Notes

1 The Case for the Peripheries

2. Ford (1962); Triffin (1964).
4. According to Sayers, the Bank of England’s maintenance of its gold reserves was ‘the nation’s and the world’s assurance that claims in pound sterling were convertible on demand into gold at a fixed price’ (Sayers, 1976: 28).

2 Central Banking and Monetary Policy in Sweden during the Long Nineteenth Century

1. There is a virtual flood of literature on the so-called ‘rules of the game’ in relation to the working of the gold standard as an international exchange rate system. All empirical studies show, however, that central banks also during the era of the gold standard frequently used sterilization (see, for instance, Bayoumi and Eichengreen (1995), Bloomfield (1978), Bordo (1984), Bordo and McGouldrick (2005), Bordo and Meissner (2005), Eichengreen and Flandreau (1994), Flandreau (2006), Flandreau and Sussman (2005), Flandreau and Zumer (2004).
3. Although the rhetoric changes, this still heads the central banks’ agenda. In 2006, the Riksbank was criticized by the IMF for running an excessively tight monetary policy. Its focus on the value of the currency (price stability) meant it paid less attention to economic activity in terms of keeping up levels of employment. The instigator for this criticism was, of course, the Federal Reserve Bank (Financial Times, European edn., 29 November 2006: 4).
4. Such a flawed and simplistic interpretation of the situation in Sweden is, for instance, apparent in the free banking literature (see Jonung, 1989; Schuler, 1992; and Selgin, 1988).
5. The attempt to press the case of Sweden into the definitions of the money supply and its components using Milton Friedman’s scheme for a monetary system – where money either has to be in the form of notes – which has to be defined as either currency (base money) or deposits (inside money created by the banking system) – has only led to a confused view of how the Swedish financial and monetary system really worked. For example, Jonung in writing referred to the Enskilda bank notes as base money (the public’s preference for holding currency) but, when he calculated the currency money ratio, he defined it as commercial bank deposits (see Jonung, 1975).
7. Jonung argued the Enskilda bank notes to ‘be of better quality than the Riksbank notes’. The evidence was simply that more Enskilda bank notes were in circulation than Riksbank notes, and this should mean that the public preferred the former (see Jonung, 1989). Jonung never considered the possibility that most Riksbank notes actually ended up in the Enskilda banks’ reserves. It has also been argued that the notes of the Stockholm Enskilda Bank were used as reserves since it for a few years is said to have functioned as a clearing central (see the works by Nilsson on A.O. Wallenberg, the founder of the Stockholm Enskilda Bank (1985, 1991, 1994, 2000). There is, however, no empirical proof whatsoever that other commercial banks held notes from the Stockholm Enskilda Bank as reserves (see Ögren, 2003, 2006).
8. In reality, this is a choice that the commercial banking system always has, even today, since it is not forced to transform its reserves into liabilities as deposits (or, for that matter, notes).
9. See also Ögren (2008: 2).
11. Among the fiercest critics of the Riksbank’s monetary policy in the nineteenth century is Sven Brisman, who labelled the Riksbank ‘a cold-blooded’ actor that frequently used a policy of strangulation. In the crisis of 1890, the Riksbank used the same measures as during the crisis in 1878/79. But what Brisman denoted as a policy of strangulation that led to the destruction of the financial system and the economy as a whole in the late 1870s, he instead deemed as sound monetary policy in relation to the 1890 crisis. Brisman (1931: 189–91). See also Nilsson (1981, 2000) who, from the point of view of prominent banker A.O. Wallenberg, has adopted the same view. The basis for this interpretation is a list of measures to be taken by the Riksbank in the event it needed to decrease its liabilities in circulating mon­ies that was adopted in the 1830s in relation to the adoption of the silver standard. More ‘modern’ monetary policy tools are all mentioned here, such as discount policy and open market operations of different kinds (purchasing, selling and discounting bills of exchange and bonds). But the list starts with the cutting of Riksbank credits to businesses in order to decrease the money supply.
14. Correlation analysis confirms this negative relationship between changes in the Riksbank’s reserves and its contribution to the monetary base.
15. Ögren (2009).
16. This might be a result of the expected ending of the Enskilda banks’ note issuance in 1903 (see Ögren, 2011).

