

**Robert Schuman Centre for Advanced Studies**

The Limits of Loyalty. A Reflection on Historical Experiences  
of Exits from International Monetary System

Roberto Di Quirico

RSC No. 2002/42

**EUI WORKING PAPERS**



**EUROPEAN UNIVERSITY INSTITUTE**

All rights reserved.  
No part of this paper may be reproduced in any form  
without permission of the authors.

© 2002 Roberto Di Quirico  
Printed in Italy in June 2002  
European University Institute  
Badia Fiesolana  
I – 50016 San Domenico (FI)  
Italy

## INTRODUCTION

It was Albert O. Hirschman's concepts of "exit, voice and loyalty" that mainly inspired this paper. In his 1970 book, Hirschman introduced these concepts in order to describe the basic response options for members of groups and organisations in the face of the deterioration of products or services. Exit and voice are the two main options. Whereas the exit option is a feature typical of economic mechanisms, voice belongs more appropriately to the political world. Loyalty is less clear; its relevance in Hirschman's theory is due to the fact that it "can neutralise within certain limits the tendency of the most quality-conscious customers or members to be the first to exit". (Hirschman 1970, 79). This means that it can induce members to non-exit also if existing conditions made the exit option convenient.

Hirschman's concepts of exit, voice and loyalty found application in various fields (firm-customer relations, party and national memberships, and others besides). In these cases the importance of the loyalty factor appear proportional to the level of instability showed by the institution (firm, party, national state) that is attracting loyalty. Thus, inside an institution that is growing or changing rapidly, conditions and conveniences to remain a member will change continuously. In this case, loyalty will suggest to members who are dissatisfied or have been damaged by the changes, that they refuse the exit option, preferring the voice option or remaining silent and waiting for new changes.

A particular field in which the Hirschman's concepts can find a very interesting application is the field of international monetary systems. In this case there is a complex situation in which members are national states and any decision to adopt exit, voice or loyalty options depends on national interests and international policy. Today, this field is particularly relevant because of the incoming European Monetary Union. In fact, various historical analyses have shown that successful monetary unions have been mainly those associated with a process of political unification (Bordo-Jonung, 1999). In contrast, monetary unions and currency areas unable to create or maintain a political union have usually disappeared sooner or later. This suggests that the future of the European Monetary Union could also depend on a political union that is planned but not yet scheduled.

If a political union is to be realised one day in the future, the European Monetary Union needs to survive until that day and will require loyalty by the member states during this period of transition. Consequently, it becomes interesting to understand the reasons and limits of members' loyalty toward

similar systems in historical cases. Moreover, if loyalty “can neutralise whithin certain limits” the predisposition of members to exit a system, it could be crucial to define those limits and understand what factors influence and determine them.

There are some relevant historical cases of international monetary systems in which members decided to exit or to remain despite the existence of conditions that suggested exit. Among these cases are the gold standard in 1931, the sterling area and the European Payments Union in the 1950s, the gold exchange standard in 1971 and, finally, the European Monetary System (EMS) in 1992. All of these historical examples show either exiting or loyalty. For example, in 1931 peripheral countries in the international monetary system called gold standard opted to exit and induced the leader country (Great Britain) to exit too. On the other hand, during the 1950s various former colonies of the British Empire decided to remain in the sterling area notwithstanding independence. During the same years a European Payments Union arose which aimed to facilitate intra-European trade until currency convertibility had been re-established. This system survived successfully until its goals had been realised. The case of the fall of the gold exchange standard (or the Bretton Woods system) in 1971 is interesting because of it was the leader country to exit from the system it led. Finally, the case of the EMS’s crisis in 1992 is complex, in which peripheral countries were unable and unwilling to remain and the leader country forced them to exit. Obviously, this last case is also very interesting because of its close relation with the European Monetary Union.

In this paper, some of these historical cases will be analysed in order to understand the influence of certain aspects on the members’ choice to exit or to remain loyal.<sup>1</sup> In particular, attention will be devoted to the relevance of national interests in determining the members’ choice, the different behaviour of leaders and marginal members, and the consequences of the internal dynamics of the institution in determining exit or loyalty aptitudes.

## **1. EXITING FROM THE GOLD STANDARD: THE 1930S EXPERIENCE**

### **The classical gold standard as a sterling standard**

The classical gold standard is the most widely studied international monetary system. This is because it represents a sort of ‘lost paradise’ for many authors, in which economic growth and financial stability coexisted thanks to the automatism of the system. In reality, under gold standard rules, countries with a

<sup>1</sup> In this context “remaining loyal” means do not exit also in conditions that suggest to exit as the most convenient solution.

balance of payments' deficit lost gold in favour of their creditors. As a consequence, deflation pressures reduced prices and wages in deficit countries, making their exportation more competitive and reversing the deficit. On the other hand, the gold influx in the creditor countries caused inflation pressures, reducing or reversing the balance of payments' surplus. In this way a new equilibrium was reached.

In a matter of fact, however, the classical gold standard worked in a more complex way. Until 1914, the role of Great Britain as an exporter of long term capital was crucial. Moreover, the role of the London financial market in financing world trade and permitting the clearing of international debts transformed London in the centre of the world economy and the British Empire in the leader country of the international monetary system.

The centrality of the British Empire position in the gold standard was due to the expansion of the British banking system and the rise of an international banking network centred in London (Williams 1968). This banking network permitted raw materials producers in the British Empire to be connected with Continental Europe and the United States using the facilities and the specific markets existing in London (capital market, discount market, markets of specific raw material). Moreover, during the XIX century new banks were created in the British colonies and in other peripheral countries (Latin America, Eastern Asia). These banks had main branches in London and other branches in specific countries or regions. In this way they were able to finance the international trade of specific countries working in the country itself but also using the opportunities offered in London by a consolidated financial structure (Baster 1935). Of course, many of bank's transactions, debts and credits were in sterling making it an international currency. As a result, sterling was 'as good as gold' becoming the key currency in an international monetary system that Williams calls 'the sterling system' because sterling and not gold was the real means of payment used for international transactions (Williams 1968, 268-70).

London was also the most important capital market for a certain number of European and Latin American countries and dominions. In the meantime, London became the ideal market for to keep short-term funds because its financial market allowed profitable collocations also for funds to be recalled soon for international trade payments. This enabled the Bank of England to regulate the inflow and outflow of funds in London and to stabilise the sterling value using the interest rate.

The most important characteristic of the classical gold standard as a monetary system was, in all likelihood, that no complex negotiations were needed to enter the system. All those countries that declared their national currencies convertible in gold at a fixed rate and that respected this commitment paying gold on demand for their own national currency were in gold standard regime. The suspension of convertibility excluded the country from gold standard. As a result, the value of government bonds fell and it became more expensive or impossible to obtain foreign credits. This did not mean that exiting from the gold standard was an irreversible choice. For example, there were various cases of countries that suspended convertibility in particular moments of difficulty, rejoining later when problems had been solved.

The classical gold standard ended at the outbreak of the First World War when Great Britain and all the other nations at war suspended effective convertibility. During the war, however, other problems appeared that made a return to convertibility impossible for years after the end of the conflict. Gold reserves and foreign assets were liquidated to pay for war imports. Moreover, war expenditure caused inflation in the fighting countries that issued paper currency and new governmental debts in meeting the financial needs created by the war. This made existing gold reserves insufficient to cover the paper currency circulating at pre-war value.

