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*The Inflation-Proof Gold Standard  
The Foreign Policy of Riksbankschefen.  
Victor Moll and the Origin of the  
Swedish Ban on Gold Imports in 1924*

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An international system that has little or no prospect of stability in its functioning inevitably causes member states to defend themselves against the system's destabilizing effects by leaving it. The departure might take many different forms, some of which preserve the appearance of adherence to the system and its rules while in actual fact erecting shields with the aim of avoiding these rules. However, national and domestic considerations will be given increasing emphasis when the international régime is no longer capable of securing harmony of national interests. This tendency will then, in turn, aggravate the crisis of the international system.

Such a generalization may help when one tries to understand why the *motive of national sovereignty* was so often stressed by Swedish monetary management when arguing for departure from the international monetary system, that is the gold standard. Victor Moll, the governor of the *Riksbank* (1913-1928), had no opportunity to read the late professor Cobban's comment that: "In the economic world self-determination is an irrelevant conception,"<sup>1</sup> but

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<sup>1</sup> A. COBBAN, *The Nation State and National Self-Determination*, New York (Thomas Y. Crowell Company), Apollo Ed., 1970, p. 280.

Moll would probably have subscribed to professor Cobban's argument although Swedish monetary policy, under the pressure of the circumstances of the war and of the first years of the post-war reconstruction period (1916-1924), became increasingly the field where the traditional objective of central banking (stable exchange rates maintained by regulating the domestic credit base solely in relation to changes taking place in the reserves of the means of international payments) came into conflict with domestic considerations (in our period, mainly the demand for stability of home prices). And this conflict was resolved by gradually giving up adherence to the norms which subjected the Swedish currency to the 'automatic' regulation of the international gold standard. This trend in turn owed much to the fact that the gold standard régime was losing both its automatic and international character.

Monetary 'nationalism' in Sweden cannot be seen as part of a comprehensive nationalist ideology (as it became in Central-East-Europe from the early 1930s onwards), nor as a consciously applied set of ideas that provided central banking with a clear policy. It was more a spontaneous development, resulting from the confrontation between pragmatist monetary management and a rapidly and radically changing world where the pre-requisites of pre-1914 monetary stability evaporated within a few years as if they had never existed. Meeting the challenge of new conditions, the change in the attitudes of the policy makers in a new era where the balance of power among the leading countries was replaced by overt competition for hegemony leading to war, and where the basis for free international economic intercourse no longer existed was necessarily a gradual process, and practical measures were often far ahead of their theoretical and ideological articulation and justification. This time-lag between the introduction of new objectives and techniques in actual political practice and their justification as theoretically 'sound' norms was very characteristic for the development of Swedish monetary policy and ideology from the years of World War I throughout the 1920s.

It was due to the new conditions that behind the outer façade of untiringly repeated commitments to the policy of a "return to normal," (i.e. a return to the pre-1914 system), national monetary policies irreversibly departed from the pre-war gold standard model. This trend can be traced in the 'core' as well as on the 'periphery' of international finances.

The British plans for central bank cooperation to promote monetary reconstruction and the coordination of national monetary policies designed to stabilize the value of gold as well as the proposals to regulate international capital flows would, if successfully realized, not only have facilitated London in regaining her international importance, but also brought about qualitative innovations in comparison with the pre-war system.

The 'sterilization-policy' of the management of the Federal Reserve System, a policy designed to cope with the massive and unceasing influx of gold from the Old World heavily indebted to the United States, brought the dollar

as far from gold standard as any of the inconvertible currencies of Europe stood in the early 1920s. The validity of Keynes' comment on this policy from 1923 is not restricted to the case of dollar: "For the past two years, the United States has *pretended* to maintain a gold standard. *In fact* it has established a dollar standard; and, instead of ensuring that the value of the dollar shall conform to that of gold, it makes provision, at great expense, that the value of gold shall conform to that of the dollar. *This is the way by which a rich country is able to combine new wisdom with old prejudice...* The new methods will work more efficiently and more economically when they can be pursued consciously, deliberately, and openly."<sup>2</sup>

It is the aim of this paper to show how Sweden, being much poorer than the United States, tried 'to combine new wisdom with old prejudice.' To prevent the reader from expecting more than this paper actually contains, I must add that the subject is strictly limited to the *Riksbank's* attitudes on the main issues of post-war monetary stabilization as they were reflected in its relations with other central banks during the early 1920s.

It is the effect of the changes in the outside world and of their perception by the *Riksbank* upon the formulation of Sweden's gold policies that will be examined. The study of these issues helps us to understand *the peculiar form* of Sweden's return to the gold basis after the war, when the abolition of the Gold Export Prohibition and the resumption of gold payments by the *Riksbank* were combined with the introduction of the Gold Import Prohibition. It may also contribute to a better understanding of *why Sweden had waited so long* before returning to gold. (It might have been done much earlier if the sole consideration had been the stability and level of the dollar rate of exchange, for the *Kronan* had been very close to its old gold parity level since the autumn of 1922.) It will not explain, however, *why Sweden went back to gold standard so early* as April 1, 1924, the first country in post-war Europe to do so, and at a time when political and economic conditions were still far from being settled and when even for Britain it would take another year to free the gold market.

### *The Post-War World of Money as Seen from Stockholm*

One of the earliest and perhaps the most important document concerning the *Riksbank's* view of post-war European monetary reconstruction is the 'expression of opinion' by the Scandinavian central banks, which dates from late 1921.<sup>3</sup>

Most of the document is devoted to the problems of international stabili-

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<sup>2</sup> J.M. KEYNES, *A Tract on Monetary Reform*, London (Macmillan), 1923, pp. 198-199. Italics added.

<sup>3</sup> *Riksbankens Arkiv, Handlingar ordnade efter ämne, II, Sverige-utlandet, Norden, Skandinaviska myntkonventionen m.m., Diverse handlingar, - 1939.* (Archives of the Bank of Sweden, Stockholm - hereinafter: RbA).

zation, as opposed to those of stabilizing the 'internal' values of national currencies. One might be inclined to ascribe this phenomenon to the logic inherent in the traditional view on the working of the gold standard (and on the role of monetary policy), where the national price level is considered to adjust itself 'automatically' to the needs of exchange-rate stability. This is confirmed by the fact that the signatories to the document excluded from the domain of the central banks a decision on the level at which prices should be stabilized, declaring: "Even if it is conceivable at all to make a decision on the stabilization of a certain price level, such a decision falls outside the competence of the central banks." Moreover, it was also emphasised that the only means available to a central bank for stabilizing price levels was no longer effective. That meant that *the discount rate* could only regain its "normal influence" once "the value of several countries' currencies have become stabilized through the restoration of the gold standard, and the confidence necessary to an unimpeded international movement of capital has been regained..." This suggests that priority was given to stabilizing the 'external' value of the currencies (i.e., to stabilizing the rates of exchange), which in turn implies that international stability was thought to be a pre-condition for stability at home. This position adapted by the Scandinavian central banks accords fairly well with the British policy proposed in the Cunliffe Report.

The problem of international stabilization, according to this document, was a problem of finding a common standard of value, and although alternative standards were not excluded in principle, it was proposed that "until a better standard is suggested" the gold standard be re-effected. The document also implies that once gold had been reinstated as the common standard of value, it would recover its own stability. That follows from the view that the war-time fluctuations (depreciation) in the value of gold were due to its demonetization, i.e. to the measures that disengaged the gold-standard mechanism (abolition of convertibility between gold and claims upon central banks, gold export or/and import prohibitions, etc.). As they put it: "The system of legal prescriptions under which the international value of gold was fixed and the maintenance of that value guaranteed, was rendered ineffective in all countries with a gold standard through the abolition of gold payments, gold export prohibition, etc. Gold thus became a simple commodity like all the other commodities, exposed to various price fluctuations. Gold's function as a value-standard was suspended."

The document left entirely to the discretion of individual countries the timing of the return to gold basis and the parity at which it should take place. The explanation was that the position of the countries in terms of the international value of their currencies (the dollar rates of exchange) was too different, and, hoping for an improvement, none of them would have been willing to devalue according to the rates prevailing at that time.

In the signatories' view the initiative for a solution was to be expected from

outside, from the coordinated action of New York and London: "At present no country in Europe seems capable of restoring the gold standard without the cooperation of the United States. It seems self-evident that the first step towards restoring the gold standard must be taken by the United States and England together. There is probably no other country in Europe so keen to return to an effective gold standard as England is." The message is clear: if England was to retain any of her pre-war dominance in the world's financial and monetary system, she had to come to terms with the United States, whose economic power has grown far too great for her to be ignored when making the arrangements of European reconstruction. In other words, however close the smaller European countries were to stabilizing their currencies in terms of the dollar, they refused to shoulder the risks inherent in British-American rivalries. The document suggests that a settled relationship between London and New York would find expression in Britain's return to the gold standard, and only when this had been accomplished could "the other European countries, starting with those in a relatively good position, follow her example."

