough to show their bad temper. At the July meeting of the Board of Directors of the Bank for International Settlements as Basle, the French delegates did not conceal their disapproval of Mr. Norman's action, and as Mr. Norman was also rather outspoken on the matter, there was a lively scene between them. M. Moret, Governor of the Bank of France, left Basle determined never again to sit down to a conference table with Mr. Norman. Some months later, however, he changed his mind. At the London Conference in July the French Prime Minister himself showed his resentment for Mr. Norman's unforgivable sin of helping Austria when it was to the interest of French diplomacy that she should be left to the mercy of Paris. In the course of the negotiations Mr. MacDonald suggested that Mr. Norman should be called in to express his opinion on some technical questions. M. Laval objected, saying that he had no desire whatsoever to meet Mr. Norman.

The following days witnessed an internal struggle within the Bank of England. For the first time a strong section of the Board of Directors opposed Mr. Norman on a vital issue. The flight from sterling had begun to assume alarming dimensions, and it was evident that unless external support were obtained, the suspension of the gold standard was only a question of time. The American authorities and banking circles, when approached on the subject, were prepared to assist, but only jointly with France. The Bank of France was prepared to participate in a credit, but its terms were humiliating, and the directors of the Bank of England were divided whether to accept them. Mr. Norman was opposed to it to the utmost, but the majority of the Board voted in favour of it. The French terms were accepted, and a few days later a statement was issued that Mr. Norman was leaving for a long holiday for reasons of health.

why do the private central banks permit themselves to become over-extended and dependent on other countries [illegible]?

There is no doubt that the strain of the last few years, and more particularly of the last few weeks had brought him to the verge of a breakdown. In spite of this his departure was due to diplomatic considerations at least to the same extent as to considerations of health. Being the best hated man in France, it would have been impossible for him to remain in office while there appeared to be reason to assume that the maintenance of the stability of sterling depended upon French support. In fact, his presence would have prevented the co-operation between London and Paris, which in this eleventh hour was at last beginning to materialize. Nor could he endorse the policy which was against the principles he had stood for. It was evident that sooner or later Great Britain would have to pay the price of the French support in the form of sacrificing her independence on vital matters of foreign policy. For Mr. Norman such a course must have been simply unthinkable. Undoubtedly he was in need of a long holiday. But for these considerations, however, he would not have abandoned his post at a time of emergency. The majority of the Board of Directors had decided upon a course which he opposed to the utmost. He therefore stood aside, and left it to events to prove that he was right. In less than two months after his departure the collapse of sterling proved that the belated support of France was of no avail.

CHAPTER XIII

AFTER THE DEFEAT

On September 23, after an absence of nearly two months, Mr. Norman returned to London. Amidst all the turmoil that followed the suspension of the gold standard his dramatic arrival was regarded as an event of outstanding importance. The City watched with intense interest to see whether or not he would again take the reins of our monetary policy. For some weeks it had been known that as a result of his short holiday his health had improved considerably, and that he was, therefore, in a position to resume activity. In spite of this, many people doubted whether he would ever return to his post, except for a short interval until a new Governor was elected. His enemies at home and abroad had taken it for granted that his régime had come to an end. His policy had failed; and even though it is possible to produce an array of reasons to prove that the causes which led to the collapse of sterling could not have been foreseen when the decision to return to pre-war parity was taken, this does not alter the judgment of the world. In high finance, as in other spheres of public life, men judge by results. Success justifies everything, and there is no excuse for failure. Some politicians, bankers, and business men may make mistake after mistake, and may thrive on them if they are lucky; others may only make one mistake, and have to pay the full price for it.

Those who had always opposed Mr. Norman's policy were triumphant over its failure. Some of them went so far as openly to demand his resignation. His term of office was to expire in April, 1932, but it was thought probable that he would relinquish his office before then. The Court of Directors of the Bank was to decide in November the nomination of a Governor for the year 1932–3, and speculation was rife in the City throughout October as to their probable choice. Several names were mentioned as Mr. Norman's likely successor. Those who maintained that in future the Bank should concentrate more on domestic industrial affairs than on international financial affairs supported the candidature of Sir Josiah Stamp. Others who considered it desirable to establish better relations between the Bank of England and the Bank of France in the interests of an early stabilization with French aid, regarded Sir Robert Kindersley as the most suitable person to succeed Mr. Norman. The name of Mr. E. R. Peacock, of Baring Bros. & Co., was also frequently mentioned in some quarters. Last, but by no means least, in many quarters it was considered highly probable that the Deputy-Governor, Sir Ernest Harvey, whose impartiality and independence from any financial interest placed him at an advantage as compared with most other directors, would succeed Mr. Norman.

In reality the decision was in Mr. Norman's hands. If he was willing to carry on for another term it was certain that he would meet with no opposition on the part of any of the Bank's directors. Apart from considerations of loyalty, they realized that in the critical period that followed the suspension of the gold standard Mr. Norman's services had become more indispensable than ever.

The question was whether Mr. Norman wanted to remain. His state of health provided a legitimate excuse for retiring. In July he had been on the verge of a breakdown, and although his Canadian holiday had benefited his health, he could not resume work and responsibility without running grave risks. Most people in his place after the defeat of their policy and the disheartening collapse of their life's work would have taken the easier course. But not so Mr. Norman. To take the line of least resistance was contrary to his character. The mere fact that he was attacked and opposed made him stand firm in his place, and his enormous will power conquered even his physical illness. He must have felt that he simply had to recover in order to fulfil his mission. It would have been contrary to his sense of duty to his bank and to his country to relinquish the reins at a moment when, amidst the chaotic conditions, a strong leadership was needed.

It was learned early in October that Mr. Norman attended the Bank regularly, even though he did not resume his usual work, which continued to be carried on by Sir Ernest Harvey and the other high officials of the Bank. After his serious illness he had to be careful to avoid overwork. A message from Basle early in October, stating that he was attending the monthly Board meeting of the Bank for International Settlements was the first indication of his intention to remain in charge of affairs. Had he intended to retire, he would have left this task to his alternate, Mr. Siepmann. It was, indeed, anything but enviable to face the meeting after the suspension of the gold standard. The British representatives were certain to be exposed to a fire of criticism for the policy they had pursued during the crisis. As all central banks represented on the Board of the Bank had suffered heavy losses on their sterling balances, tempers were none too good, and the meeting was expected to be a stormy one. Moreover, as we said in Chapter XII, at the July meeting of the Board—the last meeting in which Mr. Norman had taken part—Mr. Norman had a sharp encounter with the French delegates, and they had parted in anything but a friendly spirit. In the meantime the prestige of the Bank of England had suffered considerably through having accepted a credit from the Bank of France in humiliating circumstances, and through having been unable, after all, to maintain the gold standard. The prospects of meeting the French delegates again in the changed situation were anything but pleasant. Had Mr. Norman chosen to shirk the meeting, he would have had ample justification to do so for considerations of health, and, in any case, there was no vital issue at stake which required his presence at the meeting. As a result of the immobilization of its loans to Central Europe, the Bank for International Settlements was, for the time being at any rate, eclipsed as a factor in international finance. While on the occasions of past board meetings it was reasonable to count upon decisions that would influence the trend of events, there was nothing to expect of the October meeting. There were no funds available for granting new credits, and the question of the renewal of the existing ones was merely a matter of form, as the debtors were in any case unable to pay. In the absence of any agreement between the Governments, the directors of the Bank could not hope to agree on anything of fundamental importance. In such circumstances, the board meeting was bound to confine itself to routine matters. Nothwithstanding this, Mr. Norman decided to attend it, possibly as a gesture to indicate that he meant to remain at his post; possibly he did not want to create the impression that he was afraid to face his opponents and critics on the Board.

The meeting of October 12 proved to be less stormy than was anticipated. In the board room of the Bank, Mr. Norman met his colleagues with whom he had had many heated debates before the decline of Britain's financial power. It must have been an ordeal to meet them again now that the suspension of the gold standard had placed Great Britain in an inferior position. Admittedly,

M. Moret and the other French delegates were not triumphant; indeed, they had no reason to be. Great Britain's loss of power and prestige through the suspension of the gold standard cost them a great deal in the form of losses on sterling balances. Moreover, the suspension of the gold standard had restored Britain's freedom of action. In September the French authorities were in a position to assume a dictatorial air, as the stability of sterling depended largely on their decision; but in October this was no longer the case. Still, they could not deny themselves the satisfaction of criticizing the British policy during the crisis. The French members of the Board and their satellites indulged freely in critical remarks. Great Britain was reproached for not having taken adequate steps to defend sterling by raising the Bank rate to a sufficiently high figure. Various technical points were also criticized. When it came to discussing the renewal of the Austrian credit, the French delegates could not resist the temptation of pointing out the futility of the Bank of England's spontaneous action in assisting Austria in June last in defiance of the French policy which aimed at compelling Austria by financial means to abandon the Customs Union Scheme with Germany. Some of the central bankers did not conceal their resentment at the losses they had suffered on their sterling balances, and they sought to put the blame upon the Bank of England for these losses.

Mr. Montagu Norman sat in silence throughout the meeting. It was not his habit to intervene in the debate unless some question of fundamental importance was at stake. On this occasion he was not prepared to be drawn into argument about the criticisms raised. It would have been very easy to answer the charges. Nobody acquainted with the psychology of panic could seriously believe that a Bank rate of 8 per cent, or even 18 per cent, would have been sufficient to induce nervous foreign holders of sterling to maintain their balances in London, or " bears of sterling " to stop selling. As for technical errors, he who could have avoided them amidst such unprecedented circumstances should throw the first stone. Mr. Norman must have deplored as keenly as anybody the losses suffered by central banks which left balances in London while everybody else was withdrawing theirs ; but to regard the Bank of England as morally responsible for these losses is to overlook the fact that it was the nationals of these central banks, who by their reckless withdrawals, caused and aggravated the pressure on sterling, and who were, therefore, responsible for the central banks' losses. Had the central banks joined with other holders of sterling in the withdrawal of funds, the gold standard would probably have been suspended in July or early in August instead of September, before private holders had a chance to clear out. Thus, it is not the Bank of England but these private foreign holders of sterling who benefited by the self-sacrificing attitude of their central banks, which would have in any case had to support them had they suffered larger losses on sterling. Mr. Norman could have easily answered their reproaches by saying that had all central banks co-operated whole-heartedly in the support of sterling by taking up the sterling amounts thrown on the market by their own nationals, Great Britain would be still on the gold standard, and nobody would have suffered any losses on their balances. But he did not want to give his opponents satisfaction by being on the defensive. There was more reason than ever to uphold the traditional policy of " never explain, never apologize ". Nor was there any need for Mr. Norman to take an active part in the debate in connection with the proceedings of the meeting. As the progress of the crisis reduced the Bank for International Settlements to impotence and inaction, the discussion of the world's problems at the Board Meeting was hardly more significant than the proceedings of a debating society, and Mr. Norman has never aimed at oratorical successes. The Board Meeting concluded without any outstanding incident.

Throughout October the question as to whether Mr. Norman would remain or go was discussed with great interest in banking circles in London and abroad. In certain sections of the Press a campaign was conducted against him. It was said that he was too international to satisfy the changed requirements of his post. He was accused of having sacrificed British interests for the sake of international considerations. By some people he was criticized for having pursued a deflationary policy, by others he was blamed for not having been sufficiently deflationary. Ultra-nationalists joined forces with extreme Socialists in their campaign against international finance, of which they regarded Mr. Norman as the typical representative. It became a popular fashion to blame him for all our troubles; hardly anyone raised his voice in his defence.

In the French Press the systematic campaign which had been conducted against him ever since his clash with M. Quesnay on the occasion of the negotiations about the Young Loan in May, 1930, gained new strength with the approach of the day of the nomination of the Governor. It was realized in Paris that the reappointment of Mr. Norman for another term would mean the definite frustration of French hopes of influencing British monetary policy as well as British foreign policy by promising assistance in an early stabilization of sterling. Thus, the French newspapers did not spare any argument or criticism against him. He was represented as the chief obstacle to Franco-German *rapprochement*; it was stated that but for his intervention to assist Austria in June, 1931, an early understanding could have been established between France and Germany. They wisely omitted to say that by "understanding" they meant French dictation and German obedience. It was also stated in Paris, much to the amusement of certain quarters in London who advocated a radical monetary policy, that Mr. Norman was a dangerous inflationist. Those who took part in this campaign on the other side of the channel did not realize that in doing so they eliminated every remaining doubt as to Mr. Norman's re-election. The fact that he was being attacked in the French Press silenced all opposition in the British Press. It is not as if the decision of the Court of Directors had depended in the least on the attitude of the Press or public opinion. Had the General Election resulted in a Socialist majority, it might have become expedient to choose the next Governor among those who enjoyed the confidence of the Labour Party. As a result of the victory of the National Government, the independence of the Bank of England has ceased to be in danger, and the Court of Directors could well afford to disregard any outside opposition.

As a matter of fact, those who would have preferred to see a change in the Governorship of the Bank of England could not claim to represent any substantial section of public opinion, or even financial opinion. It is true that the failure of Mr. Norman's policy to restore and maintain sterling at its pre-war parity could not but affect his prestige; but most people realized that in all fairness he should not be regarded as being solely responsible for the return to pre-war parity. As we have said in Chapter IV, that policy was laid down by the Cunliffe Committee, whose report became the foundation of British monetary policy after the war, and has been followed by all successive post-war Governments. It was, moreover, what public opinion tacitly favoured. Had the question "Should Great Britain return to pre-war parity or should she stabilize the pound at a lower level?" been submitted to a plebiscite in 1924 or 1925, it seems highly probable that an overwhelming majority would have voted in favour of the official policy. As for the failure of the efforts to maintain the gold standard, it was generally recognized that Mr. Montagu Norman could not be held responsible for them. The collapse was largely due to international factors against which he put up a strong fight, but over which he had no control. Inasmuch as domestic factors were responsible for it, they are to be found in swollen budgets, high taxation, the rigidity of wages, the excessive power of trades unions, the abuse of the system of unemployment benefits, and a number of other causes for none of which Mr. Norman could be considered responsible. The technical errors which have been committed in the course of the defence of sterling in August and September could not be charged to him, for during those months he was on leave abroad.

In any case, in the middle of a violent crisis recriminations were out of place. The question was not whether or not Mr. Norman was to blame for what has happened in the past, but whether or not he was more suitable than any other conceivable candidate for Governorship to remain in charge of the official monetary policy in the critical period of fluctuating sterling. In banking circles it was widely realized that he could not be supplanted without disadvantage to public interest.

As for the general public, Mr. Norman was in their eyes the strong and silent man who is needed in time of emergency. In spite of his dislike of publicity, and the air of mystery which surrounds him (or possibly because of it), he has become one of the most popular figures in English public life, and the general public has developed a genuine admiration for him. The fact that, apart from Lord Snowden, he has been the only British statesman who has dared to defy the French, has increased his popularity at a time when, for a variety of reasons, a strong anti-French feeling began to develop in England. Thus, it seems certain that had the appointment of the Governor been decided by the public, either in the City or in the country as a whole, Mr. Norman would have been reappointed by an overwhelming majority.

In the circumstances the announcement made in November that the Court of Directors had unanimously decided to nominate Mr. Montagu Norman to the Governorship for the year 1932–3 was received with almost universal satisfaction in this country. The newspapers which were in his favour all along were triumphant, while those which considered it expedient to preserve a diplomatic silence in the matter suddenly discovered that they had always been in favour of Mr. Norman's re-election.

Even in quarters where he did not as a rule enjoy popularity the decision was welcomed.

The decision of the Court of Directors has vindicated Mr. Norman from the charges brought against him. It constituted for him the greatest personal victory throughout his career. The general who, after an unsuccessful campaign, is requested to retain his command, has indeed something to be proud of.

But did the loss of the campaign mean the loss of the war? We shall see in the next chapter that those who regarded the suspension of the gold standard as a mortal blow to Great Britain's position and to Mr. Norman's personal prestige, were hasty in their judgment. We shall see that the defeat of September 21, 1921, was not final; the decisive battle was yet to be fought.

CHAPTER XIV

FROM DEFEAT TO TRIUMPH

WITHIN the space of a few short months in 1931 Mr. Norman witnessed the collapse of his life's work. The gold standard had to be suspended, and sterling had to be allowed to depreciate; this time there was evidently no hope for its restoration to its old parity. The movement of co-operation between central banks was given a fatal blow by the collapse of sterling; after September 21 central banks ceased to consider any other interests than those of their own country, and many of them have thrown on the market their sterling and dollar balances regardless of the effect of their action upon the international situation. The prestige of the Bank of England itself has suffered. Its gold reserve was practically pledged to secure the credit of £130,000,000 obtained from France and the United States in support of sterling. These credits were due to expire shortly, and there appeared to be but little hope of repaying them without having to sacrifice part of the gold reserve. During the three months that followed the suspension of the gold standard sterling depreciated by about 33%, and it appeared as though the authorities were powerless to check the downward trend.

However, Mr. Norman did not despair. By

keeping the Bank rate at 6 per cent, and by opposing to the utmost any inflationary expansion, he made a desperate effort to check the depreciation of sterling, and, indeed, before very long the trend turned. It would be, of course, entirely unjustifiable to credit Mr. Norman alone with having saved sterling. His anti-inflationary policy would have been of no avail but for the patriotism of the public which was aroused by the depreciation of sterling, and but for the natural tendencies thereby set in motion. At the same time, these tendencies in themselves would not have checked the downward course of sterling until it had reached a much more advanced stage but for Mr. Norman's stubborn resistance to the tendencies that are always present when a currency is depreciating. Between the one extreme view that Mr. Norman is to blame for the suspension of the gold standard, and that no credit is due to him for the recovery of sterling, and the other extreme view that Mr. Norman is entirely guiltless of the collapse of sterling, but is responsible for the success with which collapse was checked, a happy medium has to be found. It seems reasonable to assume that both the flight from the pound between July and December, 1931, and the flight to the pound between January and May, 1932, were largely cases of *force majeure*, and the extent to which human wisdom, or the absence of it, could mitigate or accentuate these tendencies was comparatively small. Had a superman been in charge of the monetary policy of the country, he could not have prevented the suspension of the gold standard. Nor could he have brought about a recovery of sterling much sooner than it actually occurred. Had the management of the Bank of England been in much less skilful hands, the collapse of sterling would not have occurred much sooner, nor would the recovery have taken place much later, provided that a tight grip was kept on the public finances. The power of monetary policy for good and evil is grossly over-estimated. There are innumerable tendencies which are independent of the monetary factor, and over which those in charge of the monetary policy have no control whatever. However it may be, it is hardly fair to blame Mr. Norman for having failed to safeguard sterling at its gold parity, without giving him at least some of the credit for having checked the collapse in good time.