The coincidence of war and convertibility suspension induced many scholars to consider war as the cause of the gold standard crisis and a return to currency convertibility as the best solution to the problems caused by post-war economic instability. In reality, the classical gold standard showed structural limits before the war and its reestablishment in the 1920s was not sufficient to rebuild a stable international economy (De Cecco 1984). In fact, the classical gold standard stability derived by the continuous growth in international commerce that characterised the second part of XIX century until the war. This growth allowed high levels of investments to be financed in the underdeveloped countries that provided industrialised countries with raw materials and acquired capital goods from them (Williams 1968, 280-83).

London was at the centre of this network of multilateral trade, and it gained from its work as financial intermediary as much as from investments placed overseas. Other gold standard countries also obtained different but equally important advantages from their participation in this monetary system. For example, industrial countries were able to obtain raw materials and foodstuff from the British Empire and from remote regions. Moreover, the industrialised countries of Continental Europe were able to use all the facilities offered by the well-developed London financial market. This allowed them to accelerate their industrial growth, filling the gaps in their national financial systems using the

financial instruments developed in London over the previous centuries. In other words, the countries of Continental Europe borrowed in London not only capital but also financial structures. This aspect of the growth process of the so-called late comer industrialised countries became crucial when the system went in crisis.

Another advantage for both Great Britain and the Continental European countries derived from the leadership of the Bank of England as the central bank of the sterling system. As a result of the central role of London and the consequences of interest rate manoeuvres for the whole system, the Bank of England was able to manage the gold reserves of the other gold standard countries, attracting gold towards London or redistributing it in the continental central banks' reserves. In this way, the Bank of England amplified its capacity to stabilise the value of sterling, thanks to its influence over a larger amount of gold than only the Bank of England reserves. At the same time, continental central banks reinforced their capacity to stabilise their currencies as a result of the international monetary policy planned and pursued by the Bank of England (Williams 1968, 277).

Obviously, there were great advantages for raw materials and foodstuff producers from being able to sell their products and attract investments from the London capital market. This permitted to develop national economies and infrastructures, enabling these countries to become part of the international economy.

Remaining in gold standard also involved costs and problems. One general problem that characterised the gold standard was that of external shock transmission on national economies. The gold standard mechanism, based on the inflow and outflow of funds, and consequent inflation or deflation, created internal economic instability - the price of external stability. Internal instability affected the level of economic activity and other variables (level of unemployment, wages, and internal prices), and this had significant socio-political repercussions. Before 1914, these repercussions had a relatively small political impact because of the élitist electoral systems that did not allow political opposition to be transformed into social discontent (apart from riots). This situation changed after the war, with the transition to mass democracy by means of male universal suffrage.

Other problems arose for the less developed countries, in particular the British Dominions and Latin American countries, both induced to hyper-specialisation in production and external trade. This hyper-specialisation created a sort of dependence on one or a small group of products; this led to internal economic instability due to the international price fluctuation of these products.

Moreover, some countries in the British Empire were forced to accept the burden of a policy of international stabilisation; this was the case of India, which was the most important buyer of silver, thus acting as a stabiliser of the price of silver (De Cecco 1984, 62-75).

### **The restoration of the gold standard in the 1920s**

During the 10 years from 1914 to 1924 only the United States, among the industrial countries, maintained real convertibility of its national currency. In the rest of the world, the gold standard system was gradually restored in the second half of the 1920s. In 1925 Great Britain returned to convertibility, fixing the gold price of sterling at the pre-war price. Following this, other countries pegged their national currency in terms of gold admitting to a certain level of depreciation in comparison with the pre-war value.

Nevertheless, the restoration of the gold standard was incomplete because of the changes induced by the war in the international economy. The economic conditions of Continental Europe had worsened dramatically and the pattern of multilateral trade on which the classical gold standard had based became obsolete. In the 1920s various European countries were in need of financing in order to maintain their industrial systems efficient and to consolidate the government budget. This was the case of Germany and the successor states of the former European Empires. To some extent, it was also the case of some other European countries, which underwent radical developments in their industrial structure during the war and which needed to sustain this process of industrial growth. In this situation the pre-war scheme of multilateral trade disappeared because the main importer of raw materials and foodstuff (Continental Europe) was unable to pay for these imports without receiving funds from London or New York. In the meantime, London was no longer able to grant large loans, but only short-term funds for trade finance. Only the United States was able to grant long-term finance to debtor countries, in particular in Europe and Latin America.

Another problem intrinsic to the gold standard in the 1920s was the scarcity of gold. The enlargement of monetary circulation and the use of gold reserves for war and post-war payments made the existing reserves insufficient for paper circulation coverage. Moreover, the international distribution of reserves changed because of the influx of gold in the USA as a consequence of war and post-war payments. Finally, the maintenance of a large reserve of gold was very expensive because it meant immobilising a huge sum that did not pay interests. As a result, various central banks preferred to maintain reserves in hard currencies (mainly sterling and dollars). Part of these reserves were assets on London or New York.



The new structure of world trade and finance emerging during the war period necessitated major changes in the leadership of the international financial system. After the war the United States had a balance of payments surplus with most of the world. This increased the need for the USA to act as Great Britain during the pre-war period, when it transformed its balance of payment surplus in investments that permitted debtor countries to pay for their imports. In order for the United States to act as world lender, the debtors had to be included in an international monetary regime that would preserve credits from devaluation. For this reason, the United States and Great Britain (which aimed to maintain, at least in part, its role as international financial centre) brought strong pressure to bear on debtor countries in order to induce them to stabilise their currency, rejoining gold standard.

Given the theoretical approach adopted in this paper, this is a crucial feature. In contrast with the pre-war experience, various countries in the 1920s were partially compelled to join the gold standard because it became a *sine qua non* condition for obtaining credits. These credits were essential for government budget consolidation or for industrial plant enlargements and reconversion to peacetime production. This means that governments in need of credit had no margins in their decision to join gold standard because without credit their national economies or the governments itself risked bankruptcy. Moreover, the exit option became more problematic. During the 1920s Continental European economies were more heavily dependent on external credits than before the war for various reasons. The first was that hyperinflation and the crisis of Vienna's financial market made it almost impossible to find local capital for governments and firms in the successor states. Moreover, the import needs of the early post-war years created a huge balance of payments deficit to be financed with external credits. Finally, the new position of the United States in world trade made the dollar scarce, creating a 'dollar gap'. This meant that importers and banks found it difficult to get hold of dollars and they had to find new channels for hard currency collection. This situation led to the use of all possible sources of finance; in particular, short-term credits (bank acceptances, call deposits) in order to meet the importation needs of national economies. As a result, relations between Continental Europe's countries and international financial markets became more rigid and subject to sudden crisis in the case of capital outflows, because of the increased importance of short-term funds.

The signing of agreements for war debt repayment and the gradual restoration of the gold standard allowed European firms, banks and municipalities to issue bonds and shares on the New York financial market, now the most important capital market in the world. This helped to solve the dollar gap problem but, on the other hand, created a new unstable linkage between

Continental Europe's economies and an external financial market. In fact, European firms and banks were in search of capital for financing long-term projects of industrial development or reconversion. This means that they needed not only access to the New York capital market but also stable access over a long period to this market because a sudden interruption of capital flow before new plants would have been able to generate returns, could endanger the whole economic structures involved. This was what happened when Wall Street crashed in 1929. The crash made the issue of new bonds on the New York financial market impossible. Consequently, one of the most important reasons for debtor countries to remain in the gold standard regime weakened.

