Comment on

S.A. Urban,

The Gold Standard and the Euro Area

by

Franz Seitz

(University of Applied Sciences Weiden, WSB Poznan)
1. What the paper does?
The euro area and the interwar gold standard

(1) The monetary order

(2) The role of capital flows

(3) The policy response (immediate, medium-term, final)

→ comparison
Similarities

- **Countries**: Germany - France, Greece - Germany, China - US
- Preservation of the *monetary order* predominant political goal
- Sudden stop of *capital flows*
- (Burden of ) adjustment via *internal*, not external devaluation
- Adjustment of *nominal exchange rate* needed
- No autonomous *national monetary policy* and lender of last resort
Lessons from the Great Depression I

Sequence of events

1. Sudden stop of capital flows
2. Preservation of monetary order
3. Austerity measures and interim financing
4. Failure of austerity
5. More financing
6. Heterodoxy ("new people")
Lessons from the Great Depression II

Adjustment process

1. Devaluation
2. Capital controls
3. Trade barriers (protectionism)
2. Assessment, open questions and extensions
Adjustment mechanisms

- **Why not internal devaluation** to regain competitiveness?
  - role of wages and prices
  - moderate degree of inflation persistence (see IPN)
  - evidence of downward wage rigidity, but depending on wage setting institutions (see WDN)
  - wage structure in EU countries has responded to macroeconomic and structural trends

- Principally no liquidity crisis, but deep **structural problems**

- **Inflation** no solution, cause of new problems (but history, see Reinhart & Sbrancia, 2011)

- Adjustment in **deficit countries** needed (fiscal crisis)
Current account of the euro area

Leistungsbilanzsaldo in % des nominalen Bruttoinlandsprodukts

Bond spread to *Bunds* negligible until 2007

Market pressure necessary!!
To leave or not to leave?

- Fiscally weak country is better off in the euro area than outside it (Buiter & Rahbari, 2010)
- Devaluation no solution to structural problems (real rigidities)
- Caveat: rest of EMU (credibility and reputation, no expulsion possible, rules of the game, conditionality and IMF)
- Role of Germany:
  - Asymmetric EMU or decision to leave
  - Bailout of first resort?
What "EMU" really means

- Not only irrevocably fixed nominal exchange rates, but common currency
  - Incentives to leave
  - Real exchange rate adjustment
- One size has to fit all
- No fiscal union, but fiscal rules
- Substitution of private capital flows with public ones (ECB, TARGET, EFSF, ESM, IMF,...)
- Monetary trilemma and EMU (AWM vs. MCM)
The role of the ECB

- Quantitative easing
- ECB as
  - liquidity provider
  - financial intermediary
  - risk bearer
- Fiscal policy in disguise
- Chicken game with politicians
Total assets of major central banks

January 2007 = 100, end-of-month levels, log scale

- Bank of England
- Federal Reserve System
- Eurosystem
- Bank of Japan

Sources: respective central bank and Bundesbank calculations.

Deutsche Bundesbank
The interwar gold standard

- Gold exchange standard ≠ classical gold standard
- Actively managed
- Credibility despite evident failings (history dependence) (Bordo & MacDonald, 2001)
- Central banks used credibility to adopt independent monetary policies
- Breakdown due to violations of 'rules of the game'
Minor comments

- Missing tables
- What is a "shadow exchange rate" in the case of EMU?
- Money (liquidity) vs. capital
- Illiquidity vs. insolvency
- Monetary neutrality: long-run vs. short-run
Conclusion

- Interesting question / comparison
- The devil is in the details and in practice
- Re-start of EMU necessary!!?