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Introduction

The historical treatment of the international gold standard during and after the world war of 1914–18 in these two volumes is to be thought of as an integral part of a larger whole, and not as an independent work. This larger whole was first conceived and its central theme developed by Carel Jan Smit more than a decade ago as a result of an ever deepening interest in gold standard problems first awakened by a brief but stimulating practical banking experience in South Africa in the 1920's. Many unanswered questions were raised and actively debated when the Vissering-Kemmerer Commission visited South Africa in 1924 to consider whether that country, then the largest gold producer in the world, should return to the gold standard independently of Great Britain.

In order to find answers to these questions Mr. Smit went to London. A similar interest had drawn me to London after some years of banking experience in New York, and it was as fellow students in the London School of Economics in 1926 that Mr. Smit and I first began to discuss gold standard problems from a very broad international point of view.

In 1930 this association was renewed at Brown University, and in that year Mr. Smit laid the foundations for a comprehensive attempt to achieve a fresh interpretation of the international gold standard in the light of its history, and suggested that I cooperate in it. In 1932 the project was formally begun under the auspices of the Rockefeller Foundation and Brown University, and in 1934 the interest of the National Bureau of Economic Research in its publication was enlisted.

THE UNITY OF THE WHOLE OF WHICH THESE VOLUMES ARE A PART

The level of analysis chosen for the undertaking was described by Mr. Smit and the writer early in 1932:

"The main scientific questions which we try to answer are not: What was the *theory* of the functioning of the gold standard before the war? Are the gold standard facts of the post-war world in accordance with that theory? But on the contrary, the main scientific questions we try to answer are: What was the *practice* of the functioning of the gold standard, in its historical setting, in the pre-war world? What were the experiences with regard to its functioning in the post-war world? Can we learn from the past for the future, analyzing period by period?"

At the same time our proposed method of approach was summed up as follows:

"We have grouped the facts which have to do with the operation of the international gold standard in accordance with the character, at one time or another, of the world credit and clearing structure . . . Instead of starting to analyze the post-war international gold standard difficulties and international gold standard crises country by country, or case by case, we have first put the world's experiences with regard to the working of the gold standard within the framework of the world credit structure during different historical periods between 1873 and 1932 which are scientifically comparable. This method makes it possible to compare and discern interrelated phenomena with regard to the operation of the international gold standard that thus far have been dealt with mostly as isolated problems."

This choice of level and method was appropriate to the testing of a fundamental hypothesis concerning the pre-war gold standard to which Mr. Smit had been led by his studies in London, namely, that the relatively successful functioning of that standard before the war was due to the attainment by London of a central clearing position in the world's international financial system, and to the manner in which the responsibilities of that position were carried out. Under the economic conditions prevailing before the war this represented a remarkable and appropriate adaptation of institutional means to economic ends, the full implications of which are by no means apparent at first sight. The examination of this hypothesis and the drawing out of its implications, therefore, became the first part of our project.

It was clearly apparent that in the post-war world the highly centralized pre-war international credit system had had to make a series of radical adjustments to a new economic environment. These adjustments entailed the sacrifice of the positive contributions of a single dominating center to the successful operation of the international gold standard. The problem therefore arose of defining precisely what had been substituted for the pre-war system, and forming a judgment as to whether the new international credit and banking structure was as well adapted as the older system to the tasks it had to perform. Under such circumstances the dual clearing position of New York and London in international finance after the war provided a focal point for our post-war discussion and a natural basis for the contrasts we hoped to establish between the two periods. The full implications of the decentralization of international financial power and the loss of its central clearing position by London considered historically as a process, and analytically as a result, were also by no means obvious upon the surface. To draw out these implications in their full scope became, therefore, the central aim of the second part of our study. Consequently no descriptive or historical treatment of the relation of different countries to the gold standard, however specialized, was contemplated without reference to the general evolution of the world's banking and credit structure as a whole. This central evolution in its turn was envisaged by us as something that exerted a positive influence in shaping and directing events, never as a purely passive outcome of the play of impersonal economic forces.

