

## WINSTON CHURCHILL ON THE GOLD STANDARD

1925 and 1936

In a letter of May 9, 1936, to former Senator Robert L. Owen, Honorable G. G. McGeer, K.C., Member of the Canadian Parliament, says:

"I enclose some extracts from Mr. Churchill's Budget Speech delivered April 28th, 1925, and a summary of his remarks made in the House of Commons on the Budget Debate in 1936."

The extracts and the summary are as follows:

BUDGET SPEECH : BRITISH HOUSE OF COMMONS

April 28th, 1925

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THE CHANCELLOR OF THE EXCHEQUER, MR. CHURCHILL

A return to an effective gold standard has long been the settled and declared policy of this country. Every Expert Conference since the War - Brussels, Genoa - every expert Committee in this country, has urged the principle of a return to the gold standard. No responsible authority has advocated any other policy. No British Government - and every party has held office - no political party, no previous holder of the Office of Chancellor of the Exchequer has challenged, or so far as I am aware is now challenging, the principle of a reversion to the gold standard in international affairs at the earliest possible moment. It has always been taken as a matter of course that we should return to it, and the only questions open have been the difficult and the very delicate questions of how and when.

These matters are very technical, and, of course, I have to be very guarded in every work that I use in regard to them. I have only one observation to make on the merits. In our policy of returning to the gold standard we do not move alone. Indeed, I think we could not have afforded to remain stationary while so many others moved. The two greatest manufacturing countries in the world on either side of us, the United States and Germany, are in different ways either on or related to an international gold exchange. Sweden is on the gold exchange. Austria and Hungary are already based on gold, or on sterling, which is now the equivalent of gold. I have reason to know that Holland and the Dutch East Indies - very important factors in world finance - will act simultaneously with us to-day. As far as the British Empire is concerned - the self-governing Dominions - there will be complete unity of action. The Dominion of Canada is already on the gold standard. The Dominion of South Africa has given notice of her intention to revert to the gold standard as from 1st July. I am authorized to inform the Committee that the Commonwealth of Australia, synchronising its action with ours, proposes from to-day

to abolish the existing restrictions on the free export of gold, and that the Dominion of New Zealand will from to-day adopt the same course as ourselves in freely licensing the export of gold.

During the late Administration of the late Chancellor of the Exchequer (Mr. Snowden) appointed a Committee of experts and high authorities to examine into the question of the amalgamation of the Treasury and the Bank of England Note Issues. The inquiry resolved itself mainly into an examination of whether and in what manner we should return to the gold standard. The Committee was presided over by my right hon. Friend who is now Secretary of State for Foreign Affairs (Mr. A. Chamberlain) and then a private Member, and its other members were Lord Bradbury, Mr. Gaspard Farrer, Professor Pigou, and the Controller of Finance at the Treasury. This Committee heard evidence from a great number of witnesses representing every kind of interest; financial and trading interests, manufacturing interests, the Federation of British Industries and others, were heard. It has presented a unanimous Report in which it expresses a decided opinion upon the question of the gold standard, and it sets forth its recommendations as to the manner in which a return to that standard should be effected..... which His Majesty's Government, are intending to follow in every respect.

We thus resume our international position as a gold standard country. "That is an important event, but I hasten to add a qualification. Returning to the international gold standard does not mean that we are going to issue gold coinage. That is quite unnecessary for the purpose of the gold standard, and it is out of the question in present circumstances. It would be an unwarrantable extravagance which our present financial stringency by no means allows us to indulge in. Indeed, I must appeal to all classes in the public interest to continue to use notes and to make no change in the habits and practices they have become used to for the last ten years. The practice of the last ten years has protected the Bank of England and other banks against any appreciable demand for sovereigns or half-sovereigns. But now that we are returning publicly to the gold standard in international matters with a free export of gold, I feel that it will be better for us to regularise what has been our practice by legislation. I shall therefore propose to introduce a Bill which, among other things, will provide the following:

"First, that until otherwise provided by Proclamation the Bank of England and Treasury Notes will be convertible into coin only at the option of the Bank of England.

