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Monetary Darwinism: The Political Economy of Monetary Relations

GIULIOM. GALLAROTTI

Marc Flandreau, Carl-Ludwig Holtfrerich and Harold James, eds., *International Financial History in the Twentieth Century: System and Anarchy* (Cambridge: German Historical Institute and Cambridge University Press, 2003), £45.00 (hb), 278 pp., ISBN 0521819954.

Steven Kettell, *The Political Economy of Exchange Rate Policy-Making. From the Gold Standard to the Euro* (Houndmills: Palgrave Macmillan, 2004), 211 pp., £52.00 (hb), ISBN 1403920710.

Kenneth Moure, *The Gold Standard Illusion: France, the Bank of France, and the International Gold Standard, 1914–1939* (Oxford: Oxford University Press, 2002), 297 pp., £50.00 (hb), ISBN 0199249040.

Maurice Obstfeld and Alan M. Taylor, *Global Capital Markets: Integration, Crisis, and Growth* (Cambridge: Cambridge University Press, 2004), 354 pp., £47.00 (hb), ISBN 0521633176.

According to theories of evolution, species evolve according to survival imperatives generated by their physical environments. Traits are selected and rejected based on their adaptability to the structures of the physical world in which these species live. Biological differences mirror differences in climate; the acutely developed senses of many species have adapted either for capturing prey or eluding predators, and so forth. So too in economic systems do we observe changes in human behaviour modes and policies that suggest adaptation. With respect to money, scholars continue to look for the most important adaptation mechanisms to explain the evolution of international monetary relations. What was once the preserve of strictly economic analysis has now

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530 *Contemporary European History*

become open ground for a wider array of social scientific analyses.¹ In only a few short decades the study of monetary relations has developed into a more fully multiand interdisciplinary enterprise.² The four books reviewed here represent some of the latest attempts at constructing a broader social scientific explanation of monetary history. These valuable works complement one another in filling gaps in the literature on a complex and more diverse adaptation of monetary relations. Above all they stand as impressive political economies of monetary relations. Moure and Kettell

concentrate on specific cases of monetary policy transformation in the interwar period, while Flandreau et al. and Obstfeld and Taylor cover a broader evolutionary timeline. The value of the contributions lies in several factors. First, the books marshal chronicles of monetary history that illuminate the evolutionary impact of transformations in domestic political systems.³ Second, the books converge analytically on a policy approach to monetary relations. Finally, the books represent a multidisciplinary intersection, integrating the analyses of political science, history and economics. Departing from Eichengreen's important chronicles of the interwar period (1992) and the history of the international monetary system (1996), monetary historians have become more interested in understanding the broader social contours in the evolutionary topography of monetary relations, partly as an historical exercise but also as a guide to policymaking. The vantage point is no longer disciplinary, but has increasingly taken a multidisciplinary and interdisciplinary angle. The study of monetary history has been the preserve of economists for far too long to serve the needs of academic precision. Indeed, Eichengreen, a leading monetary economist, has embraced the value of a political economy of money. Obstfeld and Taylor themselves cite state interests and domestic political forces as principal factors underlying

¹ Excellent traditional economic histories are Charles Kindleberger, *A Financial History of Western Europe* (London: George Allen & Unwin, 1984), and Leland Yeager, *International Monetary Relations: Theory, History, and Policy* (New York: Harper & Row, 1976).

² For example, Joanne S. Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods* (Ithaca: Cornell University Press, 1983); John Odell, *U.S. International Monetary Policy: Markets, Power, and Ideas as Sources of Change* (Princeton: Princeton University Press, 1982); Barry Eichengreen and Jeffrey Frieden, eds., *The Political Economy of European Monetary Unification* (Boulder: Westview Press, 1994); Jeffrey Frieden and Ernesto Stein, eds., 2001. *The Currency Game: Exchange Rate Politics in Latin America* (Washington, DC: Inter American Development Bank, 2001); Robert Keohane and Helen Milner, *Internationalization and Domestic Politics* (Cambridge: Cambridge University Press, 1996); Beth Simmons, *Who Adjusts?: Domestic Sources of Foreign Economic Policy During the Interwar Years* (Princeton: Princeton University Press, 1993); Giulio M. Gallarotti, *The Anatomy of an International Monetary Regime: The Classical Gold Standard, 1880–1914* (New York: Oxford University Press, 1995); Jennifer Sterling-Folker, *Theories of International Cooperation and the Primacy of Anarchy: Explaining U.S. International Monetary Policy-Making after BrettonWoods* (Albany: SUNY Press, 2002); Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton: Princeton University Press, 1996); Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression* (New York: Oxford University Press, 1992).

³ While their visions of monetary history suggest a more dynamic or cyclical orientation, in fact their evidence underscores a prevailing secular shift in monetary relations which has developed alongside (and is the direct result of) a secular change in domestic politics. In this respect, they testify to the structural transformation in monetary relations brought about by the emergence of the guardian state. See further Giulio M. Gallarotti, 'The Advent of the Prosperous Society: The Rise of the Guardian State and Structural Change in the World Economy', *Review of International Political Economy* 7, 1 (spring 2000), 1–52.