### **The fall of the gold standard: National cases**

The causes of the great crisis of the 1930s and its consequences on the world economy are more complex than those listed above but, due to the analytical approach adopted here, what really matters here are the state of European countries and the consequences on their willingness to remain loyal to gold standard commitments.

Central European countries were the first to be affected by the consequences of the rising international financial crisis. Their economies were heavily dependent on foreign credits and primary product exports. Moreover, some countries experienced a continuous crisis as a consequence of the war and failures in the attempts to reorganise the internal economy. Austria was the most important of these. After the early post war-years and the experience of hyperinflation, the Austrian government tried to consolidate the industrial and banking systems by attracting foreign capital and favouring mergers between banks. This policy was inadequate to solve the structural problems of the Austrian economy and the mergers of many banks in crisis simply created a few larger banks with larger problems. It is not surprising that the financial collapse of Central Europe started in Austria. The collapse of the Austrian banking system caused a sudden outflow of short-term funds from Central Europe that spread the Austrian financial crisis to the other Central European countries and, in particular, to Hungary and Germany. In summer 1931 these countries introduced exchange controls in order to avoid capital outflows, as in Austria. In this way they infringed the gold standard rules and exited from the system (Ellis 1941).

The main reason for these defaults was that remaining loyal to gold standard rules would have led to the collapse of the internal economic structure. In fact, without capital controls, Austria, Germany and Hungary risked having to repay almost all their foreign debts given that the gold standard rules granted creditors the possibility to convert into gold their credits in local currency. This

was the basic duty that debtors assumed on entering the gold standard and the basic assurance for creditors. In reality, the problem was not the rules but the high level of involvement of Central European countries in international borrowing. It was the crucial role of foreign loans (in particular short-term loans) in satisfying their need for capital that made the consequences of capital outflow dramatic. Without funds, the internal economy risked collapsing with costs in terms of economic losses and political instability that were too high to be acceptable to the Austrian, Hungarian and German governments. It was in order to avoid these costs that the same countries accepted the gold standard rules and duty and the eventuality of having to face them in all cases, that led these countries to search for new solutions outside the gold standard.

There were also cases of exit from the gold standard in the pre-war period. What made the 1931 crisis devastating, however, was that it was not only secondary members that decided to exit the system, but the leader country too. This is the main reason why the 1931 financial crisis can be considered as the final collapse of the classical gold standard.

The breakdown of the sterling standard was caused by various factors. One of them was the economic instability of Continental Europe. Various authors have stressed the role of Continental European central banks in supporting the Bank of England action as international lender (Williams 1963, 514). After the war internal economic problems, gold scarcity and political tensions reduced the potentialities of certain central banks. In contrast, the capital needs of Continental Europe made London a loner international lender in comparison with the pre-war period. Other problems arose from the international agricultural crisis, which reduced the working balances kept in London by international traders. As a result, there was a reduction in funds available for short-term credits. Moreover, in the late 1920s funds were moved from London to New York (in order to speculate on Wall Street) or repatriated in France after the *de jure* stabilisation of the French franc. Finally, the London money market became increasingly involved in government and home industry finance, reducing the proportion of funds available for foreign borrowers (Williams 1963, 520-21).

In this situation the crisis of Central European banks during the summer of 1931 drastically reduced the level of liquidity on the London money market. Simultaneously, the commercial banks of other European countries (Italy, Belgium, Holland, Switzerland, Sweden) withdrew funds from London or required new funds because of their own liquidity problems due to the Central European crisis (Kindleberger 1973). The growing outflow of funds from London induced British authorities to devalue the pound and to suspend

convertibility. Therefore, it was mainly the structural collapse of the system centred on the London financial market that induced Great Britain to exit from the gold standard.

On the other hand, it seems that Great Britain did not use all the options at its disposal in order to save the system. Williams shows that one of the main changes in the London money market position with respect to the pre-war period was its increased involvement with the home industry. Moreover, the London capital market was an important instrument for maintaining the solidity of the British Empire, due to the importance of the financial flows from London to countries with close political ties with Great Britain (the so-called Proto-Sterling Area) (Williams 1963, 521). These aspects are useful to explain the reluctance of the Bank of England to raise interest rates in order to attract funds from abroad in the final years of the gold standard, funds that could be used to deal with the system's crisis. In Williams's view, London increased its role in financing home industry and Proto-Sterling area countries, and this caused a reduction in the flexibility of the London market. In other words, the rise in the London interest rate to attract funds to lend to other gold standard countries collided with the interests of home industry and Proto-Sterling area countries, which required low rates. Consequently, adopting Williams' perspective, it seems that Britain's decision to exit from the gold standard was partially influenced by the contrast between international commitments and internal (in the sense of internal to the British Empire) priorities.

The heavy dependence of Central European countries on external credit explains why they decided to exit from gold standard as the firsts. The high level involvement of London in international finance and the embarrassment over credits frozen in Central Europe, explain why Great Britain decided to exit from gold standard. Other countries remained in the gold standard regime because they were not heavily indebted at short-term and were able to pay for capital outflows or to attract gold instead losing it. In the perspective adopted in this study, the most interesting aspect of their experience regards the reasons why these countries remained in the gold standard regime for such a long period notwithstanding the defection of others members, the leader country included.

In the case of France, a strange situation came about. The *de jure* stabilisation of the French franc in 1928 induced French capitalists to repatriate capital exported during the recent years of financial instability. This reinforced the French gold reserves. Moreover, the exchange rate adopted for the franc led to the undervaluation of the currency and favoured exportations and tourism. As a result, the French balance of payments resulted in a surplus and the franc gave the impression of being a strong currency (Wolfe 1951). Finally, France had a decreasing population that resorted heavily to foreigners for its manpower

needs. This permitted French authorities to regulate the unemployment level by varying the number of working permits awarded to immigrants.

This particular situation of France deeply influenced the course of the events and French politicians' perception of the internal and international situation. In reality, the French situation was not under threat in the early years of the depression. The unemployment rate was low, the state budget was balanced, and the gold influx increased as a consequence of the London crisis which transformed Paris into an ideal market for refuge-seeking capital (Wolfe, 1951, 92). This idyllic situation induced French politicians to misinterpret the position of France in that period, ascribing the merits of this elusive success in combating depression to their deflationist policy. Initially, this conviction led the French government to maintain its budget-balancing policy based on budgetary curtailment, high taxes, and price and wage deflation (Wolfe 1951, 105). When depression arrived in France, the damages of the French budgetary policy became evident but French political instability and the scarce economic knowledge of political leaders made it difficult to fight the economic slump. For example, the communists opposed fiercely the devaluation of the French franc considering this eventuality disadvantageous for workers. Moreover, many people considered devaluation, budget disequilibrium, inflation and financial instability as connected phenomena. The advent of the Popular Front and the economic policy then applied was unable to solve the problem of the French economy and the situation deteriorated until the French franc was finally devalued. France was the last to be affected by and the last to recover from the depression. It has been suggested that this delay was the main reason for France's renouncing to exit from the gold standard until the second half of the 1930s. As a matter of fact, France, like the Central European countries, aimed principally to defend its internal balance but the apparent immunity from depression during the early 1930s led the French government to loyalty toward gold standard rules and orthodox economic theory because it appeared to be the reason of the apparent success of French government in contrasting international crisis.