Secondly, That the right to tender bullion to the Mint to be coined shall be confined in the future by law, as it has long been confined in practice to the Bank of England."

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Speaking on the Budget in 1936, Mr. Churchill acknowledged that "not only the entire character, but the whole structure of British finance had been transformed. He declared that controversies disputed for generations have been settled, practices hitherto condemned have been adopted by general consent. Vast new sources of revenue have been opened; expedients have been adopted for regulating the exchanges by secret processes - and have been successfully adopted. Free trade, no taxation except for revenue, lowering the cost of living by every means that the Minister of Agriculture could conceive, the gold standard (of blessed memory!) an enormous sinking fund, and the strict and punctual discharge of international obligations. All were gone, unwept, unhonoured and unsung.

According to the Chancellor of 1925 Great Britain has shaken herself free from the Gladstonian structure and tradition of finance. Now, he said, we are a protectionist Nation with a substantial tariff, which we should no doubt raise higher as the years go by. The gold standard was not only dead, but had been relegated for a long period to purgatory. We have no sinking fund except a small fortuitous balance of the last year's surplus. We have dealt with the American debt liability in a manner which nobody would have tolerated in the years when I was Chancellor. These were all very remarkable occurrences and merely to recount them made one rub one's eyes. Analysing the situation, he pointed out that the causes which forced and facilitated these astounding changes were "the prodigious misfortunes suffered in the financial and economic sphere. Unemployment was doubled, foreign trade was halved, the carrying trade with shipping and shipbuilding was woefully reduced, Lancashire was broken, the cotton trade to India had fallen to a quarter of what it formerly was. Income from foreign investments had fallen away and had shrunk by more than 25%.

If the Treasury in 1929 could have foreseen the financial and economic misfortunes which were coming upon us, he stated, they would have felt that the difficulties were insurmountable. Today we meet in circumstances in which it is possible to say that they have been surmounted.

The significant feature of Mr. Churchill's address is to be found in the fact that he acknowledges that under the direction of the classical economy and orthodox finance of the 19th Century, his 1925 policy of Deflation with budget balancing through reduction in public expenditure and increased taxation brought England to disaster and to save herself she was compelled to resort to managed currency, industrial bonuses, protection of Home industry, the regulation of Trade and Commerce, public works and social services. In fact on his authority - and no one is in a better position to speak than he - the way to recovery is to be found first in the abandonment of the classical and orthodox school of economy and finance of the Victorian Era and, secondly, in the adoption of a policy that is based upon all that has been denounced as unsound, impractical and reactionary in the past.

After pointing out that the entire sinking fund of \$300,000,000 had been used for unemployment insurance and that the Civil vote had been raised from \$1,115,000,000 to \$1,760,000,000 and that national defense was now costing nearly \$1,000,000,000 a year he eulogized the vast programme of social service that had been developed by saying that "the social services undertaken must not be considered as weakening the strength of the Nation. On the contrary, he said, that it greatly added to the Nation's strength and had given that foundation of essential National unity, without which it would be hopeless to make any way against the many perils that had to be overcome.

In Customs and Excise he pointed out that there had been most striking changes. The protection of the Home market has enabled the increased fertility of the internal trade. None of the fears formerly held with regard to protecting Home markets had been justified, but such protection had contributed to the general prosperity.

After relegating the gold standard to the place in hell from which it came, and wholly justifying the complete repudiation of the ideas of classical economy and orthodox finance which formerly championed, Mr. Churchill said "All those rules by which the Chancellors of every party, except in war time, were rigidly bound have now been swept away". How former Chancellors would stare if what has been done could all be explained to them, he said, as he blandly referred to himself as "the last orthodox Chancellor of the Victorian Epos". Amidst cheers and laughter he appealed to the Committee "to recognize me as the Last of the Mohicans".

Now, Mr. Speaker, that might be true in Great Britain, but Mr. Churchill can lay no claim to such honour if Canada is allowed to come into the picture. The Last of the Mohicans is right in this House and has offered this Parliament a Budget that will precipitate upon the Dominion of Canada the same tragic disaster that came when Mr. Churchill tried to balance his Budget by reducing public expenditure and increasing the impossible burden of the tax payers.