ARTICLE

The gold standard and the euro: A reflection from a reading of A Tract on Monetary Reform

Vicente Esteve\textsuperscript{a,1}, Manuel Navarro-Ibáñez\textsuperscript{b,*}, María A. Prats\textsuperscript{c}

\textsuperscript{a} Universidad de Valencia, Spain
\textsuperscript{b} Universidad de La Laguna, Spain
\textsuperscript{c} Universidad de Murcia, Spain

Received 3 October 2016; accepted 28 October 2016

Abstract This paper makes a comparison between the gold standard and the euro through a study of Keynes’s views on the need to manage the macroeconomic situation of an industrial economy. The essay centers on Keynes’s first relevant economic work of the post World War I years, A Tract on Monetary Reform, analyzing its theoretical and practical content. The situation of monetary instability and the choice of exchange regime (to return or not to the gold standard, with the parity prior to the war) were the factors that attracted Keynes’s attention in those years. Similarities between the gold standard and the present euro system bestow a certain interest on Keynes’s ideas and on the economic discussions that took place in Great Britain during the postwar years (1919–1925).

© 2016 Asociación Cuadernos de Economía. Published by Elsevier España, S.L.U. All rights reserved.

\textsuperscript{*} Corresponding author.

E-mail address: mnavarro@ull.edu.es (M. Navarro-Ibáñez).

\textsuperscript{1} The authors acknowledge financial support from the MINECO (Ministerio de Economía y Competitividad, Spain), through the projects ECO2011-30260-C03-01 (Vicente Esteve), ECO2011-23189 (Manuel Navarro-Ibáñez) and ECO2012-36685 (María A. Prats). They also acknowledge the support received from the Gobierno de la Región de Murcia Through the project 15363/PHCS/10.

http://dx.doi.org/10.1016/j.cesjef.2016.10.003

0210-0266/© 2016 Asociación Cuadernos de Economía. Published by Elsevier España, S.L.U. All rights reserved.

Please cite this article in press as: Esteve, V., et al., The gold standard and the euro: A reflection from a reading of A Tract on Monetary Reform. Cuadernos de Economía (2016), http://dx.doi.org/10.1016/j.cesjef.2016.10.003
1. Introduction

This paper arises from a rereading of the first major economic work of Keynes: A Tract on Monetary Reform (1923a). This reading of A Tract led to the idea that the current euro system shows some characteristics that resemble more closely the "old" nineteenth century gold standard than a modern single currency system. Thus, some of the limitations under which the European Central Bank (ECB) has had to operate have been due to the ECB’s regulatory design and its great reluctance to implement discretionary policies. Of course, differences must also be taken into account; thus, for example, under the gold standard, the modification of the parity of a currency with gold or exit from the system was easier to carry out than a potential "euro exit", as mooted on several occasions for some economies of southern Europe.

Moreover, the measures taken by European policymakers do not appear to take into account traditional Keynesian policies despite, paradoxically, many European countries exhibiting high levels of unemployment. Reduction in unemployment does not seem to be a primary objective of the European Union (EU). On the contrary, the problems that focus the attention of European monetary authorities are inflation and public deficit. This has been shown by the most vigorously pursued policy by the EU and European governments, which has been fiscal consolidation, and, in general, a defence of austerity measures.

There is a widely spread notion that public sector growth during the decades following World War ii has resulted not only in the excessive size of this sector, but also and, above all, in great rigidity in its ability to act. This has limited the stabilizing capacity of the state to stabilize economic activity, making it more appropriate to reduce the degree of regulation and public intervention in the economic system. In fact, European governments consider their most pressing problems are with public budgets, and not with a lack of economic growth.

This political position has arisen from the great confidence deposited in the equilibrating mechanisms of the markets, i.e., in the belief that the private sector is much more stable than Keynes thought. Moreover, this position seems to defend the idea that the proper functioning of these mechanisms are hindered by the excessive regulatory zeal of the welfare state. In short, the current orthodoxy is based on the idea that the private sector and in particular markets without intervention are relatively quick at making adjustments. Thus, measures to expand demand are often seen as negative, since many consider that they would only generate inflation. Therefore, independence is only granted to central banks to pursue policies of price stability.

In A Tract (1923a), Keynes’s put forward his view on the need to manage the macroeconomic performance of an economy. The origin of this was, according to Keynes, the break up of the economic organization of Europe following WWI: the "delicate" organization that had previously operated up to 1914 could no longer be maintained, and the "laissez-faire system" was a thing of the past. It was no longer possible to go back in search of a world that had disappeared forever. After WWI, Keynes’s perspective experienced a profound transformation and he lost confidence in the self-regulation of the market. Thus, an industrial economy should be managed in a conscious way: the era of non-intervention of the state in economic affairs had ended, as expressed in the title of one of his works – The End of Laissez-Faire (1926).

At Cambridge, Keynes had as his teachers, Marshall2 and Pigou. Furthermore, from a theoretical point of view, Keynes believed in the balancing abilities of market forces, at least in the long term. Even more so, considering his analysis of the UK economy in the 1920s in which he highlighted the monetary system as the main hinderance to the process of resource allocation.

In A Tract, Keynes rejected the return to the gold standard, arguing that fixing the exchange rate should not

---

2 According to Schumpeter, since 1909, Keynes "taught straight Marshallian doctrine with the Fifth Book of the Principles as the center, the doctrine that he mastered, as few people did, and with which he remained identified for twenty years to come." (1946, 497).
دریافت فوری متن کامل مقاله

| امکان دانلود نسخه تمام متن مقالات انگلیسی | ✓ |
| امکان دانلود نسخه ترجمه شده مقالات | ✓ |
| پذیرش سفارش ترجمه تخصصی | ✓ |
| امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله | ✓ |
| امکان دانلود رایگان ۲ صفحه اول هر مقاله | ✓ |
| امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب | ✓ |
| دانلود فوری مقاله پس از پرداخت آنلاین | ✓ |
| پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات | ✓ |