Monetary Darwinism: The Political Economy of Monetary Relations 531

monetary integration in modern history (p. 32). Some scholars have tried to fill in the detail of selected regions of the historical map, while others have been more interested in the shape of that map. These books fall into this line of scholarship – broader political economic analyses trying to identify crucial factors that have shaped the evolution of monetary history. Obstfeld and Taylor and Flandreau et al. have been more comprehensive in their historical analysis, which looks at monetary policy choices from the time of the classical gold standard (1880–1914) to the present. Moure and Kettell have produced more focused analyses in studying the crucial forces leading to the resumption of a gold standard in France and Britain during the 1920s. Taking them together we get a good litmus test on recent thinking on the evolution of monetary relations from a political economy perspective. This article will present an interpretation of the evolution of monetary relations in the context of changing domestic

political structures. The four books evaluated here will be discussed within this general political monetary chronicle. Their value and the value of the research agendas which inspired them should be more clearly illuminated through such an analysis. It is customary to begin histories of the international monetary system with the classical gold standard (1880–1914), as do all four of these books. In keeping with tradition, all begin with the classical gold standard as a sort of arcanum for domestic and international finance.⁴ But this golden age continues to be misread and misinterpreted. In a sense, it continues to be mythologised, even by those who purport to demythologise it.⁵ Moure, Kettell, Flandreau et al. and Obstfeld and Taylor all pay significant attention to more recent findings, but there are still some arguments which perpetuate traditional misinterpretations of the classical gold standard. Moure (p. 20) and Kettell (p. 35) underscore the leadership of Britain in the operation of the gold standard. The extent to which Britain and the Bank of England acted as financial leaders for the gold standard has been exaggerated in monetary historiography. There is no question that they functioned as financial clearing houses, but these were indirect functions of their dominant position in the international monetary system. Kettell (p. 35) continues to exaggerate the level of central bank co-operation as a principal stabilising factor for the monetary regime.⁶ Obstfeld and Taylor commit the more conventional sins of attribution rather than imprecision about the regime's operation. These authors propose the problem of choices among macroeconomic policies as the very lynchpin with which to understand the history of the international monetary system. The 'macroeconomic trilemma', as they call it, is their theoretical muse and represents choices among incompatible policy preferences: open capital markets, fixed exchange rates and autonomy over monetary policy which is directed toward domestic objectives. This, of course, is a familiar restatement of the Mundell-Fleming

⁴ The classical gold standard represents the emergence of an international monetary regime that formed from the convergence of domestic monetary practices among those leading states that selected gold as the sole monetary standard in the 1870s. The movement to gold led countries to converge on trajectories of low inflation, thus promoting a set of stable fixed exchange rates.

⁵ On the operation of the classical gold standard see Gallarotti, *Anatomy of an International Monetary Regime*.

⁶ Of the four analyses, Moure (p. 21) and Flandreau et al. (pp. 3–8) propose the most accurate assessments of the nature and contributions of central bank co-operation under the gold standard.

532 *Contemporary European History*

model's seminal idea of the unholy trinity: the idea that of the three policy choices, only two can be simultaneously realised. For Obstfeld and Taylor the histories of monetary policy and modern capital markets begin in the decades before the First World War. In their analysis the policy trilemma under the gold standard resolved itself by monetary authorities choosing the policies of fixed exchange rates and open markets over monetary independence targeted on domestic macroeconomic goals. To talk about economic outcomes under the gold standard in these terms is to identify processes that essentially did not exist in the form which their successors would take in the twentieth century – a classical case of historical retrofitting. It is, in fact, a stretch to talk about the concept of a macroeconomy as being relevant to the mindsets of monetary authorities and government officials in the nineteenth century. The common vision of the health of domestic economies was conceptualised more in terms of what people of the period referred to as 'trade', or the general business climate of the times. A fully mature concept of the macroeconomy and national accounting would have to wait until after Keynes's *General Theory*. Furthermore, it is incorrect to view fixed exchange rates as a policy choice, since they were only marginally the results of governmental actions. In short, government oversight and regulation of domestic economies was in

its infancy. Regulation was manifest far more in the realm of microeconomic processes (e.g. anti-trust) than in the realm of the greater economy. Hence the whole idea of macroeconomic policy is problematic when talking about the pre-war gold standard. Exchange rates were essentially the outcome of monetary trends which resulted indirectly from private banking practices across domestic economies. It is not even clear that central banks were taking independent or leading positions in imposing particular conditions on domestic financial markets. The mechanisms of central banking were in their infancy, hence much underdeveloped vis-à-vis the mechanisms that would emerge after the war (Moure (pp. 16–21) and Flandreau et al. (pp. 3–8)). Central banks functioned largely according to private incentives as a result of charters which allowed them to be profit-making entities. Even in the case of the powerful Bank of England, it was never clear whether their discount rates were leading or following the market. But since central banks functioned essentially as large clearing houses for domestic finance, it is not much of a stretch to understand how they could be an important cog in imposing some inflationary path on domestic economies even without a sense of formal monetary policymaking. In essence, guarding their own convertibility within the context of profitable banking, central banks conditioned inflationary paths. In similar vein, exchange rates across countries in the gold club could be preserved without any intentional policy co-ordination. The testimony of British banker Vincent Stuckey is indicative:

I . . . see what the [foreign] exchanges are, and . . . the price of precious metals, and if I see that they are very much against [Britain] . . . I get a circular letter written to all my managers, stating that they must be very cautious in their advances.⁷

