Discussion of
‘Core, periphery and the collapse of the Interwar gold standard’
by Peter Kugler and Tobias Straumann

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The views expressed here are those of the author and do not necessarily reflect those of Banque de France or the Eurosystème.
My discussion

- Brief summary of the results
- How I understood the paper and my questions to the authors
- Lessons of this episode for the current Euro situation?
The paper

• Adds a core-periphery dimension to the debate on the reasons why countries left the gold standard during the interwar
• Enriches the menu of options available to country that chose to debase their currency
  • Allow distinguishing suspension (temporary shock) and devaluation/exit from the gold exchange standard (permanent shock)
• Brings new and stimulating results
The periphery – core nexus

• Core countries exited because...
  – Low GDP per capita, negative or slow growth of gold reserves and high export share of devalued countries

• While peripheral did because...
  – Negative GDP growth, banking and gvt instability

• Suggest something went wrong with the ability of the periphery to hedge itself against adverse economic, financial or political shocks

• Choose a policy that turn out being very bad (or?)
My understanding of the paper’s economic issue

• Does the reaction of the political/monetary authorities differed between the core or the periphery when hurt by a large negative shock to the wealth?

• This must never be a problem to a country
  – It buys ‘insurance’ against such events.
  – Accumulates reserves / has alliance

• Key question: Is the core responsible for the poor performance of the periphery?
Triffin’s asymmetry

• Did peripheral countries bought too few insurance policy against devaluation?
• Or is that a bad choice of the reserves asset?
  – Gold versus currencies: When currencies is chosen, exposed the country to devaluation risk
• Linked to Triffin’s asymmetry: peripheral countries kept their reserves in assets not insured against the others’ devaluation
• WHY?
Question of timing

• Did peripheral countries exited gold after the devaluation of the core?
  – After the debasement of their insurance ‘having sterling reserves’?
  – If British exit was a choice of internal financial stability
  – At the price of external Instability?

• Does that show up in the CB reserves data?

• Reaction of sterling countries to adverse shock after Sept. 1931?
Rephrasing the problem

• Inability to absorb pure wealth shock or bad policy choice?

• The other – intricated – issue is why did UK/US choose to make the periphery pay?
  – Eichengreen had the story that this is all about the labour market.
  – Link with WW I and the pan-European debt crisis of the 1920s.
Relevance for today?

- Negative shock had to be paid
- Trade-off: between a 1-off gain in welfare (devaluation paid by the other countries) or the instability created by choosing who has to pay
- What the EMU does is removing devaluation
- Negative shock had to be faced upfront, i.e. without debasing the external value of the currency
Today?

• If my speculation of Tobias & Peter result is correct,
• Because the exit cost of EMU is especially high
• the EMU made the EU much more stable (no peripheral country is hit by poor core policy choices)
• But left unanswered the issue of who must absorb the negative wealth shock.