The signatories also emphasised that, although the "first and the most vital condition for progress in overcoming the monetary chaos" (meaning the successive return by Britain and then other countries to a free gold market providing the world with a "fixed value-standard" again), this remained only a first step towards the "restoration of economic health." In its diagnosis of the economic ills, the report names the problems of reparations and inter-allied debts, along with Russia's economic isolation, but it leaves their solution to the domain of politics.

As we can see, this document, especially in the views on the stabilization of 'external' and 'internal' values of the currencies and on the objectives and means of monetary policy, was very far from being unconventional. This makes only the more interesting the one point, however, which not only explains why all the ties of Sweden's currency to gold had been totally broken by early 1920,<sup>4</sup> but also why the *Riksbank's* management should so strongly have resisted for two and a half years after the Stockholm meeting the increasing pressure at home for a return to gold basis. And that point was, as the central bankers of the Scandinavian Monetary Union understood, the instability in the position of gold, the pillar of the system. The source of this instability they believed to be partly the demonetization of gold during the war. Another,

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<sup>4</sup> For details of war-time gold policies of the *Riksbank* see ELI F. HECKSCHER, *Penningväsende och penningpolitik från krigsutbrottet till den internationella guldmyntfotens återställelse, 1914-1925*, that is Part V. of Eli F. Heckscher (ed.), *Bidrag till Sveriges ekonomiska och sociala historia under och efter världskriget*, Stockholm (P.A. Norstedt & Söners Förlag) 1926, Del II. An abridged English edition of the book in: (The Carnegie Endowment for International Peace: Division of Economics and History), *Sweden, Norway, Denmark and Iceland in the World War*, New Haven (Yale University Press) and London (Humphrey Milford: Oxford University Press), 1930.

more important and persistent factor of instability they saw in the radical shift of economic power reflected in an ill-proportioned distribution of monetary gold stocks from the Old World to the New. They feared that the tensions brought about by possible rivalries between the main centres of the system would ruin stability, making the 'fixed standard of value,' gold, a source of disturbances in the economies of the smaller countries around the 'core' as well. That is why the document proposed a policy of clearly defined pre-conditions for any determined move towards restoring the gold standard. Those preconditions were formulated with an eye to the major problems in the post-war world economy, first and foremost the unsettled relations between Britain and the United States, the stabilization of which was regarded the *sine qua non* for Sweden's accession to an international monetary standard, and without which any stabilization attempt, the central bankers in Scandinavia felt, would be highly dangerous:

"So long as not even England has stabilized the value of the pound *vis-à-vis* the dollar, it seems improbable that any Scandinavian country could stabilize her currency's dollar-rate. Until a fixed starting-point, a fixed international value-standard, has been attained, any small country must refrain from making an experiment in stabilizing her currency. Bad timing would expose a country to the danger of losing all her strength, which in turn would diminish or jeopardize the chances for stabilization when the time came... the first step in the direction of settled currency conditions should be an Anglo-American settlement,..." With these considerations the foundations for the *Riksbank's* 'foreign policy' over the re-establishment of the gold standard had been laid: Sweden, even if accompanied by Denmark and Norway, had too little power to act independently; it was therefore necessary to wait until conditions brought good prospects of lasting success for an international system of fixed rates of exchange; the timing depended on Britain's policy, and it was also understood that Britain's progress back to 'normalcy' was largely dependent upon cooperation with the United States; a more active policy was conceivable only if Sweden could act in concert with other countries of greater economic significance than Denmark's or Norway's. Thus the main points of orientation abroad for the *Riksbank's* policies were defined: Britain, the Netherlands and Switzerland.

#### *Similarities and Conflicts in the Policies of Montagu Norman and Victor Moll*

Direct contacts of a more regular nature between the *Riksbank* and the Bank of England were themselves a product of the 1920s and did not survive the decade. Victor Moll did not wait long after the meeting in Stockholm before contacting Montagu Norman, the governor of the Bank of England. With a letter dated January 27, 1922 he enclosed a hasty translation of the statement made by the representatives of the Monetary Union's member-states,

adding the following remarks: "Since the document was issued, nothing has happened to alter the opinion of the said conference, viz. that the first step towards the successive re-establishment of the gold standard in Europe should be the re-establishing of the gold standard in England. As time goes on, it seems to become clearer and clearer that a return to the gold standard is the first and the most indispensable condition for the establishment of regulated economical relations in Europe. The clearer this becomes, the more pressing does it appear that England, by taking the said measure would break the ice and open the way for the re-establishment of the gold standard."<sup>5</sup>

The only new factor, the preparations for the Genoa conference, reinforced the need for a British initiative, wrote Moll. Here an important theme of the Stockholm statement reappeared: "... if England, for its part, had resumed the gold standard before the meeting of the conference ... the conference would be relieved of endless, and probably fruitless discussions concerning the so-called monetary problem. The position of the different countries being constantly so extremely different as regards their monetary standards, there is little or no probability of the monetary problem being solved by the conference to any great extent. It is not a question of one single problem, but of as many problems as there are states taking part in the conference. *Each one of these problems must be treated, and solved, independently.*"

Moll did not believe that national policies of monetary stabilization could be coordinated or promoted by international conferences. He seems to have conceived international monetary reconstruction as a spontaneous 'chain-reaction' of national monetary policies following Britain's return to a free gold market. Britain's role was to cut the 'Gordian Knot', as Moll put it, because as a sign of the stability of the leading financial powers, it, and nothing else, would generate the necessary confidence for re-linking the national currencies of the rest of Europe with the international gold standard. Moll promised Norman that if Britain took the step he urged, Sweden would follow suit.

What was Moll's aim in his letter? I do not think it was to encourage Norman to return *immediately* to a gold basis. As the Stockholm statement shows, Moll was quite aware that Britain could not act freely either. So the point must rather have been to provoke Norman into revealing his opinion on an aspect of international policy that was vital to Sweden's monetary affairs: how the British saw the monetary problem and what they planned to do. Norman's answer of February 6, 1922 provided the information he required: "Now I agree with you that no economic stability in Europe or in the world can be reached until the gold standard has again been generally established. I do not believe that the necessary stability of the exchanges can be achieved by any other means, although I am aware that economists in your country and

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<sup>5</sup> Moll to Norman, 1922.1.27., copy, RbA, Victor Molls handlingar. My italics in the subsequent quotation from the letter.

elsewhere are of a different opinion and recommend 'stabilization' by laws or artificial processes. But I believe it would be unwise for a return to free gold markets to be made here at this moment. We must at least await such action as will be taken by the United States in respect of repayment of the Inter-Allied Debts. Until that question is settled general stability of the exchanges is surely impossible, because on that question directly or indirectly depends the rehabilitation of Europe and (perhaps) the readjustment of the German Reparations. ...I suggest it would be a mistake even in the interest of Europe, for England to return to a free gold market until the American Administration has at least made complete and satisfactory arrangements in respect of all Allied indebtedness and perhaps until those arrangements shall have been tried with success." <sup>6</sup>

This interpretation came fairly close to the views expressed at the Stockholm meeting. The relationship established between the main issues of European reconstruction (the re-establishment of free gold markets, the settlement of the Inter-Allied Debts and the 'readjustment' of German Reparations) <sup>7</sup> implied that the time was still far from ripe for an international stabilization initiated by Britain and later joined by Sweden. It also became clear that Norman too thought there were no firm grounds for optimism about the outcome of the Genoa Conference:

"This Conference, as you are aware, was projected in the early days of the meeting at Cannes. It was hoped, I think, to achieve political results through economic means. In other words, it was hoped that the setting up of an 'International Corporation' for trade in Eastern Europe and Russia would bring together the representatives of many countries whose meeting otherwise was not to be thought of. Furthermore it was perhaps hoped at that time that some discussion on the German Reparation payments might take place, and possibly also on the Inter-Allied Debts. Owing to political changes in France — which

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<sup>6</sup> Norman to Moll, 1922.2.6., RbA.