⁷T. E. Gregory, ed., *Selected Statutes, Documents & Reports Related to British Banking 1832–1928*, Vol. I (New York: Augustus M. Kelly, 1964), 64. If such a rule were practised widely across private banks,

Monetary Darwinism: The Political Economy of Monetary Relations 533

Hence it is more correct to say that exchange rates, like domestic macroeconomic outcomes, were the results of private sector processes rather than formal policy decisions, especially as we understand the term today. The contributions of Flandreau and Wilkins in Flandreau et al. are testament to the effectiveness of markets in creating monetary order in a period without either strong international institutions or robust domestic economic regulation. They demonstrate that both short-term portfolio investment and longer-term industrial investment were highly sensitive to shifts in opportunities in foreign markets. This elasticity of investment suggests the existence of extensive information regarding local investment conditions in foreign markets. Well-informed markets enhanced capital flows which were the principal adjustment device under the gold standard.⁸

Similarly, applying the idea of capital controls also retrofits modern conceptions of the public management of international capital flows. Governments simply had not progressed bureaucratically to a level where they could effectively monitor and control trans-border flows. This manifested itself fiscally, as governments were mainly restricted to generating revenues with instruments of indirect taxation; it was easier to monitor and collect duties and taxes at focal locations as compared with taxing the incomes of individual citizens. Gold flows themselves were more influenced through mechanisms called ‘gold devices’ than through formal controls.⁹

The idea suggested by the policy trilemma – that monetary officials chose to relinquish monetary independence – is also problematic. Hence the idea that they faced a choice at all is questionable. Monetary authorities – that is, central bankers – certainly did not perceive their options as restricted, nor did they perceive themselves as guardians of an exchange rate. Extensive monetary discretion was practised by central bankers under the pre-war standard.¹⁰ But the impetus for discretion was

stimulated only in part by conditions prevailing in domestic trade; particularistic and conventional banking imperatives regarding the structure of assets and liabilities were a major influence in dictating central bank actions.

Consequently it is difficult to conceptualise a trilemma under the pre-war gold standard in the same way we understand it to have operated after the war. In fact, the three components of the trilemma seem all to have coexisted under the classical then the result would be similar to one where central monetary authorities managed domestic credit to preserve some given exchange rate. In this case, convergent private-sector actions promoted such an outcome.

⁸ Marc Flandreau, 'Caveat Emptor: Coping with Sovereign Risk Under the Gold Standard, 1871–1913', and Mira Wilkins, 'Conduits for Long-Term Foreign Investment in the Gold Standard Era'. On information and co-ordination under the gold standard see especially Giulio M. Gallarotti, 'The Rise of the Classical Gold Standard: The Role of Focal Points and Synergistic Effects in Spontaneous Order', *Humane Studies Review*, 13, 3 (Summer 2001), 1–23.

⁹ Central banks influenced movements in bullion and coins by manipulating the official prices at which they would buy and sell gold.

¹⁰ That much sterilisation took place under the gold standard suggests far more monetary discretion than the mythological price-specie-flow system attested to. On discretion, see Michael D. Bordo and Marc Flandreau, 'Core, Periphery, Exchange Rate Regimes and Globalization, in Michael D. Bordo, Alan M. Taylor and Jeffrey G. Williamson, eds., *Globalization in Historical Perspective* (Chicago: University of Chicago Press, 2003).

534 *Contemporary European History*

gold standard. Capital markets remained open, exchanged rates remained stable, and central bankers enjoyed significant discretion over discount rates. Does this mean that Obstfeld and Taylor are wrong about the applicability of the trilemma in explaining the course of international monetary relations? This question is difficult to answer because we are imprinting modern conceptions of economics on to past epochs. In the context of the thesis advanced in this article, domestic political structures had not yet evolved in a manner that made the problem of the trilemma an issue. Certainly one could praise domestic monetary outcomes as having been consistent with the maintenance of stable exchange rates and open capital markets, but it imputes a process of domestic monetary outcomes, exchange rates and capital markets that were perceived quite differently by contemporary decision makers. It would be akin to praising pre-Christian philosophies or religions for embodying significant veneration of Christian beliefs, or even praising ancient Roman public works based on post-Enlightenment values of public service. The outcomes are undeniable, but the perceptions of actors leading them to perpetrate such outcomes are conceptualised out of historical context. Changes in domestic politics appear to be among the principal selection mechanisms in the adaptation of monetary relations across the past one hundred and fifty years. The thrust of the arguments and the evidence in the readings all testify to the influence of this political selection mechanism. The fundamental transformation of domestic politics has caused a structural and secular (rather than cyclical, as Obstfeld and Taylor's analysis suggests) shift in the history of monetary relations. Obstfeld and Taylor are, in fact, the most vigorous of all the books under review in identifying a changing political landscape (pp. 37–40). They underscore a new 'social contract' between government and civil society that produced a more interventionist state directed by a welfare orientation, and targeted on growth and full employment. The contract crystallised after the First World War with the growth in democratisation, and was compounded by the economic 'watershed' of the Great Depression. The now ascending Keynesian policy orientation served to discredit the gold standard and other mechanisms perceived to be based on automatic and internal adjustment. Moure and Kettell's case studies of interwar monetary policy choices attest to the influence of this new Keynesian/welfare orientation in shaping choices among government leaders

and monetary elites in decisions considering the resumption of a gold standard in Britain and France. None of the books, however, pays attention to the factors from which this transformation originated, nor do they satisfactorily analyse the process of political transformation and its monetary manifestations beyond generally vague references to the emergence of a welfare/Keynesian policy orientation. Hence while all the authors reviewed here produce reasonable and valuable interpretations of the course of monetary relations over the respective periods of interest, and reflect a fundamental awareness of the domestic political factors underlying monetary change, none of the analyses satisfactorily extends to the deep structures of domestic politics as a fundamental selection mechanism for monetary evolution. This fundamental transformation is embodied in the rise of the guardian state.

