The Genoa Conference: Was it really a failure?

Giovanni B. Pittaluga

(preliminary version)

Introduction

The classic *gold standard* was a system that based itself on money-merchandise, in which the monetary sovereignty of the participating countries was limited. In fact, the unwritten rule by which, if a state, for any reason, abandoned the conversion, it had to promise to reinstate it as soon as possible, made it so that in the long run, governments could not expand the quantity of their currencies in a discordant measure in regard to the gold available.

Between 1870 and 1914, at a worldwide level, the total demand of money moved according to the stock of gold that was available.

When a country returned to the conversion after a period of suspension, the deflation costs necessary to conclude the reinstatement of the said conversion was laid on the workers, meaning on a group of people who, because of the census vote had very little political power.

With WWI the *gold standard* was suspended by all the warring nations: in these countries a large part of the war efforts was funded by money. The main European countries found themselves, at war's end, with prices that were higher than those of 1913.

Immediately after the war, there was a period where inconvertibility of the currencies and fluctuating exchange rates prevailed.

The industrial countries realised the need to stabilise the prices and exchange rates, basically to impose the conditions needed to expand trade and therefore, to return to a growing economy.

The dominant idea was that of a return to the *gold standard*. This meant rebuilding the pre-war economy. The leader for this objective was Great Britain, which in the Twenties promoted first the Brussels Conference, and then the Genoa Conference.

From April 10th to 22nd, 1922, the representatives of 27 governments met in Genoa to discuss the reorganisation of the international monetary system as well as international political questions.

With the Genoa Conference Resolutions, the *gold exchange standard* was begun. If the beginning and end of this system is considered the return to and the departure from par with the pound-sterling, then the *gold exchange standard* lasted only five years.

Many scholars believe that the failure of the *gold exchange standard* also represents the failure of the Genoa Conference, which had started it.

The aim of this piece is to reconsider the outcomes of the Genoa Conference.

The main decisions taken by the latter with regard to the international financial system are briefly presented in paragraph 1.

As to the outcomes of the Conference, two important questions are confronted. The first regards the *gold exchange standard* as such and tries to understand whether its failure was due to specific factors, such as the misalignment of currency reserves, or to the mistakes of the *policy-makers* or to objective reasons, such as the international relations and the power distribution between different Countries. Paragraphs 2 and 3 deal with this.

Paragraph 4, on the other hand, clears up why the establishment of an efficient international monetary system between the two Wars was difficult. The Genoa Conference, even if in a context which did not favour international coordination, favoured the development of entities and institutional practices which would have further grown with greater success after the Second World War if compared to their results in the Twenties. Paragraph 5 is dedicated to this aspect. Some final remarks end this piece.

1. The main conclusions of the Genoa Conference

The length of the First World War had been much longer than foreseen. Financing the war efforts by increasing taxes had been impossible. Although in different measures, a large part of the war efforts was financed through increasing public debt. The absorption of this on behalf of the people was eased by an increase in monetary circulation by the Monetary Authorities. Due to this fact, banknote circulation in all of the fighting countries increased significantly

Along with the increase in monetary circulation came a significant increase in prices. In the face of the risks that a of a pronounced instability in exchange rates and persistent inflationary processes, the Authorities thought the only thing to do to stabilise prices was to go back to the *gold standard*.

Commenting on the phase of flexible exchange rates which prevailed after WWI, Nurske (1944; pp. 137) writes: "*If there is anything that inter-war experience has clearly demonstrated, it is that paper currency exchanges cannot be left free to fluctuate from day to day under the influence of market supply and demand.*".

The flexible exchange rate experience right after WWI can help us understand why in the Twenties the governments of the main countries were anchored to the idea that the *gold standard* had to be reintroduced as soon as possible. More severely, Temin (1989; p. 7-8) traces this point of view back

to an "ideological" attitude: "*choices made by monetary and fiscal authorities in the years around 1930 were made according to a view of the world that maintenance of the gold standard … was the primary requisite for prosperity.*".

The decision to return to the *gold standard*, however, put the governments of the most important industrialized countries in front of an alternative: follow the deflationary policy and bring prices to their pre-war levels, therefore re-entering the *gold standard* and the old parity with gold, or accept the level of the current prices and stabilize the currency at a newer and lower parity[1].

The standard bearer of the resumption of the *gold standard* was Great Britain, in particular its government and the governor of the Bank of England, Norman. The Cunliffe Commission had already recommended that "*after the war the conditions necessary to the maintenance of an effective gold standard should be restored without delay*"[2] in 1918.

Even Strong, governor of the Federal Reserve of New York, believed that there were no other alternatives except that of returning to the *gold standard*. If this system were completely abandoned, it could have tempted governments to adopt systems based on paper money, as a result, inflation and disorder in the financial and exchange markets would have occurred[3].

Norman and Strong's position was shared, even with some differences on the par to adopt, by the governments of the main European countries. Notwithstanding the widespread conviction that the *gold standard* should be reinstated, many also knew that there was a world-wide shortage of gold, as well as the fact that many countries were unable to return to pre-war prices.

Two solutions were proposed to resolve this problem. On one hand were those who, like Cassel and Mises, believed that the risks of the deflation of the *gold standard* could be avoided only by increasing the price of gold, in other words, depreciating currency compared to the precious metal. Only in this way, by acting on the demand, would the gold shortage be resolved.

Different from this view was the position of those who believed that the above-mentioned problem could be resolved by expanding the means that could be used as money.

In 1913, in the book, "*Indian Currency and Finance*" Keynes had proposed a reform of the Indian monetary system aimed at increasing the elasticity of the supply of liquid funds. This reform foresaw the possibility of covering the money in circulation not only with gold, but with the *foreign exchange reserves* as well.

[1] Cf. Eichengreen (1994; pp. 195-196).
[2] Cf. Eichengreen and Flandreau (1997; p. 242).
[3] This position is held by Strong in a *memorandum* of January 1925, cited by Moggridge (1972; pp. 59-60).

This practice had already been followed by many governments before 1914[4]. This system reflected the need, which was increasingly felt in the Twenties, of the monetary Authorities to control the quantity of money. The main expression of this point of view was Keynes' "Monetary reform", according to which "the monetary Authority, in its attempt to stabilize prices, had to be ready to act on both the money offer and the money demand."[5].

The second alternative amongst the two mentioned above prevailed. During the Twenties, in fact, the need for the Authorities to control the supply of money give rise to the *gold exchange standard.*

This system was "pyramidal", articulated on two levels: only the "main" currencies could be exchanged for gold, while the "minor" currencies could be converted into the "main" currencies rather than directly into gold.

In the Twenties, the man who worked very hard to expand the acceptance of the *gold exchange standard* was the Governor of the Bank of England Norman, his main theorist was Ralph Hawtrey, who was, for a long time, senior official of the British Treasury. These two men, laid out the characteristics which the *gold exchange standard* had to have for an important speech in front of the British Association.