The case of Italy is that of a net debtor country that tried to maintain a good reputation as debtor rejecting the introduction of exchange controls and remaining loyal to gold standard rules. In this way Italy suffered for both funds outflows and short-term credits frozen in Central Europe. Moreover, since it was one of the few debtor countries that maintained convertibility, external creditors recalled funds in order to regain the liquidity they lost because of the default of Central European debtors. Finally, mainly in 1930, Italian firms bought back their own bonds issued on the New York market during the 1920s. These depreciated heavily due to the Wall Street crash; Italian firms found it very

convenient to re-purchase them because in this way they were able to reduce their debts at a lower cost. Capital outflow and bond repurchase reduced the Bank of Italy reserves, also suffered from the over-valuation of the Italian lira, in particular after the pound devaluation in September 1931. For all these reasons the Italian economy underwent a deep crisis in 1932-33. The recall of short-term loans and foreign banks deposits, together with the fall in industrial production and the crisis in exports, caused a banking crisis that led the Italian government to direct involvement in the national economy. Thus the government became the owner of a large part of the industrial and banking system, rescuing the larger Italian banks and a number of Italian industries from bankruptcy. In spite of all these problems, the Italian government decided to maintain the convertibility of the lira, and in 1933 joined the so-called Gold Bloc together with France, Belgium and Poland. The Italian lira devalued only in 1936, at the end of the League of Nations sanction against Italy for the invasion of Ethiopia (Storaci 1993).

The reasons for the choices made by the Italian government can be found mainly in the dictatorial nature of Italian government at that time. On the one hand, Mussolini's fascist regime was not obliged to resolve the popular dissatisfaction with the rising economic crisis, as in the case of democratic nations. The Italian dictatorship had been successful in previous years in imposing fascist rules on the workers. On the other hand, the industrial and banking leadership, given its need for financial support by the government, was unable to bring pressure to bear in the field of economic policy. The Italian government did not have a realistic perception of the consequences of the crisis for the Italian position in the international economy. Mussolini gave wide political value to the stability of the lira. It represents in Italy the premium paid to the middle class for support to fascism, and abroad an element of prestige for the fascist government (Falco-Storaci 1977). Moreover, monetary stability was conceived as the basic requirement for obtaining foreign credits. In all likelihood, Mussolini and his advisors did not realise (at least until the late 1930s) what the gold standard breakdown really meant and they tried to maintain international confidence in Italian financial soundness hoping to attract new capital as soon as the crisis was over.

The United States maintained dollar convertibility until 1933 when the dollar was devaluated and gold exportation prohibited (Kindleberger 1973, 200). This was a mainly political choice. The USA had the largest gold reserve in the world, no problem of capital outflow, and a balance of payments surplus for almost all the 1930s. This means that there was no overriding reason for the USA to exit from gold standard; its choice was a reaction to the default of other currencies (sterling in particular). In contrast with the European countries, the financial crisis in USA did not cause a currency crisis. The most important aspect of the American crisis was the

stock market crash and the fall of industrial production, prices and level of employment. In other words, in the USA the crisis was mainly internal and affected the internal level of economic activity. The government (in particular the Roosevelt administration) devoted a large part of its activity to sustaining the internal market, trying to increase prices as a means to stimulate industrial production and agriculture, and to reduce unemployment. In this context, the decision to exit from gold standard was instrumental for creating the condition to improve internal situation. In fact, the devaluation of sterling reduced the competitiveness of American goods in the overseas countries of the British Empire linked to Great Britain by the imperial preference system. In other words, the decision to devalue was a new step toward isolation, as in the case of the adoption of the Smoot-Hawley tariff in 1930. In that case the American government tried to sustain the internal market with protectionist measures. Instead, with devaluation, the Roosevelt administration tried to regain external markets for American goods and in the meantime to raise internal prices, as became evident with the adoption in February 1934 of a new gold price for the dollar (35 dollars per ounce). In both cases the Americans mainly took care of internal problems without sufficient consideration for the consequences of their policy at the international level.

The analysis of these historical cases shows us that different countries showed different levels of loyalty toward the gold standard. All of them accepted the rules of the game by joining gold standard; all of them exited from the system during the 1930s, mainly because the initial condition that led them to join disappeared. The difference between them lay mainly in the time of the exits and the explanation of the different delays in leaving the system, depending on the single countries' international position and their priorities. An important aspect in inducing countries to exit was surely the deterioration of the internal mechanism of the gold standard and the structural collapse of the system. Nevertheless, it seems clear that national interest prevailed in all the cases examined and that, as a general rule, the limit of loyalty was determined by the balance between internal cost and gains due to participation in the international monetary system.

## **2. REMAINING IN THE STERLING AREA**

### **From the sterling bloc to the sterling area**

The fall of the gold standard in 1931 created a dramatic fragmentation in the international economic system and the rise of different blocs of countries characterised by specific currency arrangements. One of them was the so-called gold bloc that linked France, Italy, Belgium, Switzerland and Poland. These countries decided to reject devaluation and to maintain their gold parities. Based on the old Latin Monetary Union created in the late XIX century by France,

Italy and Belgium, this bloc was now enlarged to Switzerland (which maintained gold convertibility because of its role as an international capital refuge) and Poland (which joined the bloc because of its political ties with France). In reality, the bloc had no internal coherence and its existence derived mainly by the single countries' choice to maintain gold convertibility for a certain time after sterling flight from gold. However, by the end of 1936 the gold bloc was practically dissolved because of the devaluation of the French and Belgian francs and the Italian lira and the introduction of exchange controls in gold bloc countries.

Another currency bloc, the so-called Reichsmark bloc, comes into being in Central Europe. The real nature of the Reichsmark bloc is widely discussed by historians because of the importance of this case study for the formulation of Hirschman's theory of economic dependence (Hirschman 1945). In reality, the system of trade agreements and clearings created by Nazi Germany and other Central and Eastern European countries during the 1930s was mainly a trade bloc that aimed to create the conditions for regional trade in the absence of hard currency assets. Obviously, this bloc did not survive the Nazi Germany's defeat in the World War II and the inclusion of Eastern Europe in the Soviet bloc.

The British Empire, with the exception of Canada, remained linked to sterling. Dominions and other countries like Portugal decided to peg their currencies in terms of sterling rather than gold. Then economic connection of most of these countries with Great Britain was reinforced by the Ottawa Agreement, which created the imperial preferences system. As a result, sterling became the basic currency for the international trade of these countries and the group of countries appeared as a currency bloc, the so-called 'sterling bloc'. Later, other countries like Iran and Latvia and the Scandinavian countries joined this. Finally, a group of countries including Argentina and Japan decided to link their currency to sterling. However, these countries were not considered as members of the sterling bloc (League of Nations 1944, 47).

The close economic and political connections between Great Britain and the other countries of the sterling bloc appears as the basic reason for the rise of the sterling bloc. Member countries oriented their international trade towards Great Britain and the rest of the Empire and this orientation was reinforced by the imperial preference system adopted at Ottawa in 1932. In the meantime, trade agreements concluded by Great Britain with the Scandinavian countries and Argentina attracted these countries towards the sterling bloc. They preferred to peg their currencies to sterling because they perceived the convenience of minimising exchange rate uncertainty toward the currency of their most important trading partner (Aliber 1982, 151). Financial ties were equally important, access to the London financial market being a very useful opportunity



to satisfy the financial needs of less developed countries. Finally, the system of currency boards adopted in various countries of the British Empire automatically linked the local currency to sterling. Local currency boards issued local currency in return of sterling assets granting 100% coverage of local currency in sterling. This means that before 1931 these countries were linked to gold by means of sterling and that, after the abandonment of the sterling convertibility, their currencies simply remained linked to sterling (Williams 1968, 273-74).

