The Gold Standard and Related Regimes Collected Essays

This book contains a collection of Michael D. Bordo's essays, written singly and with colleagues, on the classical gold standard and related regimes based directly or indirectly on gold convertibility. The gold standard (and its variants) was the basis for both international and domestic monetary arrangements from the third quarter of the nineteenth century until 1971, when President Nixon closed the U.S. gold window, effectively ending the Bretton Woods International Monetary System. Although the gold standard and its variants are now history, it still has great appeal for policymakers and scholars. Several desirable features of the gold standard are relevant to the ongoing issue of international monetary reform. They include its record as a stable nominal anchor, its automaticity, and its role as a credible commitment mechanism. The essays in this collection are organized around several themes: gold and the international monetary system; the commodity theory of money; the gold standard as a rule; and variants of the gold standard including the interwar gold standard; and the Bretton Woods International Monetary System.

Michael D. Bordo has been a professor of economics at Rutgers University since 1989, where he is Director of the Center for Monetary and Financial History. Professor Bordo has also taught at the University of South Carolina and Carleton University, Canada, and has been a visiting professor at Princeton University, Carnegie Mellon University, UCLA, the Federal Reserve Bank of St. Louis, and the International Monetary Fund, and is a research associate of the National Bureau of Economic Research.

Professor Bordo has authored and edited a number of books on the gold standard and related topics, including: *Monetary Regimes in Transition* (with Forrest Capie, Cambridge University Press, 1993), *A Retrospective on the Bretton Woods International Monetary System: Lessons for International Monetary Reform* (with Barry Eichengreen, University of Chicago Press, 1993), *A Retrospective on the Classical Gold Standard, 1821–1931* (with Anna J. Schwartz, University of Chicago Press, 1984). He has published many articles in monetary economics and monetary history in such journals as *The Journal of Economic History*, *Journal of Monetary Economics*, *Journal of Political Economy*, *Explorations in Economic History*, *Journal of Money, Credit and Banking*, and *Economic Inquiry*. Professor Bordo also serves as series editor of Studies in Macroeconomic History for Cambridge University Press, embracing the formerly titled Studies in Monetary and Financial History (Forrest Capie, coeditor).

Studies in Macroeconomic History

The titles in this series investigate themes of interest to economists and economic historians in the rapidly developing field of macroeconomic history. The four areas covered include the application of monetary and finance theory, international economics, and quantitative methods to historical problems; the historical application of growth and development theory and theories of business fluctuations; the history of domestic and international monetary, financial, and other macroeconomic institutions; and the history of international monetary and financial systems. The series amalgamates the former Cambridge University Press series *Studies in Monetary and Financial History* and *Studies in Quantitative Economic History*.

Other books in the series:

Japanese Banking
Norio Tamaki
0-521-49676-4

The Strategy and Consistency of Federal Reserve Monetary Policy, 1924–1933
David C. Wheelock
0-521-39155-5

Monetary Regimes in Transition
Michael D. Bordo and Forrest Capie, editors
0-521-41906-9

Elusive Stability
Barry Eichengreen
0-521-44847-6

A Monetary History of Italy
Michele Fratianni and Franco Spinelli
0-521-44315-6

Competition and Monopoly in the Federal Reserve System
Mark Toma
0-521-56258-9

Banking Panics of the Great Depression
Elmus Wicker
0-521-56261-9

Canada and the Gold Standard
Trevor J. O. Dick and John E. Floyd
0-521-40408-8

Europe's Postwar Recovery
Barry Eichengreen
0-521-48279-8

The Economics of World War II
Mark Harrison, editor
0-521-62046-5

(*continued after last page of Index*)

The Gold Standard and Related Regimes
Collected Essays

Michael D. Bordo

Rutgers University

CAMBRIDGE
UNIVERSITY PRESS

CAMBRIDGE UNIVERSITY PRESS
Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press
The Edinburgh Building, Cambridge CB2 2RU, UK

Published in the United States of America by Cambridge University Press, New York

www.cambridge.org
Information on this title: www.cambridge.org/9780521550062

First published 1999
This digitally printed first paperback version 2005

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication data
Bordo, Michael D.
The gold standard and related regimes: collected essays / Michael D. Bordo.
p. cm. – (Studies in monetary and financial history)
ISBN 0–521–55006–8
1. Gold standard. 2. International finance. 3. Monetary policy.
I. Title. II. Series.
HG297.B55 1999
332.4′22 – dc21 98-39626 CIP

ISBN-13 978-0-521-55006-2 hardback
ISBN-10 0-521-55006-8 hardback

ISBN-13 978-0-521-02294-1 paperback
ISBN-10 0-521-02294-0 paperback

Contents

Foreword

Anna J. Schwartz

Gold has had a varied history in human experience. Its earliest use was as one of many commodities that served as a medium of exchange. In time, gold attained preeminence over other commodity monies. In the fourteenth and fifteenth centuries gold coins were used to settle large transactions in international trade, with less valued metallic coins used in domestic trade. In 1717, Sir Isaac Newton, then Master of the Mint, assigned a higher silver price for the English gold guinea than the international market price, and, as a result, silver coins were driven from circulation. England inadvertently became a gold standard adherent, pledging to redeem in gold other forms of money. Other countries at the time were on a silver or bimetallic standard and also pledged convertibility.

Convertibility, however, was suspended in wartime, when governments raised money to finance their expenditures by borrowing at home and abroad, by explicit taxation, by debasing the coinage, and by expanding non-gold forms of money and thereby imposing an inflation tax. The part gold played in the monetary system was thus intimately related to the government's budget needs. In the last two decades of the nineteenth century many countries quit the silver or bimetallic standard and adopted the gold standard.

Many of the chapters in this collection focus on how the classical gold standard that prevailed from 1880 to 1914 worked in theory and in practice. The issues traditional theory has emphasized have been supplemented by recent theoretical explanations that treat the gold standard as a commitment mechanism. The chapters investigate many aspects of gold standard practice. How did gold discoveries affect its operations? How did adherence to the gold standard benefit countries that were fiscally prudent? How did the experience of countries at the periphery differ from that of the core of advanced country adherents? What was the effect of suspensions of convertibility on the credibility of the behavior of governments? The evidence the chapters offer on these questions is quantitative as well as qualitative.

The classical gold standard has served as a paradigm against which to measure the performance of monetary regimes that succeeded it. In each regime, markets and institutions behaved in distinctive ways. Theory blends with practice in highlighting why capital markets were unregulated, why the foreign exchange markets were stable, why the sphere of operations of central banks was well-defined under the classical gold standard, and why each of these phenomena differed under the successor monetary regimes of the gold exchange standard, Bretton Woods, and the current fiat money regime, in which gold as money has no special significance. In addition, the chapters on the performance of monetary regimes reveal why those regimes eventually broke down.

The enhancement of the role of central banks in regimes that succeeded the classical gold standard accounts for the prominence given to them in recent theory. For the proper functioning of a monetary regime, the theory emphasizes the importance of rules rather than discretion in the behavior of central banks, of discretion as inflation-biased and a temptation for central banks to be time-inconsistent, of central bank independence from the fiscal needs of the public sector, and of the credibility of their commitment to observe the rules.

A notable feature of this collection of studies is the light they shed on the varied aspects of past gold-based monetary regimes and the guidance they offer in understanding the current non-gold-based one. Readers have a rich menu from which to choose.