

Exchange rate politics: contemporary lessons from American history

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ABSTRACT

This essay makes two analytical points about the domestic and international politics of exchange rate issues. First, it argues that changes in the political prominence of currency values over time are best explained by changes in the level of international economic integration. The more cross-border trade and investment takes place, the more national macroeconomic policies implicate the exchange rate, and the more exchange rates affect important socioeconomic actors.

Second, the article provides a starting point to understand the pattern of domestic political conflict over currency values by analyzing the distributional impact of different currency regimes and levels. Internationally oriented economic groups prefer fixed exchange rates, domestically based groups prefer floating rates. Similarly, tradables producers prefer a relatively depreciated currency, producers of non-tradable goods and services a relatively appreciated one.

The arguments are brought to bear on American political conflict over the gold standard in the late 19th and early 20th century. They are then applied to analysis of the ongoing process of European monetary integration.

For 20 years currency values have been a growing concern of policy makers, analysts, and investors. Exchange rates have also been a topic of increasing domestic and international political debate, and it is widely recognized that they involve an inseparable mix of politics and economics.

The most prominent instance of how exchange rates have come to the policy and political fore is European monetary integration. The exchange rate mechanism of the European Monetary System represents a step toward eliminating fluctuations among European Union (EU) currencies, and a single currency would take this a giant step further. Despite a plethora of studies about the economics of monetary union, and the universal recognition that the process is eminently political, there is little

understanding of the political forces that have affected the checkered progress of European monetary integration.

Currency issues have also been important in conflicts between the United States and the East Asian countries whose exports have taken large shares of the American market. While some of the American response has been traditionally protectionist, part of it has also been to insist on an appreciation of East Asian currencies (including most prominently those of Japan, South Korea, and Taiwan) against the dollar. More generally, exchange rate issues are central to ongoing discussions about macroeconomic policy coordination within the Group of Seven. Indeed, in some ways the high point of G-7 cooperation was the 1985 Plaza Accord to encourage a gradual depreciation of the dollar. On all these fronts, prominent as the policies and the politics have been, systematic political economy analysis has been almost entirely absent.¹

Historical experience presents us with yet another set of analytical puzzles. The exchange rate was one of the most hotly debated issues in economic policy in most of the world's countries from the 1870s until the 1930s. Whether in the guise of greenback and silverite populism in the United States, Argentine gold policy, China's silver standard, or German silver sentiment, the question of whether the national currency should be on or off gold, and of what the currency's value should be, was a constant virtually everywhere. From the 1930s until the 1970s this topic dropped off the political agenda, only to return with a vengeance over the past 20 years. Apart from seeing what lessons we might glean from the past, fluctuation in the political prominence of the exchange rate is itself a puzzle.

This essay has two related purposes. The first is to explain changes in the political importance of exchange rates. Here my principal argument is that the distributional impact of exchange rate movements increases as economies become more open on capital and current account, and that the politicization of currency policy is an inevitable result of higher levels of international trade and payments.

My second purpose is to explain the patterns of political division and debate that arise over exchange rates. Here I project which groups in society will be more and less favorable to fixed or floating exchange rates, and to relatively appreciated or depreciated exchange rates. For illustrative purposes, I discuss several historical and contemporary episodes: American exchange rate politics in the late 19th and early 20th century, and current developments in European monetary integration.

THE POLITICS OF EXCHANGE RATES: GENERAL PRINCIPLES

My first task is to explain the degree to which the exchange rate becomes a target of important political conflict. The second is to explain the sorts of

political divisions that develop when exchange rates become a topic of political debate.

To understand the reasons for variation in the political significance of currency issues, we can start with a basic principle of macroeconomic policy, that no country can have more than two of the following three conditions: a fixed exchange rate, an independent monetary policy, and capital mobility. The reasoning is simple. If capital is mobile across borders, interest rates cannot vary across countries.² Given capital mobility, monetary policy operates primarily via the exchange rate: money growth faster than the rest of the world leads to depreciation, which (generally) causes economic expansion.³

This implies that capital mobility leads to a trade-off between exchange rate stability and monetary independence: a government can only ensure its currency's stability by giving up its principal instrument of monetary policy. The development of such a trade-off where none was previously present constrains monetary policy in purely economic terms; but it also has a political economy impact, that is, it affects the activity of socioeconomic groups in the political arena.