<sup>7</sup> The links between the named problems were put more clearly in the confidential Memorandum (dated November 24, 1921) "which epitomises the present needs of the World as we inclined to look at it" (Norman to Dr Gerard Vissering, president of De Nederlandsche Bank, 1921.11.28.): "In order to obtain settlement of the World's uncertainties and eventual stability, it is advisable that:

(a) Germany be granted at once a 6 or 12 months moratorium in respect of Reparation payments, and that

(b) During that period a comprehensive readjustment or postponement of Reparation payments be agreed upon *as part of a general and simultaneous settlement of all international indebtedness arising out of the War*, and that

(c) Germany be required at the same time to readjust her own economic and financial position." (My italics).

Vissering Archief, De Nederlandsche Bank, Amsterdam, Doss. 16, 2. (Vissering Papers, The Netherlands Bank, Amsterdam - hereinafter: NBVA).

indeed took place before the meeting at Cannes had come to an end — most of these hopes for the Conference at Genoa are frustrated. For instance, it is to be feared that little headway can be made in respect of the 'International Corporation' for trade in Russia etc. owing to the unwillingness of the French Government to deal with the Russians. We fear also that no discussions on the subject of German Reparations will be permitted, and that any American representatives — should they indeed come to Genoa — will withdraw if the question of Inter-Allied Debts should be touched upon. You will therefore agree that our economic objects, and indeed our economic needs, cannot hope to be satisfied at Genoa, even if that Conference should take place."

At this point, however, a very important difference between the evaluation of Moll and Norman must be pointed out, despite the similarity of their conclusions. Norman doubted if the Conference would be able to contribute to European stabilization to any significant degree due to the conflict of interests between the Great Powers (the U.S.A., Britain and France). A balanced relationship among them which would secure a common understanding was also, in Moll's view, an inevitable precondition for meeting Europe's 'economic needs'. Moll's own scepticism, however, had other motives as well. When he stressed that the monetary problem consisted of "as many problems as there are states" and that "these problems must be treated and solved independently," he had in mind not merely the great variety of individual features the problem bore in different countries, but also the general demand for sovereignty over national monetary policy. Nationalization of monetary management had been the leitmotif of the *Riksbank's* policy ever since 1916, when *guldspärningen* (the suspension of gold's convertibility into banknotes) was introduced. This 'nationalization' meant that efforts were made to redefine the *krona's* relation to gold (and to foreign currencies) so as to maximize the *Riksbank's* discretionary powers against any actual or putative foreign influence on domestic economic conditions *via* the monetary mechanism. As the report summing up the Bank's gold policies during the war put it: "The question how and under what conditions the *Riksbank* should accept gold must be decided as a rule by the *Riksbank* in Stockholm and not in Kristiania, Copenhagen, Amsterdam or some other place abroad. The gold policy of the *Riksbank* aimed at self-determination in this respect during the war."<sup>8</sup>

Moll's aversion to any international conference or international solution to the currency problem that might inescapably oblige the *Riksbank* to act against its own will became more pronounced in his relation to the British conceptions of the post-war version of an international gold standard and of central bank cooperation.

Though there are several signs that they were at variance with each other

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<sup>8</sup> Redogörelse för Bankoutskottet, 1918.2.8., (Report to the Standing Committee on Banking.), RbA, Moll papers, Valutafrågan II.

in their correspondence during the months leading up to it,<sup>9</sup> it was Moll's personal meeting with Norman in London on June 1, 1922 that gave him an opportunity to express his disagreement on certain points more sharply. For this meeting Moll prepared a *pro memoria* that would give Norman details of the *Riksbank's* standpoint on the basic questions concerning international monetary reconstruction.<sup>10</sup> The Bank's views, one should note, were presented as polemic comments on the proposals made in the 'Experts' Reports' adopted at Genoa.

The first point of importance over which Moll thought it necessary to dampen British hopes concerned Sweden's part in the planned international transactions to promote the economic recovery of central and eastern Europe: "Sweden cannot be expected to take part to any great degree in the granting of the international credit to the countries now in financial distress. We hope to be able to clear up our own difficulties with our own means and without foreign assistance, but our resources as a giver of credit (*sic*) to other countries are, of course, extremely limited." This probably did not please Norman overmuch, since apart from the U.S.A., the neutral countries with developed banking structure (Switzerland, the Netherlands and Sweden) and with an active capital balance built up during the war, were the ones the British might and did expect to make substantial contributions to the stabilization loans that were to be granted under the framework of an international cooperation set up by London.

The other main issue Moll touched upon was the establishment of international gold centres, suggested by the Genoa experts as an aid to economizing on the monetary use of gold. The point was closely connected with a more comprehensive plan for an International Gold Standard Convention, which would, if adopted, have meant a general introduction of the gold-exchange standard, with London and New York as its gold centres. The reserves of the member countries would then have consisted of balances at those centres, and so member countries would have abstained from holding their liquid international assets in the form of effective gold. The system was supposed to be an expedient way "to centralise and coordinate the demand for gold, and so to avoid those wide fluctuations in the purchasing power of gold, which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves."<sup>11</sup>

Against this argument Moll emphasised that the holding of reserves in the

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<sup>9</sup> See Norman to Moll, 1922.2.22., Moll to Norman, 1922.3.7. (copy), Norman to Moll, 1922.3.17. and Moll to Norman, 1922.3.27. (copy), all in RbA.

<sup>10</sup> P.M. lämnad av Victor Moll till Norman vid besök i Bank of England den 1 juni 1922, RbA, Handlingar ordnade efter ämne, IAlu.

<sup>11</sup> International Economic Conference of Genoa, Report of the Financial Commission (II), Genoa, April 1922, (the resolutions adopted & recommended to the Conference for adoption). RbA, Moll papers, Valutafrågan I (Genuakonferensen).

form of foreign balances could hardly be regarded as a novelty, since it "always has been done." More importantly he added that the establishment of international gold centres "could, no doubt, be of great value, but would not lead to an economizing of gold. Whether the *Riksbank*, for example, has its gold in Stockholm or in London, its want of gold will be equally great. In addition, every country would probably prefer to keep its own gold reserves in its own vaults." Moll's distrust in the arrangements for the proposed Convention, other details of which I shall return to shortly, obviously clashed with the British efforts to restore London's financial supremacy *via* the establishment of sterling-exchange systems in the process of European reconstruction. The importance of the gold-exchange standard idea for Norman can be shown by a short *détour* into an episode in the history of German stabilization.

A British memorandum of January 9, 1924 on the establishment of a 'Gold Bank' in Germany prescribes "The 'Gold Bank' to be based on sterling and its reserves to be held in London" and, furthermore, that "The Notes of the 'Gold Bank' not to be legal tender: to be expressed only in sterling and payable by means of cheque on London at reasonable notice."<sup>12</sup> On January 10, 1924, the president of *De Nederlandsche Bank*, Dr Gerard Vissering, sent a letter to Norman enclosing a copy of a scheme he had drafted for German stabilization. The scheme, in stark contrast to the one outlined in the British memorandum, suggested "The Bank should issue Notes on a gold basis."<sup>13</sup> From Norman's reaction to this proposal one can learn both that he objected to the establishment of a gold standard in Germany and the underlying reasons why: "... I submit that the Notes should adopt sterling (as the only practical alternative) rather than gold and be repayable outside of Germany: they would thus be less likely to be hoarded and the 'Gold Bank' would be free from dependence on America. *I am aware, of course, that sterling is now depreciated in terms of gold; but it remains the main basis on which European Exchanges are operated and I am most strongly of the opinion that as Europe obtains no financial assistance or co-operation from America, Europe should no further attach herself to the basis which for the America controls.*"<sup>14</sup>

To preserve London's leadership despite the gravitation of the Old World towards the new 'natural centre', New York, was Norman's plain intention, and, if achieved, it was expected to contribute to a strengthening and consolidation of sterling's position *vis-à-vis* the dollar.<sup>15</sup> While for London European reconstruction meant a chance to regain and retain her traditional leadership,

<sup>12</sup> NBVA. Dossier 2, II.

<sup>13</sup> Quoted by Norman in his letter to Vissering, 1924.1.14., NBVA. Doss. 2, II.

<sup>14</sup> *Ibid.* My italics.