In this speech, Hawtrey idealised a system in which the quantity of cash no longer depends on objective restrictions, like the quantity of gold, but can be discreetly governed by the government: "*If all the gold standard countries adhere to it, gold will no where be needed as a means of remittance, and gold will only be withdrawn from the reserve for use as a raw material of industry."*[6].

The institutional moment which set the conditions for the resumption of the *gold standard* was the international economic conference held in Genoa in 1922.

This conference was strongly wanted by the British Prime Minister, Lloyd George. In the meeting of the Allied Supreme Council held in Cannes in January 1922, he was able to convince the representatives to hold an economic and financial conference for the reconstruction of Western and Eastern Europe as soon as possible. The English immediately nominated an interdepartmental commission, headed by Sir Chapman, the Board of Trade Secretary, in order to organise the Conference.

[4] See Nurkse (1944).
[5] Cfr. Skidelsky (1998).
[6] See Hawtrey (1919; p. 136).

In March 1922 the Chapman Commission published a report in which the main points of discussion for the Conference were laid out. A crucial role was given to the reorganisation of the international monetary system and the cooperation among all the central banks.

For the Conference, which began on April 10, 1922, many different Commissions were created. The most important Commission was the Financial Commission, presided by Sir Robert Horne, the British Chancellor of the Exchequer. This Commission, in turn, was divided into three sub-commissions which regarded *credits*, *exchanges, and currency*.

A plan for the reform of the international monetary system, laid out by Hawtrey, was presented to the Financial Commission. This plan was translated, by the Commission, into the twelve Resolutions, which were then approved by the entire assembly in the Genoa Conference. It wouldn't be an exaggeration to state that these Resolutions were at the base of the international monetary system of the Twenties.

In this regard, one cannot not agree with Rothbard (1998; p. 133), when he states that: "*Many historians have written off the Genoa Conference as a "failure" and dismiss its influence on the international money of the Twentieth century … But the critical point is that Genoa triumphed anyway …"*.

The Genoa Conference Resolutions picked up the recommendations of the Brussels Conference of 1920: the final objective – to stabilize the European countries by restoring the *gold standard* – was reiterated. The governments would have had to, therefore, adopt deflationary policies and bring their exchange rates back to the pre-war gold standard.

The road to this final objective implied a marked reinforcement of the central banks. In fact, in the countries where this institution did not yet exist, it had to be founded. This implied the definitive refusal of any form of *free banking* and the internal acceptance of the principle of a monopoly on monetary production.

So that the stabilizing process could be efficient, the Central Banks had to be shielded from political pressure. Resolution No. 2 states: "*Banks, and especially banks of issue, should be free from political pressure, and should be conducted solely on lines of prudent finance. In countries where there is no central bank of issue, one should be established."*.

During the Twenties, the Governor of the Bank of England, Norman, and other senior officials like Niemeyer and Strakosch, favoured in any which way the creation of central banks with a monopoly on issuing money and autonomous from the government in all the countries that had received assistance and advice from the Financial Commission of the League of Nations.

This happened in (1923), Hungary (1924), Danzica (1924), Bulgaria (1926), Greece (1927) and Estonia (1926-27).

Why was there this participation, which can be seen in Resolution No. 2, to the monopolistic production of currency? It remains a fact that to founding of central banks and with that the monopolistic production of currency would have allowed a more efficient management of monetary policy, and therefore, the adoption of the adjustment measures requires by the permanence of the *gold exchange standard* as well as making it easier to control the quality of the currency choices of the various countries[7].

The emphasis of Resolution 2 on the autonomy of central banks hid worries about protecting the automatic function of the *gold standard* therefore avoiding that the currency be conditioned by political pressure in a period undergoing intense socio-political changes, like the spread of the universal franchise. In referring to the above, Strakosch said: "*The trend of political evolution the world over … is in a direction which makes it less safe to entrust governments with the management of currencies than it may have been in the pre-war days.*"[8].

Beyond the necessity of safeguards the functioning of the *gold exchange standard*, the insistence with which Norman, and in part, Strong, sponsored the constitution of autonomous central banks derived by the intention of creating, through these institutions, a communication channel and influence for the British and American Authorities. As we will see further on, the constitution of an international network of central banks was seen by Great Britain and the United States as an instrument to expand their political influence. Referring to the diffusion of the central banks in the British Dominions, Plumptre (1940; p. 193) wrote: "*The desire in England for a chain of Empire central banks was a latter day expression of financial imperialism … the essential purpose was the same: the maintenance and extension of London's influence and control.*".

It must be noted that, in the Twenties, the autonomy of the central banks was never considered, as it has been in the last decades of the 20th century, an institutional mechanism to create trust in the currency, but rather, as an instrument to make reintegration into the *gold exchange standard* easier or to favour the time it lasted[9].

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[7] The different argument used in the Twenties to concentrate the production of money to the central banks are discussed in Helleiner (2003; p. 149-150).

[8] Henry Strakosch to Basil Blackett, Oct. 17, 1925, T176/25B, p.3, PRO, citated in Helleiner (2003; p. 148).

[9] Giannini (2004; p. 175) writes: "*In fact, in the interested countries, the creation of autonomous central banks was often considered an external imposition, which had to be tolerated for financial reasons, rather than an desirable institutional change … the selfsame League of Nations contributed to giving the impression that the autonomy principle was, in the best of cases, a subsidiary instrument and, in the worst, a form of political coercion.*".

For the same League of Nations the central Banks' autonomy was a means of control over the assisted Countries' monetary policy, rather than an institutional mechanism permanently aimed at safeguarding price stability.

Through Resolutions 9 and 11 of the Genoa Conference the nature and functioning of the *gold exchange standard* were finally set out. This system would have been prevailing in the Twenties and it would have been broken up with the Great Depression.

In particular, in Resolution 9 the ways in which the demand for gold could be economized were set out. This aim should have been achieved by an international convention, which "*should embody some means of economizing the use of gold maintaining reserves in the form of foreign balance, such, for example, as the gold exchange standard or an international clearing system.*".

Resolution 11 established the adoption of the *gold exchange standard*: "*The convention will thus be based on a gold exchange standard.*", as well as its functioning and its pyramidal nature. In fact: "*A participating country, in addition to any gold reserve held at home, may maintain in any other participating country reserves of approved assets in the form of bank balances, bills, short-term Securities, or other suitable liquid assets*". However, "*when progress permits, certain of the participating countries will establish a free market in gold and thus become gold centers*".

The two proposals from Resolution 11 cited above illustrate the fact that the *gold exchange standard* is a pyramidal system with two types of reserves: gold and the foreign exchange.

Undoubtedly, the *gold exchange standard* by making it possible to substitute gold with foreign exchange, brought on a reduction in the demand for gold. At the same time, the prevalence of the principle that the reserves, be they gold or foreign exchange, had to cover at least 40 percent of the banknotes emitted brought on an increase in the elasticity of the money supply: it could, therefore, change the reserve multiplier.

These aspects, and in particular the last, have induced some scholars to consider the *gold exchange standard* as an intrinsically inflationary system. "*The gold exchange standard proposed by the British at Genoa contained few built-in protections against the ills it was designed to cure: speculation, inflativo, unemployment, and runs on gold. It not only tended to be inflationary, but it also provoked Anglo-Americans rivalries and kept pressure on the weaken sterling.*"[10].