In a financially closed economy, a monetary stimulus raises the nominal price level, reduces real interest rates, lowers borrowing costs and encourages both investment and credit-financed consumer spending. Closed-economy monetary policy affects the nominal price level but not relative prices among most goods and services. It has broad but diffuse effects on growth, and more targeted effects on those with nominal contracts, such as debtors and creditors. Political divisions can be expected between borrowers and savers. A few specific industries – especially housing construction and major consumer durables – are sensitive to interest rates, as their products are typically purchased on credit; the financial sector generally supports higher interest rates. But the principal impact is on such broad macroeconomic aggregates as growth and unemployment.

For these reasons, it is reasonable to expect the politics of monetary policy in a closed economy to be subdued, and the divisions to be relatively broad-gauged. Those principally concerned are either relatively small groups – the housing construction industry, the financial sector – or broad masses of borrowers and savers, as well as workers and consumers affected by general macroeconomic trends.

However, in a financially open economy, in which monetary policy primarily affects the exchange rate, it operates not by way of its impact on the nominal price level but rather by changing the relative price of tradable and non-tradable goods and services. Monetary expansion, for example, drives the currency's value down, makes locally produced goods cheaper in comparison to imports, and stimulates demand for

domestically produced tradable goods. Exchange rate movements therefore, unlike interest rate movements, have an immediate impact on a wide range of relative prices. They affect those exposed to international trade and payments, such as exporters, import-competers, international banks, and multinational corporations. They also have a second-order impact on producers of non-tradable goods and services. Policies that implicate the exchange rate therefore call into play well-defined economic interests.

In a financially open economy in which monetary policy runs through the exchange rate, relative price effects are immediate and significant for specific interests, so that political pressures from concentrated groups can be expected. Currency movements affect relative prices more directly and for more concentrated interests than overall movements in the nominal price level.⁴ This implies that financial integration heightens political debates over monetary policy, even as it shifts their focus toward the relative prices affected by exchange rate movements.

Monetary politics is affected in an analogous way by commercial openness. While integration of financial markets changes monetary policy trade-offs, trade openness increases the intensity with which these trade-offs are felt by economic actors. Greater exposure to world trade swells the ranks of those sensitive to the exchange rate. Tradables producers are especially sensitive to the exchange rate; as more goods become tradable, more producers are more concerned about currency values. Even non-tradables producers care more about exchange rates as the economy is opened to trade, for the import component of their inputs rises, as does the effect on them of the expenditure-switching caused by exchange rate movements. Increased trade intensifies the interest of producers in policies that move exchange rates in their favor.

All of this serves to explain that increasing political attention to exchange rates is a predictable result of goods and capital market integration. The more closely linked financial markets are, the more national monetary policies are forced to operate by way of the exchange rate. The more closely linked markets for goods and capital are, the more economic agents care about exchange rate movements. This leads to my second problem, the exchange rate policy preferences I expect in an open economy.

Two policy issues are relevant. First, governments need to decide whether to have an independent monetary policy, which requires a flexible exchange rate, or to forgo an autonomous monetary policy in the interests of having a stable and predictable exchange rate. Second, and presuming they take action to affect the exchange rate, governments need to decide on the desired level of the currency. Let me take these in turn.

Different economic agents can be expected to have different views of the trade-off between exchange rate stability and national ability to affect

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domestic monetary conditions. Those whose business is fully domestic, for whom foreign trade and payments – thus the exchange rate – are insignificant, will prefer national policy independence to the stability of a price that matters little to them. This group includes producers of non-tradable goods and services, and producers of traded goods that find their market primarily at home. Their fortunes are dependent upon domestic business conditions, and the government's ability to affect national monetary conditions requires a flexible exchange rate.

On the other hand, those heavily involved in international trade and investment care deeply about the predictability of the exchange rate, which has a major impact on their economic performance. Indeed, inasmuch as they can move production or sales easily from home to foreign markets, they care less about domestic conditions than about the predictability of currency values. This range of variation is represented on the vertical axis of Figure 1, in which monetary independence and exchange rate flexibility co-vary as we assume an open economy.

Figure 1 Exchange rate policy preferences, given capital mobility

		Preferred Level of the Exchange Rate	
		High	Low
Preferred Degree of Exchange-Rate Flexibility/National Monetary Independence	Low	International traders and investors	Export-competing traded goods producers
	High	Non-tradables producers	Import-competing traded goods producers

Note: As regards the level of the exchange rate, 'high' refers to a more appreciated exchange rate and 'low' to a more depreciated exchange rate. As regards the degree of exchange rate flexibility, 'low' implies a fixed rate such as the gold standard, while 'high' implies freely floating rates. Given capital mobility, this variation also implies variation from the absence of national monetary independence to effective and nationally autonomous monetary policy. These are, of course, only rough approximations, and variation is along a continuum rather than dichotomous.

