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The International Gold Standard: Money and Empire, by Marcello De Cecco

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THE INTERNATIONAL GOLD STANDARD: MONEY AND EMPIRE. By Marcello de Cecco. New York, N.Y.: St. Martin's Press, 1984, 254 pp., $27.50.

This is the second English edition of de Cecco's book on the international gold standard. The first was published in 1974, following the original 1971 Italian edition. De Cecco says in the preface that the purpose of the book is to "show how the pre-1914 international gold standard worked, but also to emphasize the elements of the crisis that was brewing within the system the 25 years before the outbreak of the Great War, and which brought it, via a series of increasingly damaging collapses, to its final destruction, in August 1914." The author, a Professor of International Economics at the University of Siena, Italy, finds highly abstract theoretical explanations of the international gold standard to be deficient. He thinks that these treatments do not adequately explain how the standard worked during its heyday from 1890 until 1914, in part because they fail to identify how it came to be and how it came apart. So the idea that moves this book along is that to understand an economic system, in this case a financial and monetary system, one must study it within its place and time—within history. De Cecco's theoretical theme is that the international gold standard was in fact a sterling standard; to the extent that it functioned well, this was because of Britain's dominance of international financial flows. The seeds of the gold standard's demise, de Cecco argues, are found in Britain's decline as an industrial and financial power.

In Chapter 1 de Cecco argues that most economic analysis of the international gold standard is based on myth. The myth is that in the late 19th century the standard provided automatic monetary and financial adjustments which resulted in market-clearing changes in relative prices and internal and external balance. In short, the myth is that the gold standard was a laissez-faire monetary system that supported prosperity and economic efficiency. De Cecco identifies this myth as the backbone of the Cunliffe Committee Report (1919), and to a lesser extent even in John Maynard Keynes's criticism of the gold standard in his Tract on Monetary Reform (1923). De Cecco traces the roots of the myth to the ancestors of so much of twentieth century economics, Adam Smith and David Ricardo. De Cecco argues that their analyses of international economic adjustment, real and financial, were fatally flawed because they were based on a "static" analysis of "entirely homogeneous nations," and because they failed to consider the effects of increasing returns to scale. He regrets that through the decades Smith and Ricardo have won the intellectual battle over Friederich List, who saw the essential motivation of economic activity in "man's desire to congregate in extra-familiar units" rather than in individualistic pursuit of individual well-being. For List, and for de Cecco, "economics is one of the arts of statesmanship [sic]." Much of this book is a study of financial statesmanship during the gold standard era.

The second chapter reviews changes in the competitive positions of Britain, Germany, and the United States in the world economy after 1870. The argument is that as Britain's share of world output dropped, her share of trade was supported by captive colonial markets for British products. De Cecco argues that the free-trade policy of Britain during the liberal period was not really free because foreign trade in the colonies was controlled by British colonial authorities. There is a two-part connection between the material in this chapter and the overall theme of the book: (1) the decline of Britain's power is, in de Cecco's view, the seed of the decline of the gold standard, and (2) Britain's control over colonial trade (particularly India's) required control of colonial monetary policy (again, particularly India's). Britain's control of financial flows was, in de Cecco's view, the key requirement of the gold standard.

The focus shifts from production and trade patterns to financial developments in Chapter 3, which reviews the slow and haphazard birth of the international gold standard. The chapter is chock-full of details about 19th century monetary experiments and price movements for gold and silver. The theme of the chapter, which is related to the gold standard myth that de Cecco wants to dispel, is that 19th century monetary reformers did not "believe" in the gold standard the way 20th century reformers have, as they have looked back on the experience. De Cecco highlights the political struggles between industry and agriculture, creditors and debtors, the emerging entrepreneurial class and traditional landowners, as forces shaping monetary experiments after 1850. He views the international gold standard as largely an accident, caused by a particular constellation of political and economic conditions. It did not emerge from any grand and rational plan for a new international monetary and financial system. The Cunliffe Committee Report, which extolled the virtues of this putative automatic, equilibrating system, would not have been the prospectus of the actual reformers whose policies put the major nations on the gold standard.

Chapter 4 picks up the idea from Chapter 2 that India played a crucial role in Britain's balance of payments adjustment and thereby in the functioning of the gold standard. De Cecco identifies three groups that struggled over India's monetary policy: the business community in India, including plantation owners, industrialists, and merchants; the British Raj; and the India Office in London. The business community preferred a depreciating currency to stimulate demand for exports. The Raj desired a strong currency to reduce the cost of official external obligations denominated in sterling. The India Office emerged as arbiter between the other two groups, and through the Herschell Committee Report supported the Indian government's plan to close the Indian mints to private silver coinage in response to depreciating silver. This 1893 closing put India on gold but, owing to the India Office's influence, the standard was to be a gold exchange standard rather than a pure gold standard. This suited the British interest well because it kept India open as a market for British debt. The theme in this chapter is that Indian financial policy became a "docile instrument of British monetary policy."

