

From Commodity to Fiat: the History of Monetary Regimes

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Overview

This course of eight courses covers monetary history over four centuries from an international perspective. The focus will be on the choice of exchange rate regimes and monetary standards and on their relationship with the external adjustment of the balance of payments. We will cover five main periods in monetary history corresponding to different international monetary regimes: the multiple regime world until the third quarter of the 19th century, the classical gold standard (1870-1914) the interwar gold exchange standard and managed floats, the Bretton Woods system (1958-71) and the post-Bretton Woods period. For each regime we will consider the institutional structure behind it (economic, financial and political) and will discuss its contribution to economic performance and financial stability.

In preparation for each class, students are expected to read the recommended readings. Further readings are listed for further independent study. The course is composed of seven 90 minutes classes and one final exam.

First part: International Finance ‘Before Globalization’

This part sets the stage for the rest of the course by introducing several key concepts, such as specie standard, unit of account, arbitrage, bill of exchange, real exchange rate, etc. We explain the context behind a multiplicity of specie standards and how they came into contact via international trade. In a world with almost no capital flows, external imbalances and exchange rates were largely determined by the requirements of balancing trade accounts.

1. Monetary Regimes and International Trade in the Age of Sail

April 13th, 10:30-12:00, *DEMM Seminars Room* (2nd floor)

Recommended Readings

- R. Esteves and P. Nogues-Marco (2021) “Monetary Systems and The Global Balance-of-Payments Adjustments in the Pre-Gold Standard Period, 1700-1870” in Stephen Broadberry and Kyoji Fukao (eds.) *The Cambridge Economic History of the Modern World*, Cambridge: CUP, Volume 1, pp. 438-67.
- L. Neal (2015) *A Concise History of International Finance*, Cambridge: CUP, chapter 4.

Further Readings

- M. Flandreau, Christophe G., C. Jobst and P. Nogues-Marco (2009) "The Bell Jar: Commercial Interest Rates between Two Revolutions, 1688–1789" in J. Attack and L. Neal, eds. *The Origins and Developments of Financial Markets and Institutions from the Seventeenth Century to the Present*, Cambridge: Cambridge University Press.
- M. Johnson (1970) "The Cowrie Currencies of West Africa," *Journal of African History*, 11: 17–48.
- C. Kindleberger (1993) *A Financial History of Western Europe*, 2nd ed., Oxford: Oxford University Press.
- S. Quinn and W. Roberds (2016) "Death of a Reserve Currency," *International Journal of Central Banking*, 12(4): 63–103.
- V. Santarosa (2015) "Financing Long-Distance Trade: The Joint Liability Rule and Bills of Exchange in Eighteenth-Century France," *Journal of Economic History*, 75 (3): 690-719.

2. Balance of Payments Adjustments Before the Gold Standard

April 14th, 10:30-12:00, DEMM Seminars Room (2nd floor)

Recommended Readings

- M. Flandreau, Christophe G., C. Jobst and P. Nogues-Marco (2009) "Monetary Geography before the Industrial Revolution," *Cambridge Journal of Regions, Economy and Society*, 2 (2): 149-171.
- D. Flynn and A. Giráldez (2002) "Cycles of Silver: Global Economy Unity through the Mid-18th Century," *Journal of World History*, 13: 391–428.

Further Readings

- J. Hogendorn and Johnson, M. (1986) *The Shell Money of the Slave Trade*, Cambridge : Cambridge University Press.
- D. Hume (1955) *Writings on Economics*, ed. Rotwein, E., Madison: University of Wisconsin Press.

Second part: The Gold Standard in History and Practice

This part answers several questions. Why did virtually all countries join the Classical Gold Standard (1870s-1914)? Why was the system relatively stable? And did it contribute to widespread economic growth and economic integration until World War I or was it a consequence of these forces? What lessons can we draw to the contemporary world, particularly for the Eurozone?

