

Pillars of Globalization: A History of Monetary Policy Targets 1797-2006

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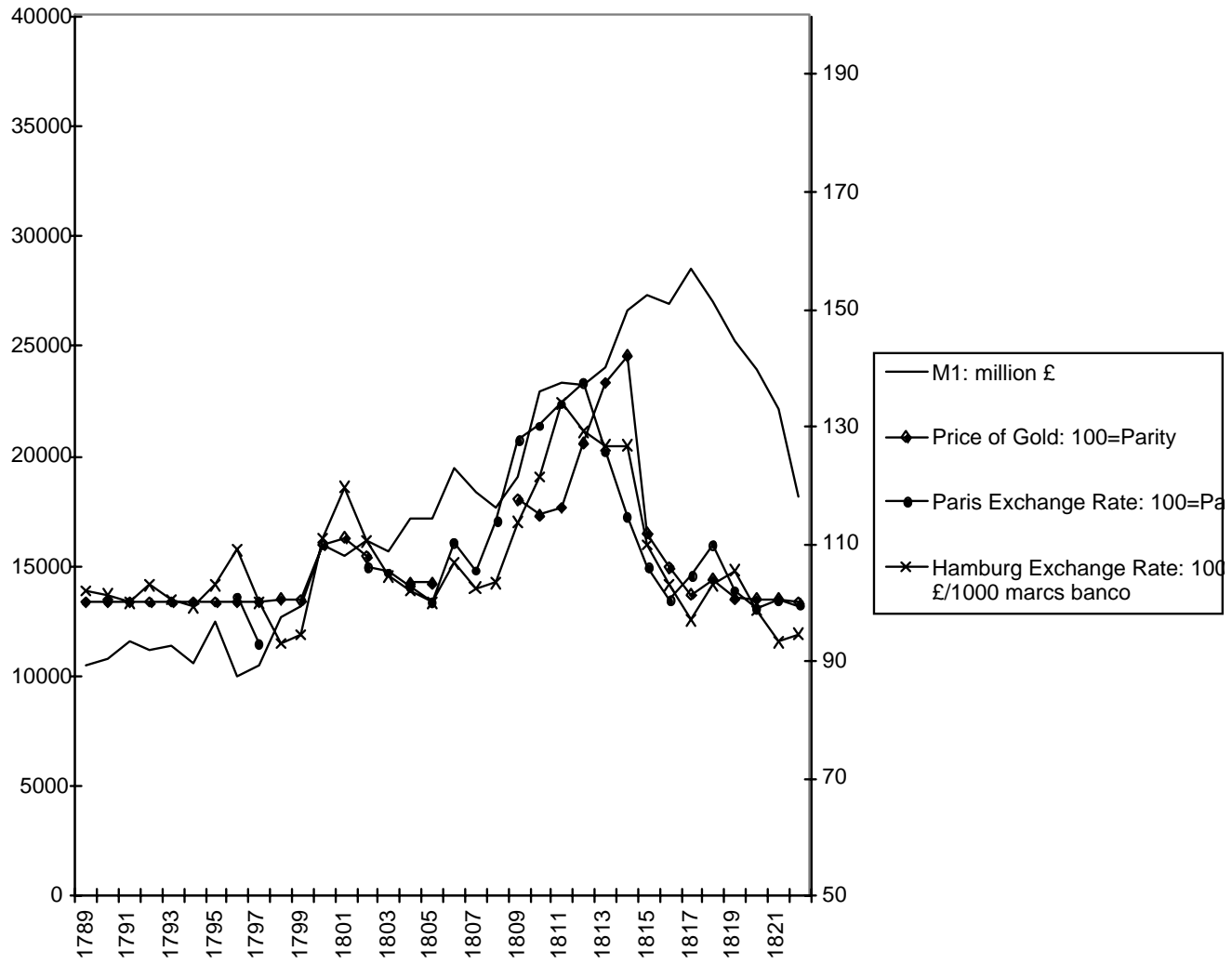


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Conventional views on the history of monetary policy

- Popular view: no monetary policy in the XIXth century (specie standards=> exchange rate targeting)
- Goodhart: Central banks emerge from concerns over financial stability
- Criticism: *Bullionist Controversy* is a debate over optimal monetary policy rules