In less than six months after the collapse, the bulk of the credits contracted for the defence of sterling have been repaid. In addition the Bank of England has accumulated considerable foreign exchange reserves so as to prevent an unwanted appreciation of sterling. The flight to the pound that occurred during the early months of 1932 might even have restored sterling to its pre-war parity but for the intervention of the authorities to prevent it. Now that everybody has realized that it was a mistake in 1925 to restore sterling to its pre-war parity, the same mistake could not be made again. It was evident that even though a speculative moment might raise the value of sterling to $4·86, it would be impossible to maintain the exchange at that level for any length of time. The position in 1932 was fundamentally different from that in 1925. Then it might have appeared reasonable for Mr. Norman to hope that he would be able to maintain sterling at its pre-war parity. In the changed conditions, however, such hopes could no longer be entertained. Mr. Norman had to agree, therefore, to pursue a policy, very much against his own inclinations, of preventing sterling from rising to its old level.

The accumulation of a considerable foreign exchange reserve has restored to some extent the international influence of the Bank of England. All the more as at the same time loss of gold and internal troubles have weakened the Federal Reserve system, while the liquidation of the French foreign balances has reduced the power of the Bank of France. Within six months after the fateful day of September 21, 1931, the Bank of England became once more a leading factor in the sphere of international finance. It even seemed possible that in the near future it might capture the lead, and resume its old position.

Unfortunately, Mr. Norman was not able to take advantage of the immense possibilities provided by the flight to the pound. He was afraid that the acquisition of a huge amount of foreign exchange might lead to unwanted credit expansion. For this reason, instead of maintaining sterling at 3·50, he allowed it to appreciate to 3·80, thereby discouraging the flow of funds to London. In his anxiety to prevent inflation he pursued an excessively timid policy, and missed thereby an excellent opportunity for restoring the lead of London among international financial centres. Notwithstanding this, the Bank of England has acquired a certain amount of influence in foreign money markets through the control of substantial balances in Paris and New York. The resistance of the dollar to the adverse trend in the spring of 1932 was largely due to support received from the Bank of England. The cheapness of money in Paris was the result of the accumulation of franc balances by the Bank of England. British influence increased considerably in the councils of the Bank for International Settlements. During a period when all central banks, including the Bank of France, reduced their balances with that bank, the Bank of England was in a position to increase its deposits. While in January the Bank for International Settlements was regarded as being practically an affiliate of the Bank of France, a few months later there was serious talk of its transfer to London, as a result of the growing British influence. Thus, while Mr. Norman had been on the defensive for years before the actual crisis, he once again found himself in a position to take the initiative.

At this stage Mr. Norman's essentially British character manifested itself once more in a most remarkable manner. Human nature being what it is, it would not have been surprising if he had used his newly acquired power to pay back his opponents with their own coin. For several years he had suffered the inconveniences caused by the political use of the power of the French authorities represented by huge sterling balances. Now the situation has been reversed. The French sterling balances have been reduced to a point at which they are no longer a factor of considerable importance. At the same time the Bank of England has acquired substantial franc balances. It was only natural that the French authorities should become alarmed at the prospect of retaliation on the part of Mr. Norman. Judging others by themselves they took it for granted that he would follow their example in using his French balances for political purposes. Much to their surprise, nothing of the kind has happened. Although the acquisition of franc balances was inevitable in order to prevent an unwanted appreciation of sterling, Mr. Norman has done his utmost to reduce to a minimum the inconveniences caused by the accumulation of large funds in Paris. First of all, all the Bank of England's franc balances, with the exception of those which have been transferred to the Bank for International Settlements, have been left with the Bank of France, and have been reinvested in the French market through official channels. Thus, while the French authorities have always declined to submit their operations in sterling to the control of the Bank of England, they have now been allowed complete supervision of the Bank of England's operations in francs.

They know exactly the amount of these balances, and the changes which take place from day to day in the amount. This in itself reduces the possibility of the manipulation of these balances for political purposes. Moreover Mr. Norman has taken the advice given to him by Paris, and has somewhat reduced the Bank of England's franc balances by purchases of gold. It was also feared in Paris that Mr. Norman's first step after the recovery of his freedom of action in the sphere of international finance would be to rescue Austria and Hungary from the French political sphere of influence, into which they were compelled to enter as a result of London's inability to assist them. It would indeed have been easy to attain this result with the aid of a few millions of pounds. The hopes or fears have not, however, materialized. So long as the major problem of reparations remained unsolved Mr. Norman did not believe in throwing good money after bad, and declined to participate in any cash advance, even in a joint attempt at support. When in July, 1932, a loan of 300 million schillings was concluded by Austria, the only participation the British authorities were prepared to undertake was the conversion of the outstanding short-term credit of 100 million schillings of the Bank of England to the Austrian National Bank into a five year loan.

It is difficult to follow Mr. Norman's line of thought in adopting this attitude. Conceivably he expected that events would reduce French political finance *ad absurdum* even without any intervention on his part. Possibly he felt that being British, he must not kick his opponent when he is down. When the financial power of France was at its zenith, and that of Great Britain was at its nadir, he unhesitatingly challenged his opponent by supporting Austria in connection with the Creditanstalt affair. Now that Great Britain has recovered her strength, while France has lost much of hers, Mr. Norman takes care to refrain from doing anything that might offend or inconvenience the French authorities. At the time when the stability of sterling appeared to be dependent upon French goodwill, he did not go out of his way to improve relations with the Bank of France ; in fact, as we mentioned it in the previous chapter, at the July meeting of the Board of the Bank for International Settlements he succeeded in mortally offending M. Moret. At the time, however, when it is to the interest of France rather than of Great Britain that relations between the two central banks should be friendly, Mr. Norman goes out of his way to improve relations. It requires a thorough knowledge of British character, which is revealed even more clearly in victory than in defeat, to understand this.

Apart from a natural unwillingness to kick his opponent when he is down, Mr. Norman's attitude may be explained also by his superior statesmanship. He must have fully realized by now that, in the course of the coming troublesome years, no single country could hope to maintain permanently its supremacy without securing the co-operation of other leading countries. The lessons of 1931–2 must have made him realize that every country has its ups and downs ; he also has probably learnt from the mistakes of the past, and has realized that the right time for establishing genuine co-operation with France is when that country needs and welcomes his gesture of friendship, and when the *rapprochement* is obviously voluntary and not merely a price paid for support. The fact that Mr. Norman has showed a conciliatory spirit in his relations with the French authorities at a time when he could have afforded to adopt an aggressive attitude shows that he has learnt his lesson and knows now how to combine statesmanship with diplomacy.

The gigantic operation of the conversion of the 5 per cent War Loan was the crowning achievement of Great Britain's miraculous recovery since the suspension of the gold standard. Credit for the bold decision is due to the Government and the permanent officials of the Treasury ; but it seems highly probable that they must have received encouraging advice from Mr. Norman to take the immense risk involved. In any case, he is entitled to a considerable share of the credit for the unprecedented achievement. After all, it was his sound monetary policy that created the situation in the money market and capital market that enabled the Government to assume responsibility for a conversion operation of £2,000 millions, involving the reduction of the interest rate from 5 to 3½ per cent.

It is the tenacity with which Mr. Norman resisted inflationary pressure and temptation after the suspension of the gold standard that has restored confidence in sterling, without which the transaction would have been impossible. He faced for months the unpopularity of a 6 per cent bank rate, and ignored the barrage of attacks by the popular Press and by politicians seeking cheap popularity. His independence has proved to be highly beneficial for the country, as it has enabled the Government to tackle the most difficult problem of War Loan conversion. Had he allowed himself to be influenced by the urgent demand for untimely reduction of the bank rate, a situation that has enabled the Treasury to make such a drastic economy in the debt service would not have arisen for many years to come.

It is a curious coincidence that the only operation which is comparable in significance if not in dimensions with the conversion of 1932, the Goschen conversion of 1888, was carried out during the Governorship of Mr. Montagu Norman's grandfather, Sir Mark Wilks Collet, who was created a Baronet on that occasion. Mr. Norman is hardly likely to be keen on such public recognition; otherwise he could have obtained it on many occasions in the past. The future historian who deals with this period impartially, should not, overlook the part he played in the transaction which restored Great Britain's prestige temporarily lost by the suspension of the gold standard.

CHAPTER XV

THE FUTURE

IT is now evident that those who believed that the suspension of the gold standard and the collapse of the movement of co-operation between central banks meant the end of Mr. Norman's career have been mistaken. The defeat was only a landmark in his career, and the beginning of a new stage even more interesting than those that had gone before. It is true that he has entered his sixty-first year, and that a few months ago he was on the verge of a breakdown, but should the improvement in his health prove lasting, there is no reason why he should not remain in charge of the Bank of England for some years, at least until the present crisis is over, and sterling is once more safely stabilized. The self-imposed age limit of the directors of the Bank of England is seventy years, but it is conceivable that Mr. Norman, after having accomplished his task, may want to retire before reaching that age. In fact, through the comparatively normal years between 1926 and 1929 his colleagues had to use all their powers of persuasion to induce him to retain the Governorship. It is most unlikely, however, that he would want to retire, or that his colleagues would want to replace him, until conditions once more become comparatively normal. The fact that when in April last two vacant seats on the Court of Directors had to be filled, his personal nominees were elected, shows that his influence within the Bank is as strong as ever.

It is, indeed, of unusual importance at present that the post of Governor should be occupied by someone whose impartiality is above suspicion, and who has no financial ties outside the Bank of England. Apart from any other reasons, it is not impossible that some of the weaker houses may need official support sooner or later. Unless the Governor is absolutely disinterested he may easily be accused of favouring one house at the expense of another.

Mr. Norman's future task will require quite different qualities from those required by his past activities. As we said in previous chapters, his past monetary policy, aiming at the restoration of sterling to its pre-war gold parity, was not an individual policy but the execution of the national will in accordance with century old traditions. Similarly, his external policy aiming at the co-operation of central banks, and at the reconstruction and stabilization of all countries, was merely a continuation of the traditional British constructive foreign policy. Undoubtedly he carried out his work with initiative and imagination which, indeed, were necessary to uphold traditions amid quite unusual circumstances. The fundamental principles involved were not, however, peculiar to

Mr. Norman ; they were deeply rooted in British traditions and character. A situation has now arisen in which it has become inevitable that there should be a break with some of those traditions. In the changed circumstances the effort to adhere to them in face of adverse world currents proved to be fatal, and resulted in a complete defeat. It would be fatal to repeat the same mistake over again.

Doubtless, there is a section of opinion which still inclines to the traditions. In spite of the lessons of the past, and in defiance of glaring facts, they still adhere, somewhat pathetically, to the idea that sterling must be restored at all costs once more to pre-war parity. They believe that it is a matter of national prestige that Great Britain should not follow the example of those continental countries which have debased their currencies, thereby defaulting on their external debts. What is good enough for Germany, Austria, France, etc., is not good enough, they say, for Great Britain. In their opinion everything should be sacrificed for the sake of upholding the sacred traditions of financial integrity. They represent, however, an insignificant minority of public opinion. The majority of Englishmen have got tired of sacrificing industries to an ideal. It is, moreover, widely realized that there is in reality no choice between sacrificing production or the pound in the pre-war sense of the term. Any attempt at new deflation would only aggravate trade conditions, and would eventually defeat its own object. If industries are ruined and export trade reduced, there is little hope of attaining pre-war parity, or maintaining sterling there for any length of time. Even if the result were worth the sacrifice, which is certainly not the case, there is no reason to hope that it could be attained except quite temporarily. The choice lies not between sacrificing industries or the pre-war pound, but between sacrificing either the latter only or both. The result of the mistake of 1925 was a prolonged industrial depression, and the sacrifice involved has failed to secure the permanent stability of the pound at its pre-war level. There is no reason to believe that the adoption of the same policy would produce different results in the future.

Mr. Norman is confronted with the choice between two courses: he could place himself at the head of the minority, and in accordance with his own traditions, those of the Bank, and of the British nation, make a desperate attempt to carry orthodox principles once more to victory; or he could break with tradition and adapt his policy to the changed circumstances, in accordance with the wish of the predominant majority of the nation. In the opinion of many of his opponents, he is incapable of pursuing any other policy than the one dictated by tradition. But those who take this for granted under-estimate the Governor's statesmanlike qualities. He is much more subtle than he is assumed to be by his opponents, and is certainly capable of adjusting his policy to changed circumstances once he realizes that the circumstances cannot be adjusted to his policy. In the words of Bismarck, "Only the ox remains consistent." To persist in the same policy without regard to changed necessity does not show strength, but stubbornness.

The abandonment of the idea of returning to pre-war parity does not, moreover, imply a complete break with tradition. The task which Mr. Norman has to carry out in this new chapter of his career is to find a formula to reconcile tradition with hard necessity. To some extent he will have to bow his head to the inevitable, and conclude a compromise under pressure of facts, but this does not mean that traditions are now to be discarded. Many of his opponents would like to see them discarded altogether. This would mean the adoption of an unconventional policy of inflation, deliberate depreciation of sterling so as to suit momentary business interests, and the eventual adoption of a managed paper currency independent from gold. It is certain that Mr. Norman will oppose these tendencies to the utmost. It will be tempting for the nation, after the sacrifices inflicted upon it by the rigid adherence to orthodox monetary principles, to swing to the other extreme, and to take the line of least resistance by yielding to inflationary tendencies. The fact that the reins of monetary policy remain in Mr. Norman's strong hands provide a guarantee against that danger; it will require all his strength to oppose the current. Fortunately monetary policy is not decided by plebiscite, nor even by Parliamentary vote. It remains in the hands of the Bank of England, which continues to be the last stronghold of despotism. It is seldom that the advantages of benevolent despotism over democracy are so evident as in the present case. The average man is always inclined to favour a solution safeguarding his apparent and immediate interest at the expense of his ultimate real interest.

The situation can best be compared to that of the shareholders of a company, who would like to obtain the distribution of the full profits in dividends, while the board, which is aware of the possibility of lean years, favours the distribution of a moderate dividend. Although the directors may not be popular among the rank and file of the shareholders, in reality they safeguard the shareholders' interests against the latter's own shortsightedness. In our case the shareholders are the electorate, and the dividends are the prospects of increased business activity through the adoption of an inflationary policy. As the directors of the company—the Cabinet and Parliament—depend for their seats upon these "shareholders", they may at times be tempted to satisfy their demands. It is on such occasions that the independence of the Bank of England from political parties produces its full advantage. The Governor can afford to disregard popular clamour for an unconventional monetary policy so long as his position is independent of the fluctuations of popular opinion.

It is hoped that Mr. Norman will strike a happy medium between the orthodox policy of deflation and the unconventional policy of inflation. It is true that he has succeeded in preserving the prerogatives of the Bank in face of changed conditions, but he is too good a statesman to over-estimate the meaning of his success, and he should be diplomatic enough not to put these prerogatives to an excessively severe test. Technically he is in a position to adopt a policy of deflation, but in doing so he would jeopardize the privileged position of the Bank of England for which he has successfully fought throughout his Governorship. For it is highly improbable that the nation would be prepared to tolerate in the present circumstances that its prosperity should be sacrificed once more to orthodox monetary considerations. Thanks to the common sense of the average Englishman, demand for inflation could never be worked up in this country as a popular issue. On the other hand, this very common sense of the man in the street would drive him into violent opposition to any renewed attempt at deflation. Any political party which endorsed such a policy would pay the price for it at the next General Election, while the Bank itself would risk its independence, for in such circumstances its nationalization would become a popular war cry.

It will require all Mr. Norman's statesmanlike strength and diplomatic skill to steer the ship between the Scylla of inflation and the Charybdis of deflation. A weaker man might easily yield to the temptation of relaxing the grip on the monetary situation for the sake of temporary advantages, or he might be induced to strive towards the glory of restoring sterling once more to its old parity. Whenever sterling showed signs of appreciation the number of those who would like to see it above \$4 increased instantaneously, and as *l'apetit vient en mangeant*, once the landmark of \$4 is reached, everybody would have talked it up to \$4·86. It must have been extremely difficult for Mr. Norman to resist this temptation, for the traditional virtues of a Bank Governor are all deflationary in their tendency. But there is no doubt that he has succeeded in conquering these influences. The fact that at the time when sterling appeared to be well on its way towards its old parity he agreed to the measures taken for preventing its rise shows that he is not as stubborn as many people like to paint him. He has undoubtedly realized that without giving way to inflationist pressure he has to swim with the tide to some extent. Although there is no possibility of bringing about a lasting trade revival with the aid of credit expansion, on the other hand, a too rigid opposition to credit expansion may easily check any tendency towards revival. There is no reason for regarding Mr. Norman's deflationist traditions as an obstacle to the adoption of a new policy in new circumstances.

Nor is there any reason for uneasiness on account of his so-called internationalism. He has been an internationalist solely because this was in accordance with British traditions and British interests. He will doubtless continue to endeavour to restore stability and prosperity abroad so long as there is hope that in doing so he will directly or indirectly contribute towards the restoration of prosperity in Great Britain. Should, however, the policy of international co-operation fail, and should this country be forced to seek its salvation on strictly national or imperial lines, there is no doubt that Mr. Norman could easily adapt himself to the changed circumstances. As it is, the official monetary policy has already shown signs of independence from international considerations during the last few months. From an international point of view it would appear desirable to attempt to stabilize sterling once more as soon as possible. In spite of this, our authorities have resisted temptation and pressure brought to bear upon them from abroad to induce them to stabilize at once, for, from a national point of view, it appears desirable to wait until conditions have settled down. The new orientation of the Bank of England policy will put Mr. Norman's expert knowledge, initiative, and imagination to a severe test. There is no doubt, however, that he will emerge successfully.