3. The Rise and Stability of the Gold Standard

April 21st, 10:30-12:00, Room 24

Recommended Readings

- M. Flandreau (1996) "The French Crime of 1873: An Essay on the Emergence of the International Gold Standard, 1870-1880," *Journal of Economic History*, 56: 862-97.
- G. Gallarotti (1995) *The Anatomy of An International Monetary Regime: The Classical Gold Standard, 1880-1914*, New York/ Oxford: OUP, chapter 6, pp. 141-80.
- M. Flandreau and Kim Oosterlinck (2012) "Was the emergence of the international gold standard expected? Evidence from Indian Government securities," *Journal of Monetary Economics*, 59 (7): 649-669,

Further Readings

- M. Flandreau (2004) *The Glitter of Gold. France, Bimetallism, and the Emergence of the International Gold Standard, 1848-1873*, Oxford: OUP.
- Milton Friedman (1990) "Bimetallism Revisited," *Journal of Economic Perspectives* 4: 85-104.
- J. López-Córdova, and Christopher M. Meissner (2003) "Exchange-Rate Regimes and International Trade: Evidence from the Classical Gold Standard Era," *American Economic Review*, 93 (1): 344-53.
- Kris Mitchener and Hans Joachim Voth (2011) "Trading Silver for Gold: Nineteenth-century Asian Exports and the Political Economy of Currency Unions" in Robert J. Barro and Jong-Wha Lee, eds. *Costs and Benefits of Economic Integration in Asia*, Oxford: OUP.

4. Economic Performance under the Gold Standard

April 27th, 10:30-12:00, *DEMM Seminars Room* (2nd floor)

Recommended Readings

- M. Bordo and A.J. Schwartz (1996) "The Operation of the Specie Standard - Evidence for Core and Peripheral Countries, 1880-1990," in J. Braga de Macedo, B. Eichengreen and J. Reis, eds., *Currency Convertibility: The Gold Standard and Beyond*, London/New York: Routledge, pp. 11-83.
- Luís Catão and Solomos Solomou (2005) "Effective Exchange Rates and the Classical Gold Standard Adjustment," *American Economic Review*, 95(4): 1259-75.
- M. Flandreau, J. Le Cacheux and F. Zumer (1998) "Stability Without a Pact? Lessons from the European Gold Standard, 1880-1914," *Economic Policy*, 13 (26): 115-62.
- C. Hallwood, R. MacDonald and I. Marsh (1996) "Credibility and fundamentals: were the Classical and interwar gold standards well-behaved target zones?" in Tamin Bayoumi, Barry Eichengreen and Alan Taylor, eds., *Modern perspectives on the gold standard*, Cambridge: CUP, pp. 129-61.

Further Readings

- G. Bazot, E. Monnet, E. and M. Morys (2022) "Taming the Global Financial Cycle: Central Banks as Shock Absorbers in the First Era of Globalization," *The Journal of Economic History*, 82(3): 801-839.

- M. Bordo, B. Eichengreen, D. Klingebiel and S. Martinez-Peria (2001) "Is the Crisis Problem Growing More Severe?" *Economic Policy* 16: 51-82.
- M. Bordo and M. Flandreau (2003) "Core, Periphery, Exchange Rate Regimes, and Globalization" in M. Bordo, A. Taylor and J. Williamson (2003) *Globalization in Historical Perspective*, Chicago: NBER & UCP, pp. 417-72.
- Michael D. Bordo, John Landon Lane and Angela Redish (2004) "Good versus Bad Deflation: Lessons from the Gold Standard Era," NBER Working Paper # 10329.
- M. Bordo, C. Meissner and D. Stuckler (2010) "Foreign currency debt, financial crises and economic growth: A long-run view," *Journal of International Money and Finance*, 29 (4): 642-665.
- M. Bordo and H. Rockoff (1996) "The Gold Standard as a "Good Housekeeping Seal of Approval"," *Journal of Economic History*, 56: 389-428.
- B. Eichengreen (1992) *Golden Fetters*, chapters 3-7, pp. 67-221.
- Calvo, G. A. and C. Reinhart (2002) "Fear of Floating," *The Quarterly Journal of Economics* 117(2): 379-408.
- R. Esteves, J. Reis and F. Ferramosca (2009) "Market Integration in the Golden Periphery. The Lisbon/London Exchange, 1854-1891," *Explorations in Economic History*, 46 (3): 324-345.
- N. Ferguson and M. Schularick (2012) "The "Thin film of gold": monetary rules and policy credibility," *European Review of Economic History*, 16(4) 384-407.
- Marc Flandreau (1997) "Central Bank Co-operation in Historical Perspective: A Sceptical View," *Economic History Review*, 50: 735-63.
- R. Hausmann, U. Panizza and E. Stein (2001) "Why do countries float the way they float?" *Journal of Development Economics*, 66 (2): 387-414.
- Kris Mitchener and Marc Weidenmier (2009) "Are Hard Pegs Credible in Emerging Markets? Lessons from the Gold Standard," NBER Working Paper # 15401.
- P. Krugman (1991) "Target Zones and Exchange Rate Dynamics," *The Quarterly Journal of Economics*, 106(3): 669-682.
- Alan M. Taylor (2002) "A century of current account dynamics," *Journal of International Money and Finance*, 21 (6): 725-748.