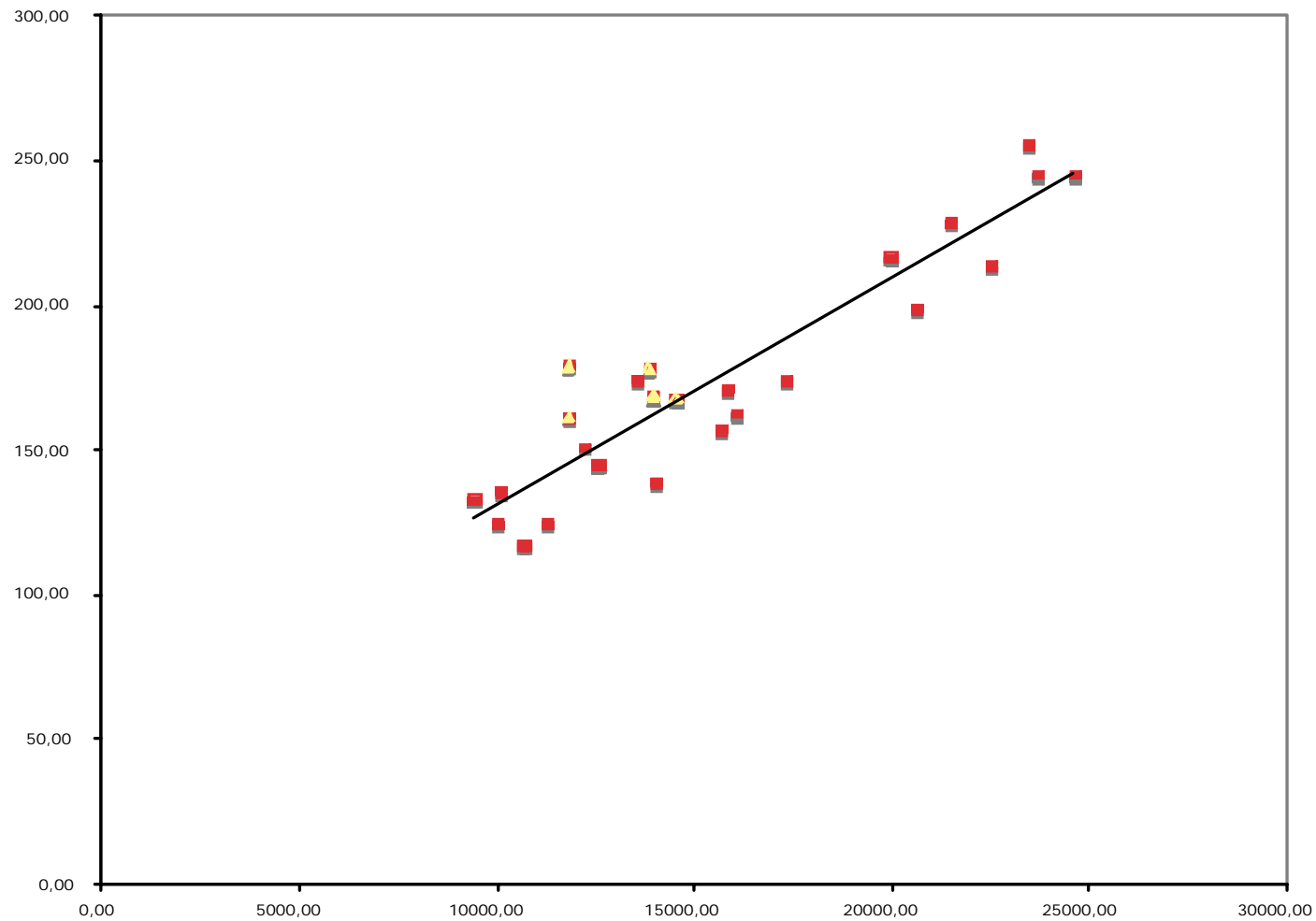
Economic Elements of the Bullionist Controversy



Can a private central bank not subjected to convertibility rule implement “adequate” monetary policy?