The sterling bloc became the sterling area with the breakdown of World War II. In September 1939 the countries that accepted keeping their currency reserves in London and managed by the Treasury established common exchange controls. As a result, most of the countries external to the British empire renounced pegging their currencies in terms of the sterling and the sterling bloc (now the sterling area) became virtually equivalent to the British Commonwealth without Canada (League of Nations 1944, 47).

### **A short history of the sterling area**

The most obvious periodization in the history of the sterling area is formed of three parts: the war period, the early post-war period (1945-49) and the 1950s. Indeed, 1958 (with the return to convertibility of sterling) is commonly considered as the final year of the period in which the sterling area played a relevant role in international economic politics (Schenk 1994, 16 & 132).

During the war period, the main efforts of Great Britain and the sterling area members were aimed towards the German defeat. Consequently, the role of the sterling area was that of supporting the war economy, furnishing food and goods for the war. In this context the role of the sterling as an international currency was crucial. The existence of the sterling area enabled Britain to obtain food and raw materials avoiding payment in dollars. It simply paid with sterling which became soon a sort of “blocked currency” in the sense that it was almost impossible to obtain goods from Great Britain during the war. As a consequence, sterling balances had to be accumulated waiting for using them in the post-war period.

Moreover, trust in sterling and the importance of the share of international trade controlled by the sterling area led countries external to the sterling area to accept accumulating sterling balances in payment of their export to Great Britain, as in the case of Argentina (Fodor 1986). In this way, Britain accumulated a large amount of outstanding sterling balances (approximately 2,900 millions) used for paying its war and immediate post-war imports. Consequently, the management of these sterling assets became one of the most

important problems during the post-war period and it was probably one of the key aspects influencing the choice to exit or remain in the sterling area. After 1945, a series of agreements were signed with countries to regulate the use of sterling assets and a sort of hierarchy rose in which the sterling area countries showed themselves to be the most favourite (Meyer 1952, 9). Accordingly, countries with large amounts of sterling balances (e.g. India) were reluctant to leave the sterling area, fearing that they would lose their privileged position for the use of these assets.

This fear was a powerful instrument in the hands of British government to maintain cohesion in the sterling area. In the early post-war period the British policy was to permit the use or the transfer of sterling balances within a certain limit, inducing countries to maintain a minimum level of these balances. Risk of expulsion from the sterling area (with the consequent blockage of sterling balances) was suggested for countries that refused to reach a reasonable agreement (Fforde 1992, 89-93). In other words, the sterling area allowed British influence to be maintained over a disintegrating empire because of the existence of huge debts in the form of sterling balances that newly independent countries in the sterling area were unhappy to lose and that Great Britain was willing to pay in order to keep the independent countries in its sphere of influence. This strategy was evident in the way in which Britain managed sterling balances, shifting them from the major independent countries (in particular from India) to British colonies (table 1 and figures 1 and 2). In other words, Britain redistributed the burden of keeping sterling balances in favour of independent countries and in particular in favour of a newly independent country like India over which the British Empire was unable to maintain political and military control in the post-war period.

Britain also perceived the sterling area as an instrument of international economic policy that was useful to safeguard, at least in part, the roles of Great Britain and the British Empire as world powers. In this sense the maintenance of the sterling area allowed dependence on the USA to be reduced, weakening the need for dollars. During the war the problem of the dollar shortage was partially avoided thanks to the sterling area and the imposition of restrictions normally associated with a war economy. However, with the end of the war the dollar gap became strident (table 4). During the early post-war period the sterling area maintained its role as “dollars saver” and allowed the effects of the dollar shortage on the area’s members to be reduced. Nevertheless, the pooling of gold and hard currency was ineffective in satisfying the dollar’s need for the sterling area. After the end of the war, those countries of the sterling area those were also traditionally in surplus with the dollar area showed a deficit and became dollar users (tables 2 and 3). Thus, it was only thanks to the dollar area loans and

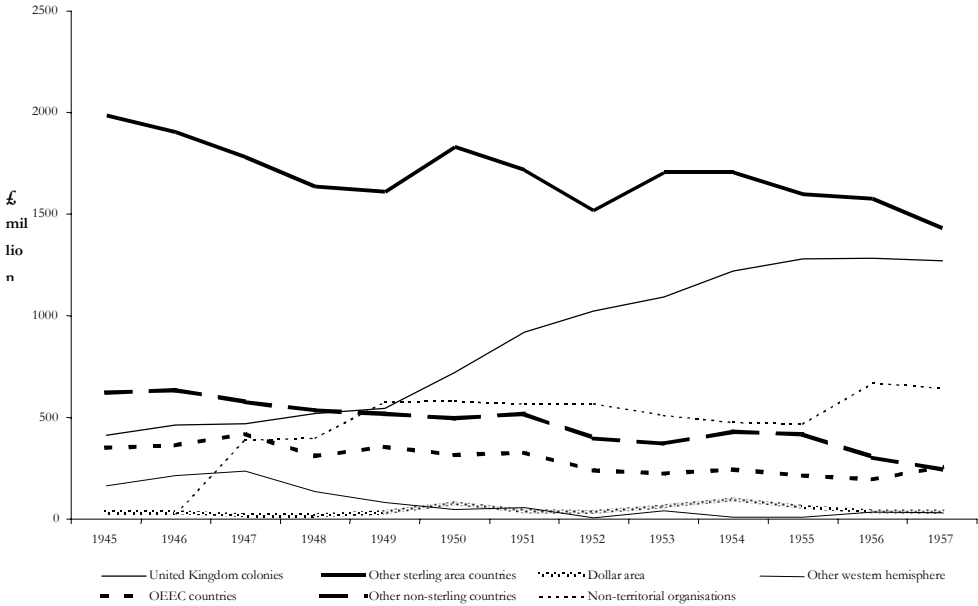
the rise in South Africa's gold production that it was possible to manage the gold and dollar pool of the sterling area in the late 1940s (table 5).

**Table 1. Overseas Sterling Holdings at end of year (£ million)**

	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957
<b><u>Sterling area countries</u></b>													
United Kingdom colonies	411	461	470	519	546	719	919	1024	1093	1221	1280	1281	1269
Other sterling area countries	1986	1906	1780	1636	1612	1830	1717	1518	1705	1703	1599	1575	1430
<i>Total sterling area countries</i>	<i>2397</i>	<i>2367</i>	<i>2250</i>	<i>2155</i>	<i>2158</i>	<i>2549</i>	<i>2636</i>	<i>2542</i>	<i>2798</i>	<i>2924</i>	<i>2879</i>	<i>2856</i>	<i>2699</i>
<b><u>Non-sterling area countries</u></b>													
Dollar area	34	33	18	19	31	79	38	34	62	97	58	37	35
Other western hemisphere	163	212	235	135	80	45	57	6	40	8	9	32	31
OEEC countries	351	363	419	309	356	314	328	239	223	244	213	193	258
Other non-sterling countries	622	635	576	534	518	496	518	398	370	430	417	303	244
<i>Totale</i>	<i>1170</i>	<i>1243</i>	<i>1248</i>	<i>997</i>	<i>985</i>	<i>934</i>	<i>941</i>	<i>677</i>	<i>695</i>	<i>779</i>	<i>697</i>	<i>565</i>	<i>568</i>
<b><i>Total non-sterling countries</i></b>	<b><i>3567</i></b>	<b><i>3610</i></b>	<b><i>3498</i></b>	<b><i>3152</i></b>	<b><i>3143</i></b>	<b><i>3483</i></b>	<b><i>3577</i></b>	<b><i>3219</i></b>	<b><i>3493</i></b>	<b><i>3703</i></b>	<b><i>3576</i></b>	<b><i>3421</i></b>	<b><i>3267</i></b>
Non-territorial organisations		26	388	398	576	577	566	567	511	476	469	669	645
<b>Total</b>	<b>3567</b>	<b>3636</b>	<b>3886</b>	<b>3550</b>	<b>3719</b>	<b>4060</b>	<b>4143</b>	<b>3786</b>	<b>4004</b>	<b>4179</b>	<b>4045</b>	<b>4090</b>	<b>3912</b>
Acceptances Outstanding			30	53	50	71	92	70	69	102	101	126	147