Economic agents also care about the level of the currency's value. Typically, producers of tradable goods favor a relatively lower (more depreciated) exchange rate, which makes their products cheaper relative to foreign goods. Producers of non-tradable goods and services favor a relatively higher (more appreciated) exchange rate, which raises the price of their products relative to tradable goods in the home market. International investors tend to favor a strong currency, which allows them to purchase overseas assets more cheaply.⁵ These preferences are reflected on the horizontal axis of Figure 1.

None of these assertions about the distributional effects of exchange rate movements is unqualified. Preferences over the level of the exchange

rate may well vary in intensity. Producers of standardized goods are probably most sensitive to exchange rate movements: they compete on price alone, and small movements in currency values can mean the difference between profitability and bankruptcy. Those whose products are tradable but compete largely on quality and other non-price variables are likely to be less concerned. Put differently, the sensitivity of tradable producers to exchange rate movements is a function of the price elasticities of demand for their products.

Another point is that generally the influence of exchange rate movements on non-tradable goods and services is less direct than on tradables. While an appreciation raises the price of non-tradables relative to tradables, the process can be gradual (as in the United States in the early and mid-1980s). And whatever positive impact price increases may have on relative prices has to be measured against the negative effects of higher prices on demand and the entry of new competitors. Non-tradables producers especially have to worry about the relative importance of income and substitution effects – whether a real appreciation might reduce total spending enough to counterbalance the positive impact of the increased price of non-tradables. Overseas investors care both about asset prices and about returns: a strong currency makes assets relatively cheaper in home-currency terms, but also makes the income stream less valuable.

Another complication is that the two issues, exchange rate flexibility and currency value (the horizontal and vertical axes of Fig. 1) are often elided. Currency values are frequently linked to the overarching regime of exchange rate determination. This is most obvious in the case of a fixed rate regime such as the gold standard or the European Monetary System, in which it is difficult to devalue without damaging the credibility of sustaining the fixed rate.

Where policy toward the level of the exchange rate and its variability are linked and actors' interests cut in different directions, they must decide which matters more to them. Exporters weigh the relative importance of the increased competitiveness given by a devaluation against the uncertainty that devaluations introduce. For some – especially with long-term contracts where hedging is difficult – variable exchange rates may lead to substantial loss of business. For others, the added competitive edge dominates. To take another example, international investors may care less about the level of the exchange rate than about its variability. Firms with globally diversified production may be insensitive to particular levels of the exchange rate – the negative impact of a strong franc on French operations is presumably counterbalanced by the positive impact of the mirror-image weakness of other currencies on non-French operations – but their ability to formulate investment plans may be very sensitive to exchange rate instability.

All of these nuances are important to the detailed evaluation of political debates over monetary and exchange rate policy. However, my purpose is only to indicate the broad trends involved in such evaluation, and for this purpose the general tendencies discussed above hold.

In summary, increased levels of financial and commercial integration drive monetary policy toward the exchange rate, make the exchange rate more distributionally divisive, and lead to a more politicized context for the making of macroeconomic policy. In such an open economy, clear differences arise among economic agents over both the desired level of the exchange rate and the desired degree to which it will be fixed. All else equal, domestically oriented producers prefer a flexible exchange rate, internationally oriented ones a fixed exchange rate. Tradables producers prefer a weak (depreciated) currency, non-tradables producers and overseas investors a strong (appreciated) one. In this context, I now turn to some illustrative examples drawn largely from the American past and contemporary Europe.

HISTORICAL PATTERNS IN MONETARY POLITICS

If my first argument is correct, the political prominence of exchange rates should vary with the openness of a country to international trade and financial flows. This should hold both over time and across countries: as the world becomes more (less) integrated on current and capital account, the exchange rate should become more (less) politicized; at any given point in time, more open economies should have more political debate over exchange rates.

Both historical and contemporary evidence supports these propositions. From about 1870 until the First World War, and again in the 1920s and early 1930s, world trade and payments were at extremely high levels. Indeed, there is strong evidence that capital markets were closely linked in the late 19th and early 20th century.⁶ From the 1930s until about 1975, however, capital was not particularly mobile among developed countries. Virtually all of them had capital controls of varied effectiveness;⁷ most capital movements took the form of direct investment by multinational corporations. Countries could, at least in the short and medium run, sustain both independent monetary policies and fixed exchange rates.