- Directors of the Bank of England: yes, money supply is counterpart to discount of “legitimate credit needs” (‘Real Bills Doctrine’)
- Ricardo, Members of Bullion Committee (Thornton): no, excess money supply triggers exchange rate depreciation and rise of bullion price (‘Quantity Theory’)

Real Money Balances and Bank of England Real Stock Price (Prices 1782: 100)



Inflationary Incentives and Monetary Policy

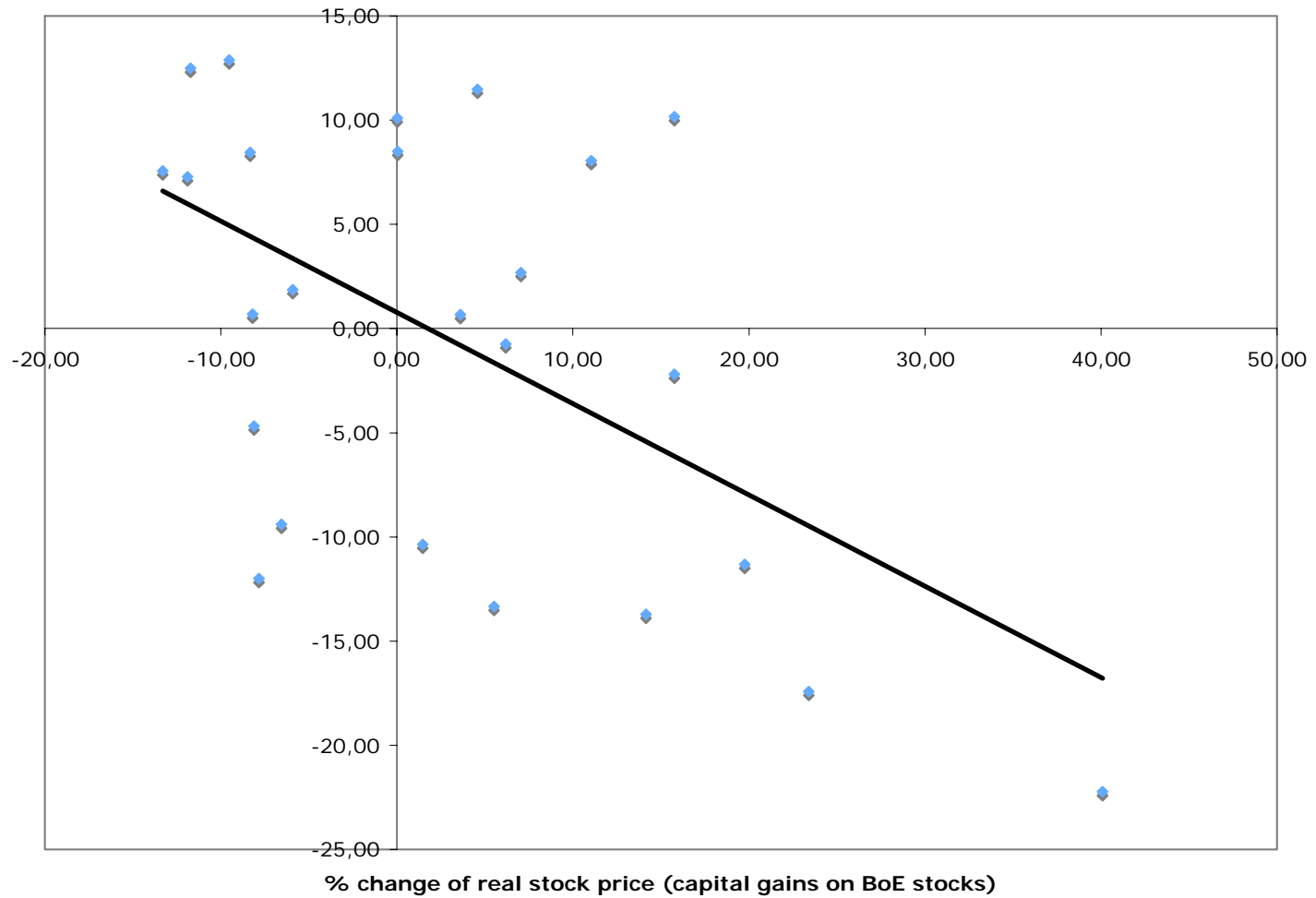
Seigniorage Maximizing Government:

$$\Phi^G = \frac{1}{P} \frac{dM}{dt} = \frac{M}{P} \cdot g_M \implies g_P^* = g_M^* = \frac{1}{b}$$

Revenue Maximizing Central Bank:

$$\Phi^B = i \cdot \frac{M}{P} = (r + g_P) \frac{M}{P} \implies g_P^{**} = g_M^{**} = \frac{1}{b} - r$$