3 Freedom for Manoeuvre: The Norwegian Gold Standard Experience, 1874–1914

2. For an excellent summary of the research frontier, see Reis (2007).


5. A (perhaps unnecessary) disclaimer: this section is not intended as an exhaustive examination of the research frontier but, rather, more as an eclectic presentation of key trends in scholarship important for the formation of the present author’s outlook and with relevance for the situation in Norway.


8. Triffin (1964).


15. Triffin (1964).


23. Øksendal (2008a).


27. Øksendal (2006).


31. Klær (1877): 100.

32. Hertzberg (1877): 27, 43.

33. Parliament (1882: 8).

34. Royal Commission (1884: 19).


37. These patterns are discussed extensively in Øksendal (2008b).

38. Aschehoug (1893).


41. Øksendal (2008b).

42. Skånland (1967).

43. Øksendal (2007; 2009).

44. Norges Bank (1907, 1912).

45. Norges Bank (1907).
4 Price Stability in the Periphery during the International Gold Standard: Scandinavia

17. This has been presented in Grytten (2003: 61–79).
20. In fact, it stretches further back in time, but that is not included in this work.
26. Jörberg (1972); Myrdal (1933).
32. This is basically reflected, but not at all well quantitatively documented in standard text books on Scandinavian economic history, see e.g. Schön (2001); Johansen (1987); Hodne (1983).
36. Øksendal (2007).
5 Monetary Policy in the Nordic Countries during the Classical Gold Standard Period: The Wicksellian View

1. See Woodford (2003) and Gali (2008) for a comprehensive analysis of monetary policy in these models that assert interest rate as a primary instrument of monetary policy.
10. Eitrheim et al. (2004); Øksendal (2011).
16. More precisely, as shown in Woodford (2003), \( \varphi^{-1} = (1 - \beta \delta) \sigma \) where \( \sigma \) is the intertemporal elasticity of substitution of aggregate expenditure; \( \kappa \equiv \Xi \eta \varphi / \delta \); \( \Xi = (1 - \alpha)(1 - \alpha \beta) / \alpha(1 + \omega \theta) \); \( \delta \) is the smaller root of \( \eta \varphi (1 + \beta \delta^2) = (\omega + \varphi (1 + \beta \eta^2)) \delta \) and where \( \omega \) is the negative of the elasticity of the marginal product of labour with respect to the level of output, \( \alpha \) is a fraction of goods prices that remain fixed, and \( \theta \) is the demand elasticity. \( \eta \) is the degree of habit persistence.
17. For details, see for instance Woodford (2003) and Gali (2008).
18. The utility function for real balances \( \nu \left( \frac{M_t}{P_t} \right) \) takes the form:

\[
\nu(M_t/P_t) = \frac{\nu}{1-\xi} \left( \frac{M_t}{P_t} \right)^{1-\xi}
\]

The money demand equation under these preferences can be obtained by relying on the standard portfolio-balance equation which states that at optimum,
the marginal rate of substitution between consumption and real balances must be equal to opportunity costs of holding money. In other words:

\[ \frac{u_m}{u_c} = \frac{i'}{1 + i} \]

The ratio \( \frac{u_m}{u_c} \) is obtained by combining the Euler equation related to optimal consumption and the Euler equation related to optimal real balances. Under our assumption of preferences, it turns out that \( u_c = (c_t - \eta c_{t-1})^{1-\gamma} - \eta \beta E_c(c_{t+1} - c_t)^{-\gamma} \) and \( u_m = \nu(M_t/P_t) - \xi \). Combining and log-linearizing these two equations, results in the money demand function given in the main text in equation 5.3.

19. We are indebted to Jouko Vilmunen for pointing to us this interpretation.
20. We are grateful to Matthias Morys and Anders Ögren for generously sharing some of the data mentioned in this chapter (p. 91).
21. For details, see, for example, Brooks and Gelman (1998).
22. For discussion, see, for example, Del Negro and Schorfheide (2008).