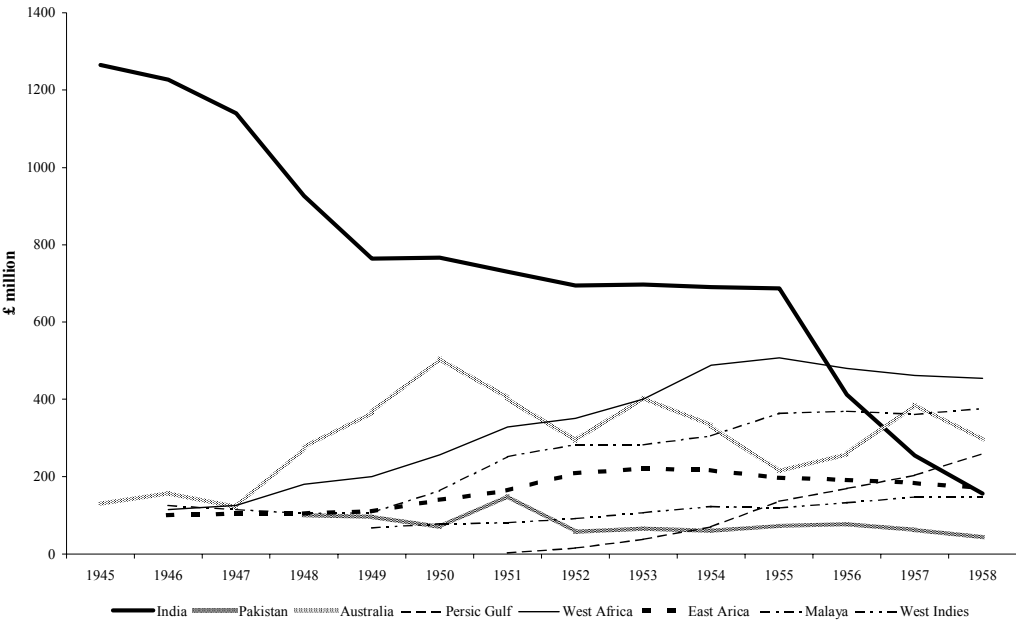
**Source:** *New Contribution to Economic Statistics*, H.M.S.O., 1959 in A.R. Conan, *The Rationale of the Sterling Area*, London, MacMillan, 1961, p.55.

**Figure 1. Sterling balances distribution by areas (£ million)**



**Source:** New Contribution to Economic Statistics, H.M.S.O., 1959 in A.R. Conan, *The Rationale of the Sterling Area*, London, MacMillan, 1961, p.55.

**Figure 2. Sterling balances of the main territories of the sterling area (£ million)**



**Sources:** Philip W. Bell, *The Sterling Area in the Post-war World: Internal Mechanism and Cohesion 1946-1952*, Oxford, Oxford University Press, 1956, pp. 22; Catherine R Schenk, *Britain and the Sterling Area. From devaluation to convertibility in the 1950s*, London, Routledge, 1994, 50-53.

**Table 2. Contributions to and Drawing from the Sterling Area Gold and Dollar Pool by Member Countries (U.S. \$ million)**

	1946	1947	1948	1949	1950	1951	1952
<i>On the account of:</i>							
UK	-35	1070	-189	151	872	-1303	-385
Dominions and independent members	-117	-980	51	-254	311	19	-81
Dependent Territories	158	62	233	229	436	487	385
Whole Sterling Area	213	-770	-317	-293	-7	-167	-407
Change in Central Reserves	219	-618	-222	-167	1612	-964	-488

**Source:** Philip W. Bell, *The Sterling Area in the Post-war World: Internal Mechanism and Cohesion 1946-1952*, Oxford, Oxford University Press, 1956, pp.56-9.

**Table 3. Surplus or deficit with Dollar Area (U.S. \$ million)**

	1946	1947	1948	1949	1950	1951	1952
<i>On the account of:</i>							
UK	-1128	-2237	-1265	-1058	147	-1480	-722
Dominions and independent members	-427	-1272	-545	-577	8	-198	-307
Dependent Territories	134	40	206	202	408	462	378
Whole Sterling Area	-1421	-3469	-1604	-1433	563	-1216	-651

**Source:** Philip W. Bell, *The Sterling Area in the Post-war World: Internal Mechanism and Cohesion 1946-1952*, Oxford, Oxford University Press, 1956, pp.56-9.

**Table 4. Net dollar receipts from (+) or payments to (-)(U.S. \$ million)**

	1946	1947	1948	1949	1950	1951	1952
Non-Dollar Area Western Hemisphere	-60	-233	-14	-7	27	4	60
OEEC Countries	275	-503	-199	-178	-21	-107	-482
Other non-sterling countries	-4	-56	-74	-102	-17	-60	23
Non-territorial organizations	2	22	-30	-6	4	-4	-8
Total	213	-770	-317	-293	-7	-167	-407

**Source:** Philip W. Bell, *The Sterling Area in the Post-war World: Internal Mechanism and Cohesion 1946-1952*, Oxford, Oxford University Press, 1956, pp.56-9.

**Table 5. Special dollar receipts (U.S. \$ million)**

	1946	1947	1948	1949	1950	1951	1952
US. credit	600	2,850	300				
Canadian credit	523	423	52	116	45		
South African Gold Loan			325				
IMF drawings		240	136	52			31
Gold sales to United Kingdom	334	342	222	234	281	218	201
ERP Aid			664	1,157	737	201	338
Total	1,457	3,855	1,699	1,559	1,063	419	570

**Source:** Philip W. Bell, *The Sterling Area in the Post-war World: Internal Mechanism and Cohesion 1946-1952*, Oxford, Oxford University Press, 1956, pp.56-9.

On the other hand, the existence of the sterling area supported the price competitiveness of British goods in the area. The scarcity of dollars, the non-convertibility of the sterling, and the system of accounting for the use of sterling assets meant that sterling area countries were not free to buy in the dollar area, leading them to use their sterling assets for “unrequited imports” from Great Britain (Bell 1956, 20). This was the system by which Britain paid for the war, but it was also probably one of the most important causes of the 1949 balance of payments crisis. This was because Great Britain had to pay for the imports of raw materials it needed to produce goods to export towards sterling balance owners and it was impossible to obtain all these imports in the sterling area. It resulted a reduction of the hard currency reserve because of payments outside the sterling area.