There is only one more question left to be dealt with: Mr. Norman's future attitude towards external policy. The Lausanne Agreement, without settling definitely the problems of reparations and war debts, has created undoubtedly a new situation, and will induce Mr. Norman to revise his foreign policy. At Lausanne France practically waived her claims for further reparations, thereby removing one of the main obstacles to the world's economic recovery. In doing so, a new chapter in Franco-British relations has been opened. Provided that France maintains her conciliatory attitude it will lead to close co-operation with Great Britain. Whereas until now the reconstruction of Europe had to be attempted without France, and often in defiance of France, henceforth it can be undertaken in close collaboration with her.

It is conceivable that the establishment of friendlier relations with the Bank of France some months before the Lausanne Conference anticipated this turn of events. In any case, it indicates that those who represented Mr. Norman as an irreconcilable hater of France were wrong. It is only so long as the French authorities pursued a policy that endangered the task of reconstruction that Mr. Norman found it impossible to work with them. The change of his attitude towards France is, moreover, in perfect accordance with the traditional balance of power policy. Once the aggressive financial power of France has declined—partly through circumstances beyond the control of her Government, and partly through relinquishing the use of the weapon of excessive reparations claims for political ends—there is no longer any need for Great Britain to pursue a policy which, in its results if not in its purpose, tends to counteract her excessive strength. Lausanne has changed continental equilibrium and has led to a new orientation of British foreign policy. The establishment of co-operation between Mr. Norman and the French monetary authorities has in this respect given a lead which is certain to prove of historical significance.

APPENDIX

MR. NORMAN'S EVIDENCE BEFORE THE MACMILLAN COMMITTEE

The following text is extracted, with the kind permission of the Controller of H.M. Stationery Office, from the Minutes of Evidence taken before the Committee on Finance and Industry. When Mr. Norman gives evidence jointly with Sir Guy Granet or Mr. Sprague, only his part of the evidence is given; questions put to the other witnesses, and their answers, are quoted only inasmuch as they lead on to questions put to Mr. Norman.

Wednesday, 26th March, 1930.

Present :—

The Rt. Hon. LORD MACMILLAN, *Chairman.*

Mr. ERNEST BEVIN	The Rt. Hon. REGINALD McKENNA.
The Rt. Hon. LORD BRADBURY, G.C.B.	Mr. J. T. WALTON NEWBOLD.
The Hon. R. H. BRAND, C.M.G.	Sir WALTER RAINE.
Professor T. E. GREGORY, D.Sc.	Mr. J. FRATER TAYLOR.
Mr. J. M. KEYNES, C.B.	Mr. A. A. G. TULLOCH.
Mr. LENNOX B. LEE.	Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. CECIL LUBBOCK.	Mr. G. ISMAY, *Secretary.*

The Right Hon. MONTAGU COLLET NORMAN, D.S.O., Governor of the Bank of England, called and examined.

Chairman : Gentlemen, this morning we have the advantage of the presence of Mr. Montagu Norman, the Governor of the Bank of England. I may say, as I think you know, that I have had the advantage of one or two informal conversations with the Governor with a view to deciding in what way we might best avail ourselves of his assistance. We came to the conclusion, as I reported to you before, and I think you agreed, that the best plan would be in the first place to ask the Governor to come, as he has come this morning, to survey the position with us generally. He has been good enough to say that he will be happy to come on subsequent occasions and discuss with us other aspects, perhaps more detailed aspects of our problem, as they develop in our hands. The purpose of this morning's meeting is really, if I may say so, introductory. I propose to ask the Governor to give his general survey of the position in which we find ourselves in relation to finance and industry, the approach which the Bank has made to those problems, and the outlook as he conceives it.

Mr. Norman, I think you are familiar with the Terms of our Reference which I may just recite once more. Our Committee was appointed " to inquire into banking, finance, and credit, paying regard to the factors, both internal and international, which govern their operation, and to make recommendations calculated to enable these agencies to promote the development of trade and commerce and the employment of labour ". Our inquiry, as you will appreciate from the Terms of the Reference, is of a very wide character. The operative part of our Reference is to make recommendations, if we are able to do so, which will promote the development of trade and commerce and the employment of labour, and those recommendations, of course, will relate themselves to the financial aspect because the inquiry is into banking, finance, and credit. This morning we should much appreciate an account of your own survey of the position in which we find ourselves just now. We all recognize the exceedingly grave position in which commerce and industry find themselves. The papers this morning remind us of the steadily growing volume of unemployment and the difficulties which industry and commerce are experiencing in re-establishing themselves under post-War conditions. We realize that the relation of finance to these problems must necessarily be intimate, and we appreciate that no one is better able than you are to assist us in ascertaining the true relations between finance and industry and the nature of the problems which arise. I think that in the first place we would like to have from you a statement as to what we may call the financial presuppositions of the position as you conceive them to be just now; how far in your opinion finance has to do with the present emergency; how far it is possible for finance to assist in the present emergency; how far the existing regime has proved adequate under the strain and stress to which it has been exposed; and how far it may be necessary to develop or alter the policies that have hitherto been pursued.

I have given this rather rough outline of our position to you in order that you might see where we are. We have already had a considerable amount of evidence more or less of an expository character descriptive of the existing system. We have also had a certain amount of critical evidence, and we have had among ourselves a good deal of discussion, but we are now approaching the stage when we wish to get closer to the questions before us, having in view that it will be our function ultimately to make recommendations. We recognize that whatever be our recommendations, the Bank of England, owing to the position which it occupies, will necessarily be the prime instrument for carrying into effect any recommendations which we may make in relation to finance so far as they may commend themselves to Parliament and to the Executive. It is therefore most desirable that at every stage of our progress we should keep in touch with you and ascertain how far you can assist us, not only in formulating our proposals, but also in indicating to us how far they are practicable, and how far in your view they would be of public advantage. Would you be good enough to start our meeting by giving us, in the first place, a short statement of your approach to the present problems? —Well, Mr. Chairman, the first thing I wish to say is that I owe you perhaps and the Members of the Committee some apology for not having appeared before you at the end of last year, when you were good enough to invite me to do so, and I regret that the circumstances which prevented my coming were beyond my control. I hope you will take it at that. Next, I am glad to make this first appearance before you, and I hope you will give me the opportunity so often as I can of coming again in order that I may attempt with you, if you will, to disentangle some of the difficult problems which undoubtedly lie ahead of us, as perhaps we have in one way or the other disentangled some of those problems which are behind us, because that, I believe, to some extent has been accomplished. I should like to do that because I believe that we can all help one another, and I do not believe it is possible to have a position in which one section of us will benefit and the remainder will be harmed. It is all either up or down together, broadly speaking.

Before I try to go into that very complicated outline which you sketched for me, and which I doubt if I shall achieve in one attempt, I would like to give you in a few minutes some sort of picture as to what over the last few years I have been trying to do because just the same as all things have a background so I—by which I mean the Bank which I represent—have a background. If I look back a certain number of years during which time I have been working at the Bank, without attempting any exact chronological review, I see that, running throughout the whole of that period, we have had to deal with certain special problems in addition to normal questions. There was, for instance, the troublesome question of perpetual maturities of Debt occurring practically from year to year and giving us no respite. There has been a more or less continuous trouble, internal problems of that kind. But there are two other things externally to which over those years I have really devoted the greater part of my time.

The first of those—long, troublesome, and in some ways disappointing—was the stabilization of the European countries which had lost what they had possessed before the War. That, which I thought, and still think, was necessary, although difficult in many ways, is to-day, and has been for some time in the main achieved. The second thing was in many ways more difficult, and to some extent has been less achieved, but is in process thereof; that was to bring about co-operation among the Central Banks of Europe and the world on the sort of lines which were originally sketched at Genoa. The latter followed the former. The second was difficult; many personal questions have arisen and still arise in connection with it, but, after all, in my view a great deal has been achieved by the work that has been done in one way and another, by one person and another. It was not in all instances carried as far as one hoped it would have been; it was not always possible to carry it through with the assistance of the League of Nations as at one time one had hoped would be the case, but by and large a great deal has been done and the so-called B.I.S. which is about to be set up is in many ways the climax of our efforts. Those two endeavours have been to that extent accomplished.

A year or two ago we were forced, as I think, to look closely at the position of industry in this country with which previously we had practically no direct contact, and with which as a Central Bank many persons think that even now we should have nothing to do. Nevertheless, owing to the special difficulties and uncertainties in which industry has been, and I think in many ways still is, and having accomplished, so far as one could, the two external operations which I have described to you, we turned to industry, and, unusual as it may be, we have devoted during the last year or so and are still devoting efforts to an attempted study of industry, mainly the heavy basic industries of this country. I do not know whether, technically speaking, we were right or, technically speaking, we were wrong to do such a thing, but I do know that the situation in industry appeared to be such that if our action was theoretically wrong it was in the circumstances a trifling sin that we committed and well worth doing, and I do not regret for one moment having attempted to become interested in this subject. To put it in a nutshell, the information which I have received leads me to believe and hope that the salvation of industry in this country, without which commerce and finance cannot long, or indefinitely, continue, lies in the process of rationalization, as it is called, which I am not going to attempt to define, which has been defined in many varying ways, but to which I am a strong adherent, and it is towards the goal of rationalization, however it be precisely defined, that I hope the Bank of England will contribute as much as it can over the times to come. Now, there are many in this room, I feel sure, who know far more about the industries of this country than I know or shall ever know, because I do not claim any special knowledge about them in detail, and it would ill become me, therefore, to attempt any sort of an essay or to make any dogmatic statement on a subject which is so complicated and difficult and obscure, but, broadly speaking, I believe, if I may say so, that the salvation of industry in this country lies first of all in the process of rationalization, and that is to be achieved by the unity or unification or marriage of finance and industry. I should like to think, Mr. Chairman, that one of the chief objects and results of your Committee will be that you will bring about that unification between industry mainly in the North, and finance mainly in the South, each of which I believe can contribute enormously to the benefit of the other and to the benefit of the whole of this country. That is how I should look, in a word, upon the object which I hope you will achieve and in which I should like to be allowed to help.

Now, I must say, if I may continue for a moment on this question of industry and our part in it, that just as it is no proper part of a Central Bank's normal business to investigate or have directly to handle industry as such, so a year or so ago, having already made some short progress in the investigation of industry, we planned to form as a matter of convenience a small company in order to segregate these particular operations, and it is through that company we have been endeavouring to deal with such of the difficult and wide questions which have arisen to which as yet little contribution has been made. I wish to say right away, too, that although we did establish that small company in our crusade for segregating such industrial investigations and activities as the nation might need, so I looked upon that as merely a stepping stone, and I am now about to take another step in which I hope sooner or later we shall have your assistance and goodwill, Sir, to establish another company which will unite the City as a whole in showing a willingness for the time being and over a certain period of years to assist industry towards the goal of rationalization. Now, have I said enough, or do you wish me to go any further, or what do you want me to do ? I have given you a picture.

(*Chairman*) *:* I think we appreciate what you have in prospect. I should like, however, first of all, to have from you your view of the existing interaction of finance and industry ; how, in your view, does finance influence industry ; how do the two come into contact, what is the relation between the two ; because, in my lay mind, I do not understand clearly yet how the operations of finance affect industry. You have very responsible duties in connection with the regulation of the financial system of this country. I think everyone agrees that those decisions have very important repercussions upon industry. I should like to know from you how you figure the interactions between what you do in high finance and the actual practical commercial and industrial position. Because if you take these important decisions as you do from time to time and they have consequences throughout the length and breadth of the land affecting every employer and employé, it is very important that we should see how you conceive that your decisions interact with the industrial position. You see what I mean ? —I think I see what you mean ; but if you would ask me a more precise question perhaps I could better give you an answer. I have not in mind a method by which I could answer satisfactorily so general a question.

Let me put it in this precise form. You have from time to time to consider whether you will raise or lower the Bank Rate, which is one of the chief functions of the Bank of England. Have you in view when you raise or lower the Bank Rate what are or may be the consequences to the industrial position of the country ?—I should answer by saying that we have them in view, yes, but that the main consideration in connection with movements of the Bank Rate is the international consideration, and that especially over the last few years so far as the international position is concerned—certainly until the last few weeks—we have been continuously under the harrow.

It would be interesting for you to tell us how far you are a free agent in this matter and how far you are under the compulsion, on the one hand, of the legislative scheme under which you work, and, on the other hand, of the international position over which you have not got control. How far are you a free agent ?—I should say, so far as the legislative position goes, we are a free agent, but so far as the international position goes, if I judge the second part of your question rightly, we are not at all a free agent, but that the whole of the international machinery is bound together and that however much or little it may be recognized, it necessarily works as a whole, as, indeed, it should do, and that in point of fact, what is called the gold standard is the cement by which it is bound together.

And, accordingly, if the international position is dislocated or not working harmoniously you are really at its mercy ?—Not only if it is not working harmoniously—though that may make matters worse—but we are subject to whatever conditions may dominate the international position, certainly.

Therefore, we may take it that when you have to consider the question of raising or lowering the Bank Rate, the predominant consideration in your mind is the international position ?—At times it would be the predominant consideration. At times it might cease to have that importance, but over the last period of years the international situation has undoubtedly been the predominant consideration.

Then carrying it a step further, is it because international movements are depleting the stock of gold in this country that you find it necessary to arrest that course by increasing the Bank Rate ?—It may come down to that ultimate question of the stock of gold, or it may come down to the general question of rates of interest and confidence. There are many other precise forms that it takes, but, generally speaking, that is true.

Of course, the power which resides in the Bank of England of raising or lowering the Bank Rate is an instrument of the very greatest possible significance, I think you will agree. If that instrument is used for the purpose of preserving the stock of gold, is it effective for the purpose ?—It is effective.

How far is the instrument with which you are equipped effective for the purpose ?—It is effective.

For that purpose ?—It is effective in my opinion.

Equally you will recognize, I think, that while that instrument so used by you may be effective in achieving the particular object you have in view, it must simultaneously have internal consequences upon the credit of the country. You have to look both outwards and inwards ?—The two are parts of a whole, I agree.

Yes. One of the problems to which we have been addressing ourselves is whether the use of the instrument of the Bank Rate, effective it may be in achieving the purpose you have indicated, may not be accompanied internally with unhappy consequences. You may be effecting an operation of great value from the financial point of view which has nevertheless unfortunate repercussions internally by restricting credit and enterprise. Your instrument may be doing good in one direction and harm in another. I should like to have from you your conception of the internal effect of the alteration of the Bank Rate. Externally you say it achieves its purpose of arresting the flow of gold if you raise the Bank Rate. Internally, how do you conceive that it operates ?—Well, I should think its internal effect was as a rule greatly exaggerated—that its actual ill effects were greatly exaggerated and that they are much more psychological than real.

Yes ?—Much more psychological than actual.

The same would apply to a reduction in the Bank Rate—the benefit accruing from a reduction in the Bank Rate ?—Yes. I do not mean to say that a large variation in the Bank Rate, a difference of three points or whatever it may be, does not bring about a wider change than that, but I have always thought that in the process of change from one rate to another, the difference is much more largely psychological than it is actual.

But even if it has psychological consequences they may be depressing consequences, and may be serious ?—Yes, but not so serious as they are usually made out to be, and I think that the benefit on the whole of the maintenance of the international position is so great an advantage at home, for industry, for commerce, for—

You take the large view. In your opinion, I gather, the advantages of maintaining the international position outweigh in the public interest the internal disadvantages which may accrue from the use of the means at your disposal ?—Yes, I think that the disadvantages to the internal position are relatively small compared with the advantages to the external position.

What is the benefit to industry of the maintenance of the international position ?—This is a very technical question which is not easy to explain, but the whole international position has preserved for us in this country the wonderful position which we have inherited, which was for a while thought perhaps to be in jeopardy, which to a large extent, though not to the full extent, has been re-established. We are still to a large extent international bankers. We have great international trade and commerce, out of which I believe considerable profit accrues to the country ; we do maintain huge international markets, a free gold market, a free exchange market —perhaps the freest almost in the world—and all of those things, and the confidence and credit which go with them are in the long run greatly to the interest of industry as well as to the interest of finance and commerce.

One of the criticisms which has been made is that while the policy pursued may have been excellent from the point of view of the financiers of the City of London, it has not benefited the industries of this country —that the considerations which have moved that policy have been directed rather to the financial side than to the plain man's industry ?—I know that is said. Of course, industry has had ill luck, shall I say, and has been in a very unfortunate position and from one reason and another has suffered particularly.—I agree ; I am sure that is true.

There has been no doubt a conspiracy of causes at work ?—Almost ; yes.

But among the causes at work many minds apparently maintain the view that the deficiencies in our financial system are at least partly to blame and that some revisal of financial policy is necessary. You referred a few moments ago, Mr. Governor, to the project of rationalization. That, if I may say so, speaking for myself, seems to be merely the sort of thing that people ought to do in any circumstances, put your house in order, see that your business is right and so on. We have always known that good organization and good management produce better results ; in one sense there is nothing new in that ; it is a new phrase, a new word, and these long words become very attractive to popular imagination. Now, rationalization means nothing more than putting businesses in order when they have got out of shape. But that does not seem to me to go to the root of the matter. It does not really deal with the kind of problems to which we have got to address ourselves, namely, the pre-suppositions of the whole system on which we work, the control by the Bank of England of the Bank Rate as the main instrument of policy. It is a question whether those things are working at the present moment for the public advantage, or whether it is not necessary to devise some new expedients. May I put this to you? The very fact that the Bank of England has recently for the first time in its history, embarked upon entirely new activities seems to me to indicate that the Bank of England has realized that this country is at this moment in a quite unusual position calling for unusual remedies, else why has the Bank, so to speak, left the seclusion of Threadneedle Street and gone down into the streets of the City? It must be because something is in the air, something is happening just now which has never happened before which calls for a review of that position, and even in your case has caused you to emerge from your seclusion and embark upon courses which, whether attractive to you or unattractive to you, you felt it your public duty to engage in. All that is symptomatic and indicative of something being at work just now which has not been in our experience before. How far do you think that position in which we find ourselves, the position of abnormality, is attributable to financial considerations? Have you thought out how far the existing financial structure provides adequate means of dealing with this abnormal position? Finance is no doubt needed to enable a business to re-equip itself and re-arrange its working. That has always been going on on a larger or smaller scale; we were familiar before the war with amalgamations of bodies that desired to achieve economy and efficiency. But apart from the finance of rationalization it is the pre-suppositions of the financial structure of our country upon which our attention at the moment is concentrated, and we are anxious to scrutinize it to see whether it is at that door that the present distress can be laid, and then to see how far it can be aided by any financial expedient. You see how I am looking at it ?—I think it is not our financial system which is the cause of our difficulties.