As expected, monetary policy was extremely hotly contested in the 60 years before 1930. In most of the world's countries it was, typically along with the tariff, the principal economic issue. This was true in developed and developing, primary producing and industrial countries alike.⁸ But from the 1930s until the early 1970s, exchange rate issues, and indeed monetary policy more generally, were typically relegated to a subordinate place on national political agendas. The Money Question, as it had been

known before, became the precinct of a few lonely academics, market operators, and monetary policy makers.

However, over the course of the 1970s and 1980s, capital became far more mobile. Capital controls were removed, and the offshore financial markets grew to enormous size. Today, markets for short-term financial assets are highly integrated within the OECD, far more integrated than they were between the 1930s and the 1970s.⁹ Under these conditions, monetary policy has come to operate primarily through the exchange rate.

Change in the economic environment, toward a higher level of capital mobility, thus gave the exchange rate great prominence. As countries attempted to pursue autonomous monetary policies, exchange rates fluctuated substantially. At the same time, the continual increase in trade and investment among developed economies made more and more economic agents sensitive to the effects of exchange rate fluctuations. Whether as traders and exporters or as foreign investors and borrowers, there are many more for whom the exchange rate is a crucial component of the economic environment.

This has led to prominent political debates over exchange rates all over the world. This is most obvious in the European Community and countries on its periphery, for which monetary and exchange rate problems have been central since the early 1980s. It is certainly the case in Japan, where the value of the yen is a topic of constant policy and political debate. It is true in the newly industrializing countries of East Asia and Latin America, in a wide variety of ways. In many countries just emerging from very high inflation, the real appreciation of the exchange rate is a core policy problem (Argentina and Mexico are examples). In heavily export-oriented economies that have relied on a very weak exchange rate, domestic and foreign pressure for currency appreciation is powerful (Taiwan and South Korea are examples). And even in the United States, as the dollar rose in the early and mid-1980s the exchange rate became a central economic policy issue for the first time in 50 years.

Variation in the political prominence of the exchange rate does track financial and commercial integration. We can also turn to the historical and contemporary evidence to see if the political divisions I expect are indeed observed in reality. To do so I focus first on the American experience in the late 19th and early 20th centuries, then on the more recent European experience.

Exchange rate politics in the United States, 1870–1935

Monetary policy was, along with the tariff, the great national issue in American politics from the Civil War until the 1930s. If the analytical propositions advanced above are correct, we should observe the sorts of

divisions presented in Figure 1 over the course of these American debates.

International trade and payments affected relatively small portions of the United States economy in the late 19th century. However, business groups tied to the foreign sector were powerful, especially Northeastern financial and commercial interests. So too were exports important to very large numbers of American producers, especially primary producers. In the 1880s one-fifth of the country's farm output was exported, and in 1879 exports were 30 per cent of American wheat and 60 per cent of cotton production. American financial markets were quite closely linked with those abroad, especially in London.

As projected above, those directly involved in international trade and payments wanted stability in the international value of the dollar, while those who sold primarily to the domestic market cared little about the exchange rate. By the same token, tradables producers, both import-competing manufacturers and export-oriented farmers, were adamant in their support for a currency depreciation that would raise the relative price of their products.

Preferences about fixing the exchange rate often became elided with views on whether to devalue the dollar. Inasmuch as dollar devaluation implied going off gold, those who wanted a weaker currency opposed the gold standard – even where they might have been indifferent or favorable to it in principle.

Interest groups divided into two broad camps over the course of the decades. 'Hard money' interests wanted unshakable commitment to gold, with no devaluation; support for hard money came from Northeastern traders, bankers, and investors, and some export-oriented manufacturers more concerned about stability than price competitiveness.¹⁰ 'Soft money', devaluation and going off gold, was preferred by farmers and manufacturers from the interior, whose markets were domestic and who worried primarily about the low domestic prices of their products. The division persisted throughout decades of conflict.

The Money Question in America reached its peak with three episodes: Greenback populism (1865–79), silver populism (1888–96), and price stability (1920–35). The first episode stemmed from the fact that the dollar was taken off gold in 1862 amidst wartime inflation.¹¹ After the Civil War, two broad groups developed. 'Soft money' meant staying on the depreciated paper currency (greenbacks) introduced during the war. 'Hard money' advocates wanted to put the country back on gold at the prewar parity, which implied a substantial real appreciation.