By means of this central emphasis we hoped to give unity and cohesion to our interpretation of events. Without pushing our discussion into the realm of ultimate generalization and abstraction occupied by the pure theory of international trade and of international prices, we determined to follow a method of historical analysis of the different parts of our problem, but to make our method fundamentally one of synthesis by continually placing these parts in their proper relation to the whole.

This task of historical analysis and synthesis became even more challenging when Great Britain abandoned the gold standard in September 1931 while the main lines of the projected study were still being drawn. This fresh challenge to the development and application of central unifying concepts basic to the whole study was accepted by us in the following words written in the autumn of 1931.

"For the second time in our century the international gold standard has broken down. It has proved a fair weather friend. It has not given stability as it did before the war. Is this because we have relied too much upon its form and have not truly understood its essence? Does this second breakdown present to us a mere repetition of the post-war problem of restoration or does it present to us a more fundamental problem of reconstruction? What are we called upon to do about it? At this critical juncture in gold standard history it is imperative to consider and try to answer a number of basic questions as a guide to future policy. These questions are of two types: technical questions relating to the nature of the breakdown in the international gold standard and questions relating to the alternative courses of action which can now be taken.

Why has the post-war gold standard failed to give stability? Can the facts of the pre-war gold standard and the facts of the post-war gold standard be grouped in such a way that new general conclusions can be drawn from them, establishing a new scientific interpretation of the international gold standard? The answer to this general question depends upon the answers given to the following technical questions: 1—What was it that was really restored after the war? Was it the old gold standard of 1914? What was generally thought to have been restored?; 2—What were the fundamental weaknesses in the international gold standard of 1925 to 1931? Were these weaknesses present in the gold standard of 1914?; 3—What permanent new elements were introduced into the institutional environment of the gold standard from 1914 to 1928?; 4—What was it that was really destroyed in 1914? The gold standard then in force gave international stability. What was the strength of that system which enabled it to do this? What are the real alternatives between which we have to choose with regard to the future development of the international gold standard?

We attempt in this study to give answers to these questions. We do not find them in the examination of the events of 1925 to 1931 alone, much less in an analysis of the present crisis as a separate and isolated event. We find them embedded deeply in the whole history of the gold standard as an international financial mechanism operating on a world-wide scale since 1873. Considered as an isolated period the history of the gold standard from 1925 to 1931 *is the history of a great illusion. This illusion* was that in the main the pre-war gold standard was restored and that the modifications in its administration were temporary expedients to tide over the time needed for the solution of a few disturbing legacies from the war period and to permit the healing adjustments of traditional gold standard practice to work out."

The elaborate studies carried through since 1932 have confirmed us in the conviction that what was really destroyed in 1914 was the high degree of centralization of the world's credit system in London, which, in combination with the strong international creditor position of Great Britain, made the pre-war gold standard essentially a sterling exchange standard system; that that system was not and could not have been restored at any time after the war; that some genuine alternative to that system must be found if the pre-war stability of international financial relations is ever to be regained; and that among the prerequisites of such an alternative is the successful attainment of stable domestic credit conditions in both Great Britain and the United States, and a substantial degree of harmony in the broad lines of credit policy adopted in these two countries.

The vastness of the field we undertook to cover obviously made a division of labor imperative, and the fundamental nature of the central thesis taken in conjunction with the special training of each author clearly indicated what this division of labor must be. A long period of joint investigation, research, and planning was, however, necessary in order to establish the broad outlines of the central argument and to make sure that the post-war building would stand squarely on the pre-war foundation.

In the summer of 1932 we traveled in Europe and engaged in a long series of interviews with competent authorities in the various money markets of Europe—Paris, Berlin, Vienna, Budapest, Prague, Amsterdam and London. The cooperation and welcome with which our enquiries were met by busy and responsible people in all these centers and at the Bank for International Settlements at Basle has laid us under a debt that never can be repaid. There is hardly a statement in the text that deals with money market practices that is not either directly or indirectly buttressed by the authority of such personal interviews.

Upon our return we prepared an elaborate questionnaire concerning the functioning of the London-centered world credit system before the war. This questionnaire, in all its essentials, was the work of Mr. Smit based upon his preparatory studies of the pre-war techniques of the London market. It contained an *Explanatory Note,* drawn up by Mr. Smit and addressed to those to whom the questions were to be put, which admirably sets forth the central objectives of the investigation:

"Our preparatory studies and investigations have led us to the conclusion that the successful operation of the world-wide system of international credit and finance centered in London was essential to the comparatively orderly and regular functioning of the international gold standard between the leading commercial countries of the world before the war.