You think it is not a financial question ?—I think it is not a question where finance is the difficulty.

May I just add one other thing to your consideration of the problem, because it is important. We are now, I think, round this table, fairly familiar —thanks to Sir Ernest Harvey's admirable exposition —with the normal working of your system and, indeed, all are prepared to pay tribute to the marvellous efficiency of its working within what I may call a normal range. But all instruments are devised to work within given conditions and I gather that in the view of many experts your system has got jammed—in short, that it has been asked to do things that it was not intended to do and that it is breaking down under the strain. The very fact that you have moved out into new spheres is itself symptomatic of a sense of uneasiness that the present system is inadequate and that new systems must be devised. You say you think that the present system is still adequate. Is it still adequate in a world in which the elasticity of adjustment which I should have thought was essential to the adequate working of your system is not attainable for either economic or political or other reasons ? If a machine gets jammed it will not work, and may it not be that some of our troubles at the present moment are due to trying to deal with financial problems with an instrument which was designed to deal with other and more normal conditions ? Speaking for myself—I do not know in the least whether my colleagues would approve of the way I am putting it—that is the kind of problem that presents itself to me ?—Broadly speaking, I do not think that the financial machine is at fault. I think, to use your expression, that industry has had a series of—misfortunes, was it ?

Yes.—Or mischances over the last few years, and, as it were, has jammed. I think that although rationalization is a new word, it is an old process ; it is an old process which has largely fallen into disuse and it is also, as intended to-day, on a different scale, so different a scale that it is almost a difference in kind as well as in degree from what was originally had in mind. I have never been able to see myself why for the last few years it should have been impossible for industry starting from within to have readjusted its own position. I have never been able to see it on broad lines, taking not companies but industries practically as a whole, which is what I have in mind. I have never seen, and I do not see to-day, why that should not have been done. I know many who are interested in industry who believe that it might have been done. I believe that had it been done the whole face and prospect of industry would look different to-day. It is this long period of mischance, of being in a jam, which seems to have disheartened industry. I do not think myself that that is the fault of finance, except in so far as finance is dependent on a certain international position and certain international liaisons from which it cannot and should not detach itself or attempt to detach itself.

Of course, industry is largely affected by the price level ?—I agree.

And one of the most amazing experiences through which we have been passing has been the fall, if I may use the journalistic word, the phenomenal fall in price levels ?—Yes.

Has not financial policy something to do with that ?—I believe practically nothing in so far as the most recent and heavy falls are concerned.

Mr. Bevin : I would like at this particular point to ask Mr. Norman whether or not he does not think that the action of 1925 just made that jam in industry complete, when we as industrialists were given a task of adjusting to the point of 10 per cent without notice and without any chance of even considering the question ? —I think that the change of 1925—and I have no doubt we are both referring to the same change—

Yes.—was inevitable, made at the right time, but, as the Chairman has said, certain misfortunes of one kind and another have subsequently intervened and have made any effect which that change of 1925 might have had far more difficult and serious, but I do not attribute the ills of industry in the main to that change, and had that change been made and not been succeeded by other things which have happened, I do not think— —

But in view of the fact that it did involve facing the workpeople of this country with a proportionate reduction of wages, did it not make the misfortunes that you describe absolutely inevitable ?—No, I do not think so.

That is what happened ?—I do not think as a necessary consequence.

How could it have been done ? You are Governor of the Bank of England. I am a Trade Union Official. That is the point we had to face across the table. I am taking from 1921 up to the point of 1924 ; I am meeting the industrialists who do not know anything that is in the mind of the Bank of England on the financial policy of this country. They have no knowledge that you are going to interfere, that you are going to restore the gold standard, that you are going to do anything. We met morally the first period of deflation in 1921 when the first step to deflation was taken. We knew that we had to face a heavy reduction of money wages to get a post-War adjustment. We proceeded from 1921 onwards meeting employers across the table and getting that post-War adjustment to a new price. Contracts have been fixed on that new price, new standards have been worked out, men are becoming accustomed to that, to that level of earnings, to everything on the new basis. Suddenly the whole thing is upset by the steps taken in 1925 which throws every bit of work that the two parties in industry had done out of gear. We are faced with rising unemployment, bitter disputes, and a new level of wages to be fixed, without notice, without consideration, without guide, without any indication as to what its object is. I ask you, Mr. Norman, if industry is placed in a position like that, whether or not you do not think the misfortune of the jam is absolutely inevitable ?—No, I do not, Sir.

Mr. Newbold : Why ?—So far as I can tell you—of course, this is a very technical matter which I——

Mr. Bevin : No, it is a question of broad policy. You used the term " marriage ". If industry had been married to finance and we had known how the two minds were moving and what we had to face, that is one thing, but we are left ignorant of this secret operation which is one of the prime factors of industry, and we get this sudden jam ?—Action has to be sudden when it comes.

Mr. Newbold : Why ?—Because it must take effect from a certain date.

Can you not give an indication in advance that it will take effect ? (*Mr. Bevin*) : I am anxious, Mr. Chairman, to test this point that finance has had nothing to do with the misfortune of the jam. As an industrialist constantly having to handle the problems of nearly half a million men my difficulty has been that while the industrialists and I may build up the best relations possible, suddenly this third unmarried factor in industry—if I may use the term—can operate in a way which destroys all the domestic relationships that exist between us. That is the point I wanted to get at. (*Chairman*) *:* I thought it was more or less accepted that what happened on the reversion to the gold standard did subject the industrial machine to a very severe strain, but that in your view and the view of those who had charge of the policy, the considerations in favour of the reversion to the gold standard were so dominant as to make it worth while to incur even those jolts and strains. I understood that was your view?—That is quite right, and had it not been for other factors which have intervened as I believe since, that would not have given you, Mr. Bevin, the reason to complain as you have done.

Chairman : Let us examine that a little. It is an interesting point. It may be that the consequences of the reversion to the gold standard have been greatly aggravated by other conspiring causes. Everybody would agree that it is not the sole culprit, so to speak, and that other causes have unfortunately aggravated the result. May I take it that at the time when the big change over was decided upon it was thought that the time was apposite?—It was thought as I remember it that the time was apposite.

Was that because the circumstances as they were then conceived were thought to render the change as little disturbing as possible?—As little disturbing as possible, and the fact that a decision at that moment had to be taken to go either to the right or to the left.

But were not the hopes that the change would be made with the least possible disturbance to a large extent falsified—in short, those who thought that the time was apposite and who prophesied that the change could be made with comparatively little disturbance were out in their calculations, because it turned out in the event that it did cause very considerable disturbance, either by itself or in association with those other causes. You see what I mean ?—Yes.

It may be quite true that a person says now is the moment to do a thing, now is the most favourable moment, and that is, of course, a judgment proceeding upon a survey of the whole position. Those who came to that decision may have been wrong in their survey, or things may have occurred to falsify their prediction ?—I should think it was true that some of the events which occurred in association with or subsequent to that change were unexpected in regard to time and extent, and have made the position of industry as you have described it more difficult than was foreseen. I have not the exact sequence of events very clearly in my mind ; it was some years ago —but that is the impression I have.

That is how it appeals to me following up Mr. Bevin's point, that if all had turned out as was expected, or shall I say, hoped, the disturbance with which he and those associated with him were confronted would have been much less serious ?—I agree.

But in consequence of the other causes that have conspired since that time to falsify that expectation the result has been, in fact, very serious ?—Very serious for industry.

And if these circumstances which have supervened had been foreseen it may be that you would not have reverted to the gold standard at the time you did ?—I will not say that.

That is, of course, speculation ?—Yes.

Mr. Keynes : May we ask what those other circumstances were ?—I think they were very largely France and Belgium—the stabilization of France and Belgium.

Their return to the gold standard ?—Yes, at certain levels. Germany, for that matter, too. As I remember it those were the principal questions.

You mean their stabilizing their money at a low level rather than at a high level ?—At a very low level.

Mr. Newbold : What do you think induced them to do that at a very low level while we did it at a high level ?—I do not know. I think the levels they chose were largely fortuitous.

Mr. McKenna : Following Mr. Bevin's point, can you tell us what are the conditions which you would regard as opportune for reverting to the gold standard ?—I could not deal in general terms with a matter which might be subject to such varying conditions.

Would you not regard the external value of sterling at the time as a major condition ?—As a condition, certainly.

As a major condition ?—Maybe as a major condition.

If you found that the external value of sterling, say, the value of sterling in relation to the dollar, was such that the price level in this country was considerably higher than in the United States, would you not regard that as an unfavourable condition for returning to the gold standard ?—I should not take that as an argument itself in favour it. By and large, taking all the considerations into effect, at the time it was considered, I was then, and I am now, of the opinion that the right step was taken.

It would be very interesting if you could recall the considerations to mind now ?—There was a Commission, or Committee, which sat on this question for some time.

Yes. Were you acting upon the recommendations of the Committee, then ? Were those the considerations which guided you ?—I should say so. I think Lord Bradbury was on the Committee.

Lord Bradbury : Yes. The phenomenon to which Mr. McKenna refers, the approximation of the rate of exchange to the old gold parity of the dollar, took place while the Committee was sitting, before any recommendations were made. I think, if I remember rightly, the actual difference at the time the Committee reported, as regards the exchange parity, was only something like $1\frac{1}{2}$ to 2 per cent. The exchange had gone up to pretty nearly the old parity. (*Mr. McKenna*) : I do not want to go back upon the circumstances of that time, but I am rather under the impression that the sterling exchange was forced up in relation to the dollar at that time. (*Mr. Brand*) : I should imagine that when committees were sitting to discuss this question there was speculation by everybody in the world ?—Not speculation by me or by anybody connected with me.

Mr. McKenna : I put my question in the wrong form ; I should have said artificial, that is to say abnormal, means were forcing it up—the anticipation that the Bank of England was going to do it gave an opportunity to the speculator which left him speculating upon a certainty ?—He took a view, not a certainty.

If he knew that the Bank of England was going to press this policy he was speculating on a certainty ?—First of all, he cannot have known that, and secondly, he cannot have known that even if the Bank of England were in favour of a certain view it would be adopted.

Lord Bradbury : Is it not true also that American prices were rather on the up grade at that time, and the difference of something like 10 per cent between British and American prices was likely to narrow ?—I have no exact recollection on this point.

Mr. Bevin : In fact the disparity that was created for industry by that act of 1925 has not yet been got over ?—I am told that it has just about been got over. I cannot give you chapter and verse for it.

Would I be right in assuming that whatever were the circumstances that led to the decision to return to the gold standard on that basis in 1925 the effect of that act upon industry has been to leave us with a million and a half unemployed, or more, for five years ?—No, I am not aware that that is a true statement. I do not think that that has been the cause, or the sole cause ; I should imagine that a great many other things have contributed to it.

But even in inquiries that have recently been held, with one of which our Chairman has been associated, I think it has been argued that the cost of production, as expressed in wages, must come down 10 per cent even now to get to the level ?—I am not aware of that.

Mr. Keynes : Might I go back to points rather of detail arising out of one or two of your earlier answers ? You told us that in your opinion the internal effects of a rise in Bank Rate are largely psychological ?—Yes.

Is there any relation between the level of Bank Rate which might be forced on you by international conditions and the volume of credit which can be made available at home ?—I do not think one necessarily governs the other.

If you had to-day to raise Bank Rate, say, to 5 per cent for international reasons, do you think that you could make that Bank Rate effective without altering the volume of credit at all ?—I do not say that you could for certain, but you might be able to do so.

How would you do it ?—Very often, or at times, the Bank Rate makes itself effective, and no steps are taken. It is largely a question of the outlook of the market, and appreciation of the technical position of the market. It does not necessarily follow, I think, that a rise in the Bank Rate has to be made effective by any special measures.

But it is very frequently the case, is it not ?—Frequently the case, but not by any means always the case.

If it is frequently the case, do you say the effect of the curtailment of the volume of credit is merely psychological ?—No, but I should say that the effect of the curtailment of credit was very small relatively to the whole mass of credit ; that it mainly affects short money.

What would you call " small " ? Do you mean if securities at the Bank of England were reduced by, say, £5,000,000 you would call that " small " ?—I cannot name a figure of that kind, because the conditions change so often, and the whole volume changes so often, but what I mean is that the amount of security operations necessary to make a Rate effective is as a rule very small compared to the amount of securities which are in the market.

Of course £5,000,000 would be small in relation to that ?—Very small. I am not thinking of £5,000,000 as an absolute figure.

If the amount of assets held by the Bank of England were reduced by £5,000,000 by how much would that reduce bank credit throughout the country ?—I think your neighbour would tell you that best.

Mr. McKenna : About £50,000,000—ten times the amount ?—I do not know that that is necessarily so.

Mr. Keynes : You do not know ?—Ten to one is an arbitrary reckoning based on the bankers' normal percentage of cash.

Would the curtailment of credit by £50,000,000 have no effect of any importance on industry ?—I do not think it would ; I would be surprised if it had much effect beyond the money market unless of course it had to be continued over an extended period.

In some discussions we have had in this Committee I began by setting forth what I believed to be the orthodox theory of the Bank Rate, the theory that I thought all authorities would accept. What you have been telling us to-day very nearly amounts to a repudiation of that theory ?—I did not mean to repudiate it, as I understand it.

What I thought was the more or less accepted theory of Bank Rate was that it works two ways. It has the effect on the international situation that has been described to-day, and its virtue really is in its also having an important effect on the internal situation. The method of its operation on the internal situation is that the higher Bank Rate would mean curtailment of credit, that the curtailment of credit would diminish enterprise and cause unemployment, and that that unemployment would tend to bring down wages and costs of production generally. We should then be able to increase our exports, with the result that the high Bank Rate which was put on to check foreign lending would no longer be necessary. How very essential that double action is I can illustrate in this way: we are an old country, it may be there is not much investment worth while in this country that would yield, say, more than three per cent; other countries might offer, say, six per cent. Our balance of trade would not be sufficient to discharge all the foreign lending which we should like to discharge, all the foreign lending which we should like to do at six per cent, therefore the Bank Rate would be raised to something in the neighbourhood of six per cent. That would stop investment at home which, by hypothesis, would only yield three per cent. If the sole effect of the six per cent Bank Rate was on the internal situation we should never recover our equilibrium, because we should always be stopping enterprise at home, we should always be throwing men out of work who were previously engaged for home investment and we should not be getting men into work in order to provide more for export or get more foreign investment. The virtue of Bank Rate is that, while it would have a quick effect on the international situation, it would also have a slow and perhaps more important effect on the internal position, by setting up tendencies to bring about a new level of money costs of production, so as to enable us to have more nearly that level of exports which the international position requires of us. If the effect of Bank Rate on the internal position were of a negligible character all that would not happen. Am I right in thinking that you would agree with that, what I call, perhaps wrongly, orthodox theory of Bank Rate ?—I should imagine that, as you have stated it, that is the orthodox theory, taking a long view, and as such I should subscribe to it—I could not dispute it with you.

If that is so, half the point of Bank Rate is that it should have an effect on the internal situation ?—Well, I do not think so necessarily apart from the short money position.

And that internal effect would work through the chain of depressed enterprise at home, and unemployment, and it would be only in that way that you could put on the necessary pressure towards the reduced level of money costs in this country ? (*Mr. Brand*) : May I just intervene for one moment ? Would you say that that orthodox theory took account in the old days of the very large supply of floating capital that now moves about ? (*Mr. Keynes*) : I should say that was one part. (*Mr. Brand*) : Would you say that that element is much bigger now than it used to be, and that consequently you might be able to readjust the situation more quickly ? (*Mr. Keynes*) : That would be only a temporary help to the external situation. The next point in my mind was, that during the nineteenth century the amount of reduction of money costs which one asked the Bank Rate to effect when we were getting out of adjustment internationally was very small, and probably not more than was accounted for by the normal increase of efficiency. Consequently it was very seldom necessary to force money wages down, it merely meant one had to hold back a little from increasing money wages at a time when increase of efficiency would otherwise have justified that. By that means we could keep ourselves in equilibrium internationally. But in the course of the last four or five years we have been asking Bank Rate to effect a much greater readjustment, and asking it to do this at a time when, for various reasons which I need not go into, the level of money wages is very sticky. One of the suggestions put to this Committee was that this stickiness in money wages was interfering with the traditional operation of Bank Rate. When we returned to the gold standard I myself was of the opinion that this would require the reduction of money costs and that that would provoke trouble, but I certainly never contemplated that it would be as difficult as it has been. I should certainly have forecast that by the year 1930 we should have overcome the maladjustment. It is essential to all this argument that Bank Rate does have an internal effect, otherwise we should never get back to equilibrium. If internal prices were changed to an important degree, as they were changed, and if Bank Rate had no internal effect worth mentioning, it seems to me the whole thing would break down. How far would you agree with that ?—Applied to a long period I think I should agree with it. I should think there had been that stickiness in respect of wages in this country, and I should think there had been this great variation for the last year or two in the price level quite apart from Bank Rate or financial causes, or largely apart from it—world causes.