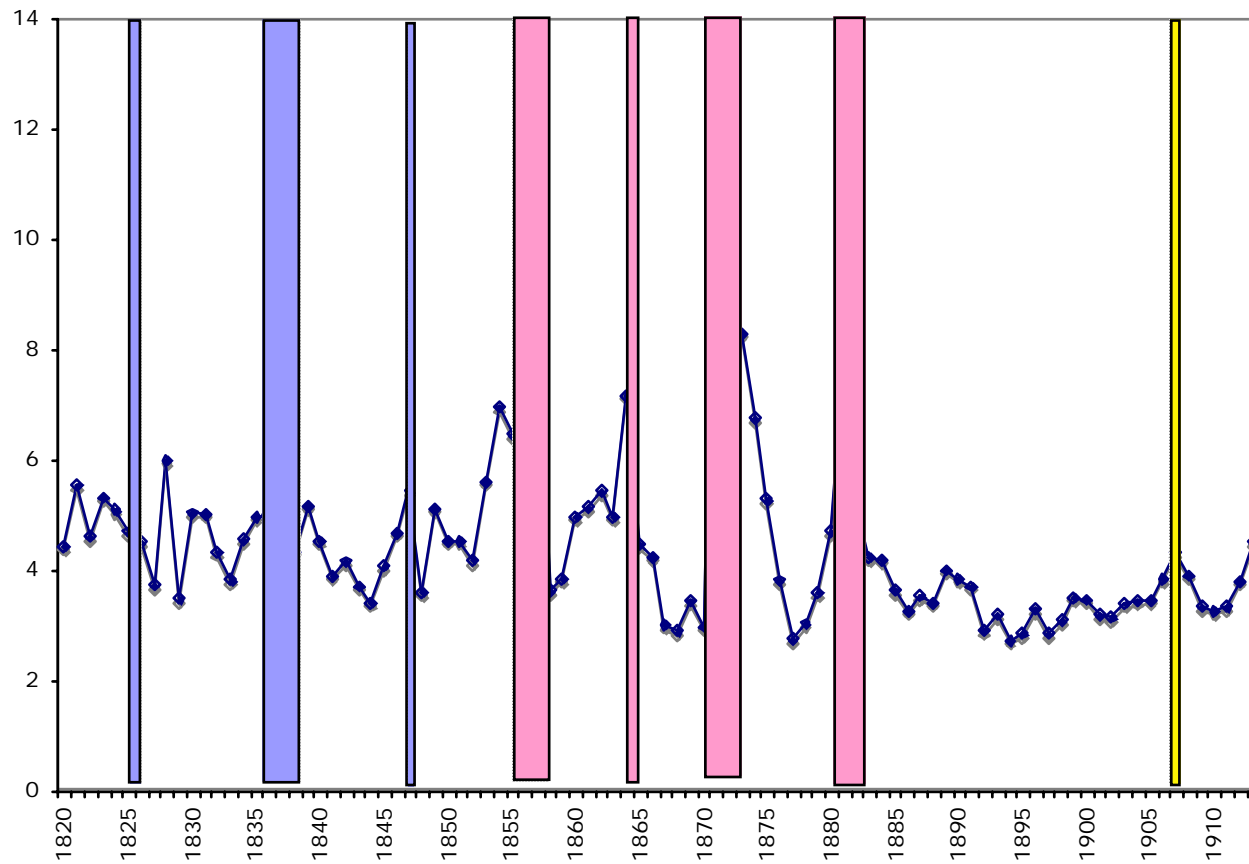
Inflation and Shareholders' Value



Are Monetary Policy Rules Enough? (1847-1873)

- Lessons from the suspension of Peel's Act in 1847
- The Juglar Criticism: Periodic Crises and Monetary Policy
- Central Banks and Financial Crises: When the Cure is so Profitable, are Doctors Inclined to Prevent?

Bank of France: Financial Crises and the Dividend



Responses: 1873-1914 and beyond

- Transformations in the Profit Motive
- Central Bank Independence
- The interwar Gold Standard: a strict rule based regime?

Lessons

- Rules emerge to address monitoring problem
- Types of rules tell something about state of economic knowledge as well of political consensus
- Complex issue of asset prices developments once rules have been adopted (financial cycle vs. business cycle)
- Reason: conflicts of interest: profit making and lending of last resort, profit making and cycles
- Need to put monetary policy on a “purely scientific” ground
- Interwar Years: Perils of automaticity