We have tried to dissociate our minds from widely held ideas as to how the international gold standard "is supposed" always to have worked before the war, or how the international gold standard ought to work under normal conditions. We are asking ourselves on the basis of the available facts: How did the international gold standard actually work during the period under review, i.e., from 1873 to 1914? What were its advantages? What its defects?

We have chosen the year 1873 as our starting point, because an internationally interrelated comity of nations, subject to joint gold standard vicissitudes, did not exist until Germany in 1873 and later various other countries followed the British example of having a single gold basis for their monetary systems. We have come to the conclusion that the most outstanding characteristic of the financial world in which the international gold standard functioned before the war was the fact that it had one center.

Before the war the international gold standard functioned within a world credit structure with one world credit and clearing center, London. The following is a quotation from the outline of our research project:

'Adam Smith in the Wealth of Nations uses with regard to the judicious operations of banking the simile that they provide a kind of wagon-way through the air. If it were possible to trace on a world-globe the pre-war credit-ways between countries, it would clearly appear that radii from all countries, from all money-centers, national and international, converged on London and were connected with each other through London. London was the world's clearing center before the war. The process of remittance from country to country was simplified to perfection by the fact that, notwithstanding the existence of numerous different currencies, the transfer of funds the world over could, from the point of view of banking technique, ultimately be effected by debit and credit entries on the books of banking institutions in the one world center, London.

In the pre-war world, the key to the world's foreign exchange mechanism lay in the sterling balances of foreign bankers kept in London. The methods applied in the seemingly intricate business of constantly settling a tremendous volume of international indebtedness on a world-wide scale through one banking center, London, were in principle the same as those which govern the normal settlement of the small financial obligations between individuals in one community where there is only one bank. The fundamentals of the banking devices used in both cases were the same. The combined London banking system, of which the London Clearing House in a narrow alley off Lombard Street was the final settling pivot, acted as one bank for a customer-neighborhood of bankers that comprised not only the British island but the whole world.'

After having reached the above-mentioned general view of London's unique position in the pre-war world credit field, we have climbed down from Adam Smith's credit ways through the air to the offices of banks and central banks on the continent of Europe, in the United States and in the City of London—in order to test and amplify and, where necessary, to modify and obliterate our original conceptions by a closer acquaintance with the facts and with the men who have handled the facts.

The sources available for an interpretation of the operation of the financial system centered in London would seem to be ample. No additional information on the subject of the functioning of the City's financial machinery might seem necessary. The operation of the London money market has been described and analyzed in many excellent standard works and studies, to mention only Walter Bagehot's classic *Lombard Street.* In 1909 the National Monetary Commission of the United States Senate investigated the practices of the financial institutions of the City of London in order to apply the knowledge thus gained to the banking system of the United States which was then to be remodeled. The British government published not long ago the Report and the Minutes of Evidence of the Macmillan Committee on Finance and Industry. This committee had been appointed to make recommendations which would enable the British financial institutions to promote the development of British trade and the employment of British labor.

In spite of this abundance of material, however, a brief glance at the viewpoints from which the above-mentioned books, studies, and reports on the organization and practices of the City were written will reveal the fact that London's functions have never been specially analyzed from the point of view of their usefulness to the world at large. London fulfilled before the war several regularizing and stabilizing functions within the compass of the whole world's financial and economic structure, which, as far as we know, have never been taken up as a general line of approach for any exhaustive study. In our opinion, it is this untried line of approach which may lead to useful results by throwing additional light on the causes of the failure of the international gold standard to work in the post-war world.