Third part: The Great Depressions: A Monetary Approach

What was the role of monetary forces in starting and spreading the Great Depression? Did they act uniformly across countries or were there significant differences between economic blocks? In particular, how important was the failure of the interwar Gold Exchange Standard? What ended the Depression and was the role of monetary policy in stopping economic implosion? We will also explore alternative explanations for the start and end of the Depression.

5. The Causes of the Great Depression

April 28th, 9:00-10:30, DEMM Seminars Room (2nd floor)

Recommended Readings

- M. Bordo and J. Landon-Lane (2010) "The banking panics in the United States in the 1930s: some lessons for today," *Oxford Review of Economic Policy*, 26 (3): 486–509
- B. Eichengreen (1992) "The origins and nature of the Great Slump revisited," *Economic History Review*, 45 (2): 213-39.
- B. Eichengreen and K. Mitchener (2003) "The Great Depression as a credit boom gone wrong," BIS Working Paper No. 137.
- B. Eichengreen, and D. Irwin, (2010) "The Slide to Protectionism in the Great Depression: Who Succumbed and Why?" *The Journal of Economic History*, 70(4) 871-897.
- P. Temin (2008) "Real Business Cycle Views of the Great Depression and Recent Events: A Review of Timothy J. Kehoe and Edward C. Prescott's Great Depressions of the Twentieth Century," *Journal of Economic Literature*, 46(3): 669-84.

Further Readings

- L. Ahamed (2009) *Lords of Finance: The Bankers Who Broke the World*, London: Penguin.
- B. Bernanke (1983) "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression," *The American Economic Review*, 73(3): 257–276.
- B. Bernanke (2004) *Essays on the Great Depression*, Princeton: PUP.
- Charles Calomiris and Joseph Mason (2003) "Fundamentals, Panics, and Bank Distress During the Depression," *American Economic Review*, 93 (5): 1615-47.
- L. Christiano, R. Motto, R., and M. Rostagno, (2003) "The Great Depression and the Friedman-Schwartz Hypothesis," *Journal of Money, Credit and Banking*, 35(6) 1119–1197.
- Harold L. Cole, Lee E. Ohanian and Ron Leung (2007) "Deflation and the International Great Depression: A Productivity Puzzle," NBER Working Paper # 11237.
- Milton Friedman and Anna Schwartz (1963) *A Monetary History of the United States, 1867-1960*, Princeton: PUP, chapter 7, "The Great Contraction," particularly pp. 299-332; 391-419.
- D. Irwin (2010) "Did France Cause the Great Depression?" NBER Working Paper # 16350.
- B. Eichengreen (1992) *Golden Fetters*, chapters 8-9, pp. 222-86.
- Chang-Tai Hsieh and C. Romer (2006) "Was the Federal Reserve Constrained by the Gold Standard During the Great Depression? Evidence from the 1932 Open Market Purchase Program," *Journal of Economic History*, 66(1): 140-76.
- Timothy Kehoe and Edward C. Prescott, eds. (2007) *Great Depressions of the Twentieth Century*, Minneapolis: Federal Reserve Bank of Minneapolis, especially chapters 1-3, pp. 1-84.
- K. Mitchener (2007) "Are Prudential Supervision and Regulation Pillars of Financial Stability? Evidence from the Great Depression," *The Journal of Law and Economics* 50.
- Kris James Mitchener, Kevin Hjortshøj O'Rourke and Kirsten Wandschneider (2022) "The Smoot-Hawley Trade War," *The Economic Journal*, 132(647): 2500-2533.
- G. Richardson (2007) "Categories and causes of bank distress during the great depression, 1929–1933: The illiquidity versus insolvency debate revisited," *Explorations in Economic History*, 44 (4): 588-607.