I am not saying that financial influences at the time we are discussing would necessarily reduce real wages, I am only saying that they do require us to take the position in the outside world into account ; if our relation with the outside world is changed, as it was when we returned to the gold standard, that means that there must be a change of money values in this country. One might effect that change of money values by decreeing, as they have in Italy and in Russia, that money values should be changed ; but our method in this country is not to rely on that, our method is to rely on Bank Rate, and Bank Rate operates, as I understand it, precisely by a depression of enterprise when one wants to put values down, by an encouragement of enterprise when one wants to put values up. So it is of the essence of the case that Bank Rate should have an important effect; that when it is raised it should have an effect in the direction of unemployment. That is what you want. Am I right ?—Yes, I should think it was, but is there not the question of how far Bank Rate is relative in regard to all the other countries coming into this position ?

Oh, from the international position, very much. If we are forced, for international reasons, to a rate which is depressing to enterprise in this country, then all this sequence of events which I have been describing is set up ?—Yes, but the rates being relative in the various countries, their effect on the industries of the various countries should be more or less similar.

Except that there might be local conditions in some countries which would support higher rates, either because they are new countries, or because, like Germany, they have greater efficiency ?—Yes, or because they have readjusted their industry.

Yes, or it may be that the rate at which they stabilized their currencies made their real wages for the time being so low that their industrialists could easily afford a higher rate of interest than our industrialists—we having stabilized at a higher rate—could afford ?—Yes. The instances mentioned a few moments ago I think apply particularly to that—France and Italy.

Mr. Keynes : Yes; that I took to be the force of your remarks. (*Chairman*) *:* I do not think the Governor would suggest that an alteration in the Bank Rate would have no ultimate repercussion in this country. I think he must be thinking of the immediate reaction ?—I am thinking of the market position in so far as it immediately affects the exchanges.

Would you agree with Mr. Keynes' view, which I think is generally accepted ?—Yes.

That that is the ultimate effect of an alteration of Bank Rate in this country ?—Yes, I think I should. (*Chairman*) : That is the important point.

Mr. Keynes : From the psychological point of view there might be a tendency for the business world to expect something that is not going to happen, or it might be because of intelligent anticipation. Is it rather in this instance a case of intelligent anticipation ?—In which case ?

The immediate psychological influence of Bank Rate is an intelligent anticipation of the market of the result that will flow from Bank Rate in due course ? I do not think the market looks as far as that.

Do you think that if the market were influenced by current delusion, rather than by vision, it might be intelligent all the same ?—Yes ; almost unconsciously intelligent. (*Mr. Keynes*) : Very likely.

Mr. Bevin : Having regard to the fact that the workpeople at home have to suffer the biggest blow of unemployment and the depression of their standard of life, can you see any way to separate the national and the international policies, so that the effect of restoring the gold position internationally can be in some way modified in its effect upon British industry ?—I believe it is absolutely impossible to have two separate policies.

Chairman : Let us follow that up ; that is interesting ; that is one of the problems—whether you can, so to speak, dissociate your national and external policies. Is it not possible that you can maintain your international policy outwards and by some of those devices which you have no doubt considered, and others have considered, mitigate the internal consequences of your outward policy ?—I think not.

Mr. Bevin : Supposing for instance, you have to stop your gold flowing out, and therefore restrict credit, is it not possible to have a conscious direction of credit under those circumstances to the home market ?—And to maintain, as it were, two separate supplies of credit at different rates ?

Yes ?—I do not think so.

Let us assume that it could not be supplied at two different rates. Could the volume of home credit be maintained ?—In some circumstances, yes.

Could that be reduced to any sort of method ? For instance, assuming your external trade is good, and credit flowed to your external market until you got to a point where gold began to go out, and then you had to restrict credit, and that produced unemployment, is it possible to have, for instance, some direction through public bodies, municipalities, of the whole operation of credit, and therefore while you restrict one form of credit you maintain the volume of home credit to prevent the blow falling upon the workpeople ?—I should say it is impossible. I can see no practical way in which that could be done.

Have you tried to think it out ?—I have heard it discussed.

Mr. Brand : You started by saying that you had to use Bank Rate to regulate the international position. That, in other words, means to maintain stability of our exchanges ?—Certainly.

And the maintenance of the stability of our exchanges is not purely an international question ; it is a matter of vital importance to our industry ?—Of vital importance to all the questions with which Mr. Bevin is dealing.

Would it not be true to say that there are two quite distinct problems, one is the international and the other national ? It may be true, and I think is true, that Bank Rate may have very unfortunate effects on industry in one direction, but it may be necessary for industry in other directions in order to maintain the exchanges. It is not purely for the benefit of other countries ?—Far from it. They are two parts of the one question, most essentially, and, as I think I tried to say, it is impossible for one part to benefit without the other.

And the real question is whether you can maintain the supply of credit here and at the same time maintain the exchanges ?—Quite right. It is.

Chairman : You have, I think, tried some expedients, have you not ? Were you not a party to an embargo on foreign investment ?—Foreign issues.

Foreign issues ?—An embargo ?

Well, shall we say a deterrent on foreign issues ?—Yes ; I was.

Was not that policy on the lines of what Mr. Bevin has been suggesting ; was not that intended to mitigate to some extent the effect of the international position ?—No, I do not think it was.

What was the object of that ?—The particular purpose of that was—and it was not very effective, really—to prevent money being lent to foreign countries and exported at a time when the exchanges were adverse or likely to be adverse.

And, carrying it further, to divert that money to internal uses, was it not ?—No ; it was an exchange question.

If it had the effect of diverting money that would otherwise have gone abroad to internal issues, would it not consequentially assist industry in this country ; money, being deterred from going abroad, would be available for domestic industry ?—If it were retained in this country and if the rates were equally attractive in the one place as in the other, but I must confess to you that the purpose of that was an exchange purpose right along.

Mr. Newbold : And you say it was not successful ?—It was successful to the extent that those who were interested in this business were good enough to forego such opportunities of issues as they had, but it did prove impossible, I believe, not to prevent public issues, but to prevent money going away.

Chairman : They found other methods of evading it ?—Many.

Mr. Newbold : Do you not think we might make a similar appeal to their public spirit for renewed regulation ?—I think it would be virtually impossible to be successful.

Mr. Brand : Do you mean, Mr. Newbold, the whole public ? (*Mr. Newbold*) *:* No. I am wondering whether we could not make an appeal to the issuing houses. (*Mr. Brand*) *:* It has nothing to do with the issuing houses ; it has to do with every investor.—Mr. Brand will agree that the question which arose, to which the Chairman has alluded, is a question that a small body of people, all very well known to us, and known to one another, were good enough to fall in with such wishes and views as we expressed ; but the matter covers a wider field than issuing houses and includes you and me and Mr. Bevin.

Mr. Newbold : You do not think it would be possible to make an appeal ?—It would be possible to make an appeal, but I do not think it would be possible to make it successful.

I do not think you could, but I thought that was one channel to be explored. (*Chairman*) *:* The selfish interest of the individual naturally predominates ?—Yes ; and we must remember this is not British, but European, to a large extent. We are doing a great deal of this for Europe. A great deal of the complaint of what happens is with regard to the business we are doing for Europe, which is largely done in London ; when we complain that such and such things are passing over the exchange, it does not mean that they are simply passing over on account of this country ; they may be passing over for all kinds of countries—Germany, or Switzerland, or other countries.

That is the advantage or disadvantage we get from being a free international market.

Chairman : Let me put one or two broad considerations before you. It is, of course, the case that the volume of credit in this country is, to a very large extent, in your hands, is it not ?—Yes, I think it is.

And that the volume of credit available in this country from day to day must necessarily have some relation to the enterprise of this country ?—Yes, some relation.

After all, money has its price, like everything else ; you look at money as a commodity which is bought and sold on given terms, but money is just as essential to enterprise as the raw material of that enterprise. Therefore would you not agree that the question of the extent of the volume of credit at any given moment must necessarily relate itself to the encouragement or the discouragement of enterprise at that moment ?—Yes.

I really put this quite elementary position for the moment as a basis for discussion ?—Of course, from many angles I should wish to distinguish between short money and long money—there is an essential difference between the two.

Again, when the international position requires, in your view, a raising of the Bank Rate, that in turn is made effective by restriction of credit, is it not ?—Maybe.

And may it not, therefore, have, as Mr. Keynes was bringing out, a consequent deterrent effect upon enterprise in this country ? In your view, I take it, that is inevitable, and, possibly, salutary ?—I think it may be inevitable.

And again, speaking in the broadest terms, is it your view that the consequences of that internal restriction of credit, unfortunate as they may appear to be, are outweighed by the advantages of the maintenance of the international position ?—Yes, there is very large benefit.

I want to get the theory of the thing. The maintenance of the international position, in your opinion, because of its effect upon the internal position is all important ?—Yes.

Mr. McKenna : Might I put one or two definite questions on quite recent matters ?—Practical questions ?

Quite recent matters if you will allow me. You have restricted the quantity of credit by selling securities on balance in the first two months of this year. You had less securities in February than you had in December. Is that so ?—I am not sure of the exact figures but I should be surprised if the average of the Bank's total assets in February was much, if at all, below the corresponding figure for December.

You do not remember if you restricted credit ?—I am not aware that credit was restricted.

I have the figures for February of this year and February of last year. Between February of last year and February of this year you sold many millions of securities ?——Oh yes.

And you reduced credit ?—Yes.

The total amount of credit at the end of February, 1930, compared with February, 1929, represented a reduction of purchasing power of the public of £63,000,000? —You mean that the aggregate of certain banks' deposits—

The aggregate of the clearing banks' deposit was less by £63,000,000 ?—Yes.

Why did you reduce the amount of credit ?—For a reason which I believe to have been sound, as I hope you will agree. I am speaking from memory as to figures ; the volume of the bankers' deposits in February, 1929, was abnormally inflated, due to a large extent to the unfortunate fact of the failure of a loan issued two months earlier to deal with certain maturities falling due in the early months of 1929. You will remember that an unfortunate event which took place after the issue was announced caused considerable public alarm, and severely militated against the success of the plans which had been made which, prior to that event, had appeared quite promising. In the end the Chancellor was left to find by other means some £60 millions or so to meet in cash maturing obligations which had not been renewed, and in order to do that it was necessary to make special issues to Treasury Bills to that amount, practically the whole of which went to swell the figure of the bankers' deposits by about the sum to which you have referred. Since then, and notably in February, 1930, steps have had to be taken to rectify a position which had been brought about by circumstances which were entirely fortuitous, such steps being intended to deal specifically with an exceptional and peculiar situation and not to form part of a definite continuous policy.

Would you say that the deposits of the banks and the purchasing power of the public to-day are normal ?—Yes. I should say that last year's increase, due to the special expansion of the Floating Debt, was abnormal and that it was necessary and wise to correct the position as opportunity occurred, and in my opinion a reduction in the Floating Debt of the Government was essential.

I am not dealing with the Floating Debt ?—No, but it has been due to the special operations in connection with the Floating Debt that there has been an apparently abnormal reduction in the bankers' deposits during the period to which you refer.

I am dealing with the deposits of the banks and the purchasing power of the public. In your view, should the deposits of the banks and the purchasing power of the public remain constant year by year, or diminish year by year, or increase year by year ?—I do not think that is a question to which it is possible to give a general answer. As I have said, the particular fact to which you have drawn attention resulted from a special and unexpected change in the volume of the Floating Debt, and I think it was essential to rectify the abnormal position thereby created and to withdraw the special issues of Treasury Bills then made as soon as opportunity offered.

I am not dealing with the Floating Debt. I am asking about the deposits of the banks and the purchasing power of the public. Is it, in your judgment, right for the industry of this country that the purchasing power of the public and the deposits of the banks should increase year by year, remain stationary year by year, or diminish year by year. One of the three they must do ?—As I have said, I do not think that is a question to which it is possible to give a general answer. I certainly expect to see a tendency for deposits to decline rather than increase during the first quarter of the year when the heavy payments of taxation are taking place.

You think that the deposits of the banks do diminish in the first quarter ?—I think they are apt to, and often do.

But deposits only increase or diminish according to your action ?—Surely payments for taxation diminish deposits ?

Yes, payments through taxation go into public deposits out of the other deposits, but you can immediately put them back into other deposits if you like ?—Yes, and frequently do.

If you failed to do that, I agree that deposits would be diminished in the first quarter of the year, but if you do not fail to do that the deposits would not be diminished in the first quarter of the year. Is that right ?—That may be true but I should approach the matter differently. I look—the Bank looks—to keep the market supplied in normal circumstances with adequate funds. One of the criteria by which we judge the matter is the amount of funds which the Discount Market may have or may need. One of the unique facts about the London market and its position is the existence of the Discount Market. I should never think that there was real pressure for money unless I saw indications that, in the absence of action by the Bank, the Discount Market might find it necessary to apply to the Bank for advances.

Do you not, in considering the quantity of money required, look at the position of industry and the price level and the number of unemployed—do not these considerations come into your mind in considering the quantity of money, as well as the condition of the money market ?—All these things are continually in one's mind. They are, I am sorry to say, matters which, it is quite true, must always be present to one. So far as money is concerned, however, the state of the money market is largely the factor by which the position must be judged and generally speaking I should not say that the volume was inadequate in the absence of some indication from the money market that money was in short supply because they after all are the source from which any bank can replenish its needs.

If you saw the price level falling as it has done the last month or so and unemployment increasing as it has done the last month or so, it would have no effect, I gather, on your mind in inducing you to increase the quantity of credit ?—Yes, it would have a great effect on my mind.

Only if the money market borrowed ?—One of the indications of a shortage of credit would be signs of pressure in the money market, not necessarily expressed by actual borrowing from the Bank.

If the money market did not make it known to you you would not necessarily by open market operations increase the quantity of credit ?—Not automatically ; I should consider that the question of price level, for instance, was a factor bearing specially on a review of the international position. I am told and believe it to be true that recent monetary policy in this country, if not in other countries, has had little effect upon recent movements in price levels.

Mr. Keynes : If one takes the figures of the deposits of banks with you, apart from accidental events which you have described, they have kept at a very stationary level. Is that by accident or design ?—I should say to some extent by design, though not entirely as the result of a definite policy towards that end.

You have been able to keep them at the figures stated ?—Parity, let us say, though I do not attribute it to a definite policy of the Bank.

At least 10 per cent of the productive forces of this country, both men and plant, are out of work and the existing volume of banking accommodation appears to be fully occupied in keeping the other nine-tenths going. Is it not absolutely impossible that that other one-tenth should be employed as long as you pursue what you call the policy of parity ?—No, I do not think that is necessarily so.

How could they be ?—Perhaps I did not make my meaning clear. It must be remembered that during the last few years there has been no period when we have not had continuously to face difficulties due to the international position, that is, up to a few weeks ago. I do not myself believe that the mere provision of more money to the bankers is all that is needed to meet the difficulties of industry. I believe that industry has a great deal to do for itself in the way of rationalization.

You would not expect rationalization to increase employment until a very late date ?—Until a late date.

So you look forward to the present level of unemployment remaining for some considerable time to come ?—I would not say that, though I agree that the benefits to be derived from rationalization would not be immediate.

Mr. Bevin : And would increase the progress of unemployment ?—It is apt to do so temporarily.

You have no suggestion to put to us how the Bank's policy can help us over that interim period ?—I am not prepared to make any suggestion at the moment.

Professor Gregory : May I come back to some of the earlier points that you raised because I want them to lead up to other matters. Supposing that the Government had offered you in 1925 an immediate return to the gold standard, but at a parity with the dollar 10 per cent below the pre-War one, would the Bank had been prepared to accept that offer ?—I cannot answer that. It is difficult after this lapse of time to answer a hypothetical question relating to the year 1925.

May I take it that the Bank of England was not in 1925 unduly worried by the possibility that the restoration to the pre-War gold standard would unduly interfere with British industry ?—I think that is true.

You thought it would be all right ?—I cannot now give the precise process of reasoning which one had in mind five or six years ago, but generally speaking what you state is a correct expression of my view at that time.

What have been the main considerations which you have described as mischances ?—I think I meant mainly the stabilization levels in Germany and other European countries and the accompanying circumstances.

I was very much surprised to hear you say that because I should have thought that the real mischances of 1926 and 1927 were not so much by reason of the stabilization of those currencies at a low rate of exchange, but the continual fall in exchange in France and Belgium. You had two very serious falls in exchange. I can understand that affecting the situation, but would you not be prepared to say that the mischances which affected us in this country were rather the falling currencies in Europe than their stabilization ?—I think so.

Then I think you said the third important point with which you had been concerned was co-operation among the Central Banks ?—Yes.

Do you think, looking back over the last few years, you have in fact achieved any positive success through co-operation ?—We have laid the foundations for it, I think. I think it is a most interesting and the most hopeful thing for the future ; a great deal has been achieved and I hope a great deal more will be achieved through the B.I.S.

Would you be prepared to say that the economic situation of the country, looked at from the international standpoint, had in the last few years been at all affected favourably by what you have been able to do ?—Indirectly, yes, though it would be difficult to point to any direct result.

You are not of opinion that the fall in raw material prices is directly due to anything that we have done in recent months ?—No.

I am not certain whether you are of opinion that the fall in raw material prices has aggravated the English economic position ?—No, I am not sure that it has ; I do not think that it has.

Supposing that British money wages remain constant and coal as an international commodity falls 10 per cent ; then in countries where wages are adjustable as they are in Poland, for instance, they have an international advantage compared with us ?—Yes.

Would you in those circumstances be prepared to admit that the fall in coal prices has been a distinct disadvantage ? —Yes, I would.

Has there been any attempt among the Central Banks of Europe in recent months deliberately to steer against the tide of falling raw material prices ?—There has been no concerted action. Discussion, yes.

There has been discussion ?—I do not believe that the value of raw materials can be largely affected or has been largely affected, by the various banks' recent monetary policy.

Let us go back to your own view as to the effect of Bank Rate, that it is very largely psychological, with which personally I agree. Do you not think that if there is a general prospect of Bank Rate going up that affects the large holders of stocks and raw materials, and that makes them inclined to sell in a panic ? Would you not say the Bank Rate works in that direction ?—I should have thought so, though I believe on the other hand that low Bank Rates have often been accompanied by low prices of raw materials and I have recently seen expert opinion to that effect.