The gist of our thoughts on the subject of London's many regularizing and stabilizing functions within the framework of the world credit structure can be summed up as follows:

The London discount market where the whole world was both borrower and lender was the crux of the one-centered, pre-war world credit system. This market was from the world point of view an international credit mechanism under expert British control. It canalized and standardized in the form of sterling bills the most fluid part of what Bagehot called the world's "cosmopolitan loan fund" in the channel of Lombard Street. The way in which normal pre-war London was geared to the economic activity of the world was admirably epitomized by B. M. Anderson, Jr., three years ago:

'More commodities were dealt in in London than in any other single center. There was a great community of expert students of commodities, of recognized integrity, whose grading of commodities was accepted throughout the world. There was an admirable warehouse system. There was a great body of expert speculative buyers, who knew their outlets, and who were prepared to buy, at a concession in price, almost any commodity, on very short notice. The merchants of the world trusted this machinery, and the British banks could safely trust it. They could make loans which were truly liquid loans, against virtually any commodity. The London stock market also was a wide and dependable stock market, which made readily marketable a greater range of securities than would be marketable in any other center, and which consequently made good collateral out of securities which could not serve as collateral, safely, in other financial centers. The foreign exchange of every country in the world was freely dealt in in London, and could consequently be made the basis of bank credit. What came to London became liquid, and everything came to London. London, therefore, needed less gold than other centers needed. I hasten to add that very much of this is true of

London today, though the abnormal developments during and since the war have, of course, modified the earlier picture.'

Both the marketing and the financing of world staple commodities were more centralized and more closely connected than they have been since the war. This may have had an important bearing on world commodity prices.

The present situation with regard to world credit and with regard to the international gold standard makes one thoroughly realize now the wisdom of these other words of Bagehot's that credit is like loyalty in government, that you must take what you can find of it, and work with it if possible.

The fact that the undisturbed functioning of the financial machinery of the City of London is indispensable to the stability of world credit and of the world economy is now acutely felt rather than generally understood in various parts of the world. Will you help us to throw more light on London's manifold regularizing and stabilizing functions before the war in the field of international credit and finance? We have arrived at a considerable number of tentative conclusions with regard to these world functions fulfilled by London which have to be further tested before they can be finally laid down as an important part of the results of our international gold standard study. Our investigation is based on the firm conviction that the practical experience of the past will be the best guide for the future."

In the summer of 1933 I went to London to obtain the answers to this questionnaire. The generosity with which many competent people in London devoted time and energy to giving these answers was in part an evidence of the general goodwill we have encountered throughout our investigation and in part a tribute to the technical excellence Mr. Smit was able to give to the questions. We are especially grateful to G. K. Logie of Lazard Brothers and Company, and to C. W. Heath of Brown Shipley and Company. At the same time I made an elaborate compilation of new foreign capital applications in London from 1870 to 1914. In this I was ably assisted by P. L. J. Bareau, and came under obligation to many others for generous advice. The data thus obtained were subsequently analyzed geographically and by issuers and related to changes in Bank rate. Meanwhile A. G. Silverman had become associated with the study and had begun a special statistical analysis of the interdependence of the world's chief money markets before the war.

These various investigations had the double purpose of strengthening the basis of Mr. Smit's own analysis of the pre-war period and providing part of the background for drawing out the similarities and contrasts between the pre-war and post-war periods. At the same time Mr. Smit had begun, as part of his pre-war studies, a series of statistical analyses of the functioning of the Bank of England and the joint stock banks in the London money market, two of which—the study of the ratio system of the joint stock banks and of the 'Typical Year' of the Bank of England—were continued by me for the post-war period. In these ways the essential unity of the whole study was forged by a series of special studies contributing to both the pre-war and post-war analyses, and supplementing the sharing of points of view and experience between the authors themselves.

In April 1934 we spoke at the annual meeting of the Academy of Political Science in New York, giving as briefly and succinctly as possible the provisional conclusions reached up to that time.[1] Only then, with the foundations fully laid, was the task of writing the pre-war and post-war parts divided between us.