### **The sterling area and the American plans for multilateralism**

The sterling area represented a point of bitter contrasts during the Anglo-American negotiations since Bretton Woods. The American considered the sterling area and the imperial preference system as connected topics and as the main obstacle to returning to multilateral trade. In the American view the most important and urgent objective in the post-war period was to dismantle trade barriers such as tariffs, preference systems, bilateral agreements, import restrictions and exchange controls. The return to multilateral trade also passes by the re-establishment of sterling convertibility, in part as a means of destroying the sterling area and the imperial preference system. In fact, American negotiators considered that sterling inconvertibility was the key tool in the British hands in order to discriminate imports from the USA in the sterling area.

The return to a convertible sterling failed also because of the existence of huge sterling balances in the hands of a lot of owners mainly interested in having dollars. Britain obtained a large loan from the USA in 1946-7, agreeing to reintroduce the convertibility of sterling by 1947. The Article VII of the Anglo-American loan agreement signed in 1946 established that sterling would have to become convertible for current account transactions one year after the signature of the agreement. Instead of a final victory, the return to sterling convertibility represented a turning point in the American global strategy for re-introducing multilateralism. During the short period of convertibility (15 July – 20 August 1947) sterling became a sort of intermediary currency to obtain dollars. Sterling balances owners converted sterling heavily into dollars in order to obtain the currency they needed for imports from the USA, and the dollar reserves of the United Kingdom decreased rapidly until the suspension of convertibility was decided (Gardner 1980).

During the last years of the 1940s, two things became clear. First, the dollar gap and fragmentation of international trade were structural problems that it was impossible to solve immediately and with limited funds. Second, the USA was unable to impose its own plans for the international economic order because of international structural problems and the influence of Great Britain as the centre of the sterling area. The understanding by the American government of these problems favoured the adoption of a different approach toward the problem of the reconstruction of an international economic order. This new approach foresaw structural interventions such as the European Recovery Program (ERP) and support to Intra-European co-operation in various forms, amongst which the OEEC and the European Payments Union. In this way it became possible to sustain the economic recovery of an area (Western Europe) crucial for the re-building of an international multilateral system centred on areas rather than on single countries.

During the 1950s, the sterling area maintained its cohesion but relations between Great Britain and the rest of the sterling area began to lose importance. With the breakdown of the Korean War and the increase of USA expenditure for imports, the dollar gap disappeared and the importance of the sterling area to save dollars decreased. Moreover, the obsolescence and low quality of certain British products reduced the level of competitiveness of British exports in the rest of the sterling area (Schenk 1994, 85-7). Finally, the economic relationship between Great Britain and the OEEC countries in continental Europe became much more important and led Great Britain to participate in the European Payments Union. In 1958 sterling became convertible once more and the importance of the sterling area as a discriminatory bloc ended.

### **The reasons of persistent loyalty to the sterling area**

In the perspective adopted for this study, the case of the sterling area is very interesting because it is an example of international monetary arrangement (informal, at least during the early years) by which certain members decided not to exit, notwithstanding the fact that the original conditions and advantages that generated the membership had disappeared. In particular, it is very interesting that certain countries, originally included in the sterling bloc because of their political dependence on Great Britain, decided to remain in the sterling area notwithstanding the fact that they were now independent countries.

In my view, the main reason for this “excessive loyalty” to the sterling area was that both Great Britain and the newly independent countries had found that there were strong advantages to maintaining their economic and financial ties, also after the relaxation of political linkages following the end of the Empire. During the World War II period, some of the countries in the sterling



area (e.g. India) accumulated large amounts of sterling balances as payment for exports toward Great Britain and the rest of the sterling area. At the end of the war, the better way for using these sterling balances was to remain in the sterling area and use them for intra-area trade. Moreover, after the war various dominions and the major independent countries became net dollar users (Bell 1956, 61-2). Because of this, they needed to develop a currency policy that could be effective only in an international context, a possibility they had only thanks to their membership in the sterling area, which offered them a 'voice option' in an economic relationship with Great Britain and the rest of Commonwealth (Bell 1956, 342). On the other hand, the war and early post-war experience made it clear that Great Britain could maintain an important international economic role only at the centre of the sterling area, being able in this way to influence relations among the dollar area, Continental Europe and raw material producers around the world (Newton 1985, 176-7; Gardner 1980, 325-31). In this perspective, the maintenance of the sterling area notwithstanding the dissolution of the imperial links allowed the United Kingdom to maintain a bargaining power and a sort of leadership useful to address the newly independent countries' policy. Finally, the existence of the sterling area and the inconvertibility of sterling were useful to sustain British internal economy and external trade, leading sterling area members to buy British products paid for in sterling. In this way the declining competitiveness of British products was counterbalanced by the abundance of sterling in the hands of buyers which experienced in the meantime a scarcity of dollars (Newton 1985, 165-6). For these reasons, the sterling area survived the dissolution of the political structure (the British Empire) that generated it for almost ten years.

## **CONCLUSIONS**

The two historical experiences analysed above, can show us something about the reasons for and limits of loyalty in international monetary systems. In both cases it is evident that the initial conditions and expectations that induced members to join the system played an important role in determining the point at which loyalty to the system disappeared. When initial conditions changed drastically and no positive expectations survived concerning the restoration of these conditions or the creation of a new situation that could be viewed as acceptable, exit option became the logical solution, as in the case of the gold standard in the 1930s. On the other hand, changes in the initial conditions and expectations could not be a danger for loyalty but a cohesion factor when these changes generated a new equilibrium that was useful or acceptable for a large number of members. This was the case of the sterling area in the late 1940s, when, because of the existence of sterling balances, neither Great Britain nor the newly independent countries had any interest in exiting the sterling area. In other

words, there exists a clear connection between the limits of loyalty and the convenience of loyalty, in the sense that when members had nothing to lose by exiting the system, the exit option has no costs and loyalty make no sense. Instead, when members exiting a system have to lose something, the limits of loyalty depend on the balance of costs and gains, as in the case of sterling balances.<sup>2</sup> While, this is always true, it is not always clear. In fact, there were cases (e.g. Italy in the early 1930s) when the convenience of loyalty was overestimated. In other cases some members (e.g. France until the mid-1930s) did not perceive the real situation. A reverse case is also possible in which a member underestimates the convenience of its remaining in the system. In all these cases there is a non-optimal choice that influence the limits of loyalty.

Another element that is very important to determine the limits of loyalty is the structural development of the system. Internal decisions, sub-optimal choices, external constraints and, more generally, the workability of the system can create conditions in which the system collapses, as in the case of gold standard in 1931. These made loyalty untenable in terms of the cost that a single member has to accept in order to remain loyal to the rules of a system that has disappeared. In contrast, structural development can give rise to a transformation of the system that makes it more flexible and capable of working in many different contexts.

As a consequence, a third element to consider is the influence of external constraints on the convenience of loyalty and the workability of the system. It can be argued that in the 1930s the European members of the gold standard were induced to exit by constraints that were external (in the sense of external to Europe). Instead, after 1945, the sterling area members' readiness to remain in the system was strongly influenced by the international situation and the world-wide dollar shortage that made it more convenient to maintain a structure that would save dollars, a move that was likely to be impossible for single members to sustain separately, at least in a long-term perspective. Instead, the international situation and external constraints, plus the political considerations, forced Continental European countries to create a system named European Payments Union at the end of the 1940s and in the early 1950s, in order to manage the international trade and currency problems of the whole area. In this case external constraints generated a new system and the convenience for member's loyalty.