The strongest original proponents of greenback populism were iron and steel manufacturers, who regarded a depreciated dollar as a complement to the trade protection they desired. Along with them were the

railroad industry and associated non-tradables producers, who appreciated the reflationary government policies that a floating currency allowed.

After 1873 two important groups joined the greenback camp. Farmers flocked to the movement as agricultural prices dropped, recognizing that a depreciated currency meant higher dollar prices for their exportable crops. Silver miners similarly joined as silver prices fell. The silver connection is complicated. Over the course of the 1870s, the greenback movement modified its position to favor the free coinage of silver at a 16:1 ratio against gold. This would have kept the country off gold and on a depreciated silver standard. The economic implications were similar to those of a depreciated paper currency, except for the direct subsidy to silver producers (the government would have been obligated to purchase silver at above the market rate). The motivation for this turn was that silver miners had great influence in the sparsely populated Rocky Mountain West and thereby controlled many Senate seats.

Congress was favorable to greenback and silver ideas, as was almost certainly the country as a whole. The return to gold was only effected by President Ulysses Grant manipulating a lame-duck Congress in January 1875. The Resumption Act so passed was repealed by Congress repeatedly after that, but the two-thirds majority to override the presidential veto was not forthcoming. The country returned to gold on 1 January 1879.

Anti-gold sentiment erupted again with the agricultural depression that began in 1888.¹² Farmers were well aware that reflation and devaluation under the silverite banner would raise agricultural prices. The silver miners, for obvious reasons, continued to support silver monetization. The Populists thus called for a paper money–silver standard, with the dollar fluctuating against gold. The Treasury would have been directed to regulate the money supply to avoid deflation. Gold clauses, tying contracts to the value of gold as a hedge against devaluation, would have been made illegal.

Northeastern commercial and financial interests remained at the core of the hard-money camp. The bankers' position had if anything hardened: Wall Street hoped to become an international financial center, for which ironclad commitment to gold was a prerequisite. Manufacturers were less committed to soft money than they had been in the 1870s, for three reasons. First, declining prices of manufactured products were more than compensated by rapid productivity increases, so that few manufacturers felt substantially disadvantaged by the real appreciation. Second, by the 1890s some of American industry had become internationally oriented: manufactured exports had expanded and foreign direct investment was increasing.¹³ Third, import-competing manufacturers' interest in the money question was secondary to their concern to defend high

tariffs, which were under attack from agricultural interests. They were willing to forgo support for silver if tariff protection were continued.

After nearly a decade of agitation, the issue came to a head in the 1896 presidential election, which was fought largely over the gold standard. Democrats and Populists jointly fielded William Jennings Bryan, who ran against the 'cross of gold' upon which, Bryan thundered, the country was being crucified. The Republicans, in response, cobbled together a hard money-high tariff coalition. Presidential candidate William McKinley had impeccable protectionist credentials, having designed the tariff of 1890; despite long-standing support for silver, he switched to gold in 1896. The McKinley coalition of hard-money international trading and financial interests and high-tariff manufacturers narrowly defeated Bryan's farmer-miner coalition.

The third episode stretched from soon after the end of the First World War until the middle 1930s.¹⁴ The distributional cleavages carried on the prewar pattern. Most prominent were demands by farmers and many manufacturers for 'price stability', government policy to reverse postwar deflation. They blamed much of the relative decline of tradables prices on the new Federal Reserve's commitment to gold and hard money, and argued that the Fed should change course. As before, support for orthodox monetary policies came from international financial, commercial, and industrial interests. These were the core of the 'internationalist' foreign policy bloc more generally, for whom the international role of the dollar was important.

These debates involved both the content of monetary policy and the structure of the Federal Reserve.¹⁵ Dozens of bills were introduced to force more reflationary monetary policy, devaluation, and Congressional control of the Fed. All of the bills were blocked by the Executive and the Senate, which was dominated by financial conservative Carter Glass of the Senate Banking and Commerce Committee.

Conflict over monetary policy increased during the Depression.¹⁶ The hardest-hit victims of price trends in the early Depression were producers of traded goods. Between 1929 and 1933, as GNP fell 46 per cent in nominal terms, output of durable goods fell 67 per cent and that of farm products 53 per cent; services output fell 28 per cent. Meanwhile, the Fed was torn between domestic and international demands. Interest rate increases to defend the dollar exacerbated the domestic downturn, and provoked domestic protests.¹⁷

Congress made repeated attempts to force reflation and devaluation, and in May 1932 the House overwhelmingly passed a Price Stabilization Bill which mandated inflation and going off gold.¹⁸ Still, easy-money proposals were blocked by the Senate and the Hoover administration until the Democrats swept the presidency and the Senate in the 1932 elections.