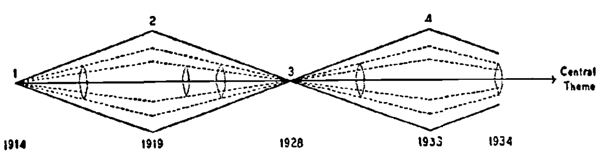
Events in our chosen field were meanwhile moving rapidly, and a decision had to be made concerning the date up to which the studies should be carried. This date was fixed as the spring of 1934, so that the significant events between Great Britain's abandonment of the gold standard, which took place when the first plans for the study were being drawn, and the devaluation of the American dollar, which took place when the final division of labor was decided upon, should be

[1] *Proceedings of the Academy of Political Science,* Vol. XVI, No. 1, April 1934, pp. 53–61.

included. These events are rightly included, for they were part of a definite historical period during which the necessity for finding a genuine alternative to the pre-war system was made plain for all to see, and the first steps in constructing such an alternative were taken.

THE STRUCTURE OF THE POST-WAR ANALYSIS

The structure of the argument here presented has long lain in my mind in the form of a sort of diagram. As the discussion is long and detailed and the interrelations among the multitude of events and situations germane to the central argument are in fact extremely complex and intricate, some such mental



picture or framework is necessary. Consequently we present the essential shape of the whole treatment at the outset. The successive phases of the argument are subordinate to a single central theme, represented in our diagram by a line ending in an arrow. The broken lines represent the individual threads of the argument. These individual threads are bound together at various stages by circles. These circles represent what may be called 'binders,' that is, major concepts which hold the separate elements of the discussion together during the succeeding phases of the main argument. Numbers and dates indicate points of concentration and dispersion of these threads within the main argument. Upon this plan the discussion proceeds as follows:

The central theme is the progressive decentralization of the world's international credit system and the economic changes responsible for it.

The point of concentration marked by the number (1) and the date 1914 represents the unified picture of the pre-war system, including the latent weaknesses already beginning to develop in it. This picture, in broad summary, is repeated at the point of concentration marked by the number (3) and the date 1928 (Ch. 21) in order to provide the basis for a direct contrast between and comparison with the pre-war system and various phases of the post-war period. Readers whose interest lies wholly in the post-war period or who wish to secure a bird's-eye view of our general conclusions on the 1914–28 period before plunging into the detailed historical account, may with advantage read Chapter 21 first, and return to it again in its proper place.

The point of dispersion marked by the number (2) and the date 1919 represents the culmination of the forces undermining the stable exchange rate system existing before the war. The working out of these forces during the war was given a special and peculiar character because the whole period was dominated by an effort to preserve as far as possible the illusion of merely temporary deviations from normal gold standard conditions, to be followed by an early return to normal after the war. All the individual threads in the discussion of this period are influenced by this effort, whether they are purely conceptual—such as the distinction between the form and the substance of the international gold standard and the necessity for reexamining the idea of par—or economic—such as the central fact of the creation of a new economic environment fatal to the continued dominance of England in world trade and finance—or purely descriptive—such as the behavior of the exchanges, the programs of gold concentration, and the techniques of war-time inflation in the various countries. The treatment of the years 1914–18, therefore, is dominated by a unifying concept represented in the diagram by the *first* circle. The binder for this period is the common effort to preserve as far as possible the outward appearance of the gold standard both as a traditional system of exchange rates and as a domestic institution within the various countries.

The point of concentration marked by the number (3) and the date 1928 represents the completion of the restoration of the gold standard after ten years of post-war effort. The whole decade 1919–28 is a unit from this point of view. Certain fundamental principles of stabilization of currencies were then worked out and in appearance successfully applied. These principles of stabilization, first formulated at the Brussels Conference of 1920, elaborated at the Genoa Conference of 1922, and modified and developed in many ways and in many countries from 1924 to 1928, provide the 'binder' for this period. This is represented in the diagram by the *third* circle. During the first half of this decade, however, a secondary unifying concept is applied, represented by the *second,* smaller circle, which may be called the Dance of the Price Levels. It represents the struggle between Great Britain and the United States to apportion the economic burdens involved in the former's return to the gold standard at the prewar par of exchange. All the individual threads treated in the war period are carried forward subject to the general control of these two major ideas. Some are brought into new prominence; for example, the need for a new concept of par in passages devoted to the notion of gold as standard and gold as reserve. A far more elaborate treatment is given to the new money market techniques in London and New York and to the behavior of the credit base and the credit superstructure of the British and American banking systems. A new thread is introduced by an accounting analysis of the technical problems created by the substitution of an international credit system based upon two centers for a system based upon one center, leading up to the concept of the conflict between technique and capacity involved in such a situation. All these are closely related to the central theme of the whole study. In addition, the major problems of reparation, the application of post-war stabilization principles to Germany, the French stabilization and the extraordinary growth of French power and influence in international finance, and the repercussions of all this upon the relations between Great Britain and the United States are new major threads which are woven, in this part of the study, into the general framework provided by the two 'binders' or unifying concepts. The purely descriptive thread of the behavior of the foreign exchanges assumes a diminishing importance as the period draws to a close, but a new conceptual thread is forced into the foreground—that of the simultaneously competitive and cooperative aspects of the whole restoration effort. Finally the post-war stabilization principle of gold economy, which has its counterpart in the gold concentration policy of the war period, is developed by a descriptive and analytical discussion of the rise of the gold exchange standard, the relationship of which to the central theme is brought out by emphasis upon the idea that the gold exchange standard of the post-war period was without a focal point.