I should have thought it was inevitable, if I were a carrier of wheat or anything else, that a rising Bank Rate would make me want to sell. May I get back to your view of the relationship between an internal and external rise of Bank Rate ? I think you said in answering Mr. Keynes that in your view the effect of a rise of Bank Rate exhausted itself in the open market rather than in industry. What happens is that the volume of credit in the open market tends to fall with the volume of credit generally. It does not tend to fall in industry ?—I do not think I said that, did I ?

Mr. Keynes : I do not think you said that. I understood you to say that the effect fell on the short-term market first ?—The short-term market first.

Mr McKenna : I want to have this perfectly clear. Am I right in understanding from you that you do not consider industry requires more credit unless the market borrows from you ?—No, I do not say that ; I think industry now requires a great deal of long credit subject to—

That is, a particular borrower requires a long credit instead of a short credit. I am dealing now with the total quantity of money. You do not conceive that you need create a larger base for credit unless the market first borrows from you ?—No, not exactly that ; I said the indication I have that there is a need of credit comes from the market and the market is mainly the buffer between the Bank and—

The indication to which you pay attention, may I put it that way ?—One of the indications to which I pay most attention.

What are the other indications to which you pay attention ?—I cannot tell you in general terms as they may vary in different circumstances.

I think we may take it that it is an indication to you that an increase of credit is desirable if the market borrows from you ?—Not necessarily borrows.

You look to the money market, and if they want to borrow you are satisfied that more credit is needed ; if they do not want to borrow you are satisfied there is enough credit ?—No, I do not go quite so far as that. That is one of the indications ; I cannot say there are hard and fast facts which would guide me in all circumstances.

I take it that the process of reasoning by which you would know would be that if the commercial banks were required to give more credit they would call in more money from the market, which would be consequently driven into the Bank of England ?—I should feel it, though not necessarily by the receipt of applications for accommodation from the market.

You would feel it before they came in ?—That is what I have endeavoured to convey.

You feel the market. My observation is that it is equally desirable to feel industry ?—And we are endeavouring to do so.

Do you have the same contact with industry—no, I think you told us earlier you did not ?—Certainly not the same, but I am continually having more contact.

Mr. Keynes : The object of international co-operation would be to relieve the international struggle for gold ?—Largely to pursue a common monetary policy, and do away with the struggle for gold.

How do you conceive that would help our internal position ?—I think if it had not been for the struggle for gold over the last few years, that is to say, the flow of gold from one place to another, caused by whatever event it was, we would not have had anything like the difficulties in maintaining the exchanges that there have been.

How would it help the internal situation if it were easier to maintain the exchanges ?—I think the internal situation would have been much easier over the last few years if the Rate had been X per cent instead of Y per cent, say 4 per cent instead of 6 per cent.

You mean there would have been less unemployment ?—I think there would.

Professor Gregory : When you have, for any reason at all, to sell securities, at the moment the gap in the total volume of funds is filled by the joint stock banks calling money in from the market ; and you supply the brokers with the money that the joint stock banks have taken away from them. If for any reason Bank Rate is falling, or if for any reason you expand your earning assets, then the pressure on industry can be relieved without deflating the market ; that is to say, the aggregate volume of money at the Bank goes up. Industry is only given what money it gets in a period of need through the process of putting pressure on the money market. The banks have to protect themselves in order to assist their customers by taking funds out of the money market which you replace ?—Which I replace.

Which you replace at a price ?—Sometimes, yes ; but there are other ways than by direct lending by which I may replace it. It frequently happens that there is an indication that money is needed ; I act on it without waiting for the market to come to the Bank.

Quite ; I am not saying that the process is as mechanical as perhaps I have indicated, but if you do put Bank Rate up you induce the joint stock banks to take money out of the open market in order to keep their volume of deposits approximately what they were before ?—I am not sure that I do. I do not believe it necessarily has that effect.

It is not what you are doing. It is what the joint stock banks do ?—I do not believe it necessarily has that effect.

I thought that we were working out the theory of how the Bank Rate is supposed to operate under present conditions, but if I am told it does not work that way I am merely asking for an alternative explanation of how it does work. I always thought that when Bank Rate went up, the Bank sold securities, and the way the joint stock banks protected their customers was by drawing on the money market ?—That is the effect if there is a sale of securities.

Mr. McKenna : When they reduce credit we get our cash basis back by calling in money ? (*Professor Gregory*) *:* My point is, that if the Bank had not got to restrict credit in that way you could feed both the open market and your commercial customers. (*McKenna*) *:* Yes. (*Professor Gregory*) *:* The immediate pressure of Bank Rate is felt in the open market, merely because of the action of the joint stock banks in protecting their customers, consequently the pressure on industry is delayed through the action of the joint stock banks. (*Mr. Brand*) *:* The Bank acts by the sale of securities. (*Professor Gregory*) *:* If the Bank of England wants to make its rate effective it is obvious it must sell securities. It may attract a certain amount of foreign money, but not in such a way as to make its rate effective ?—The rate frequently makes itself effective without action by the Bank.

Under the conditions of practical English banking, when the joint stock banks do in fact try to protect their customers, repressive action by the Bank of England does not have an immediate deterrent influence on enterprise, because the general industry of the country does not lose as much money as theoretically it ought to lose ?—I think that is right. What has been called the first line of defence with the various banks is the short money market and the first way they supply any needs for which they may be called is by calling from us through the market.

Does it not follow that if you were able through international action to increase the volume of credit the influence on business would be an indirect one through stimulating new issues, attracting more bills, rather than directly on the volume of credit demanded by business ?—I should think so.

Mr. McKenna : In your judgment, if you increase the volume of credit by buying securities, would there be any effect upon industry over a period ?—Over a long period ; not over a short period.

Over a period of three or four weeks there would be an influence upon industry ?—I should not have thought so.

Over a long period, would you think so ?—I should think so.

Such influence would not begin to operate for three or four weeks ?—I am not satisfied that it would begin to operate as soon as that.

It would not operate in three or four weeks but in the long run you would get more employment if you increased the quantity of credit ?—I am not at all sure that you would as a matter of course.

You do not think there is any certain relation between fluctuations in the volume of credit and fluctuations in employment ?—No, I am not sure that there is.

You do not know ?—There may or there may not be.

Mr. Bevin : Rationalization in industry will need the training of a type of mind in management of a very broad view that can take in many more factors than can the management of a single business ?—A single unit, yes.

Do you think the time has arrived when some kind of training for the purpose of taking a broader view of banking is not also necessary to link up the same kind of considerations over a wider field than has hither operated ?—I think we are getting a training.

I have listened to the evidence of the bankers to this Committee, and while industrialists have been urged to get out of their rut and to take a bigger view, I am bound to say that the very ugly feeling left in my mind is that so far as the City is concerned it is still within " the mile " in the main, that it does not go outside its own financial " mile " to consider these wider problems of industry, except perhaps one or two individuals like yourself who have been tackling the problem recently. I am wondering what is being done in the banking world in this matter, coincident with the inducement and the urge for industry to move beyond the single unit ; how far it has received the consideration of the banking world and the financial world ?—I cannot tell you. You are speaking generally, are you not.

Generally, yes ?—Are you thinking that the international knowledge of, and information given by, those who have come before has been inadequate ; that is to say, they have not had due regard to the international position ?

Mr. Bevin : No, I am thinking of their industrial knowledge. (*Chairman*) *:* I think that what Mr. Bevin really means is this. Industry is being urged to rationalize themselves ? Is it not time that the banks rationalized themselves ? Is not that the point, Mr. Bevin ? (*Mr. Bevin*) *:* Yes, coupled with this, that if you are going to tackle an industry and rationalize it merely by amalgamating its units and that kind of thing, you may leave it in a worse condition than it was before. (*Chairman*) : For the time being. (*Mr. Bevin*) : It may permanently. To have a rationalized industry without fairly big minds running it who understand the objects of rationalization, I think Mr. Norman will agree, may mean disaster. I have not seen that there have been any councils of war or indications in the banking world of what consideration they are going to give to the part they are to play when they get into this married state that has been referred to ?—I want to understand what you are saying. The complaint against these bankers, of whom I am one, which I understand you to make—is it that their knowledge of international affairs is too little or that their knowledge of industrial affairs at home is too little, or is it that that knowledge is not sufficiently theoretical, not sufficiently technical, as you would have it ?

It is not sufficiently collective ; each is moving in his own little circle as far as I have been able to see it. For instance, you have made a statement this morning that in approaching the problem of industry in the future you would look at it from the point of view of industry and not of the community. That is what you said, I think, that rationalization of a whole industry must be the considered factor ?—Yes.

As I have listened to bankers, they still talk of their customers in the limited sphere of firms and not industry, and no consideration, collectively or technically, or from the point of view of national economics, appears to have been given to the wider concept of the position and the part they have to play in it ?—They are coming to it. (*Mr. Bevin*) : That is encouraging.

Mr. Tulloch : I do not think Mr. Bevin is right in relation to the bankers not considering these matters from a broad point of view. In all those cases where the propositions are sufficiently large, there is a consortium of two or three or more banks. My information is that there is a great deal of discussion among bankers in regard to these larger propositions ?—Yes, I think there is. May I say a word ? Of course, you may complain of me, Mr. Bevin, or of those bankers you have seen, that the evidence they have given you comes through their nose and is not sufficiently technical or expert. Of course, that may in some measure be true ; I plead guilty to it myself to some extent, and it is a curious thing, the extent to which many of those who inhabit the City of London find difficulty in stating the reasons for the faith that is in them. Mr. Keynes must know that very well. (*Chairman*) : Of course, I suppose even a trade union leader sometimes acts by faith. (*Mr. Bevin*) *:* And finds that it has been misplaced.

Professor Gregory : May I ask on a question of fact : At the beginning of your remarks you said that you did not think that existing legislation imposed any limit on your powers of action. Supposing your two Departments were amalgamated, you would have a larger reserve against your liabilities, do you not think that would mean in practice that a wider range of action was possible for the Bank ?—I do not think so.

Chairman : It is ten minutes to one ; the Governor has been with us for two hours ; I think we should release him on this occasion, but only to ask him to come back later on. We have much enjoyed and benefited by our discussion this morning. We have raised a good many topics—I do not say we have settled them. You will be provided with a shorthand note of the proceedings, Mr. Norman, for your revisal. Thank you, Mr. Norman.

(*The Witness Withdrew.*)

(*Adjourned till to-morrow, Thursday, the* 27*th March,* 1930, *at* 4.30 *p.m.*)

Wednesday, 18th February, 1931.

Present :—

The Right Hon. LORD MACMILLAN, *Chairman*.

Mr. ERNEST BEVIN.
The Rt. Hon. LORD BRADBURY, G.C.B.
The Hon. R. H. BRAND, C.M.G.
Professor T. E. GREGORY, D.Sc.
Mr. J. M. KEYNES, C.B.
Mr. LENNOX B. LEE.
Mr. CECIL LUBBOCK.
Mr. J. T. WALTON NEWBOLD.
Mr. J. FRATER TAYLOR.
Mr. A. A. G. TULLOCH.
Sir FREDERICK LEITH-ROSS, K.C.M.G., C.B.
Mr. G. ISMAY, *Secretary*.

The Right Hon. MONTAGU COLLET NORMAN, D.S.O., Governor of the Bank of England, and Sir W. GUY GRANET, G.B.E., called and examined.

Chairman : This Meeting of the Committee has been called for the purpose of further discussion with the Governor of the Bank of England and certain of his colleagues on one or two topics on which it is desirable that our evidence should be amplified. There were also some matters upon which we have not yet received evidence which it is desirable to cover before we proceed to the completion of our Report. In particular, realizing as we do that the practical end of our Report is to make suggestions whereby the financial system of this country, and indeed of the world, might subserve the recovery of industrial prosperity, we are anxious to have further evidence from the Bank of England with regard to the efforts which we know that they have recently been making in that direction. This morning we have the advantage of the presence of the Governor of the Bank once more, and with him Sir Guy Granet, who has been particularly associated with this aspect of the Bank's work. We propose to discuss with the Governor and Sir Guy Granet the experience of the Bank in relation to the Bankers' Industrial Development Company, Ltd. I understand that Sir Guy is fully conversant with the details of this matter and will be able to assist us there, and possibly the Governor would wish to add some general observations upon the policy of this development.

I think, Mr. Governor, I might ask you this general question first of all. The Bank has, I have no doubt, realized the very difficult times through which industry is passing just now in this country, and it has been as an outcome of that realization that the Bank has addressed itself to the question of how finance, represented by banking interests and particularly by the Bank of England, could best assist in the process of recovery. Would that be a fair statement of the general outlook of the Bank?—(*Mr. Norman*) : I think that would explain the setting up of this company.

. . . . .

Mr. Brand : A short time ago I asked a very experienced New York banker this question : Was ever an issue for an industrial company made in New York without the issuing responsibility—you know what I mean by that—of a recognized bank or financial institution ; and his answer was that it was never done?—(*Sir Guy Granet*) : No, I should think not.

That is what I mean?—That is what I should have thought.

You do not think that that is an advantage over our system, where, in general, industrial issues are not made by any such recognized banking house?—Well, I do not know. The recognized backing that you talk of in New York is simply recognized because they have done business before. They are supposed to have some holding in the company, or something of the kind. It is not a backing that I attach any importance to, from the point of view of giving me confidence in the issue, unless I happen to know the firm issuing; then I know: " Well, anyhow they are careful people. They make mistakes, no doubt, like other people, but anyhow they are careful and honest; and, therefore, I am sure I will get a run for my money."

Is not that exactly what the investor wishes to know — what I would wish to know, for instance?—(*Mr. Norman*): May I say a word to Mr. Brand? Within my experience these issues in New York, which are made like that, are frequently made because the person who brings them about has not yet been able to sell his shares. Very often that is so. I think it is most questionable if, in many cases, you can attach any responsibility to that issue in the sense you are now trying to attach to it, if you will allow me to say so. You can exclude from what I say, of course, certain eminent concerns; but I have known of instances there when the purpose of the issue has been simply to carry on a position until the person who brought about the issue could dispose of his interests.

Would you say, Mr. Governor, that that has happened with a great many Syndicates and Trust Companies which make issues in this country?—No, I would not say that.

I am not talking of reputable ones?—I was speaking of New York, not this country, when I gave my answer.

But take the 1928 situation here?—I was only talking about New York.

. . . . .

Professor Gregory: If one takes a simple case like the Lancashire cotton industry, which has become a joint stock concern compared with what it was 30 or 40 years ago, it does make an increased demand for capital?

—(*Sir Guy Granet*) *:* I will accept any evidence on that that you give me, because I do not know. (*Mr. Norman*) *:* May I say a word about that? The Lancashire cotton case which you mention was a case which is an illustration of this particular and curious process through which we are now going; and insofar as the B.I.D. can deal with it, it will do so. I agree with Sir Guy; I feel rather more strongly, I think, about some of the things than he does; I think he has not given you a sufficiently definite idea of the capacity of London, based on past experience, to supply money for long purposes. I think it is very, very large indeed. As to your suggestion, Dr. Gregory, for instance that it depends on the issue house, I can only say that is one tithe of it.

Quite so?—(*Mr. Norman*) *:* You have spoken several times as if the issue houses could be filled up; but their business is only a very small business, and certainly only a part of the whole. I imagine in industry the mass of money is really found through some broker or another; and their capacity for finding money is very big. I myself feel, if we succeed in getting through this period, for which the B.I.D. was intended to function, we shall return to conditions in which the capital demands of industry, even if it should require large sums of money, will be supplied with no more difficulty than they have been supplied before. I am perfectly clear about that. I think there may be less investment abroad, but in future I think there will be adequate investment at home. I should think that the criterion whether or not that is to happen will be whether or not an industry can promise reasonable profits; and if it cannot, it is better without the money.

I quite understand that?—That is my view. I do, therefore, believe—I quite agree with what Sir Guy said right back at the beginning—that the B.I.D. is only intended to fill a gap, not intended to make any permanent alteration in the structure of the City, or of credit. We have always found in the past, as I have been told, that wherever the occasion for business existed, some institution or concern would find its way in and grow towards it. That has been the great difference between, for instance, ourselves and America. One has grown and the other has been made. Without any question, I believe that we shall grow again to fill any increasing needs.

Mr. Brand : The B.I.D. performs, as Sir Guy has explained to us, certain very valuable functions of investigation and so forth in this abnormal period, but I would say that those functions should be performed in normal times. You contemplate that the broking firm is really best, or quite sufficient ?—Quite sufficient. I do not mean only the stock-broker, or members of the Stock Exchange, though I think they do a great deal. There are a great number of other firms.

Mr. Newbold : What type of firms have you in mind ? I ask that because some of us are not so well acquainted with the City as others ?—A large amount of this has been done by stock-broking firms. Then there are a certain number of firms and businesses connected with trust and investment companies, in one way or another, who do a considerable amount of this business—quite a large amount.

Mr. Brand : This is a slightly different point ; but, for instance, if the British electrical industry has to compete with the American or German electrical industry, you find the big German and American firms supported by enormously powerful financial institutions, with whom they are closely in touch. The broking firms cannot possibly do that. It may be that the British electrical companies would go and get for the time being the support of one of the joint stock banks ; but that is the sort of function which cannot be performed by a broking firm ?—No, it is on a different scale.

That is one of the results of having more intimate connections between the big industries and banking institutions, and other big institutions, than I think exist in England. (*Mr. Newbold*) *:* What have you in mind for financing such an organization as a big electrical enterprise ?—I should have thought the big electrical enterprises would have no difficulty in arranging its finance through its bankers.

Chairman : Really the upshot of it is that the existing agencies, in the opinion of both of you, are quite adequate for normal times ; but the present times being abnormal, it has been necessary to resort to some abnormal expedient, and the B.I.D. has been adopted as an expedient to assist in getting rid of the present abnormality. That is really the position ?—That is my view. (*Sir Guy Granet*) : It is mine, too.