In reality, the *gold exchange standard,* given the fact that it implied the creation of a monetary pyramid, it could set on inflationary or deflationary mechanisms depending on the behaviour of the central banks.

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[10] Cfr. Fink (1984).

Participants of Genoa Conference were conscious that inflationary or deflationary situations could have been avoided if countries cooperated. According to Resolution No. 9 of the Conference Central banks had to "*centralise and coordinate the demand for gold, and so* avoid *those wide fluctuations in the purchasing power of gold which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves"*.

Resolutions 3 and 9 recalled central banks to constantly co-operate in order to consent the function and conservation of the *gold exchange standard*.

This need for a tight cooperation among the central banks is restated in Resolution No. 12, where the Bank of England is given the charge to organise a meeting of the central banks as soon as possible in order to "*examine the proposals approved at the Conference so that the said banks can recommend the adoption of an international monetary convention to their governments*".

This meeting was originally set for June 1922, but was postponed many times for many different reasons. In 1923 interest in this had completely disappeared.

Even if the proposed convention was never signed, the influence of the Genoa Resolutions was indeed considerable. Firstly, the Twenties saw the establishment of several new central banks rigorously autonomous from the governments. Secondly, the way in which the Financial Committee of the League of Nations supported the stabilization of some countries was profoundly influenced by Genoa Resolutions. Thirdly, after the restoration of pound convertibility, in 1925, most of the countries restored their currency convertibility. Quarterly, after the removal of currency controls, the international mobility of capitals started up again, coming back to significant levels by the second half of the Twenties.

This scenario which promised a return to the happy pre-war situation, lasted only a few years. With time, the cooperation among the central banks, as we will see below, became less, leaving space for forms of *international struggle for gold* which accentuated the unbalanced situations. At the beginning of the Thirties, at the onset of the Great Depression, the monetary system defined at the Genoa Conference was broken up.

2. The main explanations of the failure of the *gold exchange standard*

The idea that the Genoa Conference was a failure can be traced back to the fact that its main outcome – the gold exchange standard – was a failure. In addition to this is the widespread opinion that the *gold exchange standard* was the beginning of the Great Depression. In reality, already some contemporary explanations insist on the fact that the *gold exchange standard* had favoured a

tendency to reduce prices worldwide and lead to the uneven distribution of the gold reserves in various countries.

In addition, in the Macmillan[11] Report, with the facts that in 1931 60 percent of the world's gold reserves was held by France and the United States, a negative judgement was given to the behaviour of the countries with excess reserves. In particular, this Report states that France and the United States, in exchange of the flow of capital coming in from abroad, instead of expanding the internal currency and, therefore, the demand for importation, ended up sterilising the additional monetary base. Due to this behaviour, a substantial malfunction of the *gold exchange standard* occurred, which ended up incentivating the adoption of deflationary monetary policies.

It is not surprising, therefore, that many English commentators, including Keynes[12], especially after Great Britain left the *gold exchange standard* in 1931, blamed France and the United States for the destruction of the monetary and financial architecture that was built with a lot of effort in the first half of the Twenties.

After the Second World War, for a long time, the explanations for the Great Depression gave marginal importance to the international monetary regime, concentrating their attention on internal causes like the monetary policy of the Fed[13] and the fall of the American internal demand[14].

In the last 15-20 years, the debate on the Great Depression has taken a new turn, in which a crucial role is given to the international monetary system. There are two lines of thought regarding the hypothesis whether the *gold exchange standard* was the very cause of the Great Depression.

The first of these tends to re-propose the thesis, supported by monetary scholars of the time, according to which the elevated worldwide inflation, a consequence of the financing if the war efforts, brought on a proportional decrease (at the pre-war exchange rates) of the real value of the gold reserves.

In these conditions, according to scholars like Rist, von Mises and Cassel, a return to the *gold standard* would have inevitably brought about deflation[15]. Many times Mundell (2000) underlined that the point of view and the predictions of these scholars were correct: the deflation, preceded by

[11] Committee on Finance and Industry (1931). Report [Macmillan Report], London, His Majesty's Stationery Office.
[12] Keynes J.M. (1931), *A Gold Conference*, in "The New Statesman and Nation", 12 September.
[13] See, in particular Friedman and Schwartz (1963)
[14] See, in particular, Temin (1976).
[15] The situation was so synthesized by Cassel (1925): "*The gold standard, of course, cannot secure a greater stability in the general level of prices of a country than the value of gold itself possesses. Inasmuch as the stability of the general level of prices is desirable, our work for a restoration of the gold standard must be supplemented by endeavors to keep the value of gold as constant as possible …with the actual state of gold production it can be taken for certain that after a comparatively short time, perhaps within a decade, the present superabundance of gold will be followed, as a consequence of increasing demand, by a marked scarcity of this precious metal tending to cause a fall of prices …*".

the fall in prices for agricultural products and basic necessities at the end of the Twenties and by the Wall Street crash in 1929, was in full swing by 1930.

This lasted for a large part of the Thirties and was none other than the mirror image of the significant increase in prices in the pre-war period, which was not much discussed in the Twenties.

This brought on the conclusion that after WWI the return to the *gold standard* would have been compatible with the stability of prices, only if the price of gold had been increased. Mundell (2000; p. 232) writes: "*Had the price of gold been raised in the late 1920's, or, alternatively, had the major central banks pursued policies of price stability instead of adhering to the gold standard, there would have been no Great Depression, no Nazi revolution and no World War II."*[16].

The line of thought just described, in sum, insists on the fact that in the industrialised countries the quantity of money in terms of gold was inferior in the Twenties to before WWI.

However, as Eichengreen has shown in several contributions, the argument that the Twenties were affected by a shortage of liquidity can be disputed[17].

The problem of the scarcity of gold was affronted through mechanisms that tended to reduce the demand for it. In the first place, gold was withdrawn from circulation as a method of exchange among private individuals[18]. In the second place, the liquidity significantly increased, in absolute terms, also thanks to the monetary pyramid of the *gold exchange standard*.

The second line of thought according to which the Great Depression is rooted in the *gold exchange standard* is represented by those contributions which insist on the importance of the structural changes which intervened after WWI[19]. These changes concerned above all social and political aspects, like the spread of universal franchise or the strengthening of unions.

From the social point of view, it must be noted that after WWI, in almost all of the industrialised countries, powerful trade unions were being formed, and this contributed to the harshness in the working world and in particular the inelasticity towards low salaries.

Under the political aspect it is crucial to point out that after WWI, in almost all of the industrialised countries, the universal franchise began to take hold. Allowing the poorer classes to vote determined the establishment of parties which defended the workers' interests.

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[16] Mundell and others theorise that what Cassel highlighted was not given weight (1928; p. 24): "*The big problem that we have to face is how to affront the scarce growth of gold which threatens the world both through the increase of the demand and the decrease of the supply. We have to resolve this problem by systematically limiting the demand for gold."*. An analogous position is found in Rueff (1971) and Mundell (1989). For a detailed exposition of this thesis see also Johnson (1997).