6 The Origins of Foreign Exchange Policy: The National Bank of Belgium

2. See Eichengreen and Flandreau (2009) for a discussion.
3. A number of details are dispersed across the single histories of each central bank, but no systematic account is available for the period before 1913. Jobst (2007), Reis (2007) and Øksendal (2012) provide elements on reserve management practices in Austria-Hungary, Portugal, and Norway respectively; albeit from a different perspective, Flandreau and Gallice (2005) give insights on the way peripheral European countries' deposits with international banks were managed. Eichengreen and Flandreau (2009) and Accominotti (2010) cover the interwar period.
4. For a taxonomy, see Borio et al. (2008a): 2–3.
6. The 2008 shock seems to have reversed this trend. Pihlman and van der Hoorn (2010) argue that since the burst of the crisis central banks have shown a markedly procyclical attitude in foreign reserve management. It is interesting to note that this massive flight to quality has also concerned bank deposits – traditionally considered a low- rather than high-risk asset. This suggests that the architecture of the international banking system has grown much more unstable than it used to be.
7. Of course, outsourcing reserve management to external managers is bound to constitute an additional source of procyclicality – as anecdotal evidence from the 2008 crisis seems to show.
8. See, for example, Goschen (1864).
9. Accominotti (2012) provides a description of the system through which bills of exchange were originated, and stresses the similarities between accepting and modern credit default swaps.
13. This does not mean that bills always were the only exchange-traded securi­ties entering central banks’ portfolios. For instance, the Bank of Norway used to keep a portion of its reserves in sovereign bonds: Øksendal (2012).
15. Contrary to bills, deposits did not bear a multiple guarantee.
17. Exceptions did exist. For instance, the Bank of Japan used to keep a portion of its reserves deposited with the Bank of England: Suzuki (1994). This kind of arrangement became much more popular in the interwar period: Eichengreen and Flandreau (2009). Detailed information about today’s situation was impossible to find.
18. For the Belgian case, see e.g. PV CdA, 23 September 1850, 4 May and 12 June 1858, 29 October 1859.
21. The database is the one gathered by Ugolini (2012), but is complemented here with additional evidence collected from archival sources. Although a number of elements concerning the National Bank of Belgium’s foreign reserve management practices can be found in Kauch (1950), no specific account of them existed to date.
22. Note that the National Bank of Belgium used to keep deposits with only one bank for each currency area – viz. with its ‘regular correspondents’ (see p. 122).
23. This was tied to the National Bank of Belgium’s preference for holding short­term bills of exchange, and for holding them until maturity. As the ordinary duration of these monetary instruments was ninety days, maintaining a stable bill portfolio meant that maturing securities had to be continuously replaced by newly-discounted ones. This was done through the intermediation of correspondents: as renewal took place almost immediately, the National Bank of Belgium’s deposits with these banks tended to be close to zero. When the Bank wished to diminish its exposition to a given currency, though, a semi­active divestment strategy was generally preferred to an active one: instead of being sold on the open market, foreign bills were simply not replaced by new ones at maturity. Such a strategy implied that the encashment of maturing bills produced a temporary increase in deposits with correspondents, which would only be converted into other currencies in a second moment.
24. However, Figure 5.2 also shows that one remarkable exception to this rule did exist. Deposits with the Paris Rothschild house behaved differently: they averaged around 2 million francs in 1852–53, but not less than 5 million in 1851 – constantly making for the overwhelming part of total foreign deposits. The exceptionality of the Rothschilds’ case is discussed on p. 124.
25. All operations not implying any modification in the portfolio (viz. mere renewals of bills of exchange coming to maturity) are not taken into account here. This explains why the general totals in table 1 and those in Tables 6.3 and 6.4 do differ.
26. Open-window discounts of foreign bills were presented by the National Bank of Belgium as a service offered to the Belgian public, but could be discontinued
at any time: as a result, they were more similar to open-market operations than to standing facilities: Ugolini (2011, 2012).

27. Swaps of foreign currencies are highlighted in grey. The amounts purchased and sold through swaps are obviously equal.