<sup>15</sup> See also S.V.O. CLARKE, *Central Bank Cooperation 1924-1931*, Federal Reserve Bank of New York, 1967, esp. pp. 58-67, and FRANK C. COSTIGLIOLA's, 'Anglo-American Financial Rivalry in the 1920s', *Journal of Economic History*, Vol. XXXVII, No. 4. (December 1977).

which had been greatly undermined by the war and weakening British economic performance, for New York it meant an opportunity to bridge the gap between her position in international banking and her enormous economic weight in comparison with the rest of the world. When one of the most active spokesmen for an aggressive American foreign economic policy, Paul M. Warburg, learnt about the preparations for an international stabilization loan to Germany for the establishment of the Gold Discount Bank, he sent the following cablegram to Dr Vissering: "Why do you exclude New York from cooperation in new Schacht Bank. Firmly believe that dollar cooperation would be extremely valuable if it could be secured. If assistance welcome would like to try my hand at it fairly confident that something useful could be developed."<sup>16</sup> This cable was followed by a letter in which he explained to Vissering that he was "anxious, not only to render the service involved, but also to put in a caveat concerning the proper position of the dollar in the future financial structure of Germany. I cannot help feeling that to link Germany exclusively with the pound sterling standard (which means a fluctuating pivot) instead of using the more stable pivot of the dollar, is not quite to the best advantage to that poor country. However, England is acting so courageously and so helpfully that I would be the last to try to put a spoke into her wheel. However, I think that in this case, two wheels are better than one."<sup>17</sup> But in his cable to Owen D. Young, sent off a day before the one to Vissering, Warburg put down far more plainly what he actually had in mind: "I understand Dr Schacht is in Paris. Is it not advisable to point out to him importance of resting his credit bank on stable gold instead of fluctuating sterling? Incidentally, it would be invaluable advantage for American discount market if as a result of America's entering the field now substantial portion future German gold reserve were invested in dollar acceptances. England realizes that and makes sacrifice to preserve predominance sterling market. Could not America be brought into the first line right now pari-passu with British banks. Pardon this cable but *I am frankly alarmed at the thought that we may miss this unique opportunity for putting America's discount market on the map and complete our position as world bankers.*"<sup>18</sup>

Returning now to the dialogue between Victor Moll and Montagu Nor-

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<sup>16</sup> Paul M. Warburg to Vissering, 1924.3.15., NBVA. Doss. 2, II. P. Warburg, of the Hamburg Warburg family, started his career in the United States as partner in Kuhn, Loeb & Co., New York. In 1914 he became a member of the Federal Reserve Board, a position he held till 1918. Chairman of the newly established International Acceptance Bank, New York, 1921-1932. In the early 1920s he was the president of the Advisory Council of the Federal Reserve Board, a consultative body, but still of significant influence.

<sup>17</sup> Warburg to Vissering, 1924.4.28., *Ibid.*

<sup>18</sup> Quoted by S.V.O. CLARKE, *op. cit.*, pp. 61-62. My italics. Owen D. Young was the American Member of the First Committee of Experts on Reparations (1924).

man in 1922, it is important to emphasise that Moll, when objecting to the Convention's prescriptions as to the reserve policy to be followed and as to an international gold-exchange standard, was *not* preferring dependence on the dollar to dependence on sterling. When we discuss the *Riksbank's* attitude towards New York's new international position, this will become more apparent.

The difference between the views of Moll and the views of the British as expressed in the Genoa resolutions had its roots in the different positions of the two countries within the suggested international system. The British monetary management was definitely in favour of the member countries' undertaking to abstain from the use of gold as a monetary reserve in favour of sterling (and dollar) balances, because otherwise sterling's role as a reserve-currency redeemable in gold would expose them to repeated waves of deflationary pressure springing from massive conversion of sterling balances held by foreigners (the member countries) into gold (a danger that proved one of the main sources of vulnerability in the post-war gold standard). A 'member country' like Sweden, on the other hand, might have weighty reasons for objecting to making that undertaking. Some might be economic: an undertaking of that kind might be seen as tying their hands when international payments effected by drafts upon their balances with London should turn out more expensive than those effected by actual gold shipments. But more important was the consideration of war-time experience which had shown that the 'pivot' of the system, the free convertibility of a currency into gold, could melt into thin air at a simple legislative or governmental wave of the hand. This consideration certainly had a role in Moll's insistence that the keeping of reserves in gold (and at home) should be left to the discretion of the central banks:

"But even if there existed no rules at all as to a certain gold covering for the notes," he wrote in his memorandum to Norman, "the gold reserves of the central banks would be absolutely necessary in order to fulfil their principal and indispensable functions as measure of value, as a guarantee for the maintenance of the gold-value of each country's currency, and as the last resource for payments to abroad when the balance of trade cannot be otherwise brought into equilibrium."

Moll was against uniform solutions in general, because they could not ensure that consideration would be taken for national interests, as he made clear to Norman well before their personal meeting. On March 7, 1922, for instance, he wrote "The establishment of international goldcentrals (*sic*), for example in London and New York — other places may perhaps not be thought of at present — to be used of, *as each country finds it convenient to its interests*, could, no doubt, be of great value."<sup>19</sup>

It was also in March that business relations were established between the

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<sup>19</sup> Moll to Norman, 1922.3.7., copy, RbA. My italics.

Bank of England and the *Riksbank*, initially by the opening of an account in the name of the latter at the Bank of England to receive interest due to the *Riksbank* on British securities held in London. That gave Norman an opportunity to ask his Swedish colleague his view on the desirable lines along which central bank cooperation should develop.<sup>20</sup> Moll, while supporting the idea of cooperation in general, did not see fit to reach any definite decision on its forms and means beforehand and he did not fail either to point out that the *Riksbank* would associate itself with such cooperation only after individual consideration of the actions planned, and if they appeared acceptable, "with regard to our position and our interests."<sup>21</sup>

These themes recurred in the memorandum he gave Norman when he visited London: "The development of things is at present in the direction of more intimate co-operation between the central banks. For my part, I think it would be better if this development is allowed to follow the lines of natural progress than to force it forwards artificially by conventions." Referring to Swedish experience with the Scandinavian Monetary Convention in the war years, he stated, in connection with the proposals concerning an International Gold Standard Convention:

"We in Sweden entertain no hopes of solving the present currency problems by international conferences and conventions. *We are afraid of conventions, the consequences of which we cannot foresee. They will restrain our free action and in all probability, like the Scandinavian currency-convention, break to pieces, when they are most needed.*"

In Moll's opinion, which he repeated very consistently, there existed "not one international currency question but as many national currency questions as there are nations." The solution suggested in his memorandum was to be brought about by "natural development" on the basis of a re-established gold standard. The country to take the lead and 'to cut the Gordian Knot' was again Britain: "If England takes the first step on that road, other countries will undoubtedly follow as soon as possible." Why was Moll so eager to see London back on the gold standard? I have earlier pointed out one reason — Moll's view, shared by many other central bankers in the period, that gold's stability, the prerequisite for it being an international standard of value, presupposed the restoration of free market for gold in London, the regulator of international monetary mechanism before 1914. But Moll's continual pressure on Norman to make up his mind and act also had a great deal to do with the dangers he saw in New York's new position of power. He believed that the change of place imminent at the top of the hierarchy of world finances carried implications that were adverse to the stability of the system as a whole, and was therefore much against the interests of Sweden. *Therefore* he was

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<sup>20</sup> Norman to Moll, 1922.3.17., RbA.

<sup>21</sup> Moll to Norman, 1922.3.27., RbA., copy.

'conservative' Given the Swedish economy's high dependence on foreign trade Moll thought the restoration of a system of fixed exchange rates desirable. But this system he believed to be capable of sound functioning only on the basis of 'solidarity' among the currencies, a solidarity that had prevailed in the pre-1914 world and had since then been replaced by competition and lack of balance even at the core of the system.

*The End of 'Currency Solidarity' - New York as a Destabilizing Factor*

"We are the gold-axis, and we do our best to keep it as steady as possible." That statement was made in a letter to Moll from the influential New York banker Paul M. Warburg.<sup>22</sup> Warburg probably intended to set Moll's mind at rest on the matter Moll felt perhaps the most uneasy about in the first half of the 1920s. As Moll understood it, the world of international finance had undergone radical changes during and after the First World War. The yardstick for comparison remained the 'golden age' before 1914 — an attitude fairly common in the 1920s. Moll also succumbed to the none-too-infrequent tendency to idealize the pre-war system, ignoring the frictions it gave rise to and overestimating the smooth and 'automatic functioning' with which it was then said to have promoted world-wide prosperity. However, although Moll may have written about 'the golden age of the gold standard before the Great War' and extolled the well-oiled machinery by which 'the whole international system of exchange rates was automatically kept in balance',<sup>23</sup> he was not among those who cherished any illusion of a return to that golden age. He was too much of a pragmatist for that, and he was aware that some of the new post-war developments were irreversible. In an address to the Board of Directors on April 26, 1923, Moll named the two destabilizing factors which he saw as being sufficiently powerful to prevent the *Riksbank* from returning to a gold basis. One was the instability of the international political situation, which was overshadowed by the occupation of the Ruhr, but Moll did not think that this would remain a problem for very long, unlike the other factor:

"Another factor causing insecurity is the overwhelming influence the United States is exercising on the economic conditions of Europe and the world. This influence, disquieting even by virtue of its strength, becomes all the more of a problem because the United States may be regarded as a newcomer in the position of centre of international financial activity. The expertise

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<sup>22</sup> Warburg to Moll, 1923.11.23., RbA.

