

Volume III

After the Gold Standard, 1931-1999

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Report entitled 'The suspension of the Gold Standard in Great Britain and its effect on the countries of Europe'.

This report in the Bank's internal archives traces some of the consequences of the suspension of the gold standard in the United Kingdom. Foreign central banks which held sterling suffered substantial losses due to Britain's effective devaluation. These losses placed some of their currencies under speculative pressure.

It was not to be expected that such a momentous step as the suspension of the Gold Standard by Great Britain, after six years of imperfect and difficult working, would be without grave and far-reaching repercussions on the rest of Europe. [...]

Britain's suspension of gold payments on the 20th September was followed by Danzig's decision to abandon sterling standard for the gold standard on the 21st September 1931. Danzig had already, at the end of August, utilised nearly £500,000 of its sterling balances in the purchase of gold (mainly from Sweden). Since the 21st September, the process of converting its sterling into gold and gold foreign exchange has continued, and, at the end of the year, these items had risen £360,000 to £1,890,000. On the 22nd September Denmark prohibited gold exports. For some time Denmark had suffered a loss of foreign capital, and during September, gold and foreign balances held at the Nationalbanken i Kjobenhavn fell by £1.2 millions. Bearing in mind that over 55% of Denmark's total exports are to England, this step was perhaps only to be expected. On the 27th September, Norway and Sweden decided to suspend the gold standard. As the British market absorbs 25% of Sweden's and 26½% of Norway's total exports, and closely linked as these Scandinavian countries are, it is not unnatural that such a step was taken. [...]. The suspension by the Scandinavians led to increasing difficulties in Finland, since Finland exports the same kinds of goods. Confidence in Finland's ability to maintain the gold value was shaken and foreign balances reduced, leading to suspension on the 12th October. [...].

Sterling held by the Bank of France was estimated at £62 million and the loss on this through devaluation at 2½ milliards of francs (£20 million), a sum well in excess of the capital reserves. [...]

In Italy, as in France, Belgium and Holland, the adhesion to the gold standard resulted in heavy losses on all sterling balances, especially as the Italian currency

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was stabilised in 1927 on a gold exchange standard and the largest proportion of the Banca d'Italia reserves was in £s. [...]

Immediately after Britain's suspension, the Banque Nationale de Belgique exchanged all visible foreign exchange for gold (according to the return of 24th September 1931). In fact, Belgium was responsible for the greater part of the earmarking of gold in New York during the eight days ending 24th September, when gold to the value of \$184 million (£36 million) was set aside for foreign account. Balances held at the Bank of England have increased slightly.

The depreciation in the value of sterling gave rise to severe loss in Holland, since a large part of the foreign bill portfolio of the Nederlandsche Bank consisted of sterling bills. [...]

The dollar has replaced the £ as the basis for calculating the value of the Greek drachma in foreign currencies. Balances held by the Bank of Greece at the Bank of England have fallen by £1.2 million since the 19th September 1931. [...]

Bulgaria has suffered serious dislocation of her export trade as the great majority of exports have always been contracted in pounds. There has been a heavy drop in exports and a restriction of credit. [...]

Switzerland followed the general tendency and strengthened its position by the withdrawal of funds from abroad and by the conversion of foreign exchange into gold. The gold reserve on Banque Nationale Suisse was only £28 million on 31st December 1930, [but] by the end of September 1931 it was £68 million and had risen to £93 million by the 31st December 1931. Sterling held at the Bank of England was entirely liquidated, but gold held has risen 19th September to over £6 million.

In England, the advantage to exporting that was to be anticipated from the release of the sterling exchange is not yet definitely marked in the foreign trade statistics, though it is visible in employment figures. It is as yet premature to estimate how far the movement towards increasing exports may extend, but there are difficulties in the way of any great improvement because of the economic distress of purchasing countries and the many additional artificial obstacles imposed with the direct object of hindering imports from the United Kingdom.

Source: *Bank of England Archives, OV48/9, 1538/4, no. 86.*