- G. Richardson and W. Troost (2009) "Monetary Intervention Mitigated Banking Panics during the Great Depression: Quasi-Experimental Evidence from a Federal Reserve District Border, 1929–1933," *Journal of Political Economy*, 117(6) 1031–1073.
- C. Romer (1993) "The Nation in Depression," *Journal of Economic Perspectives*, 7(2): 19-39.
- S. Schuker (2003) "Money Doctors Between the Wars: The Competition Between Central Banks, Private Financial Advisers, and Multilateral Agencies, 1919-39" in Marc Flandreau, ed., *Money Doctors. The Experience of International Financial Advising 1850-2000*, London/ New York: Routledge.
- P. Temin (1976) *Did Monetary Forces Cause the Great Depression?*, NY: W. W. Norton.

6. The Recovery from the Great Depression

May 18th, 10:30-12:00, Room 24

Recommended Readings

- Miguel Almunia, Agustín Bénétrix, Barry Eichengreen, Kevin H. O'Rourke and Gisela Rua (2010) "From Great Depression to Great Credit Crisis: similarities, differences and lessons," *Economic Policy* 25: 219-265.
- Crafts, Nicholas and Peter Fearon (2010) "Lessons from the 1930s Great Depression," *Oxford Review of Economic Policy* 26 (3): 285-317.
- B. Eichengreen and J. Sachs (1985) "Exchange rates and economic recovery in the 1930s," *Journal of Economic History*, 45 (4): 925-46.
- Wolf, Nikolaus (2010) "Europe's Great Depression: coordination failure after the First World War," *Oxford Review of Economic Policy* 26 (3): 339-69.

Further Readings

- Ben Bemanke and Harold James (1991) "The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison," in R. Glenn Hubbard, ed. *Financial Markets and Financial Crises*, Chicago: UCP, pp. 33-68.
- R. Caballero (2009) "The "Other" Imbalance and the Financial Crisis," NBER Working Paper # 15636.
- Charles Calomiris, Joseph Mason and David Wheelock (2011) "Did Doubling Reserve Requirements Cause the Recession of 1937-1938? A Microeconomic Approach," NBER # 16688.
- A. de Bromhead, Alan Fernihough, Markus Lampe, and Kevin Hjortshøj O'Rourke (2019) "When Britain Turned Inward: The Impact of Interwar British Protection," *American Economic Review*, 109 (2): 325-52.
- Campa, José M. (1990) "Exchange Rates and Economic Recovery in the 1930s: An Extension to Latin America," *Journal of Economic History* 50: 677-82.
- Gauti B. Eggertsson (2008) "Great Expectations and the End of the Depression," *American Economic Review* 98 (4): 1476-1516.

- B. Eichengreen (1992) *Golden Fetters*, chapters 10-12, pp. 287-389.
- Field. A. (2012) *A Great Leap Forward: 1930s Depression and U.S. Economic Growth*, New Haven: Yale University Press.
- P. Fishback (2010) "US monetary and fiscal policy in the 1930s," *Oxford Review of Economic Policy*, 26, (3): 385-413.
- Richard S. Grossman, Christopher M. Meissner (2010) "International aspects of the Great Depression and the crisis of 2007: similarities, differences, and lessons," *Oxford Review of Economic Policy*, 26, (3): 318–338.
- C. P. Kindleberger (1986) *The World in Depression, 1929-39* (Revised and Enlarged Edition) Berkeley: UC Press, chapters 6-11; 14, pp. 117-260, 288-306.
- R. Kroszner and R. Rajan (1994) "Is the Glass-Steagall Act Justified? A Study of the U.S. Experience with Universal Banking Before 1933," *The American Economic Review*, 84(4) 810–832.
- R. Middleton (2010) "British monetary and fiscal policy in the 1930s," *Oxford Review of Economic Policy* 26 (3): 414-41.
- Christina Romer (1992) "What Ended the Great Depression?" *Journal of Economic History*, 52: 757-84.
- J. Wallis (2010) "Lessons from the political economy of the New Deal," *Oxford Review of Economic Policy* 26 (3): 442-62.

