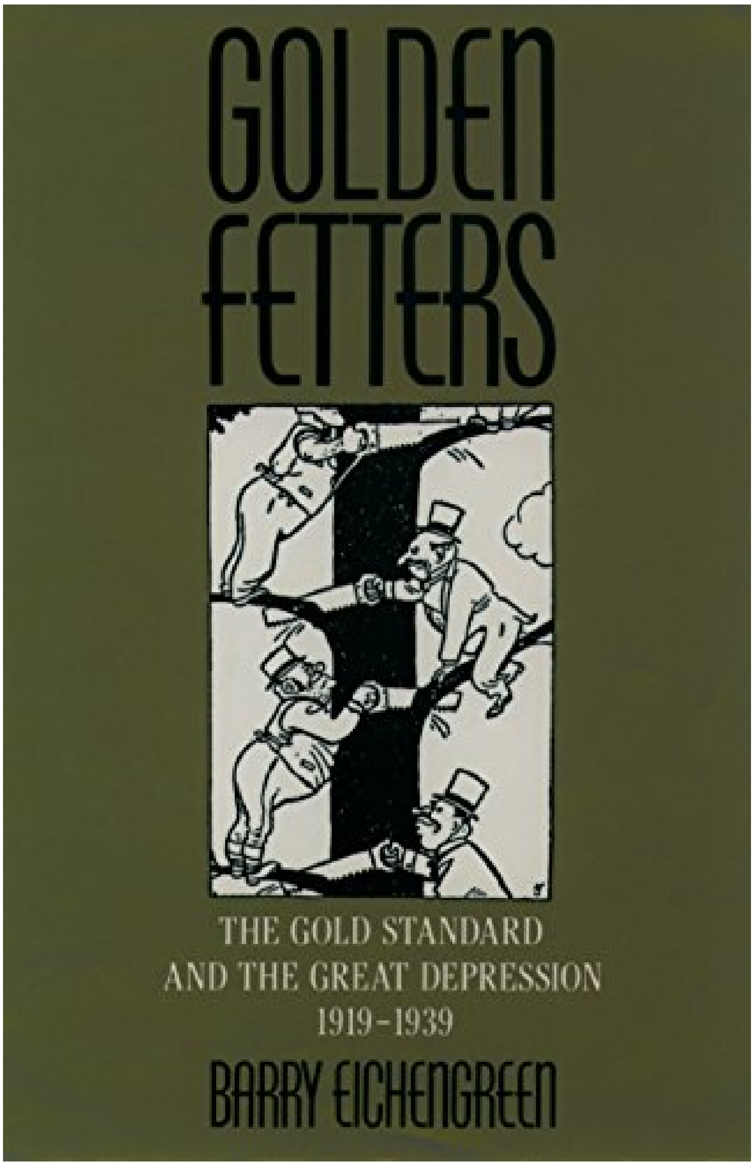
Golden Fetters: The Gold Standard and the Great Depression, 1919-1939 (NBER Series on Long-term Factors in Economic Development)

Barry Eichengreen



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Barry Eichengreen : Golden Fetters: The Gold Standard and the Great Depression, 1919-1939 (NBER Series on Long-term Factors in Economic Development) before purchasing it in order to gage whether or not it would be worth my time, and all praised Golden Fetters: The Gold Standard and the Great Depression, 1919-1939 (NBER

Series on Long-term Factors in Economic Development):