Obstfeld and Taylor talk about the impact of extended suffrage in supplanting a gold standard orthodoxy with a Keynesian contract, while Moure and Kettell observe

Monetary Darwinism: The Political Economy of Monetary Relations 535

a contemporaneously growing interventionist orientation on the part of the French and British states which conditioned the monetary choices facing monetary elites and governments. But what forces stimulated the extension of suffrage? How precisely did such a process ultimately cause a welfare/interventionist policy orientation to reign supreme? And what was the precise structure of the political impact on the trajectory of monetary relations in terms of policy selection? The books do not sufficiently address these questions.

That they pay scant attention to the origins and impacts of the guardian state does not mean that the books should be condemned, as none has sought as its principal goal to address fully the deep structure of domestic political change and its impact on monetary relations. They represent more general political economies. The emphasis on deep structure by this author represents a call for greater attention to the need for thorough analyses of such political factors in interdisciplinary explanations of monetary history, as well as an attempt to complement the analyses of these readings.

The rise of the guardian state actually had its proximate roots in the period of the classical gold standard, notwithstanding the tendency among the volumes under review to identify the postwar period as the principal period of germination.¹¹

Until the later nineteenth century the economic role of the state was fundamentally minimalist. Governments were expected neither to be fully responsible for managing macroeconomic processes nor to manage the business cycle. Downturns in general business conditions were considered to be acts of God, and particular macroeconomic processes were not seen as necessarily constituting the preserve of governments.

Moure nicely chronicles the immaturity of central banking and interventionist practices before the Second World War (pp. 21–26). At best, governments looked to address specific industry-specific distortions, while fundamentally allowing the overall economy to gravitate along its own path. As noted above, no fundamental concept of the macroeconomy existed, hence how could institutions be constructed to regulate it? The minimalist role of governance began to change significantly in the decades prior to the war. This was a direct result of democratisation, which entailed the extension of suffrage to the greater masses. Extended suffrage had a fundamental impact in changing the economic role of government. Under early democratic practices voting was essentially a privilege of the wealthier elements of society (often being linked to ownership of property). The extension of suffrage across the classes brought new political players into the fold, but these players had fundamentally different interests with respect to economic outcomes and the economic role of government. The minimalist state could endure very well under traditional

structures of suffrage because the costs of economic dislocation (unemployment, depressions) fell primarily on disenfranchised classes. Hence adverse performance at the macroeconomic level inspired no political movements or pressures for relief. Enfranchised classes were affected but hardly devastated by downturns. Groups lower

¹¹ The guardian state represents a synthesis of welfare imperatives and Keynesian interventionism. As described in Gallarotti, 'Advent of the Prosperous Society', it marked a new vision of the relationship between domestic economies and their governments.

536 *Contemporary European History*

down on the socioeconomic ladder bore the burden of adjustment. This explains how governments under the gold standard could tolerate domestic adjustment, since the costs fell on disenfranchised groups. But these costs were not perceived to be the fault of governments, since society was guided by a market mentality and thus leaders were exonerated from responsibility for the evils of adjustment. So Obstfeld and Taylor's trinity could select stable exchange rates and open capital markets. For Moure, it was fertile ground for the development of an illusion: that a gold standard could deliver economic performance that accorded with the public good. But as political conditions were to change more significantly after the war, the new structure of political power rendered systems that called for extensive internal adjustment nonviable (hence illusory). For Kettell's openly Marxist interpretation of the gold standard (i.e. the gold standard was a solution to class conflict in Britain), market ideology and limited suffrage removed any causes of domestic conflict over adjustment.

The rise of the guardian state occurred in two stages. The first saw the rise of a welfare imperative on the part of the state.¹² Welfare institutions in the West date back to the English Poor Laws of the sixteenth century, but it was not until the period of the classical gold standard that welfare functions became more prominent. Two of the major catalysts were increasing urbanisation and industrialisation. The resulting social differentiation created disparities in living conditions which generated a political response. Government activism in this context was inspired by Poor Law concerns, but the breath of coverage was far greater in scope and resources. The second stage, interventionism, was inspired by progressive ideas that ushered in the new century and emphasised the possibilities of social engineering. The pre-war period also witnessed the rise of larger state bureaucracies and greater political consolidation of nationstates, both of which set the stage for the emergence of interventionist and welfare institutions. This point is underscored in Eric Helleiner's contribution in Flandreau et al., 'Denationalizing Money? Economic Liberalism and the "National Question" in Currency Affairs'. The movement was enhanced by the war and the Great Depression, both of which made the state a far greater economic manager and regulator. The Depression essentially legitimated the belief that the government should be more than just a conditional economic guardian, with the rise of Keynesianism serving to consecrate the idea intellectually. With the advent of the Second World War, the idea of a permanent guardian state gained a compelling legitimacy, thus transforming the economic role of government from the minimalist state that existed before the twentieth century.