The relevance of initial conditions, expectations, structural development and external constraints derives from the dynamic dimension of international

<sup>2</sup> Sterling balances represent a very clear example because they are measurable in terms of value, but often it is not possible to quantify the cost of exit so precisely.

systems. This means that the analysis of the limits of loyalty has to be put into a dynamic context in which initial conditions and the initial structure of the system change continuously in response to external inputs that generate internal reactions. A direct consequence of this dynamic dimension of the problem is that if the limits of loyalty imply the existence of a sort of exit threshold, the value of this threshold will vary in accordance with the structural development of the system. A second consequence of the dynamic perspective is that a crucial role will be played by inter-relations among members (leading countries and peripheral countries) and among systems (e.g. euro area, dollar area, yen area). In other words, the workability of a system and respect for the limits of loyalty depend on a twofold level of equilibrium: internal balance among the system members and external balance among different systems, which allow to all of them to survive.

An historical example of this kind of multilevel equilibrium can be found in relation to currency areas. In these cases what really matters is not the existence of a general equilibrium of all the system members but equilibrium among the systems (in this case currency areas) that allows each single system to work by means of internal adjustments. This was the case of the gold standard in the 1930s when the fall of the international monetary system revealed the existence of two potential sub-systems (the dollar area and the sterling area) capable of surviving outside gold standard. In contrast, Continental European countries were excluded by major currency areas and unable to create their own currency area, at least until the rise of the European Payments Union. When the convertibility of the most important European currencies was re-established in 1958, the dollar area, sterling area and Western European area united in a new international monetary system, the so-called gold exchange standard or Bretton Woods system, although these areas maintained their structure as sub-systems in a world-wide system in part. This allowed them to progressively return to separate currency areas after the fall of the international gold exchange standard in 1971, a process recently culminating in the introduction of the euro.

Assuming that relations among currency areas are mainly influenced by the structure of the international economy, this shows us that loyalty is not a crucial element in relations among monetary systems, at least in the context of this work. In contrast, loyalty influences the international equilibrium between monetary systems because of its importance inside the different sub-systems, together with the effects of the fall of one of them on the balance holding between the others.

Roberto Di Quirico, European University Institute

## REFERENCES

- Aliber, R.Z. (1982) "The Evolution of Currency Areas: a Speculation on Monetary History" in Cooper, R.N. et al. (eds.) *The International Monetary System Under Flexible Exchange Rates: Global, Regional and National*, Cambridge (Mass.), Ballinger Publishing Co.
- Arndt, H. W.(1944) *The economic lessons of the 1930's*, London, Frank Cass.
- Basch, A. (1944) *The Danube basin and the German economic sphere*, London, Kegan Paul, Trench, Trubner & co. Ltd.
- Baster, A.S.J. (1929) *The Imperial banks*, London, P.S. King & Son.
- Baster, A.S.J. (1935) *The International Banks*, London, P.S. King & Son.
- Bell, P.W. (1956) *The Sterling Area in the Post-war World: Internal Mechanism and Cohesion 1946-1952*, Oxford, Oxford University Press.
- Bordo, M. D. – Jonung, L. (1999) *The future of EMU : what does the history of monetary unions tell us?*, Cambridge, NBER.
- Conan, A.R. (1961)*The Rationale of The Sterling Area*, London, MacMillan.
- Conan, A.R. (1952) *The Sterling Area*, London, MacMillan.
- De Cecco, M. (1984) *The International gold standard: money and empire*, London, Pinter.
- Eichengreen, B. J. (1992) *Golden fetters : the gold standard and the Great Depression, 1919-1939*, Oxford, Oxford University Press.
- Ellis, H. S. (1941) *Exchange control in Central Europe*, Cambridge (Mass.), Harvard University Press.
- Falco, G. - Storaci, M. (1977) "Il ritorno all'oro in Belgio, Francia e Italia: stabilizzazione sociale e politiche monetarie (1926-1928)", in *Italia contemporanea*, n.126, pp. 3-43.
- Fforde, J. (1992) *The Bank of England and Public Policy, 1941-1958*, Cambridge, Cambridge University Press.
- Fodor, G. (1986) "The Origin of Argentina's Sterling Balances 1939-43", in Di Tella G. – Platt D.C.M. (eds), *The Political Economy of Argentina 1880-1946*, Basingstoke, MacMillan.
- Gardner, R. N. (1980) *Sterling-Dollar Diplomacy in Current Perspective: The Origins and Prospects of Our International Economic Order*, New York, Columbia University Press.
- Hertz, F. (1947) *The economic problem of the Danubian States: A study in economic nationalism*, London, Gollancz.

- Hirschman, A. O. (1970) *Exit, Voice, and Loyalty. Responses to Decline in Firms, Organizations, and States*, Cambridge, Harvard University Press.
- Hirschman, Albert O. (1945) *National Power and the Structure of Foreign Trade*, Berkeley, Un. Of California Press.
- Keynes, J.M. (1913) *Indian Currency and Finance*, London, MacMillan.
- Kindleberger, C. P. (1973) *The World in Depression, 1929-1939*, London, Allen Lane.
- King W.T.C. (1936) *History of the London discount market*, London, Frank Cass.
- League of Nations, (1926) *The financial reconstruction of Austria*, Geneva, League of Nations.
- League of Nations (1944) *International currency experience: Lessons of the Inter-war period*, Geneva, League of Nations.
- Madden, J. T. - Nadler, M. (1968) *The International Money Markets*, New York, Greenwood Press.
- März, E. (1984) *Austrian banking & financial policy. Creditanstalt at a turning point 1913-1923*, New York, St. Martin Press
- Meyer, F.V. (1952) *Britain, The Sterling Area and Europe*, Cambridge, Cambridge University Press.
- Milward, A. S. (1981) "The Reichsmark Bloc and the International Economy" in Kettenacker, L. (ed.), *Der Führerstaat. Mythos und Realität*, Stuttgart, pp. 377-411
- Newton, C.C.S., "Britain, the Sterling Area and European Integration, 1945-50" (1985) in *Journal of Imperial and Commonwealth History*, vol.13, n.3, May, pp.163-82.
- Powell, E. T. (1966) *The evolution of the money market 1385-1915*, London, Cass &Co.
- Ránky, G. (1983) *Economy and foreign policy. The struggle of the great powers for hegemony in the Danube Valley, 1919-1939*, New York, Columbia University Press.
- Rothschild, K.W. (1947) *Austria's economic development between the two World wars*, London, Frederick Muller.
- Schenk, C. R. (1994) *Britain and the Sterling Area. From devaluation to convertibility in the 1950s*, London, Routledge.
- Schubert, A. (1990) *The Credit Anstalt Crisis of 1931*, Cambridge, Cambridge University Press.
- Stiefel, D. (1979) *The crisis of the Creditanstalt: International business and East Europe*, Norwich.

Marina S. (1993) “L’Italia e il blocco dell’oro (1933-1935)” in *Ricerche per la storia della Banca d’Italia*, vol. III, Bari, Laterza, pp. 441-486.

Williams D. (1968) “The Evolution of the Sterling System” in Wittlerey C.R. – Wilson J.S., (eds), *Essays in Money and Banking in Honour of R.S. Sayers*, London, Oxford University Press.

Williams, D. (1963) “London and the 1931 financial crisis” in *Economic History Review*, vol. 15.

Wolfe, M. (1951) *The French Franc Between the Wars, 1919-1939*, Columbia University Press.