Fourth part: A Long-Term Perspective on Exchange Rate Regimes

In the final part of the course we start by reviewing the last international monetary regime, the Bretton Woods regime and its demise. We also investigate its relation with the favorable period of growth and trade integration during the postwar 'golden age.' With its collapse, countries have freely revealed their preferences for exchange rate flexibility from pure floats to strong pegs. We discuss what forces have conditioned these choices over the long-run and how much they matter.

7. The Trilemma in History

June 16th, 10:30-12:00, Room 24

Recommended Readings

- J. Aizenman, M. Chinn and H. Ito (2008) "Assessing the Emerging Global Financial Architecture: Measuring the Trilemma's Configuration Over Time," NBER Working Paper # 14533.
- B. Eichengreen and R. Esteves "The Trials of the Trilemma: International Finance 1870-2017" , in Stephen Broadberry and Kyoji Fukao (eds.) *The Cambridge Economic History of the Modern World*, Cambridge: CUP, Volume 2, pp. 501-25.
- R. Esteves (2012) "The Political Economy of Global Financial Liberalization in Historical Perspective" in Gerard Caprio, ed. *The history and growth of key markets, institutions and infrastructure*, Academic Press, pp. 133-150.

D. Rodrik (2002) "Feasible Globalizations" NBER Working Paper # 9129.

Further Readings

- M. Bordo (1993) "The Bretton Woods International Monetary System: A Historical Overview," in M. Bordo and B. Eichengreen, eds., *A Restrospective on the Bretton Woods System. Lessons for International Monetary Reform*, Chicago: University of Chicago Press for the NBER, pp. 3-98.
- M. Bordo and Barry Eichengreen (2013) "Bretton Woods and the Great Inflation" in M. Bordo and A. Orphanides, eds. *The Great Inflation: The Rebirth of Modern Central Banking*, Chicago: UCP, pp. 449-89.
- G. Calvo and F. Mishkin (2003) "The Mirage of Exchange Rate Regimes for Emerging Market Countries.," *The Journal of Economic Perspectives*, 17(4): 99–118.
- B. Eichengreen (2007) *The European Economy Since 1945. Coordinated Capitalism and Beyond*, Princeton/ Oxford: PUP, chapters 2 and 4, pp. 15-51, 86-130.
- B. Eichengreen (2008) "Sui Generis EMU" NBER Working Paper # 13740.
- Maurice Obstfeld, Jay Shambaugh and Alan Taylor (2004) "Monetary Sovereignty, Exchange Rates, and Capital Controls: The Trilemma in the Interwar Period," *IMF Staff Papers*, 51 (special issue): 75-108.
- Maurice Obstfeld, Jay Shambaugh and Alan Taylor (2005) "The Trilemma in History: Tradeoffs among Exchange Rates, Monetary Policies, and Capital Mobility;" *The Review of Economics and Statistics*, 87(3) 423–438.
- M. Obstfeld and Alan Taylor (2017) "International Monetary Relations: Taking Finance Seriously," *Journal of Economic Perspectives* 31(3): 3-28.
- D. Quinn (2003) "Capital account liberalization and financial globalization, 1890–1999: a synoptic view," *International Journal of Finance and Economics* 8, 189–204.
- C. Reinhart and K. Rogoff (2004) "The Modern History of Exchange Rate Arrangements: A Reinterpretation," *The Quarterly Journal of Economics*, 119(1): 1–48.
- B. Simmons and Z. Elkins (2004) "The Globalization of Liberalization: Policy Diffusion in the International Political Economy," *American Political Science Review* 98(1): 171–89.
- S. Urban (2009) "The Name of the Rose: Classifying 1930s Exchange-Rate Regimes," Oxford Discussion Papers in Economic and Social History no.76.

8. Final Exam

June 23rd, 10:30-12:00, Room 24

Closed book in class exam.