Scholars have generally regarded the rise of a guardian orientation as an outcome both of diverse secular trends in political economy and of their interaction with crucial events such as war and depression. Much less emphasis has been placed on important developments in class relations in modern capitalism as a fundamental cause of these secular trends. In class relations we can clearly identify the origins of the various historical trends which led to changes in the economic role of government. Much

¹² Of course, this relates more to outcomes in the developed world. The less developed world showed a very different political evolution.

of the progress in extending suffrage to classes that bore the burden of economic adjustment under the gold standard can be attributed to the strength of the labour movement in the late nineteenth and early twentieth centuries.¹³ The vigour of the labour movement, in numbers and organisation, was a catalyst for political change as industrialists found an extension of the suffrage preferable to more radical changes in the relations between capital and labour (e.g. threats to private property, greater labour influence in corporate governance). In many cases laws extending suffrage to groups lower in the socioeconomic hierarchy were direct results of labour militancy. Greater political empowerment gave trade unions more opportunities to translate their own particularistic needs (strongly oriented around economic security) into policy (the guardian state). The new policy orientation was consolidated by crucial events (war and depression), but also by capitalist groups that found many desirable qualities in the guardian state. Kettell's book issues one such quality as its mantra: the government's role of reconciling class conflict in advanced capitalist states. But beyond that the guardian state itself took on many micro- and macroeconomic regulationist functions that served capitalist interests, such as removing market distortions or protecting vulnerable industries.

Kettell and Moure's analyses are especially illuminating and important with respect to the evolution and impact of the guardian state. Their works provide much needed case studies as to how this political-economic process played out in particular countries in specific periods of monetary history. What makes them even more interesting as litmus tests of the impact of the guardian state is that they are looking primarily at a period (the 1920s and 1930s) when the guardian state itself was maturing and hence policy decisions about money were being played out at the fault lines between competing ideologies: the market tradition and monetary orthodoxy of the classical gold standard versus the new welfare/interventionist economic philosophy. In the case of both France and Britain in the 1920s, the resumption of the gold standard was not as simple as it was under metallic standards of the nineteenth century. In the case of the latter period, the scale of wartime monetisation and crisis-period inflations were smaller, fiscal orthodoxy was never in question, and other nations remained consistent in their trade and monetary policies. Hence, all things indeed being constant, resumption was a simpler process. The postwar years were being played out on a different field. It was harder to roll back wartime monetisation and reassert fiscal balance, because the political costs were perceived as high. While the traditional monetary orthodoxy was strong in policy circles, it was vigorously confronted by significant voices supporting an economic stabilisation policy sensitive to the domestic economy and welfare concerns. Indeed, the landscape had already changed significantly both in terms of tolerating inflation and of fiscal profligacy, both being manifestations of a new guardian orientation. In the case of French resumption in the mid-1920s, as chronicled by Moure, policy seemed to crystallise as an interesting compromise between monetary orthodoxy (what Moure calls the 'illusion'

¹³ See especially Adam Przeworski and John Sprague, *Paper Stones: A History of Electoral Socialism* (Chicago: University of Chicago Press, 1986).

538 *Contemporary European History*

of returning to the pre-war gold standard) and the now growing forces defending economic growth and employment. The state was now a major player in influencing monetary policy in the institution of the treasury, and it was concerned with the fiscal

viability of returning to a pre-war exchange-rate parity. The banking community and the Bank of France still held tight to the so-called 'illusion' that the pre-war standard could perform well in the postwar world.¹⁴ But as the battle progressed in the inner sanctum of policy circles, markets were betting against the franc as a result of a concern with French fiscal deficits and excessive debt. French political leaders were reluctant to raise taxes to quell markets, and the franc depreciated. The resulting Faustian compromise saw both sides obtaining important goals. The orthodox gold supporters attained a resumption of convertibility, but the voices for employment and against deflation attained a significant devaluation from the pre-war parity. In the end orthodoxy held sway over decisions to resume, but they were continually bounded by welfare/employment considerations emanating from guardian priorities. Moure's account does a commendable job in illuminating the structure of preferences among monetary opponents and showing how the new politicisation of money shaped the final policy outcomes of monetary stabilisation in the French case.

Kettell's account of British resumption in the same period shows similar political economic dynamics occurring in a somewhat different setting. Kettell underscores the increased role of government management of the economy, thus reinforcing perceptions of the state as an economic guardian. The battle between gold orthodoxy and inflationists (who wanted at least to devalue the pound before resumption) raged on after the war, with the latter side holding off resumption on the basis of arguments about the need to recover from wartime financial consequences and recession. Indeed, it is in keeping with the new political landscape that resumption was delayed for six years due to slow recovery from the war and fear of resuming during a slump.

While France had the courage to devalue from a parity that had been in existence (with a few interruptions) from 1803, Britain faced the far greater sacrilege of not stabilising at a parity that had existed since 1717. It was a sacrilege they would avoid, as conditions allowed supporters of gold orthodoxy a little more room for political manoeuvre. Britain had undergone more of a structural industrial decline during the late nineteenth century than had countries on the Continent, and policymakers were eager to create incentives for businesses to become more efficient and also to gravitate to more lucrative products. Resuming at a pre-war parity was seen as the key to promoting deflation, which in turn was seen as a viable cure for the structural problems of British industry, as British industry would not be able to hide behind soft adjustment mechanisms (such as exchange rate depreciation) to survive. Indeed, costs had to be kept down and more profitable opportunities sought out. Moreover, Britain had long reigned over the international monetary hierarchy, with few problems in

¹⁴ But even here defence of monetary orthodoxy took on a guardian flavour as supporters of pre-war resumption emphasised the macroeconomic costs of inflation on consumers and labour, so that even orthodoxy was perceived as necessitating public justification. Such was hardly the case in pre-war resumptions.