28. The Treasury, to which the National Bank of Belgium acted as general cashier, regularly had to transfer money to De Rothschild Frères in Paris in order to pay for the coupons of Belgian sovereign bonds. This was performed through a repurchase of the Bank’s claims on the Rothschild house.


31. Ugolini (2012). The only exception was the reserve of French francs, which was never left to sink beneath a certain level (p. 124).


33. PV CdA, 8 March 1851, 12 August 1851, 2 March 1852, 13 April 1852, 6 May 1852, 30 October 1852.

34. In reality, interest rate risk (i.e. the risk of selling a bill at a higher discount margin than the one at which it had previously been purchased) was also a component of market risk associated with bills. However, as the National Bank of Belgium seldom adopted an active diversification policy (generally keeping bills in portfolio until maturity), interest rate risk was junior to currency risk.

35. Despite the non-negligible financial connections existing between Belgium and Austria (the exchange rate on Vienna was regularly quoted in Antwerp), the National Bank of Belgium refused to hold assets denominated in this important European currency because it was unconvertible. Nonetheless, the Bank occasionally happened to accept bills on Vienna, Milan, and Venice as collateral for repurchase agreements denominated in other currencies (PV CdA, 27 February 1851, 14 and 30 August 1851). That is why the Austrian currency area is included in Figure 6.3.


38. Parker Willis (1901).

39. This is confirmed by the fact that almost all purchases of Belgian francs implemented by the National Bank of Belgium outside Belgium (i.e. operation 1b in Table 6.1) were actually performed in Paris – which means that the city hosted the only liquid offshore market for the Belgian franc.


41. This is also reflected by the fact that the Swedish Riksbank reacted to the 1857 crisis by originating mark-denominated bills: Ögren (2007).

42. Ugolini (2010).

43. These numbers include the remuneration of deposits by foreign correspondents – i.e. the other way than discount through which foreign reserves were made profitable.

44. ‘Losses on rediscount’ consist of the difference between the discount margin at which the Bank had bought bills and the one at which it resold them on the market: these are losses associated with interest rate risk. ‘Losses on exchange’ consist of the difference between the exchange rate at which the Bank had bought bills and the one at which it resold them on the market: these are losses associated with currency risk.
45. In 1853 (the only year for which details on profits from foreign operations are available), losses from rediscount and exchange amounted to 21 per cent of total gross profits from discount of foreign bills.


47. Note that numbers in Figure 6.5 do not represent yields, as the maturity of bills discounted is unknown. The figure gives the ratio of gross profits from discount to the volumes discounted. Albeit not a yield, this is a significant indicator anyway. As the treatment of bills implied a number of fixed costs, it was preferable for the Bank to hold bills of longer maturity (although not exceeding ninety days). In the case of open-window discounts of domestic bills, the Bank could not choose the maturity of the securities it purchased: as a result, the average maturity of its domestic portfolio tended to be shorter than its foreign portfolio. All other things equal, this meant a lower profitability of domestic operations with respect to foreign ones. Shorter maturity of bills is reflected by a lower ratio of gross profits to the volume discounted – as shown by Figure 6.5.


49. It was with the aim of detecting this kind of collusion that the Bank of England had put in place the sophisticated monitoring system described by Flandreau and Ugolini (2011). However, the National Bank of Belgium was not in the position of cross-checking the signatures on bills remitted by its network, and thus heavily depended on the rectitude of its correspondents.

50. For instance, in 1854 the ratings book of the old house of Crommelin described the Amsterdam Bischoffsheim bank as 'entirely or largely broken': Posthumus (1921: 202). Flandreau and Ugolini (2011) show that as late as 1865, the London Bischoffsheim house borrowed heavily from the Bank of England in non-crisis time – a behaviour associated with second- rather than first-order banks. In the same year, the head of the Paris Bischoffsheim house pledged for a laxer screening policy by the Bank of France, which refused to discount bills bearing less than three signatures: he did that by stressing the easiness of finding bad-quality endorsers if needed – a business to which he was apparently familiar: Kindleberger (1984: 230). In the 1870s, the London house would infamously emerge as the main issuer of junk sovereign bonds on the British market: see Report ... on Loans (1875).


