The UK-US Game and UK’s Return to Gold Standard

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Abstract: With the continuous development and evolution of the United States, especially the economic center shift after World War II, the United States become the economic hegemon instead of the UK and thus it seized the economic initiative of the world. After the World War I, the European countries gradually withdraw from the gold standard. In order to stabilize the world economy development and the international economic order, the United States prepared to build the economic system related with its own interests so as to force the UK to return to the gold standard. The game between the United States and the UK shows the significance of economic initiative. Among them, the outcome of the two countries in the fight of the financial system also demonstrates a significant change in the world economic system.

Keywords: UK-US Game; UK; Return to the Gold Standard

The gold standard is a monetary system that perceives gold as the standard currency. As for different countries, when they use the gold standard, the exchange rate of each country is determined by the ratio of the gold content of the currency, that is to say, the currency exchange rate of the country is determined by the gold parity. Gold standard was popular in the mid-19th century. Its characteristic was the freedom of international export and import of gold. As the currency reserves of each country were gold and the shift was not limited, it provided conditions for the relative stability of foreign exchange market and the unification of financial markets all over the world. With the continuous development and change of society, the gold standard was dominated by the UK and based on its interests and development. However, in the World War I, the economy of the UK declined and the economy of the United States developed rapidly, which lead to the weakness of the dominant position of the gold standard for the UK. During the war, in order to enhance the war capability and cope with the financial crisis, each country reserved a large amount of gold and strengthened the restrictions of the cross-border circulation of gold, which led to the collapse of the gold standard.

1. The UK-US economic game

During the World War I, the United States acquired a large amount of gold, which gradually shifted the economic center from Europe to the United States. The European countries had canceled the monetary system of gold standard due to the loss of the gold and abandoned the monetary policy of gold as functional currency, and this way would affect the economic status of the United States. The currency of European countries would depreciate because of the shortage of gold supply, and decrease the imports of goods from the United States, and then would try its best to expand exports, through which to make the monetary value of gold in the United States reduce greatly so as to improve the market competitive pressure in the United States. Only European countries continue to use the gold standard, the gold race of the United States is finally of great success. In order to promote the European countries to return to the gold standard
and guarantee the sustainable development of its own economy in the United States and to reduce the gold inflows in the United States, to alleviate the problem of inflation in the United States, the United States eagerly hoped to reestablish the gold standard in Europe, especially the European economy system with the core of the UK.

In order to solve the post-war economic problems of European countries to reconstruct European economic pattern, the UK sponsored Genoa meeting in 1922. The UK hoped to rebuild their economic hegemony through this meeting. The meeting also invited the United States, but the United States refused to attend the meeting with the excuse that the political nature was more than the economic nature. At the same time, the United States were also keeping a close eye on the all of the content of the meeting. During the meeting, the UK put forward a standard currency directly attached to the gold, which recovered the world financial center position for the UK through the gold exchange standard. The international economic laws were rebuilt on the basis of the interest of the UK. However, this proposal were negated by the United States, because the United States believed that the UK’s monetary policy would make up for their losses in the war, but make the United States lose their status as the center of the world economy and deviate from the original formulation to return to the gold standard for the United States, even this would threaten the economic and social development of the United States\(^1\).

The United States hoped the European countries to return to the gold standard, and then placed their sights of the development of gold standard in Germany, because Germany had acquired a lot of reparations after the end of the World War I, if Germany continued to use the currency linked to pounds, Germany would continue to use pounds in the process of post-war construction and development, it was not useful for the economic development of the United States. The United States hoped German currency to link to gold, but the UK disagreed with the demand that German currency links to gold in order to ensure their central position in the world economy. Because once the Germany used the gold standard, it will force the UK to return to the gold standard. The struggle between the two countries reflects the development process of the world economy. The United States took use of its economic strength accumulated after the war to avoid the further decline of the pounds, Germany implemented the monetary policy of linking the dollar, and European countries also returned to the gold standard. This economic game between the UK and the United States ended up with the victory of the United States\(^2\).

2. UK’s return to the gold standard

Due to the shift of the world supremacy of the UK, each country gradually realized the threats that the pounds took for their economic control. In order to remove the control of their currency rate from the UK and strengthen the initiative of control for domestic economy, the European and American countries gradually broke away from the currency linked to pounds. At the same time, in order to promote the UK to return to the gold standard, the United States had taken some measures to give British economic assistance. For example, the exchange rate of the post-war for the UK to the United States was still at a very high level, which was the same with that of pre-war. Without the U.S. economic policy support, the British economy was difficult to maintain. It is also the normal practice in order to ensure the economic market for the United States. If the exchange rate in the UK is decreased, the public will start to give up the idea of using the pounds as the foreign exchange currency, and then trade in dollars or gold. This will make the financial markets of the United States generate deflation, and then influence economic development. Through the policy of supporting the exchange rate of the UK, the United States enabled a large amount of international capital to flow to the UK, which could effectively alleviate the UK’s economic crisis. In addition, the United States encouraged some private banks to lend to the UK so as to improve the currency value of pounds, to reduce the price gap between the UK and the US, and finally paved the way for the UK to return to the gold standard\(^3\).