Monetary Darwinism: The Political Economy of Monetary Relations 539

maintaining gold convertibility even in the face of historically low reserves at the Bank of England. The British still saw themselves as occupying this position. Kettell's account is both original and quite interesting in suggesting that the decision to follow the dictates of gold orthodoxy could divert blame for the costs of deflation away from British politicians and towards the Bank of England. The resumption at par was seen as a way of depoliticising monetary policy so that political leaders could pursue other goals (i.e., it was akin to an external commitment mechanism such as an international agreement that dictates a specific exchange rate). This interpretation embraces the power of the new guardian orientation in Britain, as strategies for depoliticisation would not have been necessary under the pre-war gold standard

because politicians were released from responsibility for the consequences of deflation. Another interesting revisionist element in Kettell's account is that resumption at a prewar parity served to diffuse socio-economic conflict among labour and capital. With each group looking to promote a strategy that embraced industrial rationalisation, resuming the pre-war regime (i.e., a deflationary resumption) was sold as the best way of delivering both stable employment and industrial profitability.

While Kettell's analysis of British resumption of the gold standard serves as a compelling manifestation of the growing influence of the guardian state in the process of competition over policy, both his open Marxist interpretation of British policy goals and his proposition regarding depoliticisation strategies are assailable. His own account never places monetary decisions outside the circle of political prerogative. The decisions to resume and maintain the pre-war parity were pathologically political and were always perceived as such. Indeed, resumption was finally suspended via a political act in 1931.¹⁵ Moreover, his socioeconomic interpretation of monetary strategies for industrial rationalisation may overemphasise the power of class relations at the expense of more general economic considerations by British political elites. It is not clear that recovery from wartime inflation as a strategy of relief for industry and labour was any less a prominent intention for the whole of British society, and principally a specific solution to class conflict. Indeed, general concerns figure prominently in his account of monetary policy in this period. Ultimately, even this successful political marketing of resumption had an interesting guardian twist. A strong rationale for resisting inflation was that it would stabilise prices and the pound so that future interest-rate hikes would be limited. Hence deflation was pitched as a long-term avenue to growth and employment.¹⁶

When the will to sustain these resumption policies ultimately weakened in France and Britain in the 1930s, decisions not to support monetary regimes oriented around pre-war practices attest to the power of guardian politics. The domestic economic costs came to be seen as far too great to sustain deflationary regimes.

¹⁵ In fact, Kettell (pp. 83, 84) reports several cases in which the British government stepped in and lowered interest rates to abate the consequences of deflation in the period of resumption.

¹⁶ Kettell's documentation shows far more evidence from specific groups representing labour and capital that they accorded deflation considerable respect as a viable strategy, than from government agencies and politicians that proclaimed such policies as strategies targeted specifically at the interests of labour and capital.

540 *Contemporary European History*

The accounts of both Moure and Kettell make this clear, but Moure explores more extensively failures in French resumption policy in a multilateral context, something that sheds greater light on the general difficulties facing countries and ultimately on the broader geographic impact of the guardian state in shaping monetary choices in the interwar period. Under the gold standard, as noted, convertibility was an outcome of convergence in domestic monetary practices across countries. This convergence was founded on a deeper convergence in economic ideologies which ultimately translated into common economic practices. Countries converged on practices of capital mobility, fairly free trade, and fiscal discipline. Resumption within multilateral constellations of such policy convergence, as noted, was far easier to realise and maintain. This was no longer the case after the war, as the newly politicised economies under the guardian state led to differing domestic economic trajectories in outcomes and policies. Countries refused to co-operate on economic policies because each was principally concerned with its own particularistic macroeconomic priorities, and these did not converge to the same extent that they had before the war. Each attempt at resumption, therefore, had far greater redistributive consequences

after the war. Going on at too high a parity, for example, gave other countries an advantage in adjustment. Moreover, countries at a disadvantage did not have the same open capital markets and trade opportunities to allow compensatory adjustment. Essentially what emerged from this fixation on particularistic domestic goals was a prisoner's dilemma in which countries looking to re-establish or shadow the pre-war regime unilaterally were forced to bear excessive burdens. Britain, in keeping with its perceived financial strength, tried to bear such a burden but could not sustain it beyond 1931. France enjoyed some relief by resuming at a devalued exchange rate, although the pain of the golden handcuffs forced it to devalue further. But countries, in general, seemed to adapt to this realisation, as they were now more cautious about resuming and maintaining pre-war practices without regard to the domestic consequences. Ultimately all co-operation failed because of this pervasive concern with being 'a sucker', whose goodwill would be exploited by predatory nations.¹⁷ Schuker's contribution in Flandreau et al., 'The Gold-Exchange Standard: A Reinterpretation', nicely sums up the predicament of the interwar years. He depicts the failed attempts at resuscitating a stable international gold standard regime after the war as a political failure: international co-operation was the victim of a lack of domestic political will to bear the economic costs of adjustment. Obstfeld and Taylor see the interwar period as a shift in the policy menu to strategies which sought greater monetary independence at the sake of exchange rate stability and open markets. Indeed, it was even more fundamental a shift that their model of the dynamics of the policy trinity suggests. The interwar period ushered in a new period, dominated by a welfare/interventionist philosophy, that would transform

¹⁷ Eichengreen's history of the interwar period, *Golden Fetters*, clearly demonstrates that the propensity of nations to cling to the golden 'illusion' (i.e. that unilaterally conceived strategies of resumption could deliver pre-war economic outcomes) made the Great Depression longer and deeper.