With the completion of the restoration of the international gold standard in 1928 a vantage point is reached for drawing the threads of the whole discussion together. As already indicated, this is done in Chapter 21, which comes at the point of concentration marked by the number (3) in the diagram. This is the key to the whole post-war discussion. In the first part of this chapter practically every sentence represents a point carefully established in the preceding discussion, and it is my hope that these points will come to the conscientious reader with the force of demonstrated truth rather than of opinion. Here the salient features of the pre-war system are restated in broad summary and two fundamental comparisons are made. The first is between the international gold standard system as it stood in 1928, when practically all countries adhered to it, with the pre-war system. The primary object of this comparison is to bring out fundamental differences in two situations which had, in the main, the same external and formal characteristics. The second comparison is between the gold standard of 1928 and the gold standard of the war period. Its primary object is to bring out fundamental similarities in two periods which on the surface appear quite dissimilar. These similarities are contained in the attempt in both periods to carry forward by a misuse of the traditional means of gold standard adjustment a whole series of unsolved economic problems. Under the gold standard facade of 1928 these problems were an unbalanced world economy, a deferred cyclical adjustment, and an unsolved reparation problem.

The impact of these great unsolved problems upon the post-war decentralized world credit structure forms the theme of the next phase of the discussion which reaches a point of dispersion (marked by the number (4) and the year 1933 in the diagram) with the abandonment of the gold standard by the United States. Here also the threads woven into the earlier discussion are carried forward, though one is soon followed to its end. The light shed upon the labyrinth of international financial relations by the post-war stabilization principles is, in this section, after a few fitful flickerings, finally extinguished. One special topic lightly treated in the earlier discussion—the relations of the outlying or periphery countries to the central nucleus—is brought into great prominence. Its direct relation to the central theme is indicated by tracing its connection with the major development of this period—the disintegration of the nucleus of center countries under the impact of world-wide deflationary forces. Here also there is a 'binder' or unifying concept (the *fourth* circle); namely, the idea of the central foreign exchange triangle. This idea is implicit in the whole discussion subsequent to the French stabilization. It is a guiding idea for the discussion of the successive stages of the breakup of the nucleus first by the abandonment of the gold standard by Great Britain in 1931, and then by the abandonment of the gold standard by the United States in 1933, and the consequent grouping of the exchanges of the world around the major currencies under the pressure of the financial affiliations and economic need of the smaller nations. This 'binder' also provides the background for the further treatment of some of the threads continuously present in the whole discussion: the conceptual distinction between form and substance in the international gold standard and the idea of par; the descriptive treatment of the behavior of the exchanges and their grouping; and the analysis of the behavior of the credit base and credit superstructure in Great Britain and the United States, now subject to radical and profound changes reflecting the application of new money market techniques. It also provides the setting for the end of reparation, the end of the gold exchange standard as a major world institution, and the decline in French power in international finance and the consequent change in the character of the nucleus of center countries itself. Finally, it provides the framework for the reintroduction of an element prominent in the war-time description of the behavior of the exchanges, as an independent thread of great importance, namely, exchange control.