As for the UK, it can restore UK’s economic status in the world by making the British pounds and gold link to each other to return to the UK’s financial hegemony. No matter whether the purpose is to consolidate the scope and power of the UK colonies abroad or to prevent the UK exchange rate from fluctuating, the British personnel in all lines had accepted to return to the gold standard. In order to strengthen the unity of the British common wealth forces and to
keep the world financial center of the UK, it announced a return to the gold standard in 1925.

3. The impact of UK’s return to the gold standard

The UK’s return to the gold standard can effectively control its economic development, stabilize the losses caused by the economic crisis, and improve its global financial status in a short time. However, the UK’s return to the gold standard brought a negative impact on the economic development of the UK and even the world. On one hand, UK’s return to the gold standard will hinder its industrial development. In order to cope with the new economic and monetary policy, the enterprises have to cut workers’ salaries to make up for the impact of the currency change on their earnings. On the other hand, the United States eagerly hoped the UK to return to the gold standard, which was greatly beneficial to the development of the United States and could enhance the financial speculation inside the United States. The banks of United States lent a large amount of money to the UK, which stimulated the speculation in the domestic economic market of the United States and led to the contradiction between supply and demand in the United States.

4. Impact of the gold standard on the global pattern

Before World War I, the gold standard was in higher economic status, it made the economic relationship between capitalist countries together, and it belonged to a general international monetary system. Some of the major capitalist countries in the world are using the gold standard, such as the UK, the United States, Germany, Finland, Italy and other countries. It is the main tool for the economic exchanges between the European countries and the United States. The gold standard perceives the gold as the main international reserve assets with the UK as the core. Before the World War I, the internationalization of gold standard was very strong, but after the World War I, the status of gold standard gradually collapsed, the UK’s status as the international financial center also gradually weakened. The contradiction between the capitalist countries were increasingly deepening, the international monetary system stability had also been gradually weakened. Gold standard as a relatively stable international monetary system, gold has got the function of world currency, which can promote the commodity transactions among countries, strengthen the international trade circulation, and play an important role to promote the credit items and capital export for capitalist countries. At the same time, the gold standard also has got the function of automatic adjustment of balance of payments, which is an important means to promote the prosperity and development of the world economy in the stage of capitalist development.

The gold standard plays an important role in the international economic development, but it also deeply affects the world pattern, the gold standard will acquire the hegemony of the world economy linking to a currency of a country. For example, before the World War I, the gold standard is centralized on the UK and the currency exchange rate of the country with its currency linking to the British pounds is controlled by the UK, London has become a world financial center. After the end of the World War I, a large amount of gold flow into the United States, and the United States forced some countries in Europe to restore the gold standard through a series of measures, then through using the gold standard linking to dollar, thus the economic sovereignty shift to the control of the United States.

Gold standard enhances the competition between the capitalist countries. The UK, after the end of the World War I, returned to the gold standard, accelerated the turmoil of the world and the reconstruction of the economic structure. European countries, at the end of the World War I, returned to the gold standard in succession, and France also joined the currency situation of the gold standard, thus formed the currency system in which each currency linking to pounds, dollars or francs, and then through the three kinds of currencies and gold hooks, the dispersed gold standard has not got the stability of the currency pegged to the pound only before the war, while the dispersed gold standard also gradually disappeared during the recession of Europe and the United States economy recession. After the London Monetary Conference held in the UK in 1933, the world economic pattern was divided into three parts: The UK, the US and France[4].

After the establishment of opposite and mutually exclusive currency groups by the three main big currency coun-
tries, the international economic contradictions are increasingly rising. The commonwealth countries and some countries with close relations with the UK economy has formed the pound group, and the United States and Canada with other central American countries have established a dollar group. France and Asia, Africa, the two colonies, formed francs group. The three major currency groups compete with each other, the contradiction between the countries become serious. The three major currencies groups adopted a policy of external currency exclusion and discrimination, not only controlled the small countries and colonies with low strength, but also grabbed the market for the world’s commodity sales, raw material production and capital investment. The UK and the United States even perceived the struggle between the currency groups as a means to fight for the world economic hegemony. The serious competition among the three currency center countries gave birth to the hidden rise of three imperialist countries; these are Germany, Japan and Italy. The world pattern developed toward diversified style. The exclusive policy of the three major currency groups hindered the development of Germany, Italy and Japan, and pushed them to sponsor the war of aggression and military plunder. In order to expand one’s own economic market and the national territory, each country constantly initiate abroad wars. At last, the economic development of all countries gradually tends to diversification and globalization.

5. Conclusion

The economic game between the UK and the United States has made a great change of the international economic situation; the victory of the United States in the game shifts the international financial center. In order to promote these countries’ economic development and strengthen their economic status, the United States encourages countries to return to the gold standard. Although the return to the gold standard of the UK had a great effect on its economic structure of capitalism, its emerging industry did not get effective development. Therefore, the return to the gold standard of the UK for the reconstruction of the world economic system is not of a big function, also not suitable for the development and innovation of the world financial market.

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