Monetary Darwinism: The Political Economy of Monetary Relations 541

monetary relations thereafter. The guardian state in fact shaped the very evolution of the monetary trinity from this period onward.

Obstfeld and Taylor's model of the policy trilemma as a theoretical organising principle to understand the evolution of monetary relations and capital markets exhibits a cyclical and dynamic character that obfuscates a more fundamental secular process shaping the evolution of monetary history. In fact this process has shaped the very choices among the trinity itself. For Obstfeld and Taylor, the preferences for open markets and fixed exchange rates over monetary independence under the prewar gold standard gave way to a shift towards greater monetary independence under the crisis conditions of the interwar years. Attempts to go back to open markets cum fixed exchange rates imposed far too great a burden under conditions of recession and adjustment after war. The Bretton Woods regime after the Second World War was founded on a new compromise: countries could regain exchange rate stability and independent monetary policy at the expense of a temporary restriction of capital flows through capital controls. It was hoped that countries could make the transition to a constellation of policies similar to (but not as rigid as) the classical gold standard by fixing exchange rates to the dollar, which would be both the main reserve currency and convertible into gold at a fixed value (\$35.00 per ounce). But the opening of capital markets in the late 1950s eventually placed strains on both the exchange rate system and monetary independence. The regime crumpled under the realisation of the inescapable power of the trilemma problem: open capital markets, domestic independence and fixed exchange rates could not be simultaneously realised. After 1971 and the end of Bretton Woods, nations gravitated towards floating exchange rates. Countries now selected monetary independence and more open capital markets

in exchange for fixed rates. Countries that have deviated from this formula have faced conditions which made the costs of opting out of policies that subordinate monetary policy to defending an exchange rate (i.e., hyperinflation, financial crises, destroying the political fabric of economic unions) more onerous than the benefits gained through monetary independence. Hence, for Obstfeld and Taylor, the history of monetary relations has mirrored a tumultuous and cyclical passage among differing choices on a short policy menu.

One could reinterpret this history in a different way, one that suggests a secular reorientation of the trilemma itself. Under the classical gold standard the very idea of trilemma was not relevant to understanding monetary outcomes. Choices were not manifest in terms of policy, but in terms of outcomes driven by market decisions. In that period, one could say that all three choices coexisted in harmony. There was no trilemma in this period. But because of the absence of a welfare/interventionist ideology among monetary authorities and politicians, the idea of trade-offs between domestic and external economic goals were not yet compelling. The rise of a guardian imperative after the First World War initiated a fundamental change that would indeed make this trade-off compelling. The war made an immediate resumption of pre-war practices difficult, but even after countries did so, their macroeconomic situations were far less convergent as compared with the pre-war period. This placed strains on the new fixed exchange rate system. As these strains were compounded by the

542 Contemporary European History

deflationary consequences of recession, the system broke apart, with each country pursuing its own domestic economic priorities. This was the beginning of a shift in the trinity in favour of monetary independence over open markets and exchange rate pegs. Did Bretton Woods indeed bring back the good old days of monetary stability under the classical gold standard? No, because the resurrection of the golden age was based on an illusion. Since in the short run capital markets remained guarded, exchange rates fundamentally fixed and monetary independence protected, the actual process of adjustment was seriously compromised. Hence the regime was founded on an illusory adjustment mechanism. Adjustment was substituted for by the capital exports of the United States: dollars supported external deficits that threatened domestic monetary independence and exchange rates. But this led to the hegemon's (i.e. Triffin) dilemma: without an effective adjustment mechanism, the system could only last as long as the United States could export dollars, but this ability was limited by the need to protect gold convertibility. The outcome was predictable. But the experience showed a further tendency to relegate all other economic goals to an inferior position vis-à-vis domestic monetary independence. The imperatives of the now fully developed guardian state reigned supreme under Bretton Woods. The exchange rate peg was a softer one, thus removing further constraints on macroeconomic policy autonomy. So too did capital controls protect this autonomy. US dollars would substitute for devaluations as well as for the internal adjustment that might compromise domestic employment and growth. Bretton Woods was an international regime that was above all oriented around domestic economic prerogatives.¹⁸ The post-Bretton Woods gravitation towards floating exchange rates was a new reification of the primacy of the guardian imperative. The choice here was no longer among all three trinity options, as it was now clear that policy autonomy could never be compromised again, but among pegging exchange rates and open markets. As economies grew and financial technology advanced, many opportunities to prosper were now being created by integrating into the global capital market. In essence, this was strongly driven by guardian imperatives of delivering domestic prosperity

(i.e. the competitive state). Capital flows cum monetary autonomy offered the best possibilities for domestic growth and employment, even though stable exchange rates were still desired. But countries felt that this structure of policy might allow them both to have and to eat their cakes, as they continued to hope that exchange rates (while being too costly to fix) could at least be sufficiently stabilised (through intervention and co-operation) to deliver some of the benefits of traditional pegs. Hence the post-Bretton Woods period that Max Corden referred to as a non-system has in actuality demonstrated a systematic logic, one founded on domestic economic performance.¹⁹ But what about countries that have pursued hard pegs such as currency boards and monetary union? These arrangements are indeed exceptions to a now pervasive

¹⁸ See especially John G. Ruggie, 'International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order', in Stephen D. Krasner, ed., *International Regimes* (Ithaca: Cornell University Press, 1983).