Chapter 5 traces the evolution of financial institutions in Britain from the Peel's Act of 1844. Those that emerged were rather unique. The Bank of England, from its creation in 1694, was a private, profit-making bank, albeit with public responsibilities. The Peel's Act was meant to solve the problem of the Bank's dual nature, by making the duality concrete. It split the Bank into two departments: the Banking Department which functioned primarily as an ordinary commercial bank and the Issue Department which issued Bank notes. The Peel's Act authorized an issuance of fourteen million pounds based on security of government debt. Beyond that limit the Issue Department could issue notes only by acquiring lapsed issue rights of other banks or, more importantly, by acquiring gold.

Other financial intermediaries were in competition with the Bank, but they also formed the network that allowed the Bank to control money market conditions. The discount houses began as brokers of commercial bills and evolved into discounters of bills. In their beginning, merchant banks financed international trade, but later became acceptors of bills that usually were not used to finance trade. Typically, in pure financial transactions bills would be drawn, accepted by the merchant banks, and presented by the drawees to discount houses for discounting, *i.e.*, exchange for cash. The discount houses obtained cash from joint-stock banks, which included the Bank of England.

In his interpretation of the evolution of these institutions and their interrelations, de Cecco takes issue with the most famous contemporary observer of the scene, Walter Bagehot. Bagehot saw an evolution that placed the Bank of England at the top of a pyramid of specialized financial institutions. In contrast, de Cecco emphasizes the encroachment of joint-stock banks on the turf of the Bank, the merchant banks, and the discount houses, reducing the market power of "the City's inner circle."

Chapter 6 describes the decline of Britain's worldwide commercial power; during the twenty-four year period of the international gold standard, London lost her dominance in world financial markets. The upstarts were New York, Berlin, and Paris. De Cecco reviews the development of financial institutions in these three centers, and financial flows through the three and London. He gives particular attention to monetary policy in the four capitals as it related to the functioning of the international monetary system.

The final chapter traces the events and negotiations in London during the Crisis of 1914, when the international gold standard broke up. The author's thesis, continued from earlier in the book, is that the coming of the Great War was no more than the proximate cause of the standard's breakup. By the time war broke out in July, 1914 the gold standard was very shaky. De Cecco takes issue with Keynes, who blamed the joint-stock banks for aggravating the crisis by calling in loans. He departs from Keynes's account not on what happened, but on whether the banks' actions were responsible and inevitable or irresponsible and avoidable, given the circumstances. De Cecco's interpretation differs from Sayers's as well. Sayers thought the banks' actions were based on fear of bank runs. De Cecco thinks these banks saw an opportunity to encroach further on the markets of the merchant banks, discount houses, and the Bank of England—the "inner circle."

The reviewer found this final chapter, along with the appendices, the most interesting part of the book. They describe in a clear and straightforward way the tense negotiations and maneuverings of the bankers, the Bank of England and the Treasury during the summer of 1914. Much of the source material is in nine Public Records Office documents that de Cecco reproduces in six appendices. This material allows the reader to check de Cecco's interpretation of policymaking during the crisis. The documents include B.P. Blackett's May 22, 1914 memo from the Treasury to Chancellor Lloyd George regarding the bankers' call for a Royal Commission to investigate the adequacy of Britain's gold reserves. There is also a memo on the same subject from Sir George Paish, written at the request of the Chancellor. The bankers had begun accumulating gold reserves and wanted a policy to provide for the coordinated use of them in case of a crisis. The bankers' August 2 proposal to the Chancellor is reproduced in Appendix D. De Cecco also gives an extensive account of the August 4-6 conference of the major players in the drama, organized by the Chancellor. The account of this conference makes up the final twenty pages of Chapter 7.

De Cecco's book falls someplace between being an argument to establish a thesis and a survey of financial and commercial developments (mainly in Britain) from 1870 to 1914. The primary thesis is the idea that the international gold standard rose and fell with Britain's economic power and that from the beginning it was an accidental and fragile system. De Cecco makes his argument for this thesis throughout the book, but not always with the same attention and directness. He presents a lot of information that is not essential to the argument and which sometimes distracts from it. However, this mass of data makes the book a good source for someone who wants to know what was happening in Britain's internal and external financial affairs during this period. The reviewer noted earlier de Cecco's preference for empirical, historical accounts, rather than timeless and placeless theoretical treatments of economic systems. He has faithfully kept his account within the framework of place and time.

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