4 of 4 people found the following review helpful. The Gold Bug BitesBy T. GraczewskiThe central thesis of this book is that the gold standard, ldquo;far from being synonymous with stability, [was] itself hellip; the principal threat to financial stability and economic prosperity between the wars.rdquo; Paradoxically, the prevailing conventional wisdom at the time was that the opposite was true: only gold could achieve stability and growth. UC Berkeley economist Barry Eichengreen, one of the worldrsquo;s leading authorities on the subject, tackles three related questions in pursuit of his thesis.First, why did the prewar gold standard work so well while the interwar experience was so poor?Primarily because the credibility and cooperation that was required for the gold standard to work was not present after World War I, he argues. At the turn of the century, there was limited appreciation for the connection between monetary and fiscal policy and domestic employment, and even if there were, the groups most impacted by the decisions were political marginalized. Therefore, governments were given a virtual free hand to take whatever policy course necessary to defend the nationrsquo;s convertibility to gold, which made it ldquo;credible.rdquo; ldquo;Credibility,rdquo; he writes, ldquo;is the confidence invested by the public in the governmentrsquo;s commitment to a policy.rdquo; The guarantee of gold convertibility was so credible it was hardly ever challenged.Meanwhile, that credibility was further reinforced by relatively ldquo;strings-freerdquo; international cooperation and support from the fledging national banks of the most developed economies in Europe. The Bank of England played a key role in this system, but by no means essential one, according to the author, who explicitly rejects Kindlebergerrsquo;s classic ldquo;hegemonic stability theory.rdquo; The gold standard, Eichengreen claims, was ldquo;a political as well as economic system,rdquo; and it was the immense political impacts of World War I that destroyed the necessary credibility (no longer was it taken as a given that a government would raise interest rates, raise taxes and/or cut federal spending in order to defend the gold convertibility rate) and cooperation (conflicts over reparation payments, war debt, along with fundamental philosophical differences) required for the system to work.Second, what was the connection between the gold standard and the Great Depression?Eichengreen argues he is making a novel argument in ldquo;Golden Fettersrdquo; by suggesting that the extreme shift in the international balance of payments equilibrium after World War I made the defense of the gold standard contingent upon steady and significant financing of European international obligations. In the summer of 1928, as the US Federal Reserve raised interest rates to dampen speculation in the red hot stock market, the European economies were threatened as their limited gold reserves began to flow across the Atlantic in search of higher returns (Note: the author says that there is no evidence that loose US monetary policy played a significant role in the bull market of the 1920s). Because of the gold standard and the central role of US gold in propping it up via generous lending, American domestic policy decisions necessarily and directly impacted international policy decisions. That is, an increase in the US interest rate triggered defensive fiscal and monetary actions by the leading European economies, all in an aggressively contractionary direction (i.e. increasing of interest rates and taxes, while cutting domestic spending). Acting alone was impossible if the gold standard was to be defended. The type of cooperation required was politically impossible by the 1930s, the author writes, mainly because minority interest groups held a disproportionate influence over domestic politics in most western nations at the time.What really triggered the Great Depression though was the epidemic and unchecked string of bank failures that generated panic and a downward spiral in liquidity. The central reserve banks refused to lower interest rates out of fear on the pressure it would put on their precious gold reserves, while consumers hoarded cash for fear that their banks would go under. Under the prevailing system, Eichengreen says, the US Fed, for instance, had no choice by sit idly by while the domestic banking system crumbled. ldquo;Shattering confidence, discouraging lending, freezing deposits, and immobilizing wealth, they amplified the initial contraction,rdquo; the author concludes.Third, did the removal of the gold standard in the 1930s establish the preconditions necessary for recovery from the Great Depression?After the Bank of England went off of gold in 1931 the celebrated economist John Maynard Keynes famously quipped: ldquo;There are few Englishmen who do not rejoice at the breaking of the golden fetters.rdquo; Indeed, Eichengreen maintains that currency depreciation was the key to economic growth, mainly because it freed up monetary and fiscal policies. That said, depreciation was a necessary but not in-and-of-itself sufficient to promote broad scale macroeconomic recovery. ldquo;Only when the principles of orthodox finance were rejected [i.e. running extreme budget deficits] did recovery follow.rdquo; And this is where most countries fell short according to the author. ldquo;Historical experience ndash; first with the classical gold standard, then with the first world war, finally with inflation in the 1920s ndash; molded their perceptions and conditioned their actions, with profound implications for the course of economic events.rdquo; For instance, some key countries, such as Germany and France, were ldquo;obsessed with inflation because it was symptomatic of deeper social divisions.rdquo; Different national motivations and experiences led to a haphazard approach in the way nations went off gold. Most then failed to bolster that critical monetary move with aggressive expansionary fiscal policies that exacerbated the so-called ldquo;beggar-thy-neighborrdquo; impacts on the international balance of payments. In other words, countries were capitalizing on short-term advantages in currency exchange rates to bolster exports in a way that was neither sustainable nor advantageous to the domestic economy long term. Again, it was ldquo;the failure to pursue more

expansionary policies, and not currency depreciation itself,rdquo; the author claims what ldquo;was responsible for the sluggishness of recovery.rdquo;In closing, Eichengreen makes his points with a blizzard of economic data and hammers home his central argument relentlessly: ldquo;Far from being a bulwark of financial stability, the gold standard was the main impediment to its maintenance.rdquo; It is a Keynesian argument top-to-bottom and convincingly delivered.1 of 1 people found the following review helpful. Probably the best book on the causes of the DepressionBy Israel ContrerasProbably the best book on the causes of the Depression. People hear "Great Depression" and automatically think about the New Deal. This book skillfully goes back and examines the gold standard's role in being a major cause of the Depression AND the vehicle through which the Depression spread. Great book! All you hard money people that think gold is the answer to everything should read this book. That is all.10 of 11 people found the following review helpful. all those gold bugs should read this before getting carried away...By Law studentA very interesting book, especially in the current climate. The debate about maintaining a gold standard (or the euro) really highlights the difficulties that several EU countries will face if they stay in the euro. This book also highlights the tremendous pressure on all central bankers to strategically devalue their currency. Of course the great danger here is that this beggar-thy-neighbor policy will lead to trade tariffs and other tensions.The book is a bit dense, but well worth the slug.

This book offers a reassessment of the international monetary problems that led to the global economic crisis of the 1930s. It explores the connections between the gold standard--the framework regulating international monetary affairs until 1931--and the Great Depression that broke out in 1929. Eichengreen shows how economic policies, in conjunction with the imbalances created by World War I, gave rise to the global crisis of the 1930s. He demonstrates that the gold standard fundamentally constrained the economic policies that were pursued and that it was largely responsible for creating the unstable economic environment on which those policies acted. The book also provides a valuable perspective on the economic policies of the post-World War II period and their consequences.