The drawing together of the threads after the point of dispersion in 1933 does not continue to a new point of concentration. The study ends with the devaluation of the dollar in 1934. No clear and settled system for the regulation of the exchanges, the international distribution of capital, and the promotion of stability in the field of international finance had at that time been established. Yet the outlines of a new system were in some respects already dimly discernible. One noteworthy feature of such an alternative to the pre-war gold standard that gave promise of permanence was the breaking of the direct connection between the management of domestic monetary policy and of international financial relations, and the substitution of flexible, powerful, and governmentally controlled indirect connections between the two. It is too soon to decide whether the threads were again drawing together toward a point where the passing of some future milestone would justify a comprehensive retrospective survey of the period begun in 1933, so that the binder or unifying concept for the final period of those studies—the *fifth* circle—

becomes really a question. This question is the fundamental one 'Who is sovereign over the foreign exchanges?' And its answer is sought by bringing into the foreground of the concluding part of the book one thread never wholly lost sight of at any stage of the argument—the reexamination of the idea of par.

THE FOUR MAIN DIVISIONS OF THE BOOK

The form or shape of the argument of these volumes as outlined above does not coincide exactly with the main divisions of the text in the Contents. These divisions are first, *Breakdown*—the war period; second, *Restoration*—the period from the freeing of the dollar-sterling exchange from control in 1919 to the return of Great Britain to the gold standard in 1925; third, *Experimentation*—the period when Great Britain was on the gold standard, 1925–31; and fourth, *Disintegration*—the period from Great Britain's abandonment of the gold standard to the devaluation of the American dollar, 1931–34. The essential reason for this division is that, even though the process of Restoration was not completed until 1928 and the process of Disintegration began in 1929, the period 1925–31 has a unity that cannot be disregarded. The nature of this unity is described in the first pages of Chapter 13. Fundamentally it was the unity of a great and all-embracing experiment in the field of international relations. The core of the magnificent but foredoomed attempt to reestablish the gold standard and *thereby* to achieve stability after the war was that it was not a movement backward to something old, but an attempt, without a proper understanding of its novelty, to do something new. The experiment of creating an international money market in New York was new. The experiment of defending sterling over a long period was new. The experiment of operating a gold exchange standard without a focal point was new. Together these three combined to make the great and novel experiment of 1925–31: that of attempting to operate a decentralized world credit structure in an unbalanced world economy. The major formal divisions of this treatise are therefore superimposed upon the general flow of the argument as outlined in this introduction not by arbitrary considerations of convenience, but because they are clear and definite stages in the life history of a great social institution.

FORM AND SUBSTANCE

One of the threads of the argument of these volumes is the distinction between the form and the substance of the international gold standard. I wish to conclude this introduction by adding a personal word which involves a somewhat similar distinction. This book is long. It is filled with minute descriptive and analytical detail concerning techniques, practices, and policies. These details are the medium through which a great pattern of events affecting the welfare of millions was actually woven in historical fact. They are also the medium through which changes in the meaning of important theoretical concepts can be made clear, and new relationships grasped. The book is an example, whether successful or not the reader will judge, of the use of history as an instrument of analysis. This is its form. But the book is something more than this. It is my hope that the many pages of what may seem to many to be dry and technical material may convey to some readers what they convey to me—a fundamentally exciting story. That is the story of the straining and buckling, the distortion and transformation of a great human institution under the pressure of human passion, human greed, and also human fortitude and will. This is the substance of the book. To one gifted with imagination, the accurate and complete statement of the facts of any great and complicated part of economic history must bring a deep and underlying feeling of excitement. If the cumulative impression of this story leaves in the reader some trace of such a feeling, the book will have fulfilled my deepest purpose.

For nearly a decade the number of those to whom the authors of these studies have become indebted has been growing until it far exceeds the capacity of a brief note of acknowledgment to record. The variety and scope of this debt of gratitude, moreover, cannot adequately be suggested in such a note. It has in large part been accumulated jointly by Mr. Smit and myself, but each of us feels that a part of it is peculiarly his own.

The three institutions to which the study owes its existence as a large and comprehensive project are Brown University, the Rockefeller Foundation, and the National Bureau of Economic Research. These institutions have appeared to us in the guise not only of impersonal bodies sponsoring, financing, and publishing our work, but also as a group of individuals who have helped us in many ways and over a long period.

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