[17] See mainly Eichengreen (1994; pp. 148-55).

[18] See Eichengreen (2000; p. 233).

[19] This line of research started with the works by Temin (1989) and Eichengreen (1992a).

In this context, the observance of *gold standard* rules became problematic. As well known, in the *gold exchange standard,* as in the classic *gold standard,* the adjustment of any unbalance in the foreign accounts should have weighed mainly on the poorer classes[20]. In fact an outflow of gold or precious currency could only be contrasted with an increase in internal interest. Inevitably there was a decrease in the *output* and an increase in unemployment.

In the socio-political context which was created after WWI, given the workers' increased political pressure capacity, it was harder to take deflationary measures to re-balance the foreign accounts, in short, it was harder to maintain a fixed exchange rate.

Lastly, as evidenced by Obstfeld and Taylor (1998; 2004), after WWI the terms of the so-called monetary trilemma changed, according to which it was not possible for one country to concomitantly have a fixed exchange rate, perfect international mobility of capital, and autonomous monetary policy. The connection between the exchange rate and the trilemma is adequately illustrated in Table 1.

[insert here Table 1]

In the period between the two wars, the members of the trilemma began to collide[21]. At the end, this is reason for the failure of the *gold exchange standard*[22]. In fact, the increasing attention towards internal objective, like growth and employment, and the consequent need to conserve monetary sovereignty, also to pursuing a great power policy, inevitably conflicted with the fundamental presumptions of any form of *gold standard*, meaning the fixed par of gold and the international movement of capital.

The impossibility of respecting the monetary trilemma invalidated both the central banks' credibility, or rather their promise to maintain gold par, and their ability to cooperate, or rather to put the stability of the *gold exchange standard* ahead of their internal objectives and of great power objectives.

As Eichengreen (1992a, 1992b) notes, the classic *gold standard* was supported by a strict combination of credibility and cooperation. Credibility was mainly connected to an unwritten rule that for McKinnon (1993) went like this, more or less: "*if exceptional circumstances force the temporary suspension of the conversion, the authorities must promise to restore it at its traditional conditions as soon as this is possible, and if necessary, by imposing a deflation of the national economy.*". This rule implied that the internal monetary policy and therefore the governments in the

[20] On this aspect see Bayoumi and Eichengreen (1996).
[21] See Eichengreen (1996) and Obstfeld and Taylor (1998; 2004).
[22] See Temin (1989) and James (2001).

long run had no chance to influence the level of prices. Cooperation among the central banks was largely supported by Great Britain's hegemony role in the world economy. This role made it so that the pound acted as international currency; and this allowed the Bank of England to relevantly influence the flow of capital and gold through simple variation of the discount rate[23]

We have already seen how the large quantity of monetary financing of WWI had determined, in a large part of the countries, between 1914 and 1920, significant increases in prices. The resumption of the *gold standard* at the same pre-war exchange rates would have brought on, in most cases, high deflation. This would have been very difficult, given the socio-political changes illustrated above, and the consequent re-orientation of economic policy in linked to these changes.

It is incredible to note how between the beginning of the Twenties and the beginning of the Thirties such a deep change in scholars and public opinion occurred regarding the main objectives of economic policy. While in the early Twenties the main goal was to reinstate gold convertibility of national currencies, in the late Twenties, domestic objectives like economic growth and employment became increasingly important. This change of opinion implied that people began to think that governments should pursue policies which contrasted with a good working of the *gold exchange standard*.

Due to this, the belief that the currencies could be anchored to the *gold exchange standard* weakened. The causes, which weakened the credibility of each individual country's monetary policy, tended, however, to hamper the cooperation among central banks. These were mainly oriented towards domestic objectives.

One must wonder, therefore, if the failure of the *gold exchange standard* is due above all to the uncooperative behaviour of central banks[24]. In this context, considerable responsibility for the failure of the *gold exchange standard* is inevitably given to the Bank of France and the Federal Reserve, which during the Twenties stored large part of world gold reserves.

These banks' lack of cooperation, which had already been noted by many contemporaries, and from the same Macmillan Report, is currently underlined by many different scholars[25].

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[23] As Eichengreen (1996; p. 143) notes: "*An increase in the discount exchange on the part of the Bank of England had at least three main effects. This, by inducing and increase in interest on bank loans, reflected on internal demands. In second place, and increase in the British discount rate determined an adjustment towards high-end interest on foreign activity which substitutes the British ones. In third place, the increate in interest rates favoured the flow of foreign capital.*

[24]Cf. in particular Eichengreen (1992a).

[25] Cf. among others Mourè (2002).

Basing ourselves on these interpretations, it would be useful to proceed with on examination of the cooperative behaviour of the central banks in the interwar period. Was the level of central bank cooperation really that unsatisfactory?

3. Why did the cooperation among Central Banks fail?

In the classic gold standard, cooperation among the central banks was limited. Any unbalance in payments or on the exchange parity were automatically corrected through economic adjustments. The coordinating role was played by Great Britain which manipulated the adjustment processes, in way of avoiding unsustainable unbalances. The most important forms of bilateral cooperation took the form of lending between central banks in order to face critical situations, like a substantial loss of gold reserves. The role of lender of last resort was played by the French and German central banks[26].

The type of cooperation among central banks required by the gold exchange standard was very different, because of the pyramidal system of money creation and the bad distribution of reserves (Table 2).

[insert Table 2]

In regards to the main implications of Resolution 3 of the Genoa Conference, Hawtrey, in1927, wrote[27]: "*The scheme [of rebuilding the monetary system] at the co-operation of the Central Bank of Issue of the principal countries in the regulation of credit with a view to preventing undue fluctuations in the purchasing power of gold*".

Basically, the value of gold wasn't supposed to represent an independent variable which every single currency based itself on, but it was supposed to be a dependent variable that based itself on the value of each national currency. In order to make this happen, control over worldwide gold demand had to be held. It was widely believed that this control could have been achieved only through strong cooperation among central banks[28].

Many historians believe that the lack of formal cooperative institutions among the central banks could have contributed to the failure of the *gold exchange standard*. At first sight most of the

[26] See Broz (2000; p. 210-219).
[27] Cf. Hawtrey (1927; p. 93).
[28] Hawtrey (1927; p. 94) writes: "*If the Central Banks co-operate together, they can control these monetary demands, and the value of gold will conform to the value of the currency units instead of the value of the currency units conforming to the value of gold".*

Twenties represented a period of intense cooperation among the central banks, as can be seen in Table 3.

[insert here Table 3]

However, a part from these quantitative indicators, it is important to consider in which occasions central banks cooperated and what were the real reasons of this cooperation.

A premise for the cooperation of the central banks was their autonomy from their governments. This connection was illustrated by Norman: … *a central bank should acquire thanks to external assistance … or internal recognition ….a certain independence within its State …. This is the only way to have the necessary conditions for real cooperation* ...".

The autonomy and cooperation of the central banks were for the British two preconditions for a good working of the international monetary system.