It is a remarkable feature of B.I.D. that it should have been associated with the Bank of England, which is a great Central Bank, and not with one of the commercial banks. Do you think it is the sort of function that is proper to be associated with a Central Bank ?—(*Sir Guy Granet*) *:* Well, it would depend on what you mean by " associated ". The Bank of England is interested in the B.I.D. They have subscribed capital which they postponed to other people, and they gave the idea of the B.I.D., and so on ; but I do not think we are associated with the Bank of England in any real degree, because our Board functions entirely independently of the Bank. The Governor is here to speak for himself, but I think he has been particularly scrupulous in making that quite clear. I think the Board would find itself dreadfully embarrassed if there was any sort of suggestion that we were in any way acting under the orders or suggestions of the Bank of England. We have always regarded ourselves as entirely independent ; but we are associated in the sense that we owe our origin to the Bank.

The odd thing is that the initiative in this movement has come from a Central Bank rather than from a commercial bank or other agencies ?—May I say as to that, in my judgment nothing else could have brought the B.I.D. into existence except the Bank of England. I am quite sure that we could not have been created by anybody else. It was entirely due to the personal influence and power of the Governor that we have been created. There was a very great reluctance on everybody's part about it.

No one else would step into the breach ?—No. It is very difficult to say quite what might have happened. There might have been either some other institution formed, or the Government might have stepped in.

My point is, that it is not the function of a Central Bank to do these things in normal times ?—No.

But you represent to us that on this occasion the initiative was taken because there was nobody else to take the initiative ; and the Bank of England, for the general welfare of the country, prompted a step of an unusual character, not within its normal functions, but with a desire to give a helping hand ?—That is so.

And this was the form devised. Is that a fair way of putting it, Mr. Governor ?—(*Mr. Norman*) : Quite right. (*Sir Guy Granet*) : I think so. (*Mr. Norman*) : An abnormal effort for an abnormal occasion.

Mr. Newbold : Do you think it is an abnormal occasion ? —(*Mr. Norman*) : Yes, I do.

How long do you think its abnormality is going to last ? —I do not know how long it is going to last, but I am quite certain that when this company was formed a year or two ago the conditions were abnormal in the sense in which I mean them.

I think your abnormality will last a very long time and that it will become a permanent institution ?— I do not think so.

Mr. Brand : You think in normal times the functions that the B.I.D. perform are absolutely unnecessary and should disappear ?—(*Mr. Norman*) : Yes. (*Sir Guy Granet*) : In normal times I think so.

Mr. Keynes : Adam Smith once said that an abnormal condition seldom lasted for more than ninety years ?—(*Mr. Norman*) : But the abnormal then becomes normal—you must give me that.

Chairman : The abnormality of the one day becomes the norm of the later day. Everything is abnormal at first until it has become established ?—I would like to believe that Gir Guy Granet and his colleagues on the B.I.D. during the five years ahead of them will produce such an effect on the basic industries that their condition, outlook and mentality will become different from when the B.I.D. started, and that having been done, or mostly done during an abnormal period, the industries will thereafter be able to obtain such finance as they may properly require based upon the re-organization which the B.I.D. will have brought about. For re-organization, I ought to say rationalization, because that is what I mean, without explaining its precise significance.

Metaphors are dangerous, but I was going to suggest that in your view at present a tonic is required, but a tonic is not good as a normal diet ?—I do not call it a tonic. I think a nurse is required and the B.I.D. is intended to fulfil that function.

You ought to get rid of the nurse at the end of the illness ?—At the end of the period. I seem to see this as possible. It has been in my mind for a long time, and the more I look at it the more confident do I feel in myself, without being able to submit evidence to prove it, that some such course as that will be followed.

There is one matter I would like to spend a few minutes upon, Sir Guy. You have said, quite properly, that you have come into existence really on the Bank's initiative, and you have been given your head by the Bank, and you do your own work ?—(*Sir Guy Granet*) : Yes.

Mention has been made of the Securities Management Trust ?—Yes.

What are your relations with it in contradistinction to your relations with the Bank ?—I have no relations whatever with it. My colleague, Mr. Bruce Gardner, is managing director of that, and I make use of him in that way to get into contact with anybody on the staff or organization of the S.M.T. who will be good enough to help me over anything. They have legal and other eminent experts there from whom very often one can get a great deal of information if they will be good enough to let one have a talk. That is the only relation. I have no connection whatever with them.

When did that organization come into being ?—In 1929.

Might I ask, Mr. Governor, is that also one of the expedients that has been born, so to speak, of the present emergency ?—(*Mr. Norman*) : The S.M.T. was only an expedient in this sense of the word. Owing to the abnormal conditions the Bank came to be possessed of certain securities acquired for particular purposes. The mere fact of having acquired those securities brought the Bank into contact with industry which is not part of a Central Bank's normal duty. The S.M.T. was established to take over this business and conduct it in another building as a matter quite distinct from the Bank's ordinary functions, the business being entrusted to persons having special qualifications to deal with these and other cognate affairs. If you look at the S.M.T. really as a temporary or industrial adjunct of the Bank of England that is not an unfair description of it.

Is it serving a useful purpose ?—Certainly, a very useful purpose indeed.

I rather gathered from what Sir Guy said it had now become an intelligence department because it was necessary for it to make investigations which brought it into contact with industry, and in that way was useful to you in turn as a staff of experts ?—Yes. The S.M.T. maintains a certain staff of experts who are at Sir Guy's disposal when they are required.

And I suppose at the disposal of the Bank also ?—But they *are* the Bank.

That in itself is a new departure. You had not that before ?—That is a five years' growth.

Do you contemplate that also will fade out after it has served its purpose ?—Certainly.

During the time of its existence, and it exists now, do you find that the information which it is able to place at your disposal is of value to you in the ordinary conduct of your business ?—Not in the ordinary conduct of normal business.

I should have thought, though I do not know, that being able to lay under contribution that expert knowledge in legal, economic, or industrial matters might be a useful source of information to you in connection with the policy of the Bank that you had to adopt from time to time. You have not found it useful for that purpose ?—No.

Therefore, in your view, it serves a special purpose of a temporary character ?—Yes.

You do not contemplate its continuance as an organization of the Bank ?—No.

Mr. Brand : Might I ask you one question on that ? You contemplate (and I absolutely endorse your view) that Sir Guy and his colleagues on the B.I.D. will bring an entirely new spirit into industry ?—Yes, I do.

During the next five years ?—Yes.

That is because, apart from personal qualities, they will bring a knowledge of finance and banking and a way of looking at these things from the financial point of view ?—Yes.

Do you consider that is not a function in normal times that could be more closely performed for industry than it is performed now ?—I think it is a special need arising out of the parlous condition in which industry is at the present time.

You do not think it is a good thing for a banker to give his opinion to an industrialist, and an industrialist to give his opinion to a banker in normal times more than now, so as to establish a closer connection ?—Give his opinion, yes ; but I do not want to establish ownership between the two.

I agree.—Is not that really the question ?

Chairman : But falling far short of that, surely a closer liaison is possible. That is one of the major topics we have been considering, namely, whether there has been sufficient contact between industry and the banks from the point of view of the bank being at hand as an adviser on the financial aspects of industry. The banks must study industry to some extent because they supply the sinews of war. How can they give useful help unless they have an authoritative means of obtaining information ? That strikes me as a difficulty for the banker ? —I should say that the banker (I do not refer to a banker of the type of Sir Guy) requires to have some information —I do not know how he would get it—in order to know in what channels he could usefully, as well as safely, lend money. I should think he would need to know that, but that is mostly short lending. I think the direction in which he may give credit is very important, but otherwise, I do not think that any further link, an incorporated link, so to speak, between industry and banking is needful. But I do believe that as industry has now been somewhat converted by this process which is going on so in the future they will be in a position to obtain their needs and they may have a close liaison with some form of finance or another. But if you are going to try and establish any definite, any incorporated, form of liaison, it is either going to come down to ownership or to conflict with ownership and I am all against that—to conflict with the proprietors. I am entirely against that.

Mr. Brand : Take the big American Trust and Security Companies, like the Guaranty Trust Company. Their principle, I believe, is, as a rule, not to have any ownership of industrial shares, but they take responsibility for industrial issues. Do you believe that is a wrong principle ?—I would.

Do you think that is an instance of having a relationship with industry, that the joint stock banks here never do have ?—That, I think, is a private relationship.

You would not like to see anything of that kind here ?—No, I would not like it at all. I think it is wholly unsuited to our traditions, mentality, and capacity—I really do.

Do you mean our capacity is too little, or too much ?—It has developed in other directions. I do not think you could create with safety that sort of thing with the A.B. Bank or the C.D. Bank. There is the great development of trust investment companies and that sort of thing here which does not exist in these other countries. The same in Germany. I rather agree with what Sir Guy said some time ago that the unification between banking interests and industry there has tended, if anything, to go too far.

I agree.—(*Sir Guy Granet*) : And in certain other countries even more so—take a country like Italy.

Mr. Lubbock : It has been represented to us that the banks have not sufficient knowledge of industry and do not take a sufficiently wide view of industry as a whole when they make their advances to particular firms ?—(*Mr. Norman*) : That is a different question altogether.

I quite agree. I was going to ask you whether you have anything to say about that. It has been suggested that the banks ought to have some kind of well-developed link between themselves and industry as a whole in order that they should make their advances perhaps on a different principle ?—I think that is a different question altogether. I think it is an important one, and certainly a very difficult one. I myself have often wondered on what basis joint stock banks decide in which direction they will most willingly lend their short money. I am not speaking of capital loans.

Mr. Brand : Their advances ?—Yes. I have often wondered that, and I do not know the answer to it now. I have asked several.

Mr. Keynes : So have we ?—But this is not the question we have been discussing. We are on a totally different track now, absolutely different.

Mr. Lubbock : I am quite aware of that, only the general relationship between banks and industry prompted me to ask you a question about that particular point ?—Quite so.

Chairman : On that same point I would like to put a further question to you, Mr. Governor, if I may. You have at your disposal under your roof, as you have told us, a certain number of experts who were not formerly housed there. Having returned to a more or less normal period, I suppose it would always be the function of a Central Bank like the Bank of England to take very important financial decisions from time to time, and those decisions must have certain effects upon industry, and upon the general welfare of the country. Would not it be of use to you to have these experts at your hand at ordinary times, so that you may lay their special information under contribution when you are coming to these decisions on matters of policy which from time to time you have to take—I mean as a source of information ? —I do not think so. They are specialists you see.

Then have you at your disposal normally, apart from these experts, sufficient material, statistical information, and knowledge of the situation generally, to enable you to proceed to decisions on policy with reasonable comfort ?

—I do not attach importance to great elaboration of statistical information. In my opinion the requisite information is available.

In coming to a decision upon any large question of policy one wants to be well instructed. One wants to know whether you have at your disposal the sources of information on the point which you have to consider in coming to a decision. What I want to know is this—whether you feel in the organization of the Bank of England you are able to lay under contribution sources of information which you require and ought to possess in coming to these important decisions ?—Yes, I do. There is much information, however, which in my view is more valuable for the purpose of testing conclusions arrived at independently than for providing the foundation on which to base conclusions.

Mr. Bevin : Are you very hopeful of the initiative in the way of re-organization by the manufacturers showing itself in five years. Judging by Sir Guy's evidence this morning there is a good deal of slowness in these things ?—(*Sir Guy Granet*) *:* I did not suggest, if I may explain, that the slowness is universal. I was merely giving illustrations of slowness in certain directions to give you some idea of reasons why one cannot get ahead quite so quickly as some people think we should.

When you are getting these schemes of re-organization one of the most important things to get a re-organization scheme given effect to with any degree of alacrity, once it is decided on, is the adaptability of labour. I think you would agree with that. What consultation is there with the labour organizations when these schemes are going through ?—When it comes to us, none.

And none before it, as far as I know ?—That I do not know, but you see our function is purely financing, and, therefore, I do not go into that. When it comes to us we are only on the finance.

May I put it in another way? Assuming you are looking at the finance and getting the scheme, what steps do you take to see that the labour side has been adjusted so that your scheme has a chance of working out satisfactorily?—What steps do we take, or can we take?

You take no steps apparently?—No.

Assume there is a big re-organization scheme in steel and you are going to plan regionally, which means a movement of people and alteration of craft conditions due to new mechanism, it may be after you have agreed financially to support that that you are involved in a dispute with the men because you fail to get adaptability?—Perhaps I have not quite made myself understood. You cannot over-estimate the importance of relations with labour, but it is a part of management. It is nothing to do with the banking side of it. Therefore, we assume, in a scheme brought forward by an industry, as these schemes are, that that side of it has been fully gone into. Insofar as we can criticise at all we look at it in this way, as I think I have mentioned. We look to see whether the scheme is based on a very large expansion of production. We find it is based on pretty well the existing basis of production. Then we ask: Does this scheme involve closing works right and left, or does it involve the modernization of plant, and re-layout of plant? All that we go into. But the ultimate responsibility as to what the effect on labour will be, as to whether it means an immediate reduction or not, we do not regard as our business. That does not mean to say we disregard it, but we do not look at it as our business.

But you do look on good management as part of it. May I put it in another way? Do you satisfy yourself that good management, in addition to consulting its engineers and consulting its advisers as to layout, would have consulted labour? Good management would have had a fairly clear idea of what it could do before it ventures into these schemes. Do you make any enquiries as to whether management has taken any steps with labour ?—I cannot say yes to that. We do not take any step to enquire into that definitely for the reason as I say that we regard that side of it as being something beyond our scope, but it is one of the things we ask about informally and is the subject of conversation all the time, but it is not one of the things on which we lay ourselves out to get a certificate, so to speak.

My experience for what it is worth is this. The management deals with these re-organizations and just dumps them down without any previous consultation or without any attempt to get co-operation and then you have a dispute or you do not get the scheme to work well ?—(*Mr. Norman*): That has not been my experience.

It has been mine in both schemes I have had to deal with.—It has not been mine.

Chairman : I think, Mr. Governor, we have exhausted this branch of our discussion. We are very much obliged to you, Sir Guy. The Governor is kindly coming back after lunch, but I understand you are not. Thank you very much.

(*Adjourned for a short time.*)

The Right Hon. MONTAGU COLLET NORMAN, D.S.O., Governor of the Bank of England, and Dr. O. M. W. SPRAGUE, called and examined.

Chairman : This afternoon, Gentlemen, the Governor is accompanied by Dr. Sprague, and it is proposed to turn to rather different topics from those which we were discussing with the Governor when he was accompanied by Sir Guy Granet this morning. I think I might introduce the subject of our discussion by saying that in the course of our Inquiry we have frequently heard the view that a solution for many of our difficulties was to be found in international co-operation ; that, while we had our domestic difficulties and our domestic obstacles to recovery, a merely national policy of financial matters was not possible in these days, and least of all possible for a country such as ours ; and that the redress for certain of the disequilibria which are afflicting us might be found through the medium of better international understandings and better international management of finance. That is a matter which, from the practical point of view, is hedged about with very great difficulties because it is not within our own control. Then our attention was drawn to the fact that there had come into existence a new organization in the shape of the Bank for International Settlements—in fact it was during our own sittings—with new functions and new objects, and naturally we are anxious, if we can, to get some light upon the possibilities of that new organization, how far it may further an international policy and what should be the objectives of that international policy. I think we might look at the general situation ; first of all, the earlier period, let us say from 1925 to 1928 before the world causes became so prominent, and then the period since 1928 when there has supervened on the top of our domestic problems a general international situation of great acuteness which has largely increased the whole difficulty. In the presence of witnesses such as we have this afternoon, I at least feel myself in the position of a person to be instructed and informed, rather than a person in the position of asking the questions most likely to elucidate information. I think, Dr. Sprague, we should be very glad if you would, having heard the outlook I have expressed, indicate to us on what lines we might most usefully talk to you this afternoon ?—(*Dr. Sprague*) : I would suggest that there might be a discussion relating definitely to the B.I.S., followed by a consideration of the more general problems split up into those two periods which you have just mentioned. I think the functions of the B.I.S. and its immediate possibilities can be developed first, and that then, perhaps, it can fruitfully be introduced into a more general discussion of the whole position of the London money market, the Bank of England, and other agencies. At first I should think that it was necessary to place before the Committee a picture of the functions of the B.I.S. and the hopes that attended its establishment.

I think that would be an excellent programme. Would it be convenient for you, or the Governor, to give us the evidence about the B.I.S.? We have had very little evidence, practically none, about its constitution and its objectives?—I think quite clearly it should be for the Governor, as he was concerned with its establishment and has had much to do with its functioning up to the present time. My own knowledge of it is very much that of an interested outsider.

Mr. Governor, would you be good enough to give us a little historical survey of the existing situation out of which the B.I.S. has grown?—(*Mr. Norman*): I will do my best.

We are much obliged to you.—The B.I.S., we have to remember first, was born out of the turmoil of The Hague, out of the Young Plan, and in many ways that was a very unpropitious moment for its birth. Before that time there had been a considerable amount of communication and co-operation between the various Central Banks privately. The first ideas defined came, I think, from Genoa, and among other things which the Genoa resolutions proposed was that the Bank of England should summon a conference of Central Banks to do, in effect, what has now become the duty of the B.I.S. It always appeared impossible, during those years when we were waiting, to summon such a conference, for the excellent reason that the people would not come. They would not come, not because they were unwilling to co-operate, but because they were unwilling to face the publicity and the questionings in their own countries which would arise if they attended any such conference, and all the attempts that I made to that end failed. But, notwithstanding that fact, there were at that time outstanding individuals, as I believe, in the Central Banking world who made co-operation possible in its earlier stages, and pre-eminent among them were Governor Strong and President Schacht. They were both dominant men, extremely interested from different sides—and very different they were—in co-operation. They were the most wholehearted supporters of the idea and did, in its early stages, I believe, a great deal in trying to bring about a common policy as between the various banks. Owing largely to their personalities, they were the two men who were outstanding in that respect, and they are no longer with us to-day.