52. See e.g. PV CdA, 8 March 1851, 10 June 1851, 13 and 25 November 1851, 30 March 1852, 13 April 1852, etc.; also see Kauch (1950: 99–101).


55. This is always the case for interbank interest rates – as is, for instance, LIBOR today.

56. PV CdA, 6 March 1852.


59. This seems to have been the case, for instance, at the Austro-Hungarian National Bank, where the centralization of foreign exchange operations to a specially-appointed body in the 1890s was coupled with the relaxation of the traditional links with merchant bankers: Jobst (2007).
8 Floating against the Tide: Spanish Monetary Policy, 1870–1931


2. Recent country studies that re-examine the monetary policy of the central banks, Contamin (2003), Ögren (2007), Reis (2007) and Jobst (2009).


4. For the interwar period, an excellent summary in Drummond (1987).

5. The Spanish monetary experience has been studied by Martín-Aceña (1993 and 2000a); the gold standard issue has also been dealt with by Sardá (1948), Tortella (1994) and more recently in papers by Serrano Sanz, Gadea and Sabaté (1998), Cubel (2001), Llona (2001), Serrano Sanz (2004), García-Iglesias (2005) and Ródenas and Bru (2006). For the long-term evolution of the peseta exchange rate, see Sabaté (1993) and Aixalá Pastó (1999).


7. Sardá (1948) and Broder (1976).


22. The Palmer rule established a minimum ratio of reserves of 33 per cent, which was calculated as reserves divided by sight liabilities, i.e. notes plus deposits. Spanish legislation established the ratio of reserves only with regard to notes, regardless of sight deposits. The gold reserve ratio would therefore be even lower if the sight deposits were also considered.


29. The Bank calculated the losses as the excess reserves multiplied by the dis­count rate. It justified these losses by saying that they were more than offset
by its public credibility. By having large silver reserves, banknotes holders
were assured that convertibility was never jeopardized (Bank of Spain, Annual
report, 1898: 26–7).
30. The argument for the contradiction between privately owned issue banks and
their responsibilities as central banks in Goodhart (1988).
34. Examples include Olariaga (1929 and 1987); Sardá (1936), Belda y Pérez
de Nueiros (1928); Flores de Lemus (1929); Ceballos Terésí (1930); Bernacer
(1930); Fernández Baños (1930) and Comisión del Patrón Oro (1929).
35. The same thing happened, for example, in France in 1928. See Margaraiz
36. The Bank's high profits in 1921 due to its purchases of gold during the war
had already led to heated political debate and a great deal of controversy in
public opinion that had a very negative impact on the institution's public
image (Martínez Méndez, 2005).
39. The same is true of any other relevant interest rate, such as the interest rate
for loans secured with securities.
41. Nurkse (1944: 94–8).
42. The sole exception was the increase in August 1914, which did not pro­vide
for any minimum in gold or a maximum in silver. The issue limit was
increased by 500 million pesetas on each occasion.
43. After 1921 the Bank of Spain introduced a rediscount rate applied to all
banks registered in the CSB.
47. Olariaga (1929) and Sardá (1936).
51. Junta Consultiva de la Moneda, Minutes for 1882–1883 and Serrano Sanz
(2004).