De Cecco (1995) observed that the construction of a network of autonomous central banks which had to cooperate was a repeated point on the agenda at the Brussels Conference and the Genoa Conference, wanted, as already seen, mainly by the British government.

The objective of the British Authorities was not only to give London back the role of main international financial market, but also to contribute to the reconstruction of Germany and Austria, so the English exports could be brought back to pre-war levels and to limit French political influence.

This objective was well known to the governor of the Bank of France. In his memoirs he writes[29]: "…Norman is above all deeply English, and this is good. He is an imperialist, hoping to give his country, which he loves, world dominion. All his monetary handling have as an objective to make the pound the instrument of universal exchange" In another part Moreau defines Norman's idea of creating a network of independent central banks, which could not be influenced by the governments and laid down the conditions for financial diplomacy, a "utopian" choice, but presumable, "Machiavellian"[30].

The principle of autonomy of the central banks established in the Resolutions of the Genoa Conference was inserted in all the stabilising plans supported by the Society of Nations, as an unavoidable condition to obtain international financing. This contributed to the spread of the foundations of autonomous central banks.

[29] Moreau (1986; pp.54-55).
[30] Cf. Moreau (1986; p. 136).

The enthusiasm with which Norman and the British insisted on the autonomy of the central banks from the governments was only partly shared by Strong. He, in fact, criticised the Resolutions approved by the Genoa Conference regarding the cooperation among central banks. The President of the Federal Reserve Bank of New York was especially worried the United States would be asked to give up their war credits and to practise an inflationary monetary policy in order to favour a significant appreciation of the American dollar. In a letter to Norman, he wrote: "…*credit regulation in order to maintain gold buying power or par among the currencies implies that the nations which finds itself under par should … contract their credit and currency; or rather, in the current case, the United States whose currency is prized in the whole world, should … expand credit and currency to the point where the value of our division is diminished …*"[31].

Strong knew, having had experience during the war, that the autonomy of a central bank from the government and the parliament was limited. In a letter to Norman dated February 1922 he stated: "*We cannot allow ourselves, in practice and politically, to go down a road that ignores administrative politics, and putting ourselves in constant conflict with it and putting ourselves in a position of impotence against the Congress which could change, in a deep and vital way, the principle on which the Federal Reserve System rests*"[32]. In fact, Strong never took up initiatives which were not shared by the Treasury and by the American Department of State[33].

Strong was never a big enthusiast for the gold exchange standard, also because of the great amount of gold reserves held by the Fed. He believed this system a transitory phase and that there would be a return to the classic gold standard.

Keeping in this perspective, Strong conceived the cooperation of the central banks as a practical instrument to resolve occasional critical situations that would have come up from time to time.

He was always contrary, therefore, to giving an official institutional framework to the cooperation among central banks.

This position is well represented by Artlmer Salter, who was, at the time the head of the Economic office of the Society of Nations: "Governor Strong has stated that he has always been opposed, for various reasons, to any type of official conference or meeting among the central banks of the world, as was outlined in Genoa … He is not at all convinced that in a full reunion or an organisation

[31] Letter from Strong to Norman, 14 July 1922, pp. 5-6, cited by Clarke (1967; p. 37).
[32] Exerpt cited in Clarke (1967; p. 30).
[33] Cf. Chandler (1958).

created by the central banks, the policies of each institute will not be dictated by their respective governments rather than only by strictly monetary concerns."[34]

Notwithstanding these different points of view, Norman and Strong lead the cooperation among the central banks for a large part of the Twenties.

In those years there were many instances of cooperation. These interventions never put Central Banks in conflict with their domestic interests. Actually, the cooperation among the central banks revealed itself to be particularly efficient in the stabilising processes that intervened in the first half of the Twenties. The case of Germany is emblematic, and was made possible thanks to the acceptance on behalf of France of a re-scheduling of Reparations and to American loans to Germany. However, as both Chandler and Eichengreen observed, 1927 represented a *turning point* in the cooperation among the central banks.

In that year the Banks of France's decision to convert a large part of sterling into gold took place. This decision forced the British government to choose between leaving the gold exchange standard or adopting restrictive monetary measures with inevitable negative repercussions on output and employment.

This episode is emblematic of what Eichengreen (1992) has defined an "*international struggle for gold"*.

This *struggle* had its roots into pursuing not only domestic objectives, like output growth, but also goals of foreign policy.

Here it must be remembered that the First World War had left, in Europe, a situation hallmarked by a balance of powers. None of European countries could take on a dominant role. In this context each great power wanted to gain ground in disfavor of other ones.

In this context we can better explain the French request to convert sterling into gold. The intent of France was evidently to weaken a competing power such as Great Britain. In particular, the French tried to stem the British influence in Yugoslavia[35]. In fact, this power competition between France and Great Britain is well highlighted in some considerations by governor Moreau in his *Memories*. On February 6, 1928, he wrote in his diary: "*I had an important conversation with Mr. Poincarè over the issue of the Bank of England's Imperialism. [it has built] the foundation for a veritable financial domination of Europe. The Financial Committee in Geneva has been an instrument of this policy … England has thus managed to install itself completely in Austria, Hungary, Belgium,*

[34] Cited in Clarke (1967; p.40).
[35] See Kirshner (1995; p.183).

Norway and Italy. It will implant itself next in Greece and Portugal … Should it be allowed to go forward? … our political influence in places where our interests are at stake will be compromised seriously."[36].

In the presence of a multipolar equilibrium, co-operation for a public good, like a well-working international monetary system, was rather difficult.

In his "Theory of International Relations" Waltz (1987; p. 105-106) writes: "*The condition of insecurity – at the least, the uncertainty of each about the other's future intentions and actions – works against their cooperation … A State worries about a division of possible gains that may favor other more than itself."*.

In a multipolar context, co-operation is difficult not only because the expected gains from cooperation can strengthen opposing powers, but also because co-operation can make a State dependent on others and thus can contribute to weakening it compared with competing countries. This aspect is underlined by Waltz when he claims that "… *a State also worries if it becomes dependent on others"* through cooperation and therefore chooses to limit its cooperation with other states. "*States do not willingly place themselves in situations of increased dependence. In a selfhelp system, considerations of security subordinate economic gain to political interests."*[37].

This was, definitively, Strong's worry remembered previously. The role of international relations finds evidence in Table 4.

[insert here Table 4]

From this Table it can be seen that the countries with a higher level of reserves tended to accumulate ever more. This behavior was oriented at consolidating their international security and at reducing their potential dependence on other countries.

The "*international struggle for gold"* reached a particularly marked intensity after Great Britain's exit from the *gold exchange standard*, in 1931.

The need to safeguard their international security and independence caused most countries to drastically reduce their reserves of foreign currency in favor of gold (Table 5).

Cooperation among the central banks seemed definitively come to an end with the death of Strong in 1928. " … *The experience of the cooperation among central bank starting from the second half of 1928 must be considered a failure."*[38] Norman feared that a new period of financial instability

[36] See Moreau (1986).
[37] Waltz (1979; p.107).
[38] See Clarke (1967; p. 215).

would open up due to the current circumstances. He tried to institutionalise the cooperation among the central banks with the founding of the Bank for International Settlements (BIS) in 1931. However, the possibilities of cooperation among countries, *in primis* among European countries, were undermined by objective factors.