But the particular object, or one of the particular objects, of the B.I.S. was to get rid of the difficulty of Reparation payments, and one of the successes which I think the B.I.S. has already achieved is that it has largely, if not entirely, taken Reparations out of the political arena and put them into a back room in the B.I.S.; so that a question which for many years has been a difficult and at times rather acute question, and may possibly become so again, has really now dropped into comparative insignificance—nobody thinks about it and the payments have been largely mechanized. Added to the Reparation payments, the international debt questions have been joined up with them and the two are now in the process of being transferred from where they originated to where they belong, with the minimum of comment and the minimum of friction, and to that extent I think the B.I.S. has been wonderfully successful within a limited sphere.

Another point in which I think the B.I.S. has been even more successful than I should have expected is that it has provided a method of conference, or a club, among Central Banks, which, over the last six or eight months, has become regular and useful and, without comment from outside, has allowed many of those who are interested in the common problem of Central Banking to meet regularly once a month, which they do with great persistence, to discuss all those matters of their own as well as of the B.I.S. which happen to come to the surface at the moment.

Those are the two great points. Apart from those, what is the purpose of the B.I.S.? We have to remember first of all, whence the funds of which they are able to dispose in one way or another are drawn. There are, first of all, the Reparations and Debt funds in which they act really as little more than a trustee, and therefore those are not of any great importance. There are certain further duties of the B.I.S. as regards trusteeship, strictly speaking, for various loans. Those also are purely mechanical and do not give rise to any matters of current interest. You then come to the funds which the B.I.S. controls because it is becoming, or may become, the repository of Central Banks' reserves. A large development has been made in that direction, a great number of the European Central Banks are now keeping their surplus reserves with the B.I.S., and that may prove to be a very large factor in its duties. But those funds also, being reserves, are not free for general uses and they can only be employed by the B.I.S. within the same, or perhaps stricter, limitations as were before observed by the various banks to whom the funds belong. So that, by and large, the only free funds which the B.I.S. has at all are certain long deposits made by various countries—Germany, France, and so forth—in connection with The Hague Agreements. There they have certain funds, not very large, which, although they are debts of the B.I.S., are in their holding for a great number of years. Those are the only free funds which, strictly, the B.I.S. has to dispose of, and for the most part these are now being used, I think, where there is the greatest need for them. For instance, there is a great demand in certain countries for certain middle-term credits, as they are called, for the purpose of assisting exports from one place to another, and a certain amount of those funds is employed in that way. You will see, therefore, from that enumeration of the funds, that the B.I.S. has not got, and never will have, as it is composed and as it has been started, any very large sums of which to dispose. As I look upon it, and as I said at the beginning, the B.I.S. has now made those first steps which it was necessary for any organization to make. It has taken Reparations and Allied Debts largely out of the political arena, mechanized them, to a certain extent; it has trustee duties which are purely nominal at the present time; and it is holding Central Bank funds; and I doubt whether there are at present any further directions in which as a bank it can advance in the near future. I think it has got to the stage now where, having done what it could do immediately, it has got to go slowly and develop by degrees, watching, so far as possible, where it can be helpful, possibly in certain circumstances not acting with its own funds, but acting in one direction or another as the leader and disposer of funds contributed by various Central Banks for particular purposes. That is conceivable, but no occasion has arisen up to the present. I think it has got to consolidate the position so far as it has gone and it has got a vast amount of internal and more or less troublesome things to decide, especially in regard to details of administration and organization which, in a concern made up of people representing six of eight nationalities, are very difficult and complicated and give rise to a great deal of trouble. I do not think it will do more than that for some time to come. It is already able to arrange certain conveniences among the Central Banks in the transfer of funds from one place to another, but that is mechanical ; it may give a slight economy, but it is not a matter of any general importance. I repeat, therefore, that, so far as its own development goes, I doubt if there are any large economies or changes to be made in the near future ; I think it has got to develop slowly, to learn to stand before it can walk and to walk before it can run, and that, I should think, would take a considerable period.

One of the difficulties with which the B.I.S. is always faced is that there are in the Young Plan, which may be said to be the basis of the B.I.S., certain vague references to all sorts of things which might be done towards rebuilding the world. How those are ever to be carried out I have not the slightest idea, what they precisely mean I do not know ; they are continually mentioned, especially by those countries who feel the need more than others of some further development. They are continually mentioned, but how and in what direction the B.I.S. can really help to discharge, if at all, those vague promises in the Young Plan, I do not at present see. Time may show. If one had to sum up what they amount to it would perhaps be something of this sort :—That they are intended to expand and improve international trade and at the same time transfer as much money as possible from the short to the long market. Those are the two broad things which, I think, are implicit in these vague promises. I mention them merely because they are so often in the minds of people, and especially of our German friends, as being the real inducement which led them to adopt as whole-heartedly as they did the idea of the B.I.S.

I must also say one word, if you please, about a matter with which many of you here are familiar, and that is the special difficulties of an international body. We have at the present moment extraordinarily good personal relations, far better than we used to have when it was necessary to make a formal visit to meet anybody. Nevertheless, a Central Bank Governor, when he comes to Basel, is necessarily to a certain extent dominated by the particular state of his own fiscal and economic situation at home, of the mind of his public, of the mind of his Government, and it is a matter therefore not, as I say again, of establishing personal friendship—which we have done to a marvellous degree, I think, almost intimacy—but of taking up questions which are international and regarding them, as one would say, on their merits. No two or three countries can really regard an international question on its merits. There is no such thing as merits when you come to that. To get the affairs of a country, and possibly the needs of a country, considered on their merits is a thing which has not been achieved, and, I believe, will not be achieved for a very long time. The moment the position of certain countries is mentioned you get a reaction for or against, for particular reasons applicable to the individual in whom the reaction takes place. There will be a new Europe before we get away from that.

That, broadly, is the picture. I could go on a good deal more, but it would be mostly details. I have given you the setting up, the possible objects, the funds that they have at their disposal, the way they work, the possibilities ahead of them, and in particular one of the difficulties which I see, which is the difficulty of judging a question really on its merits.

There is one feature of the B.I.S. to which you allude, which, I think, for our purpose, is particularly important. You said it furnished for the first time a new form of meeting among the representatives of the Central

Banks and thus afforded opportunities of discussion and meeting regularly, which were valuable. How far do you think that, through the medium of this discussion at the B.I.S., it will be possible in the future to concert international policy among the nations to a greater extent than has been possible in the past, and thus lead to a better adjustment between the various countries in regard to their financial policies ?—I have said that the affairs of certain countries whenever they come to be discussed produce entirely different reactions in the minds of the individual persons who discuss them, and I think it is going to be a very long time before that is altered, a very long time indeed. So far as the co-operative relations between any couple of banks or three banks are concerned, there I think already in most instances a considerable amount of progress has been made in the earlier period which I have mentioned. But I think it is easier now to get consideration of a particular problem as between two or three banks than it was before, because one can more easily meet, discuss it, go into it, without making a particular journey and having to state precisely, " I have come to discuss this or that particular question." You can take it in your stride, and it is very much easier, and it works in that way extremely well. I will leave to Dr. Sprague to discuss the future more precisely, but I think the prospect of bringing about any change in general monetary regulations—which in the main would be a Governmental question—and the time when they will be brought about, is very remote.

Is the ideal of an international policy one that should be aimed at ? Is an international policy really necessary now with a proper financial system ?—It is imperative, I think. But so far the attempt has produced innumerable difficulties and few solutions. It has produced solutions in a few cases where two or three individuals have joined together to produce a certain end, but not as a general rule.

Without some such principle of unity of management is it possible to obtain economic stability ?—I do not think you will obtain economic stability through unity of management of the Central Banks represented on the B.I.S.

Can they contribute to it ?—They can contribute to it and are already personally extremely anxious to contribute to it. There is certainly unity in principle there, but they are swayed by various considerations and also by the policy of their Governments and by their markets ; some of them have markets which are venturesome and willing to adopt international measures ; others have markets which in these matters are young and untrained, or they scarcely have a market at all. Some of them have Governments whose position is, shall I say, affluent and rich and sound ; others of them have a Government which is perpetually struggling to find funds to meet particular payments. So that at the present time it is extremely difficult to get in fact the adoption of a common international policy.

But it would be the objective ?—It is the objective among all the individuals there, without any doubt subject to the reservations which I have made.

And what would that international policy be designed to achieve ? Is it towards greater stability among the nations in regard to price levels or towards the better distribution of gold ? To what practical aims would an international policy be directed ?—I believe it would be directed towards achieving what I take to be the objects of the Young Plan—monetary stability, the development of trade, and a general transfer of short into long money as and when needed.

And to do that in concert with each other so that the policy of one should not pass over the policy of others ?—Quite ; and I think the B.I.S. is going to develop by degrees, especially when it is forgiven a few wild oats it may have had to sow. I think it will get into a position where it will at least be an example and enjoy a prestige and induce people to do this, that, and the other because it is the right thing to do—teach manners and conduct. That, I think, it is going to do. It is not a question of employing funds.

Greater financial comity ?—Yes.

Mr. Keynes : The bank has to employ all its reserves in some money market other than its own ?—It has no reserves of its own. It is unique in that way.

On what principle does it decide how to employ its funds ?—If I take the categories of funds which I have mentioned ; first of all, the Debt Payment funds and the Reparations funds, those are for the most part employed in the market where payments have to be made. There is really no choice. Then it has other funds which are virtually the deposits of the reserves of the Central Banks. Those for the greater part are given to it in certain forms and, broadly speaking, it will have to account to those Central Banks, if and when called upon, for those funds at a moment's notice.

Whether they are deposited in sterling or dollars, or wherever they may be ?—Yes ; they are deposited in one form or another and liable to be called in. The B.I.S. does not speculate to any great extent with those funds.

Is there any advantage to the depositor in depositing through the B.I.S. rather than direct in the market concerned ?—Perhaps not to the depositor, but if you take the way in which some of the smaller banks have used their funds, I think there is great advantage in it.

You mean that although they would be keeping it in sterling or dollars, as the case might be, they might not be employing it in those centres to the best advantage ?—Yes. I think the orthodoxy which is being established by the B.I.S. is an advantage. Also I think it will come about that if the B.I.S. has, for instance, 100 in reserves of Central Banks, it will find in time that it can keep 80 available and use for the general advantage elsewhere perhaps 20. That would take some years of experience, but that is a possibility. It may economize in reserves.

It would seem to be a more progressive state of affairs if what was owing by it was on deposit with itself, and was transferred to one deposit rather than to a variety of deposits.—I do not know what you mean by "on deposit with itself" because the B.I.S. has no deposits of its own. The deposit must be in a stated currency.

It might be in fine gold ?—It might be in gramme-or —an idea which seems to have been started, although we have not adopted it. Even if you give it a different name, call it Swiss francs at par, it is perfectly well-known in what currency it will be wanted.

But if it were in the Clearing House of the Central Banks it would never be wanted ; it would put the balances of the Central Banks in one pair of hands. —That is what I hoped would happen. We have not yet had this money for a year. You will have to go through one or two seasonal periods. I believe you will get a Clearing House of reserves, but that will take time.

Is there any risk of the B.I.S. impairing its position as the repository of reserve funds by embarking on too much philanthropy ?—Philanthropy in the use of its funds ?

Yes.—Not of those funds, I think. Philanthropy might be shown at a later stage, possibly, by the purposes for which it uses its own funds, that is to say, its long funds, which might be used by agreement with others for a particular purpose. There I think it has to go very slowly. I think there is not the least doubt that if the B.I.S. began to use for philanthropic purposes the reserves of the Central Banks they would be withdrawn.

There is no reason why the deposits with the B.I.S. should not in the course of time be suitable as the reserves of the Central Banks, as an alternative equivalent to gold ?

—All of those funds are looked upon by Central Banks as the equivalent of gold.

Mr. Brand : They are their foreign assets ?—Yes. They are what are called metal reserves mostly, nothing else.

Mr. Keynes : If that is to be maintained it is very important that there should be no question of their being used philanthropically ?—I think there is no question of that ; in fact, I think the B.I.S. know quite well that if they were to use those funds philanthropically that would be virtually the end of it. Of course, I am giving you my own view of the administration of the B.I.S., which I do not administer.

Do you think there is any probability at present of decisions being reached by the Board of the B.I.S. which take the form of agreeing that Bank Rates ought to be relaxed or stiffened up, that there ought to be a general tendency upwards or downwards in money rates throughout the world ?—I think there is no prospect of the Board of the B.I.S. passing a resolution to that effect. That is a thing which can quite easily develop in the club life of the B.I.S.

Is there any reason why the B.I.S. should not in course of time come to discount the obligations of Central Banks ? —The portfolio ? No, because they do so already.

I mean obligations of other Central Banks ?—The portfolio ?

Professor Gregory : Yes.—They do so already. They are continually switching from one portfolio to another.

Mr. Keynes : That means that they have, in effect, a Bank Rate of their own ?—No, it does not. It is appertaining to the market concerned, entirely.

Is there any reason why they should not provide a Central Bank with a deposit simply by discounting the obligation of that Central Bank at their own rate, the rate of the B.I.S.? I am thinking of the B.I.S. standing to the Central Banks in the same position as the Central Banks stand to the home money market?—That is the direction in which they are developing. That is what I mean by the clearing fund; it may clear, not only in cash, but in three months.

Mr. Brand: They would grant credit to other Central Banks, would they?—No, I do not think they would grant credit. They would discount the portfolio of the Central Bank.

Mr. Keynes: They would create deposits in their own books——?—Against the three months' portfolio, as they are doing now.

Cannot the Central Bank turn a local deposit into the equivalent of gold by making a deposit with the B.I.S. out of its own domestic assets?—The B.I.S. will take certain funds, certain approved currencies as deposits, but I think they have not yet accepted a deposit in the domestic currency of a Central Bank.

Could you take £1,000,000 worth of Bank Bills to the B.I.S., get a deposit against those and then regard that deposit as a foreign deposit?—No, not at present. When I was speaking of the clearing, that is a possibility that I had in mind. You could not at present; you might arrange to do so.

Is not the fact that the Federal Reserve Bank of New York is not a member an important handicap?—Yes, in my view.

And, of course, also, neutral countries are very poorly represented on the Board?—The Board, as you know, is liable to be increased from whatever it is at present—16 I think—by anything up to 9 other countries who may be selected before long.

Is there a reasonable hope of its developing along the lines you have indicated?—Yes. I am speaking now of short money, am I not?

Professor Gregory : Clearing functions ?—Clearing functions ; yes, it has a great opportunity, I think, and that is where it will develop.

Personally, Mr. Governor, you are hopeful that it will ?—I am.

It is not merely a possibility, but rather more than that ?—I think it will. I think it will establish a clearing fund for the reserves of the Central Banks in approved currencies, and I hope—though this I say with reserve—that it may be possible to establish a position where a certain number of approved currencies will be interchangeable. That is what I mean by the clearing fund—exchange clearing. Speaking for myself and not for the B.I.S., I do not see any very great difficulty in developing slowly upon those lines, but before it can be done you have got to have the experience of a few years and see what the seasonal changes are. You cannot do it on the experience of a few months ; you must see over a series of years what are the seasonal changes in the exchange position.

Mr. Keynes : There would be obvious advantages in this, if it could be developed, over what are called the gold exchange methods ?—A great number of advantages.

It would not be an alternative ?—I think not. I think it is an improvement on the gold exchange. One has to recognize that the B.I.S., in making an arrangement of this sort, might be taking a risk ; they might be called upon, if people got frightened, to deliver at short notice a very large amount of one currency. That is a risk they have to take ; they have, therefore, got to see the seasonal changes and, if I may so call them, the possible panic changes that might take place.

Mr. Brand : Supposing some years ago the franc had been taken as a good currency and the moment arrived when the franc was a bad currency. Would not that be an extraordinarily awkward thing ?—Very awkward, and that is the risk. The B.I.S. has to be very careful which currencies it takes.

Mr. Keynes : If the bank itself and the depositor both have the option to require and to pay gold against any particular currency, whether the deposit is made in gold or whatever it may be, you do not formally have to remove a bank from your list, you have merely to assist in keeping the reserves in that currency ?—Yes. My idea has been to keep gold out of it as far as possible.

. . . . .

Mr. Brand : Might I ask what would be the effect of an outbreak of war on the B.I.S. ? Is it being internationalized ?—(*Mr. Norman*) : It has been internationalized. Its funds and deposits are exempt from seizure in all the countries signatory to the Hague Agreement. That does not include the United States.

Mr. Keynes : So you dare not hold dollars ?—We hold them at our peril, but we are brave enough.

Chairman : One question I might ask as a practical one. The conspicuous feature in the economic position has been the extraordinary fall of world prices. Do you think that the B.I.S. has any rôle to play in correction of that tendency ?—I do not think it recognizes any such rôle.

Would it have any indirect power to assist or obstruct recovery ?—Yes, I think, to the extent that it could achieve some of the objects which I have named, such as facilitating trade and exports, or increasing the supply of long funds. But I do not think the B.I.S. would recognize it has any price-fixing duties—for that is what it amounts to.

Have you found that there is any common agreement in the club life or the official life of the B.I.S. in recognizing the importance of that aim ?—I think everybody recognizes its importance, but I do not think they would all agree on what is desirable. I think it would be extremely difficult to get any general view.

If one nation thought that it was important to get the restoration of price levels to some particular point, is that the kind of thing which might be discussed in the counsels of the B.I.S. ?—I do not think there would be any agreement on it.

No agreement and no action directed towards it ?—No, not towards that object in itself.

Or means which might in the individual case of each country bring about such a state of things ?—I do not think anybody there would be willing to devise measures which are intended as price-fixing measures. From what I have heard in discussion, I think that is not an unfair statement.

Mr. Brand : Does it make a difference that the B.I.S. has no issue power behind it ? Take the Bank of England. When it discounts a very large number of bills it can do so with the knowledge that its currency will increase and so forth. The B.I.S. is in a totally different position ?—Yes, it cannot create credit.

It cannot create credit.—I do not think it could be made to do so wisely.