9 Monetary Policy in Southeast Europe on the Road to the
Gold Standard

3. A summary of these reforms may be found in Lazaretou (2004, 2005).
6. A detailed discussion of the possible determinants of the agio is presented by Fantacci (2009).
7. Researchers at that time like Assen Christoforoff argue that this was done with the purpose to support the Russian currency by creating external demand for it, a zone of roubles in circulation, making it as strong as the French Franc (Christoforoff, 1946).
9. Bulgarian National Bank (1929); Yordanov (1910) and Christoforoff (1946).
12. There is also some descriptive evidence in the literature that the agio existed at a considerable degree since 1882 and that in 1884 it moved in a range between 4 per cent and 9 per cent (Bulgarian National Bank, 1929).
13. Although Romania issue only gold-backed banknotes, they were de facto redeemed in silver; therefore, they are treated as silver-backed banknotes in an archival document (Bulgarian National Bank, 1998: 371).
14. Although Austria adopted the gold standard in 1892 by introducing the krone, it managed to achieve mint parity only in 1896 and it never introduced convertibility of banknotes. Therefore, it is argued that Austria-Hungary shadowed the gold standard (Bank of Greece 2009: 39).
17. Newey-West HAC Standard Errors and Covariance (lag truncation = 2); Durbin-Watson statistics: 2.1; LM test for serial correlation: F-statistics = 0.45 (0.64); Normality test: $\chi^2 (2) = 1.05 (0.59)$; Heteroskedasticity: F-statistics = 0.43 (0.72).
18. A more detailed study of the determinants of the agio is provided by Dimitrova, K. and Fantacci (2010).
19. Bulgarian National Bank (1999: 317). In a letter to the Minister of Finance, the decreased interest rate on deposits was explained by the motivation to make the public invest in more profitable assets like real estate, which would raise the price of mortgages. Since the Bulgarian National Bank had a large portfolio of mortgage loans and treasury bonds, this would cause a transformation of the foreign public debt into domestic public debt and might ease the debt burden on the government.
20. Fantacci (2009); Dimitrova and Fantacci (2010).
26. For a long-term analysis of the interaction between monetary and fiscal authorities in Bulgaria, see Dimitrova (2011).
28. Newey-West HAC Standard Errors and Covariance (lag truncation = 3); Durbin-Watson statistics: 1.48; LM test for serial correlation: F-statistics = 0.80
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(0.45); Normality test: $\chi^2(2) = 4.76$ (0.08); Heteroskedasticity: F-statistics = 0.53 (0.66).

29. The results are similar, as expected, when total money in circulation is taken into account, as the coefficient in front the fiscal budget decreases insignificantly to 0.55.


10 Domestic Public Debt, Gold Standard and Civil Wars: Institutional Interconnections in Nineteenth-Century Colombia


2. Meisel (1990) uses the price series built by Pardo (1972), which was based on records of selected Bogota convents' grocery purchase since the seventeenth century. Ocampo (1994) reassessed Meisel's calculation because he considers it a rough series that exaggerates domestic inflation. However, Meisel's index captures the same upward trend in prices also inferred in Ocampo (1984). I use Pardo's price index, base 1850 = 100 until 1880 and Meisel's index onwards.

3. It is assumed that the money multiplier was very low in this type of economy.

4. See the chronology of domestic public debt legislation on Rojas (2000).

5. A suitable indicator could be found in the urban and rural property prices given the demand expansion generated by massive auctions of real state. See http://www.worldlingo.com/SjGle6L454483fpepknKMm7KuCuAjGNJH/msowin11?service=WorldLingo_ES-EN&lcidFrom=3082&lcidTo=1033&lcidUI=3082&tk=CAE1FEE4-8F5C-E86B-B923-90FBE374DD9C-_ftn9

6. Overall, the civil wars were organized by landowners and merchants who had a labour force strongly tied to land and whose opportunity costs decreased when the profitability of agro-exports went down. It is possible to speculate that the monetary costs of mobilizing an army of poorly armed peasants were not prohibitive. A cost–benefit analysis of these civil wars would require more quantitative information.


1. Korekiyo Takahashi (1854–1936) was a distinguished financial and political leader in Japan. He joined the Bank of Japan Bank of Japan in 1892 and served as Governor of the Bank from 1911 to 1913. He then went on to
serve as Finance Minister seven times, between 1913 and 36, and as Prime Minister once, from 1921 to 22. He was assassinated by a group of militarists on 26 February 1936. Another distinction of his career in public service was his central role as a fundraiser in the Western countries during the Russo-Japanese War (1904–05). As we will learn later in this chapter, Takahashi solved the financial crisis of 1927 and implemented a dramatic economic stimulus during the Great Depression.

2. In July 1937, Japan and China entered a state of war without declaring it. Japan was at war from that month until its surrender at the end of the Second World War in August 1945.


5. ‘Special loans’ refer to various kinds of loans extended by the Bank of Japan with special arrangements. They include loans exceeding a credit line per borrower, loans with extended coverage of collateral, and loans to borrowers who have no present ties to the Bank of Japan as clients.