Different economists have traced the failure of the international monetary cooperation back to the mistakes of some central banks[39]. The considerations developed previously bring us to believe that the very existence of a multipolar equilibrium in the international scenario made it difficult for countries to cooperate and therefore to guarantee the working of the *gold exchange standard*.

4. Was an alternative to the *gold exchange standard* possible?

Above we saw how, since the end of the Twenties, the cooperation among the central banks was very fragile and how this brought to the failure of the *gold exchange standard.*

Analysing the causes of the Great Depression, Kindleberger (1973) put forward the "hegemonic stability" hypothesis. According to this hypothesis, the implosion of the *gold exchange standard* and the following period of disorder in the international monetary system at the beginning of the Great Depression should be traced back to the lack of a leading country which took on its responsibility of "*maintaining a relatively open market for distress goods, providing counter-cyclical long-term lending, discounting in crisis*". According to Kindleberger in the period between the two wars, Great Britain, a declining power, was no longer able to play the role of leading country, which it had held in the classic *gold standard.* Oppositely, "…in 1918, world leadership was offered, by almost universal consent, to the United States …*[and] was declined.*".

Definitively, the failure of the *gold exchange standard* could be traced back to the United States' decision not to take on the responsibility of leading country in the international monetary system.

To understand if this hypothesis can be accepted, it is important to recall some theoretical concepts on how we use one currency instead of another as an international means of exchange.

In a system based on commodity-currency, like the *gold standard,* a currency emerges as a hegemon-money when it is widely accepted. The choice of a means of exchange at an international level fundamentally is determined not by some objective feature but rather a "system of beliefs" by which the citizens of different countries end up holding an asset which they expect will be accepted by an adequate number of their counterparts. This approach which dates back to Menger (1892),

[39] For example, Mourè (??) noted the mistakes made by the Bank of France, while other economists, like Clarke (1967), insisted on the inadequate American monetary policy.

and in recent years has been consolidated in the "search-theoretic models" with the initial contribution of Kyotaki and Wright (1989) and then with others, assumes that the degree of acceptability of a given asset as currency is to a great extent given exogeneously[40]. In these models the reason is clarified for which amount of international trade is important in order that a currency can assert itself as an international currency[41].

The theory advanced in the "search-theoretic models" is plausible if a system such as the *gold standard* is referred to, in which all currencies have the same *brand.* It loses explanational value when currencies which have a fiduciary content are considered,

In the *gold exchange standard,* since each currency could be covered by gold differently, there were currencies of differing qualities, or rather different *brands*. In sum, the *brand name* of a currency derived from the amount of gold reserves of the country.

A situation like this is very similar to a system of competitive money production. In a seminal paper Klein (1974) showed that in a system of this kind, each monetary producer is interested in defending his own *brand name* in order to distinguish himself from the other, less trustworthy, suppliers. Obviously the production costs of the *brand name* varies depending on the currency. In the case of commodity-money this production cost is practically null. Convertible money requires *brand name* production costs correlated to the trustworthiness of the issuer. In this context, an equilibrium in which many currencies co-exist can exist, without over-issue.

Klein underlines that this equilibrium is based on two important hypotheses[42]. The first hypothesis is that *brand names* of moneys were perfectly distinguishable, in other words there is an adequate juridical order which will protect property rights. In the case where this order is missing, the "consumers" would protect themselves by using payment methods where over-issuing is impossible for physical reasons, like the money-product. At an international level, a situation of this kind can be seen in what happened at the beginning of the Thirties, where, given the lack of property rights safeguards, currency emitted by each country was once again covered mainly by gold. Conversely a monetary system, as that of Bretton Woods, which features rules and regulations, tends to create trust in a certain technology of payment.

The second supposition at the base of the monetary equilibrium pointed out by Klein is that the production of trust by the issuer is not subject to economies of scale.

[40] To see this literature cfr. Flandreau and Jobst (2005).
[41] Cfr. on this aspect Matsuyama *et al.* (1993) and Trejos and Wright (1996).
[42] A discussion of these hypothesis can be found in Giannini (2001) and Giannini (2004).

Nevertheless, it is plausible that the production of trust is subject to economies of scale. This allows an explanation of the role carried out by the State in the spreading of *fiat* money[43].

On an international level, a country with political hegemony tends to carry out functions parallel to the ones which within a country the State carries out, with respect to the private sector. In the presence of a hegemonic country, forms of monetary competition cease between the other countries. In this context, co-operation to help the international monetary system work well, becomes possible.

In payment systems based on currency forms with fiduciary content, political hegemony is a prerequisite of monetary dominance. Before anything else, this makes a hegemon-money emerge. Following this the use of complementary functions by the leading country, such as creation of liquidity, lending of last resort, and intervention for macroeconomic stabilization become possible.

In the light of the above, mismanagement for interwar liquidity can no longer be ascribable to France and the United States[44] mistaken reserves management, but to a situation which in the absence of a hegemonic country inevitably brought about an *international struggle for gold.*

In parallel, Kindleberger's theory according to which the United States would be responsible for the failure of the *gold exchange standard*, not having accepted to perform the role of monetary leaders, seems vulnerable. In fact, in the period between the wars the United States was an important power but was not dominant if Latin America is excluded. Referring to this period Lake (2000; p. 236) observes that "*The inability of state to organize collectively to deter German expansionism and manage the International economy in that system suggests that states would have similar difficulty in creating institutions, collaborating on the common defense, and liberalizing trade in other wholly anarchic worlds.".*

If one country's money is acclaimed as hegemonic money, there will be a situation of "joint production" of a public good. In fact, the country issuing the leading currency, on one hand produces public goods, or rather a method of payment which is widely accepted and reduces transaction costs, on the other hand, it enjoys the right to be international master. The latter could be considered as the amount deposited by non-residents for the use of the trust in the State which issued the leading currency.

Describing how the pound took on the role of leading currency in the *gold standard*, Broz (2000) shows how this process was due to the need of some interested groups (financial people from the *city*, *landlords, bondholders and international-competitive industry)* to expand their business. By

[43] On the role of state in money see Friedman and Schwartz (1986).
[44] Cfr. Eichengreen (2000).

following higher profit margins, these groups made it so that the pound was a safe value reserve: "*England thus provided the world with a currency eminently suitable for International purposes*"[45] All considered, in that period Great Britain found itself in a leading economic position: given its importance in foreign trade the pound was accepted as international currency.

Differently from the *gold standard* is the Bretton Woods system, based not on a commodity money, but on a largely fiat money. The latter has been created with the definition of rules and the foundation of international organisations. This was due to different factors. Among these factors is the different kind of hegemony exercised by Great Britain and by the United States, respectively in the *gold standard* and the Bretton Woods system.