"A brilliant new book."--Newsweek"Very highly recommended."--Choice"Important and convincingly argued....Even those who are not sympathetic to the arguments and conclusions of this book will agree that it is destined to be an important work for all future students of the gold standard."--Journal of Economic Issues"An important book....There is no doubt...that economists and economic historians are in Eichengreen's debt. This is a fine book which supercedes all the literature in the field. Money has been devalued in some recent surveys of the international depression of the 1930s. Eichengreen has brought it back to the center of the story, which is where it belongs."--Economica"Eichengreen has produced an excellent economic history of the interwar years which will be read with great interest by all students of the period. His account of the gold standard during this dramatic period is based on wide ranging research and is exceptional in its clarity....This volume will remain the standard history of the gold standard for many years to come."--Times Higher Education Supplement"A tour de force, by the outstanding contemporary scholar of the 20th century history of the international monetary system."--John Williamson, Senior Fellow, Institute for International Economics"This stimulating book is notable for its integration of political and economic analysis in helping us to understand the weakneses of the gold standard in the interwar period."--Journal of Interdisciplinary History"[Golden Fetters] may become a standard reference for years to come."--Research Reports, American Institute for Economic Research"Golden Fetters compels us to reexamine familiar ideas about economic pathology in the interwar period and the way the gold standard functioned before the First World War. Eichengreen offers us new views of old problems. This is the most important contribution to the subject since the works of Brown and Nurkse, more than four decades ago."--Peter B. Kenen, Houblon-Kenen Fellow, Bank of England"Eichengreen illuminates the role of the gold standard in his masterly analysis of the global economic and political forces that produced the Great Depression and economic recovery after 1933."--Anna J. Schwartz, National Bureau of Economic Research"A major reinterpretation of the Great Depression, from the perspective of the world political economy. Golden Fetters is 'must reading' for students of international political economy."--Robert O. Keohane, Harvard University"Eichengreen has succeeded in providing a rare blend of well-balanced economic and historical analyses. The result is new interpretation of the policy failures that led to the Great Depression: the lack of international cooperation features as a prominent cause of economic instability. There is no doubt in my mind that historians will see Golden Fetters as the standard work on the subject for years to come."--Gianni Toniolo, Dipartimente Economische Venezia"Eichengreen's book provides new and insightful analyses of how the gold standard worked and its role in the economic crisis of the interwar years."--David Hale, Chief Economist and Senior Vice President, Kemper Finanacial Corporation"In this brilliant and synthetic new book, Barry Eichengreen has gone well beyond his previous work to marshal a powerful indictment of the interwar gold standard, and of the political leaders and economic policy-makers who allowed themselves to be bound by golden fetters while the world economy collapsed."--Journal of Monetary Economics"Anyone tempted to make historical parallels beteen the EMS and the gold standard should read Barry Eichengreen's scholarly account....His book is written with a clarity that allows one to identify both elements of the gold standard that were unique and those that are common to any regime of fixed exchange rates."--

The London Times Literary Supplement"I agree with Robert J. Samuelson (Newsweek) that Barry Eichengreen's Golden Fetters...is "a brilliant new book."...Eichengreen has done nearly the impossible. He writes successfully both for "the elusive general reader" (p. xiii) and for the specialist historian. Anyone who reads The Wall Street Journal should be able to understand and appreciate his book."--Business History "This major work provides a striking reinterpretation of the role of the gold standard in the international economy during the interwar years."--The Historian"This new international history of the inter-war gold standard, which will quickly become the standard work...succeeds at a number of levels. First, it is superbly written and achieves its objective of being accessible to the general reader. Secondly, it shows how national histories can be knitted together into a coherent analysis of an international economic crisis, thereby furthering the cause of comparative economic history....An excellent book...quite compelling reading."--Business History"It is superb monetary history....The great strength of Eichengreen's historical analysis is his enormously wide knowledge of, and sympathy for, economic and political conditions in all the major countries concerned...a marvelous book. It is, in addition, beautifully written, and fully accessible to general readers....A real pleasure to read, the work of a master economic historian."--International Journal of Finance and Economics"[The book] represents the definitive statement of a vastly prolific scholar. Graciously written, impressively researched, organized...with a large interdisciplinary audience in mind, [it] bids fair to be the classic contribution on its subject, a veritable tour de force."--Labor History"Breaks new ground while addressing the overtilled terrain of the interwar period...highly readable. [The book] skillfully integrates the findings of many technical arguments, sacrificing neither rigor nor clarity. It is also impressive in scope, providing a broad overview of the interwar international economy."--Merson International Studies "A brilliant new book."--Newsweek"Very highly recommended."--Choice"Important and convincingly argued....Even those who are not sympathetic to the arguments and conclusions of this book will agree that it is destined to be an important work for all future students of the gold standard."--Journal of Economic IssuesAbout the AuthorBarry Eichengreen is the John L. Simpson Professor of Economics and Professor of Political Science at the University of California at Berkeley, and Research Associate of the National Bureau of Economic Research. He has written a number of books on international monetary issues and economic history, including Elusive Stability: Essays in the History of International Finance (1990).