<sup>23</sup> The words quoted are taken from a statement by Moll to the *fullmäktige i riksbanken* (the Board of Directors of the Bank of Sweden), presented February 28, 1924. See Bilaga till bankofullmäktiges protokoll, den 28 februari 1924, § 6. There is a copy of the English translation of the document, sent to Norman, Warburg and Vissering by Moll, 1924.3.7., RbA.

of the previous leaders, the British, the most experienced financiers and bankers in the world, led to a feeling of security. Now the Americans claim the leadership, and one asks not without some anxiety what use they will make of their supremacy? How will they use that huge amount of gold?"<sup>24</sup>

One can see Moll was not worried by the shift of international financial leadership from the Old World (London) to America as such. He saw the problem in more concrete terms, pointing out significant differences between the characteristics of London and New York as centres of the old system and the new emerging system. He believed that the highly developed international banking expertise in the London market and the City's international outlook was aptly suited to the role of the pre-1914 world's monetary centre of gravity.

"During the golden age of the gold standard before the War", Moll said in early 1924, "when most countries of any importance possessed a gold standard, when these countries could all fall back upon the free gold market in London, and when deviations of the various gold currencies from gold parity were as a rule kept within the so-called gold-points, or, in case they showed any tendency to go beyond these points by applying the discount screw or by means of gold shipments, the whole international system of exchange rates was automatically kept in balance. Every currency was dependent and supported itself upon all the others and on the free gold market in London. ...Before the war the price of gold in London was the norm for the value of the currencies in all countries possessing a gold standard. The price of gold in London was the fixed point on which the whole system rested."<sup>25</sup> The concept of 'currency solidarity' implied a belief that the pre-war, London-centred system made it easier to *reconcile national interests*, or at least, that the working of it was more favourable than unfavourable for Sweden. That belief was of the utmost importance in Moll's way of thinking. It was the source of the fears he expressed at the shift of power across the Atlantic. For Moll had realized how American monetary policy tended to favour the protection of home interests rather than their subjection in the service of the smooth running of the international system, at least where the two seriously collided. Compared with that, America's lack of international banking experience and her relatively undeveloped institutional arrangements for a role as the world's monetary and financial centre were only secondary causes of Moll's distrust for New York:

"About the use America will make of her superiority we know nothing. But we may certainly presume as much as this: it will be used to promote American interests. Europe's interests will certainly be neglected. Consider-

<sup>24</sup> Bankofullmäktiges allmänna protokoll år 1923, Bilaga till prot. den 26 april 1923, § 6, RbA.

<sup>25</sup> See note 23.

ration is not an American trait. It is also relevant that the Americans are newcomers and have no experience in this field. One cannot help nursing a measure of suspicion towards them. For that reason one cannot rid oneself of feeling of unease about what they may set out to do."<sup>26</sup> For Moll the significance of New York constituting the new 'gold axis' lay in a single and all too obvious fact:

"That the United States will determine her gold policies by reference to American and not to Swedish interests can be taken for granted."<sup>27</sup>

Did Moll judge the attitude behind American monetary policy correctly? The answer is certainly yes, even though he may have known about *plans* to make New York fitted to the role of world banker.<sup>28</sup> While leading private bankers were doing their best to persuade the politicians to seize the opportunity of establishing New York as an international financial centre, those responsible for monetary policy were acting upon and giving greater and greater stress to principles of *national, home-oriented central banking*, following a course not much different from that of Swedish monetary management. When one reads Benjamin Strong's letter to Norman in mid-1922 about the principles for central bank cooperation which the latter had proposed, a student of Swedish monetary policy of the same period may easily feel a sense of *déjà vu*: "no 'surrender of sovereignty' should be attempted under the guise or through the formalities of this expression of principles. I think you realize, as we have here, and as in later years we may have occasion to realize even more, that *the domestic functions of the bank of issue are paramount to everything* and that anything in the nature of a league or alliance, with world conditions as they are, is necessarily filled with peril."<sup>29</sup> This clear similarity might well have gratified Moll, but would scarcely have comforted him.

At home Moll was under constant and mounting pressure to make an early return to a gold basis. Moll believed such a step would tie Sweden's currency to a standard that was actually controlled by the Federal Reserve System, and so the more self-centred the American central banking might be supposed

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<sup>26</sup> The document, probably meant to clarify the *bankofullmäktige's* standpoint concerning gold policy for the Minister of Finance, is dated April 30, 1923, RbA.

<sup>27</sup> Draft of the proposal of the *bankofullmäktige* to the King to prolong the Bank's release from liability to make gold payments, February 1924, RbA. (Draft with Knut Wicksell's commentaries).

<sup>28</sup> I am thinking of Frank A. Vanderlip's book, a bestseller in post-war Europe, *What happened to Europe*, New York (Macmillan Co.) 1919, esp. Chapter XIV, which concludes with that "the answer to the often put question of whether or not New York is to become the financial center of the world is 'Yes'." (p. 165) The aims, and many practical details not related here, of the plan put forward by Paul M. Warburg are much the same. (See his letter to Moll, 1922.3.6., RbA).

<sup>29</sup> Quoted by S.V.O. CLARKE, *op. cit.*, p. 31, My italics.

to be, the graver the dangers he saw as imminent if the *krona* were tied to gold again:

“If we, alone in Europe, were to adopt the gold standard, we should be surrendering our right of self-determination and should make ourselves dependent upon the coming financial developments in the United States, whether this proceeds in harmony with or in opposition to our own interests. In regard to this development people in the United States know little or nothing with any certainty, and we in Sweden know still less about it. But this much we do know, that we should not be able to exercise the slightest influence over such a development.”<sup>30</sup>

In this case, as in many other aspects, the policy of the *Riksbank* aimed at solving the conflict between ‘national sovereignty’ and monetary ‘internationalism’ in favour of the former. But that conflict did not occur in isolation. Deeply embedded in it, as *Riksbankschefen* Victor Moll well knew, were the contradictory priorities of stabilizing home price levels and adhering to a régime of fixed rates of exchange. Moll appears so often to place emphasis on ‘national independence’, ‘sovereignty’ and ‘self-determination’ not because he was striving to be a good nationalist, but because it was a way of expressing his concern that stabilization of the external value of the *krona* by a return to the gold standard (which meant free interconvertibility, at a fixed rate, between gold and the *krona*, plus free export and import of gold) could scarcely be squared with the objective of stabilizing the home price levels. This conflict would become all the stronger he believed if Sweden returned alone, as the first country in Europe, to the gold standard régime. So dependence on the United States took on the more concrete form of exposure to American decisions on the fate of the enormous gold reserves accumulated and ‘sterilized’ there and of making Swedish price movements entirely dependent upon those in the United States:

“It depends on the general development in the very near future, whether the *Riksbank* will be exposed, to an extent prejudicial to our interests, to demands for foreign currencies and gold; or forced to buy gold against its will. We know nothing about this. But this much we do know, that a return to the gold standard will tie the Swedish price level to the American. One hardly knows if that is desirable or not. If the price level in the United States fluctuates sharply, the Swedish may follow suit, and so this country will run the risk either of losing the fruits of the great efforts so long expended on bringing down prices, or of an accelerated deflation.”<sup>31</sup> Understandably enough, it was primarily the importation of inflationary pressure from overseas that Moll foresaw if too hasty a return to gold be made. He believed that the American monetary authorities would have to cope with the massive gold-influx

<sup>30</sup> See note 23.

<sup>31</sup> See note 24. My italics.

in some other way than by sterilizing it, which would mean either letting the inward gold flow *inflate* the money supply (thus abandoning the priority for domestic objectives) or, more probably in Moll's view, introducing an *embargo on gold imports* (thus abandoning the gold standard régime). In a draft memorandum to the King, which includes supporting notes by one of Moll's most respected advisors, Knut Wicksell, one finds the following comment: (Wicksell's remarks are italicised.)