7. See Bank of Japan (1924), *Annual Report for the Year 1923*, Tokyo: V.

8. At the peak of panic on 21 April, Bank of Japan loans skyrocketed by 57 per cent in just one day, to 602 million Yen, and bank notes in circulation increased by 38 per cent in just one day, to 639 million Yen.


10. See Tamaki (1995: 155–64). According to Goto (1970) *Nihon no Kin’yu Toukei* (Financial Statistics in Japan), Toyo Keizai Shinposha, Tokyo, the year-end number of banks in Japan was 2,039 in 1920, and 1,427 in 1927. This figure decreased by 265 in just one year, by the end of 1928. In 1932, the number stood at 650.


17. The amount at the end of 1914 was 341 million Yen, or 7.2 per cent of GNP.


19. Having twice served as governor of the Bank of Japan, he had close relationships with Benjamin Strong, President of the Federal Reserve Bank of New York, and Montagu Norman, Governor of the Bank of England.

20. Prime Minister Hamaguchi was shot in November 1930 and replaced by Reijiro Wakatsuki in April 1931.

21. Under the gold standard, the parity of Yen 1 was equivalent to 49.845 US cents and 2.0291 shillings. In November 1932, the yen hit 20 cents and 1.14 shillings.

22. Itoh (2003) ‘Showa Shonen no Kin’yu Kiki: Sono Kozo to Taio’, (Financial Crises at the Dawn of the Showa Era: Structure and Policy Responses), Abe (ed.), *Kin’yu Kisei wa Naze Hajimatta ka* (Why Financial Regulations Began?), Nihon Keizai Hyoron Sha, Tokyo: 155–93. Even though Japan introduced the Law Concerning the Prevention of Expatriation of Capital in July 1932 and the Law Concerning Foreign Exchange Control in May 1933, Japan’s exchange controls during the Takahashi term were mild. Meanwhile, some European countries, such as Germany and Austria, imposed strict exchange controls. Importers and exporters in Japan were able to buy and sell foreign exchange freely via private banks until the end of 1937. Similarly, investors were free to buy and sell foreign securities, provided that they declared that the transactions were ‘not speculative’.

23. Osaka Nichinichi Shinbun, 9 and 10 March 1932. Also, on 18 April 1932, Bank of Japan Governor Hisaakira Hijikata stated that the government intended to have the Bank of Japan underwrite government bonds. Bank of Japan Archives, 3943, ‘Documents from Meetings of Directors and Branch Managers, Spring–Autumn 1932’.


31. See Shizume (2008) ‘Ryo-Taisen-Kan-Ki Nihon ni okeru Bukka Hendo Yo so no Keisei: Shohin Sakimono Kakaku o Mochiita Bunseki’ (On Inflation Expectation during the Interwar Period in Japan: An Analysis Using Price Data of Commodity Futures), *RIER Discussion Paper J97*, Kobe University. Shizume (2008) argues that the departure from the gold standard had significant effects on expectations, while the Bank of Japan underwriting of government bonds had no such effect. He draws his conclusions from a quantitative analysis based on commodity futures prices, and a narrative analysis based on comments of contemporary market participants. The markets, he reports, anticipated the Japanese departure from the gold standard, as well as the resulting inflation and currency depreciation in the face of Britain’s departure from the standard. He also finds that markets did not anticipate inflation when the debt-financed public spending and the Bank of Japan underwriting of the national debt were announced.

32. Shizume (2007) argues that the long-term interest rate in Japan moved along with the British rate.

33. See Obstfeld and Taylor (2004) *Global Capital Markets: Integration, Crisis, and Growth*, Cambridge University Press, Cambridge and New York. Obstfeld and Taylor (2004) apply the concept of the macroeconomic policy trilemma in their historical studies on the relationship between the currency systems and monetary policies of a number of countries. They argue that the gold standard system is a typical policy regime designed to maintain free capital movements and a fixed exchange rate, while sacrificing independent monetary policy.


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12 The Euro and the Gold Standard: What are the Lessons?

1. Token coins had higher monetary face value than intrinsic metallic value, thus providing seigniorage for the issuer.
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