In the 1800s and up to the end of WWI, Great Britain had an economic hegemony. In fact it used its dominating position in international trade[46] in order to favour in other countries interest groups that would be favourable to free-trade, free movement of productive factors, in short, in its interests[47].

On the other hand, the United States never dominated international trade as Great Britain did. they found themselves, after the second world war, exerting undisputed political hegemony.

In order to consolidate this dominance, the United States took advantage of the size of their internal market, conceding to certain countries access to it, contracting the conditions. The use of a political hegemony resorting to positive and negative awards with respect to others countries implies the use of international rules and regulations. This institutions are the prerequisite in order to establish a monetary system based on *fiat* money.

We can thus give a classification of the monetary systems prevailing in the last 130 and more years).

[insert here Table 5]

The institutional framework of the Bretton Woods system has to do with the fact that the production of trust in a money with few physical constraints also implies the arrangement of rules and institutions which safeguard property rights and ensure the system's functioning and endurance in time.

It is strange to notice that the pyramidal structure of the Bretton Woods system reflects that of the *gold exchange standard* and like some institutions which appeared in the 1920s, were then to be significant components of the second post war monetary system.

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[45] Cfr. Broz (2000; p. 209).

[46] It is important to remember that in 1870 the quota of foreign commerce in Great Britain was 24 percent and that, even though it decreased over time, this country was open by 50 percent.

[47] See Lake (2000; p. 133-134).

5 Coordination and International Institutions

We have seen in the previous paragraphs that the establishment of an international currency may be both the outcome of a spontaneous process and of talks through which a country politically dominant defines, also with other countries, the institutional frame within which it will carry on its leadership.

During the twenties there were attempts to bring monetary cooperation back to an institutional setting. These attempts, even if they had a limited success, were really innovative, and would lately influence the definition of the international monetary system after the Second World War.

As Pauli points out (1997), There is a feeling that international institutions, such as the IMF and the World Bank, founded with the Bretton Woods agreements, are the outcome of a totally new vision of international relations come into being after the Second World War (56).

But it isn't like that!

In the Twenties, on the one hand, even with poor results, it was realized that the different countries had a crucial role in establishing and strengthen the confidence in a currency; on the other hand, new institutions were born which anticipate some of the international institutions come into being with the Bretton Woods system[48].

We have already said that the classic gold standard had been born spontaneously; while the international meetings held in the twenties, from Brussels',1920, to Genoa's, 1922, to Geneva's, 1927, involve the idea that the different countries have a crucial role in keeping under control the international monetary system. This role, on the other hand, comes mostly from the evolution of the international system of payments, in particular from the fact that real money is in the course of time replaced by types of money whose links with gold are more and more tenuous. This process of slackening of the ties between the amount of the national currency and the available gold reserves is gradual. At the beginning, in the gold exchange standard it depends on the possibility of backing the issues of money with foreign exchange instead of with gold. Later on, in the thirties, more and more controls on the exchange market are put into being.

These measures, by allowing to blend internal objectives (growth of the output, employment, etc) with the possibility of keeping the gold parity, inevitably enhance the role of the government in the ruling of monetary policies.

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[48] Pauli (1997; page 44) writes: *"Our textbooks in international relations and international economics leave the impression that the international organizations established after World War II were entirely new departures in history."*.

All international conferences ended by admitting that, given the role assumed by the government on the regulation and control of the amount of money, international monetary problems couldn't be faced but through multilateral agreements and the definition of rules and institutions.

Thus, with the Conferences of the Twenties, started a type of negotiation of which Bretton Woods represents the most successful outcome.

From the recognition that politics has a role in the administration of international monetary relations comes that besides attributing a crucial role to multilateral negotiations, organizations of international cooperation were instituted. Typical is the case of the Financial Department of the league of Nations.

The role of the League in the economic field started with the calling of Brussels Conference of 1920. As we have seen, Genoa Conference itself, even if it wasn't the League that called it, was coordinated by its Secretariat.

The decisions of Genoa Conference were at the basis of the interventions of the League of Nations in the financial crises of the twenties. Then, five European countries (Austria, Hungary, Greece, Bulgaria and Danzica) were backed by the League to bring to success their programmes of stabilization[49].

The contribution of this institution was crucial in making these programmes reliable[50].

In fact the League obliged the countries to observe the basic principles put forward at the Genoa Conference, in particular those referring to public accounts and monetary stability. As for taxation, the countries were obliged to pass measures which produced a growth of income and a diminution of public expenditure. A monetary discipline was pursued, besides through the riequilibration of the public accounts, through the setting up of central banks which were independent from the government. In most cases the measures of stabilization were accompanied by reforms of the exchange system, more exactly, by implementing a gold exchange standard.

To control that these measures of stabilization were put into practice, the League would resort to various instruments. Among these, a Commissioner of the League, and a Counsellor appointed by the League in the central bank board of the assisted country were crucial. While the Commissioner ha the task to check how the foreign loans were used and on the fact that the government was solvent, or that it adopted measures which were compatible with this status, the Counsellor at the

[49] On this feature see Santaella (1993).
[50] For a report of the processes of stabilization in these countries see Eichengreen (1992).

central bank had to ascertain that the amount of money wouldn't be enlarged in an unjustified measure.

The control of the League on the programmes of stabilization of the countries under assistance was a strict one. The reliability of these programmes increased considerably: they were successful.

The role held by the League of Nations in the handling of some crises in the twenties reminds us of what, on a larger scale, was its action in the system of Bretton Woods, and even after the latter's dissolution, by the International Monetary Fund[51].

Nevertheless, the action of the League remained circumscribed to countries of minor size. This was largely due to the fact that this institution had no resources of its own and so its support to helped countries was based on loans granted by syndicates of private financial institutions.

The strong ties often existing between these institutions and the central banks made the financial aid to countries in difficulties subject to reasons of foreign policy and, as a consequence, uncertain.

In the beginning of the thirties they tried to give an international frame also to the coordination of central banks, up to that moment based on personal intercourse between central bankers.

In fact, in 1931 was founded the Bank of International Settlements, which had two main functions:

1. Stop the reparation problem through a "neutral" solution;
2. Start cooperation among the banks in order to make the capital market less volatile. In fact in the Twenties, differently from the pre-war period, the flow of capital mainly regarded the short term component. This favoured sudden changes in the direction of the flow of capital, and therefore possible exchange tension[52].

The operation of the BIS was initially invalidated by the British-French conflict regarding the reparation problem.

The former considered this problem a thing of the past. The latter saw the BIS as an instrument to guarantee itself reparation payments from Germany, as the Young plan foresaw.

Because of this, and because of its limited currency reserves, the BIS was soon impotent in the face of the Great Depression.

[51] On this feature see Jacobsson (1979) and Pauly (1997).

[52] *"To attract short term capital to long term markets is another task which can only be accomplished by identifying the policies of the Central banks, by coordinating the movements of their discount rates, by increasing the control of each its own markets",* in Conversation between P. Quesnay and Norman, 24 april 1930.

The case of the League Financial Department and that of the BIS lead us to think that between the two wars were effected experiments of an institutional nature which for the time being had little success, but which anticipated organizations and negotiation methods that will be revived after World War II. The reasons for the failure of these institutions in the twenties and thirties are to be found mostly in the absence of any form of coordination, that is, of leadership.