*"The most probable of all is that the danger of the gold standard lies not in the task of sustaining gold payments, but in the risk that the country may be flooded with gold...."*

One asks anxiously how these *constantly increasing* quantities of gold will be used on the day they have to be resorted to. One is forced to consider the question of whether it is even possible for a single country, be it the most powerful in the world, to maintain the gold standard *and concurrently sustain the purchasing power of money (i.e. gold) unchanged*, while all the other countries remain on a paper standard. (Moll's note on the margin: "It is impossible to maintain the gold standard and a fixed value of money at the same time — Wicksell.")

"If Sweden were the sole European country to return to the gold standard (*with free coinage of gold*), part of the gold that is now directed towards the United States would certainly find its way to Sweden. That we might cope with without too much trouble so long as we were able to forward the gold on to New York. But as soon as the United States put an end to gold imports or, worse still, started sending gold to Sweden *as a way of ridding themselves of the greater part of the gold lying in the vaults and earning no interest*, we should be landed in an extremely difficult predicament. ... *But in any case, the United States will probably be unable to avoid letting the gold imported enter into circulation, as happened to the gold imports in the year 1923. In that case inflation there would be inevitable, and before long it would be transmitted to us, if we were then on the gold standard.*"<sup>32</sup>

Moll's understanding of New York's post-war position and the implications outlined above led him into a resolute opposition to putting Sweden back on the gold standard. As he said in a letter to Paul M. Warburg, "We in this country and, I think, also people in other European countries are looking with a certain anxiety on the accumulation of gold in the United States. How will it go, when this gold will once be put into motion? Then, it may easily cause a flood of gold to other places.

"This is one of the reasons, why I am not yet willing to endorse the re-establishment of the gold standard in Sweden. I cannot accept that we should

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<sup>32</sup> See note 27. Wicksell's remarks were admitted practically without change into the final text of the memo dated February 28, 1924. Cf. Bankofullmäktige, Registratur, Nr. 24.

be deprived of every protection against an eventual invasion of gold from the U.S.A. to Sweden."<sup>33</sup>

However, the *Riksbanken* had more than international circumstances to take into account when formulating its policy decisions. From the *Riksdag*, the Swedish Parliament, and from public opinion in the shape of the daily press, the attacks on the Bank became fiercer and fiercer due to its repeated requests to prolong the exemption from its obligation to make cash payments. Since the support for the *Riksbanken* against the united onslaught of the Parliament and Government came from only economists, Wickzell and Davidson, the enormous pressure could hardly be withstood without making substantial compromises. Moll, for his part, was willing to yield so far as to restore the gold basis (a step which, in itself, was not at all repugnant to him). This was the major demand of the 'conservative' campaign. But in exchange he wanted to obtain the consent of his opponents to arrangements that would in his view provide a greater chance of maintaining domestic stability (principally, the stability of domestic price levels) against disturbance from the working of the gold standard system. That meant under the circumstances then prevailing and in the view of Moll (originally Wickzell), virtually erecting a shield against any inflationary pressures that might come from overseas.

#### *The Taming of the Gold Standard*

This is exactly the issue which makes Moll's pressure on Montagu Norman to take the initiative intelligible, for the re-establishment of a free gold market in London would have provided a strong defence against the peril that it was thought that Stockholm would be exposed to from New York. Stockholm would not then have to withstand alone the consequences of any inflationary influx or a deflationary flight of gold brought about by economic developments in the United States. Moreover, the brunt of those pressures would almost certainly have to be borne, however unwillingly, by London if the freedom of gold movements was restored there. A *free gold market in London* with sterling's convertibility to gold when Sweden returned to a gold basis were therefore *one possible shield* against unwelcome influences from the world economy. This was why Moll observed so eagerly the progress being made in the Anglo-American negotiations on the War Debts,<sup>34</sup> and why he expressed great concern when sterling's rate against the dollar seemed to be declining.<sup>35</sup> The belief that a re-establishment of the gold standard in Britain would serve the function of a shield for the Swedish economy can clearly be identified in the Bank's memorandum to the King on February 22, 1923: "If Sweden were

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<sup>33</sup> Moll to Warburg, 1923.6.9., copy, RbA.

<sup>34</sup> Cf. Moll to Norman, 1923.1.15., and Moll to Warburg, 1922.10.25., copies, RbA.

<sup>35</sup> Moll to Norman, 1923.11.17., and Moll to Warburg, 1923.10.26., copies, RbA.

the only place in Europe to restore the gold standard, this country would be utterly chained to the American price level, about whose future development, whether favourable or unfavourable to us, we know nothing. The situation would look quite different if we went back to the gold standard *at the same time* as England. In that case the stabilization should be founded on three countries: the United States, England and Sweden. Our country would not stand alone in Europe, we should have the strong support of England. *In that case the burden of maintaining stability would undoubtedly fall mainly upon England.* This country would be dependent on both the American and the British price movements, a position far preferable to a unilateral dependence on America." <sup>36</sup> But the British did not seem too enthusiastic about shouldering those risks. Of course they had their own good reasons for biding their time, and all Moll could get out of Norman was moral support in his attempts to counteract the rising criticism of *Riksbanken* for failing to return immediately to gold.<sup>37</sup> But no promise was forthcoming that a free market in gold would be re-established in London at any definite date in the near future.

*The other alternative*, if Sweden were to avoid being the first and only country in Europe to resume a gold basis, was *joint action by the economically strong neutral countries of Sweden, Switzerland and the Netherlands.* When Moll addressed the parliamentary group of the Social Democratic Party in February 1922 he referred to that possibility: "There is no reason for hastening to return to gold standard. For if Sweden were to wait until either England had taken the lead and shown the way, or if she did it at the same time, for example, as Switzerland and the Netherlands, which along with Sweden are the countries

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<sup>36</sup> Fullmäktige, Registratur Nr. 11½, RbA. My italics. Quoted also in 'Kungl. Maj:ts proposition (Nr. 94) till riksdagen angående fortsatt befrielse för riksbanken under viss tid från skyldigheten att inlösa av banken utgivna sedlar med guld; given Stockholms slott den 2 mars 1923.' Stockholm (Isaac Marcus' Boktryckeri Ab.) 1923.

Moll understood, as we have seen earlier in this paper, that England herself was in need of American support in order to be able to return to and then operate on the gold standard. That is what was alluded to in the November 1921 statement of the three central banks as 'Anglo-American co-operation'. As Moll explained later to Paul Warburg, "With Anglo-American co-operation we mean, here, an agreement between the United States and England, by which the United States should assure England of credit, which should be necessary for the re-establishment of the gold standard. We think, namely, that England, without such an agreement, is not or will not be, in the near future, in the position to return to the gold standard. But we think, that England, backed by such an agreement, should be in the position, practically taken, to take this step without delay. And considering that we are in the position to return to the gold standard simultaneously with England (and preferably then in company with Holland and Swiss), we have a strong indirect interest of the bringing about of such an agreement." Moll to Warburg, 1922.10.4., copy, RbA.

<sup>37</sup> See, for instance, Norman to Moll, 1924.3.14., RbA.

closest to realizing a return to the gold standard, then our prospects of maintaining the gold standard would look quite different than they would if Sweden were to act alone."<sup>38</sup> The same date is borne by the memorandum of the Board of Directors to the King, in which they repeat the first step towards solving the currency problem should be England's return to a gold standard ("This would provide the fixed starting-point necessary for a currency stabilization."), but they also mention that:

"One must not, however, forget about the possibility of creating a fixed starting-point for a more general currency stabilization by the simultaneous return of Sweden, the Netherlands and Switzerland, who, from the viewpoint of the international value of their currencies, are in the best position to return to gold standard. The Board of Directors have long been considering this; the Commission on Tariffs pointed to this possibility in the expert opinion they gave on the currency problem on February 7, 1922. But a lack of cooperation by England would still, and always, constitute a considerable weakness."<sup>39</sup> In fact, the Swedish initiative to form a neutral block somewhat antedated Moll's contact with Montagu Norman. The sounding out of possible partners began as early as December 1921, with Oscar Rydbeck's letter to Dr. Vissering of *De Nederlandsche Bank*. Rydbeck wrote in the name of 'Tull- och traktatkommittén', a State Commission appointed to investigate measures necessary to protect Swedish industries from depression. Victor Moll himself was a member of the Commission and he must have known about Rydbeck's action, if he were not the joint author of it.<sup>40</sup> Though the letter's main proposal was to review the possibilities for a conference of neutral countries, it is not hard to read between the lines that it concerned a joint return to a gold basis: "The opinion seems to prevail fairly generally that *if several countries could at the same moment return to the Gold Standard, much would already be gained*, though it is duly realised that first of all a co-operation of America and England will be required for this purpose. As however in these two countries still questions of an exclusively political nature seem to dominate, it has been suggested that things could perhaps be expedited if to begin with some of the smaller European countries agreed on certain points and on a mutually acceptable scheme, for which they could then try to obtain America's and Great-Britain's interest.