¹⁹ W. Max Corden, *Economic Policy, Exchange Rates, and the International System* (Chicago: University of Chicago Press, 1994).

Monetary Darwinism: The Political Economy of Monetary Relations 543

preference for floating. But outside Europe hard pegs have been employed to deal with monetary disorder far greater than the costs of sacrificing monetary autonomy (hyperinflation, financial meltdowns).²⁰ So the choice has often been an easy one, and completely in keeping with a guardian orientation, as domestic economic conditions are far worse under autonomous policy in these countries. Furthermore, hard peggers have still regarded the dictates of the guardian catechism by diversifying towards fiscal solutions to domestic economic needs. So too the European states have been able to walk the tightrope between a hard peg and the guardian state. But the constraints of the hard peg in economic and monetary union (EMU) are limited, as the euro floats against other currencies. Hence adjustment can take place en bloc. Moreover, EMU has been advanced by political momentum towards a goal (European union) that has been developing for 50 years. Seen as an important institutional consecration of the European Union, EMU has gained much support from political faith alone, notwithstanding the difficulties it might create for domestic economic autonomy. But even here, as the macroeconomic convergence criteria of EMU have begun to bite, and countries have found collective central banking deficient in attending to specific economic needs, the system is exhibiting much strain: witness the most recent grumblings about membership and the constitutional setbacks of the EU. There is indeed a secular pattern to this monetary evolution. The guardian state has increasingly extended its tentacles over international monetary policy options such that no viable international regime could ever compromise national economic autonomy. The theme of this story is that any proposed system of organising monetary relations now and in the future will have to be rationalised by its ability to deliver on domestic economic goals. Kettell's own analysis of the reluctance of the British state to embrace the euro, which suggests that lessons of the past have convinced British leaders that binding themselves to the mast of a hard peg has never delivered the industrial rationalisation needed to abate the structural decline of British industry, is only partly correct.²¹ Having always guarded their monetary independence, the British have set a precedent that would allow them to preserve their autonomy without scrapping their political commitment to a vibrant EU. Hence British monetary policy, unlike that of continental states, has not become a hostage to multilateral political aspirations.

All the books evaluated in this review article represent well-crafted and valuable contributions to the evolution of monetary history. Each has a unique story to tell in what crystallises collectively as a multidisciplinary and interdisciplinary quest to

²⁰ Obstfeld and Taylor (p. 39) note that after Bretton Woods only a few major states have been able to maintain a peg for more than five years and that they all represent special cases.

²¹ Kettell's book also looks at the short-lived British experiment of joining the exchange rate mechanism (ERM) in 1990–2 as a means of fighting inflation, and (like the resumption of 1925) as a strategy to encourage the rationalisation of British industry. As with the resumption of 1925, the ERM experiment represented a commitment device (in this case external, however) that would deflect political discontent for deflationary outcomes away from British leaders. This of course recalls his evidence of 1925 regarding attempts to depoliticise monetary decisions that cut against domestic welfare and stabilisation goals, thus vindicating the power of the guardian orientation in British policymaking.

544 *Contemporary European History*

uncover the pervasive forces that have shaped policy choices and monetary outcomes over the course of a century and a half, and consequently each has advanced an interesting and important political economy of money. Each strongly attests to the compelling nature of guardian politics as one of the most formidable of all the forces. This compelling influence begs normative questions, the most important being whether monetary policies and relations necessarily have to be hostages to the guardian state. In cases where such constraints infringe the freedom which policymakers require to build viable monetary policies and international agreements, how does one tame the monster?²² Unfortunately, scholars have done more to diagnose the problem than prescribe a cure.²³ But prescriptions must ultimately come from better knowledge of the problem. Hence more research needs to be done on the monetary impact of the process of guardian politics: both broader historical and specific case studies, as well as both quantitative and institutional studies. In this respect, the four books evaluated here represent a very important constellation in themselves, as a valuable collection that comprises some of the latest and most illuminating thinking on the political economy of the history of money.

²² This is not to say that guardian politics necessarily produces inferior outcomes more often than desirable outcomes. Indeed, Moure (echoing Eichengreen's *Golden Fetters*) certainly demonstrates that the Great Depression could have been softened by greater attention to guardian considerations dictating earlier and more significant deviations from the pre-war orthodoxy of the gold standard.

²³ An exception to this tendency is Giulio M. Gallarotti, 'Confronting the Impediments to International Economic Cooperation: Domestic Politics and International Monetary Relations in the G8', *G8 Governance*, 10 (June 2004), 1–36, in which various strategies for overcoming domestic obstacles to effective international monetary co-operation are advanced.