Conclusions

The Genoa Conference gave a new order of international default system: in fact, it established the adoption of the gold exchange standard.

While the gold standard was based on a system of real money, and on almost automatic mechanisms of adjustment, the gold exchange was a pyramidal system. In the centre there were the most important currencies (pound and dollar in primis) which could be exchanged into gold, while the other currencies were placed around them, and could be converted into the most important currencies. On the one hand, this mechanism allowed the offer of world money to be increased and to increase the flexibility with respect to production; on the other hand it slackened the ties between circulating money and gold reserves, so posing a problem of confidence.

As a consequence, in the gold exchange standard there were currencies of different *brand name*. With a free international mobility of capital, a negative situation would come into being: capital would flow towards the monies of better brand name, that is, baked by a great amount of gold reserves. That is why the maldistribution of gold tended to grow instead of decreasing and adjusting.

The cooperation among the central banks, hoped for in many resolutions of the Genoa Conference, was lacking. In the twenties, both the Bank of France and the Federal Reserve sterilized the gold inflows. In so doing, they prevented the coming into action of *gold exchange standard's* mechanisms of adjustment.

Both in the past and in more recent studies it has been maintained that the uncooperative attitude of the French and American monetary authorities was a serious mistake, and that, all in all, the Genoa Conference was unable to provide adequate forms of coordination among central banks.

Nevertheless, if we consider the situation that came into being in the Twenties, we are led to consider that it would have been very difficult for central banks to cooperate to safeguard the gold exchange standard. No doubt, the social and political transformations that took place after the World War I, such as the spreading of the universal franchise, tended to change the role of the state in the economic field.

However, the reverting of governments to national interests was favoured by the characteristics of the international relations which had prevailed after World War I.

In an environment characterized by a multipolar equilibrium cooperation becomes difficult, if not impossible.

On the one hand, each power was more interested in the subdivision of the gains derived by a possible cooperation than in the advantages proper and on the other hand it was afraid of becoming dependent on others because of cooperative agreements. In a situation like that, it was very difficult in the twenties that there might be a cooperation between the countries for a good working of the international monetary system. The absence of a hegemonic country was not due to a lack of capacity of the United States to assume this responsibility.

Between the two wars, in fact, the international monetary system underwent great changes: then a long process began which was to lead from the use of real money to flat money also in international exchanges.

Nevertheless, types of money without any reference to objective constraints demands trust in the issuer. Within a country such trust is produced by the State. In an international environment such conditions can be fulfilled only by a politically hegemonic country. In the Twenties the United States didn't have this status yet; they will get it after World War II and this will unable them to build the Bretton Woods system.

If it is true that at the Genoa Conference, but more generally in the interwar period, it wasn't possible to set up an efficient international monetary system, which would favour the exchanges by lowering transaction costs, it is also true that in the twenties institutions were developed which were the premises for any kind of cooperation between different countries.

Among these institutions, central banks need be mentioned. In the resolutions of the Genoa Conference was eventually established the principle that the monopoly of the production of money should be entrusted to these institutions, that where central banks didn't exist, they should be created and that their independence from the government and the parliament should be safeguarded. At the same time it can't be overlooked that with the Genoa Conference the Financial Department of the League of Nations was strengthened. The latter had a crucial role in the development of the Conference's proceedings. In the latter, in fact, the basic principles were established which the League would adopt in the processes of stabilization of which it was entrusted. Under this profile the Financial Department of the League of Nations anticipated the role and the ways of intervention of the IMF after World War II.

It doesn’t seem incorrect to say that, if the gold exchange standard was a failure, many institutions that went together this system in some way survived, and contributed to make it possible, after World War II, the transition, in the international monetary system, from real money to fiat money.

Table 1 – The trilemma and major phases of capital mobility

Resolution of the trilemma: what did countries choose to sacrifice				
Era	Activist policies	Capital mobility	Fixed exchange rate	Notes
Gold standard	Most	Few	Few	Broad consensus
Interwar (when off gold)	Few	Several	Most	Capital controls, especially in Central Europe and Latin America
Bretton Woods	Few	Most	Few	Broad consensus
Float	Few	Few	Many	Some consensus except for hard peg (currency boards, dollarization, etc.)

Table 2. Gold reserves of Central Banks and government (percent of total)

Country	**1913**	**1918**	**1923**	**1927**	**1930**	**1934**	**1935**
United States	26,6	39,0	44,3	41,7	38,7	37,8	45,1
France	14,0	9,8	8,2	10,0	19,2	25,0	19,6
England	3,4	7,7	8,6	7,7	6,6	7,3	7,3
Germany	5,7	7,9	1,3	4,7	4,8	0,1	0,1
Italy	5,5	0,9	1,3	1,2	1,2	2,4	1,6
Japan	1,3	3,3	7,0	5,7	3,8	1,8	1,9
Others							
Total	100	100	100	100	100	100	100

Source: Eichengreen (1996)

Table 3 – Intensity of Central Bank cooperation

Period	**International relations**	**Prestige and independence of central bank**	**Technicality of issues requiring cooperation**	**Overall intensity of cooperation (total score over 3)**
	(1)	(2)	(3)	(4)
1970s-1913	2	2	3	2,33
1920s	1	3	4	2,67
1930s	0	1	1	0,67
1950s	4*	2	2	2,67
1959-73	3*	3	4	3,33

Source: Borio and Toniolo (2006). Note: all ranking on a scale of 0-4; (*): western world only. (1) International relations are valued between an extreme unilateralism to an extreme multilateralism. (2) It refers mainly to government willingness to allow central banks discretional power in financial diplomacy. (3) It refers mainly to cooperation required by pegging the exchange rate and by agreeing on supervisory standard.

Table 4. Foreign exchange and gold reserves of European central banks (in millions of US dollars)

	1924	1925	1926	1927	1928	1929	1930	1931	1932
Foreign exchange	845	917	1.159	2.2145	2.520	2.292	2.300	1.216	505
Gold	2.281	2.367	2.568	2.903	3.490	3.841	4.316	5.273	5.879
Total[1]	3.126	3.284	3.727	5.048	6.010	6.133	6.616	6.489	6.384
Foreign exchange as % of total	27	28	31	42	42	37	35	19	8

[1] 24 countries.
Source: Nurske (1994).

Table 5. Politics and international financial architectures

International financial architecture	**International balance of power**	**Types of money**	**Financial regime is politically…**
Classical Gold Standard 1870-1914	Hegemonic (economic hegemony)	Gold (commodity money)	Consistent
Interwar experimentation 1919-1939 (gold-exchange standard 1925-1931)	Multi-polar	Gold and currency reserves (towards fiat money)	Inconsistent
Bretton Woods system 1944-1971	Hegemonic (political hegemony)	Gold and US money (fiat money)	Consistent
Post Bretton Woods system	Hegemonic, but becoming multi-polar	Dollar and … Euro (fiat money)	Increasingly inconsistent

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