Thus the question was raised, whether it would not be useful to communicate quite privately on this matter with authoritative circles, for instance in

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<sup>38</sup> Moll's address to Social Democratic MPs, 1922.2.24., RbA.

<sup>39</sup> Bankofullmäktiges skrivelse till Konungen, den 24 februari 1922, Registratur Nr. 34, RbA.

<sup>40</sup> Copies of Rydbeck's exchanges of letters with Vissering can be found among "Tull- och traktatkommittéen handlingar", Komm. Nr. 897, vol. 5., Doss. Nr. 1, 'Utlåtande i valutafrågan', Riksarkivet, Stockholm. (National Archives, Stockholm).

Holland, Switzerland and Spain, in order to find a common base for further action.”<sup>41</sup>

Vissering thought it important to ask Norman's opinion on the matter before answering Rydbeck. That he was not initially as negative towards the Swedish suggestion as he became when he finally answered it can be surmised from the way he presented it to Norman: “I have just received a very interesting letter from Mr. O. Rydbeck, ... *This letter opens new perspectives* as far as it refers to eventual conferences also with other countries.”<sup>42</sup> Norman, however, was none too enthusiastic, writing, “It would be advisable to wait” (with conferences or other common actions by the neutrals) “until a decision in regard to Reparations, a General Economic Conference and the opening up of Trade in Eastern Europe have been made public before taking any definite steps.”<sup>43</sup> In other words, Norman wanted to see European stabilization progress along the path and at the pace British policy had predestined for it. A block of neutral countries acting independently, coupled with the French challenge in Europe and the global American challenge, must have been regarded as too much to cope with. Action by the neutrals independently of England was seen as still less desirable because the policy of the British themselves was relying upon cooperation and coordinated action with those countries. Nor was that desire concealed. Baron Palmstierna, Sweden's envoy in London, reported in February 1922 on the British preparations for the Genoa Conference. Sir Basil Blackett of the Treasury had told him over lunch that from the point of view of British efforts to put forward a programme at Genoa that might be accepted by the other states, “It would be especially desirable to make contact with Sweden, the Netherlands and Switzerland, whose financial positions would allow joint consideration of the possibility of introducing the gold standard.”<sup>44</sup> What the British wanted was to co-operate with the neutrals to help realize London's aims in the restoration process and not to have the neutrals acting together independently of Britain. Britain's freedom of action being limited, the policy towards the neutrals was to persuade them to wait for Britain and in the meantime to cooperate with her on paving the way for a restoration of London's pre-war financial supremacy. It was again a plea for patience that Moll received from Norman through Rydbeck. When Rydbeck was on a visit to London in the spring of 1922

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<sup>41</sup> Oscar Rydbeck, managing director of Skandinaviska Kreditaktiebolaget, to Vissering, 1921.12.21., NBVA, Doss. 16. Internationale Besprekingen 2. My italics. The original is in German, but it was translated at De Nederlandsche Bank into English before being sent on to M. Norman. The quotation is from the English version.

<sup>42</sup> Vissering to Norman, 1921.12.27., copy, NBVA, Doss. 16, 2. My italics.

<sup>43</sup> Norman to Vissering, 1921.12.29., Inid. My italics.

<sup>44</sup> Baron Palmstierna to H. Branting, Prime Minister and Minister of the Swedish Foreign Office, 1922.2.26., No. 118, Copy sent over to Moll by the F.O., 6th March 1922, RbA.

he had an opportunity to talk to Norman, and gave Moll an account of what was said: "He emphasized repeatedly the significance of cooperation between as many countries as possible on the problem of monetary standard, but principally the significance of cooperation from England, the Netherlands, Switzerland and Sweden. But England will surely not reintroduce the gold standard until the great credit and reparation problems are settled; in the dislocations that would take place if things went wrong, even the largest gold reserves would, in his view, be merely a drop in the ocean."<sup>45</sup>

All things considered it is hardly surprising to find Dr Vissering, who attached very great importance to the good relations between his bank and the Bank of England, advising Rydbeck, and through him Moll, "not to take any steps in this respect, until the outcome of the conference at Cannes is known. In all possibility there will be discussed at Cannes the desirability of holding a general economic and financial conference, in which all countries will be invited to participate."<sup>46</sup>

Despite those none too promising beginnings, Moll soon afterwards repeated his proposal, this time concurrently to both A. Burckhardt of the *Schweizerische Nationalbank* and Vissering. Enclosing a statement of the November 1921 meeting of the central banks of the Scandinavian Monetary Convention, Moll added: "We still think that the initiative should be left to England. *But it might not be unthinkable for Switzerland, Holland and Sweden to make a joint initiative.*"<sup>47</sup>

The suggestion may already have lost some of its shine from the fact that Moll could not restrain himself from remarking: "Such an initiative would however seem to involve considerable risks for the participants." The half-hearted initiative was doomed intrinsically even if one disregards the way the recipients replied. The answer from Amsterdam made clear that *De Nederlandsche Bank* was determined to act in cooperation and accordance with the Bank of England, and consequently, that "it is not yet the right time to try to put this problem (of the return to gold) in order."<sup>48</sup> As to the common initiative of the neutral countries, van Vollenhoven wrote in the same 'definite' spirit as the proposal itself was made in: "To take a joint initiative with Sweden would in my view be premature and *understand from your letter that you also believe that there would be considerable risks involved*". The answer from Zürich in practice precluded any further chance of the idea being realized. The *Schweizerische Nationalbank* believed "a settlement of the German Reparation

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<sup>45</sup> Rydbeck to Moll, 1922.4.10., RbA.

<sup>46</sup> Vissering to Rydbeck, 1922.1.3., copy, NBVA, Doss. 16, Internationale Besprekingen 2., or source named in note 40.

<sup>47</sup> Moll to A. Burckhardt and C. Vissering, copy, February 13, 1922., RbA, Handlingar ordnade efter ämne, IAtu. My italics.

<sup>48</sup> van Vollenhoven, deputy president of *De Nederlandsche Bank*, to Moll, 1922. 2.20., Ibid.

Payments to the Allies" would be an indispensable precondition for any stabilization effort.<sup>49</sup>

All in all, there was nothing for Moll to do but wait and see. Given the conditions required before Britain would return to gold and the impossibility of acting in concert with the other neutral countries independently of Britain, Moll's main hope lay in being able to persuade his opponents at home to sanction a policy of waiting. From mid-1922 onwards Moll mainly contacted his foreign colleagues in order to obtain moral support for his repeated pleas to prolong the *Riksbank's* exemption from the obligation to make gold payments.<sup>50</sup> It is important to see that throughout the period under study Moll was advised by his counterparts abroad to *refrain* from resuming gold payments before the other European central banks had done so and thereby endangering the success of the experiment by ignoring the political and economic disadvantages that still prevailed. In February 1923 Norman told him, "A return to the Gold Standard might be judged premature when one regards the present unsettled state of Europe — so much worse as regards Reparations than a twelve-month ago."<sup>51</sup> In January 1924, Moll again felt a need to consult Norman and Vissering. One can see a certain desperation in those lines, undoubtedly caused by the increasing force with which the exponents of an immediate return to gold were attacking his position: "There are here many good people, especially national economists, who continue in persisting in the opinion that Sweden must return to the Gold-standard without awaiting suitable company. For my part, I adhere to my old opinion, that this would be a most dangerous experiment.

When reflecting upon the related problems, a single question forces itself forward: will it be possible for the United States to maintain, alone, the Gold-standard? How long will the United States be able to absorb all the superfluous gold?

If Sweden returned to the Gold standard, part of the gold now going to New York would certainly go to Stockholm. This would not perhaps be so dangerous for us, as long as we could send the gold on to the United States. If however, some day, the United States should say stop, or perhaps get the idea to send Sweden gold, how would things then be with us?"<sup>52</sup>

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<sup>49</sup> Schweizerische Nationalbank to Moll, 1922.2.21., copy, *Ibid.*

<sup>50</sup> See, for instance, the exchange of telegrams and letters between Moll and Vissering (telegrams dated 1922.9.4. and 1922.9.5., letters dated 1922.9.12. and 1922.9.5.). NBVA. Doss. 101. Doos nr. 49. Sveriges Riksbank.

<sup>51</sup> Norman to Moll, 1923.2.15., in an answer to Moll's letter of 15th January 1923, urging Norman, as usual, to return to gold in some months, RbA. Moll got the same opinion from Amsterdam: see Vissering to Moll, 1923.2.7., copy, NBVA. Doss. 101. Doos nr. 49.

<sup>52</sup> Moll to Norman and Vissering, 1924.1.17., copy, RbA. Letter with the same

Norman was entirely of Moll's opinion. Moreover, he believed Sweden at that time to be in the most favourable position possible, since the Swedish economy had "the advantages of the gold standard (meaning, probably, that Sweden had already gone through the deflation and had managed to stabilize her exchanges) without such disadvantages as, under present world conditions, may attach to it. Were you to return alone to a free gold market, you would for several reasons be liable to various disadvantages or, as you put it, you would be making a dangerous experiment. So all I can say is that were I in your position I should be disposed to make no present change in gold policy, but I should continue to hope that along with the three countries mentioned in your letter (England, Switzerland and the Netherlands) an eventual and simultaneous return might prove to be possible."<sup>53</sup>

Vissering gave his reflections in a letter of more than six pages. His views more or less coincided with the considerations that Moll had repeatedly used in defence of his own policy, and the conclusion in his case too was that "it cannot be recommended for one single country to take measures in order to return, by itself, to the principle of the old gold policy, because there would be serious danger of those measures proving to be a failure."<sup>54</sup>

Even Paul M. Warburg seems to have thought it proper to express solidarity with Moll: "I can well understand how difficult it must be for you to deal with the question that you lay before me, particularly in times like the present when life is made a burden both by the politicians and the economists."<sup>55</sup> Otherwise he held the same opinion as Norman and Vissering:

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text, but two days earlier, was also sent to P.M. Warburg. An original of the letter is held in NBVA. Doss. 101, Doos nr. 49, Sveriges Riksbank.

<sup>53</sup> Norman to Moll, 1924.1.29., RbA.

<sup>54</sup> Vissering to Moll, 1924.2.1., NBVA. Doss. 101, Doos nr. 49, Sveriges Riksbank, copy.

<sup>55</sup> Warburg to Moll, 1924.2.4., RbA. It is perhaps worth mentioning that neither Norman nor Warburg could resist propagating an 'alternative' solution in the form of, respectively, a sterling- and/or a dollar-exchange standard. Norman did it in a neater way, putting the idea forward as coming from a compatriot of Moll's (probably Ivar Kreuger, the Swedish 'Match King'): "There is, indeed, another possible change besides the return to the gold standard (including free gold market) for only a few weeks ago one or other of your countrymen, who happened to be in London, was advocating that Sweden should be linked to sterling by means of the so-called sterling exchange standard. I am not writing it to you to advocate this change, but I mention it as showing how restless and uneasy are some of your countrymen as well as my own in regard to future money policy...". Warburg was far less shy: "It is true that the tremendous dislocation of gold from the Old World to the New has aggravated the problem very materially. That, to my mind, will render it necessary for a good many countries when returning to the gold standard, to return to the *gold exchange* standard first, and, for many years to come, the gold holding of the United

'I can entirely sympathize with your point of view not to favour a return to an unrestricted gold policy, involving a definite price for the purchase and sale of gold, until you find yourself in the company of some of the strong countries of the Old World. ... If I were in charge of Swedish finances, I would congratulate myself on the splendid results achieved so far, and I would leave well enough for a while.'

From what has been written above, it will be clear that the resumption of gold payments by the *Riksbank* from April 1, 1924 was a step taken against Moll's will. In a separate article we shall describe how he was forced to succumb to the concerted pressure of politicians and economists who then, as now, could make the life of a central banker a burden. Despite Moll's defeat, however, those who opposed his policies had to pay a price that might have appeared to be reasonable, but nonetheless cast doubts over the success of their efforts to tie the *krona* to gold again without delay: Moll requested the introduction of a *prohibition on gold imports* 'in exchange for' abolishing the prohibition on gold exports and the resumption of gold payments by the *Riksbank*. Thus a serious flaw in the Swedish gold standard remained throughout the 1920s. The 'defect' was designed by Moll to be a *third alternative shield* against the anticipated inflationary pressures transmitted by the gold standard mechanism from the outside world (the United States) to the home economy. Counting mainly on the possibility that the inflationary pressure would be exercised through gold-shipments, Moll's policy, even though it did not rest on clear ideological or theoretical background, reflected the new

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States will, therefore, serve as the basis not only of Uncle Sam's monetary system, but of a great many other countries all over the world. ...I see the United States as the primary gold pivot of the world." It belongs also to the picture that Warburg, in contrast to Norman, tried to assure Moll, understandably, that there was no need to fear an inflation caused by New York: "Of course, he would be a bold man who would dare to predict what the United States are going to do. But I think I am safe in saying that the thought of establishing a fluctuating price for gold at our Treasury is, so far, entirely foreign to our minds. ... If the influx of gold should become danger beyond our control, I believe that we would fight it by lowering our money rates and buying foreign securities and foreign goods rather than undermining the pillar, on which our monetary and banking system rests." The same he wrote to Gustav Cassel who was, probably, preparing his attack against the prohibition on gold imports introduced simultaneously with the resumption of gold payments by *Riksbanken*. "...I should say", wrote Warburg to Cassel, "that my own personal conviction is that we need have very little fear that America would shut her frontiers to the influx of gold. We are too much interested in preserving our present position of advantage involved in our large gold holdings to permit gold to become a fatherless orphan knocking at the doors of unwilling hosts rather than to have it continue as a most valuable asset, the possession of which everybody is craving." (Warburg to Cassel, 1924.4.14., Gustav Cassel Brevsamling, Kungliga Biblioteket, Stockholm, vol. 28, Ep. C1a. - Cassel's Correspondence held by the Royal Library, Stockholm).

post-war trend in central banking, a shift from one-sided exchange rate stability to priority accorded to stabilizing home price levels. The fact that Moll, although with certain reservations, thought this latter task compatible with the mechanism of the gold standard was partly due to Sweden's relatively good experience with the pre-1914 system and partly to the confusion that usually accompanies periods of transition.<sup>56</sup> For the period we have been dealing with was transitional in character: the ideas of deliberate monetary management geared to the state of economic activity at home were being born, but it would take another decade for them to gather enough momentum to supersede the conventional criteria of stable exchanges, balanced trade and international payments, and 'sound' public finances. Victor Moll was driven by circumstances to depart from the 'classical' model, rather than being an active or conscious exponent of change like his highly respected (but, rarely heeded) adviser, Knut Wicksell. There is no reason to think that Moll's own statement of policy in January 1915 needs to be corrected in the light of his post-war policies: "Several Swedish economists have recently, when discussing the financial and economical difficulties caused by the war, given as their opinion that the great gold reserves of the note issuing central banks have not been of the desired use. The authors in question believe that the experience of recent years has shown that the gold-stock held by the note-issuing bank has proved to be the most useless thing in the world, that the gold has failed completely as a worthmeasure (*sic*) and the time of its dethronement is near...

Here in the Bank of Sweden we are antiquated enough (*sic*) to hold on to the old experienced ideas."<sup>57</sup>

Despite his 'antiquated' way of thinking, Moll's policies brought about Sweden's quite peculiar form of gold standard, which provoked the continued criticism of such conservative economists as Cassel and Heckscher, but won seldom bestowed praise from Keynes: "Sweden, it has been reported" — he

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<sup>56</sup> It seems typical that Moll could, without noticing the contradictions implied, place side by side statements such as these:

"1) the objective of a sound monetary policy should be to achieve the greatest possible stability in the general movement of prices, to hinder large upward or downward fluctuations;

2) the only good solution to the difficulties of Swedish finance is to return to the gold standard."

Tull- och traktatkommitténs valutautlåtande, Stockholm, 1922, Molls särskilda yttrande, p. 22. As we might remember Moll was also 'surprised' by Wicksell's view that "it is incompatible to maintain the gold standard *and* a fixed value of money (i.e. a stable price level - G.P.) at the same time".

<sup>57</sup> Moll to the London banker Everhard Hambro, 1915.1.23., copy, RbA, Förste deputeraden V. Molls korrespondens, Seriesignum: EII.

said in a debate at the Annual Meeting of the Royal Economic Society — “in the last week or two has decided upon a new policy of convertibility by which the krone will not be allowed to fall below the old gold parity, but with no provision, however, to prevent its rising above it. This is a return to the gold standard in its most harmless form. To undertake that the value of the currency shall not fall below its old parity, whilst allowing the value of the currency to rise above it, is quite possibly the most practicable solution.”<sup>58</sup>

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<sup>58</sup> *The Economic Journal*, vol. XXXIV (June 1924), p. 175.