Hard-money sentiment also softened as the Depression dragged on, especially after the British went off gold in 1931. The world economy was collapsing, and in the interest of domestic recovery many hard-money men were willing to go off gold, at least for a time.¹⁹ So while the strongest support for devaluation continued to come from tradables producers, many paragons of gold-standard orthodoxy had by early 1933 come to regard easier money as a temporarily necessary evil.

Faced with overwhelming support within the House and Senate for devaluation, in April 1933 President Roosevelt took the dollar off gold. From October 1933 until January 1934 the Administration reduced the gold value of the dollar, depreciating it 44 per cent from its March 1933 level against the pound.

This brief survey of the American experience between the Civil War and the 1930s indicates that the political divisions postulated in Figure 1 were in fact observed in practice. There are some amendments worth noting. First, the two dimensions in Figure 1 were typically reduced to one in the political debates. Supporters of gold were primarily concerned about exchange rate stability; opponents were primarily interested in a devaluation. Inasmuch as a devaluation could only be obtained by going off gold, the pro-devaluation groups were anti-gold. Inasmuch as exchange rate stability could only be defended if a devaluation were avoided, pro-gold groups were anti-devaluation. Those groups in, so to speak, the off-diagonals, were relatively less important to the debates. That is, non-tradables producers might have preferred a floating appreciated rate; and many exporters might have preferred a fixed depreciated rate; but these policy possibilities were not on the political agenda.

Second, for import-competing tradables producers a tariff can be an effective substitute for a depreciation. This was indeed the case for Midwestern American manufacturers, for whom prohibitive tariffs essentially made the Money Question moot. Most farmers, who sold into foreign markets, could not have recourse to tariffs so easily, but for at least some former devaluationists, a tariff was as good as going off gold. This implies that such economic actors may evaluate the relative difficulty of obtaining a tariff against the difficulty of obtaining a devaluation, and act accordingly.

Finally, it is worth pointing out that my analysis of the American political debates diverges from much of the standard historiography of the period. Most analyses focus on farmers as debtors interested in general inflation that would reduce the real value of their debt. I do not dispute the importance of this division, but only argue that it is not sufficient to explain the debates. Analytically, it is incomplete to focus on the price of an input (finance) without also looking at output prices. If indebted farmers felt that Populist policies would have lowered the real value of their crops more than the real value of their mortgages, they

would certainly not have favored them. So soft-money supporters must have had an implicit notion of the relative price changes their policies would induce; I have simply made them explicit.²⁰ Empirically, although debt levels help predict support for soft money, they do only part of the explanatory work. For example, a substantial amount of evidence is now available that anti-gold agrarian discontent was strongly correlated with crop price trends.²¹

It might be objected that the American political divisions were anomalous. However, throughout the world during the late 19th and early 20th centuries similar conflicts, and similar political line-ups, could be observed. In Germany grain producing Junkers, like American wheat farmers, were strong supporters of silver, and only turned toward trade protection after they had lost the battle against the gold standard. In Argentina, the country's dominant wheat producers were able to force the peso off gold while world wheat prices declined, only to tie the peso back onto gold at a severely depreciated rate once world wheat prices began rising again. Similar divisions, pitting internationally oriented supporters of gold against import-competing or exporting supporters of depreciations, were to be found in virtually every country.²²

Exchange rate politics in Europe since 1970

Without presenting more historical evidence, I now turn to suggestive illustrations drawn from a contemporary problem in international monetary policy, European monetary integration. The members of the European Union (EU) have, along with several states on the periphery of the Union, been pursuing attempts to stabilize exchange rates among themselves for over 20 years. Such attempts began just as the Bretton Woods system collapsed between 1971 and 1973, and have continued apace up to the present.²³

In 1979, EU members created the European Monetary System (EMS), whose exchange rate mechanism (ERM) linked member currencies to each other in a narrow band of fluctuation. The EMS experienced many realignments of currency values between 1979 and 1985, then stabilized with no major realignments between 1987 and late 1992. In the flush of this success, in the late 1980s EMS members undertook to move toward full currency union.

Plans for monetary union were sideswiped by the economic dislocations associated with German unification after 1989. In September 1992 Italy, a charter ERM member, and the United Kingdom, which had joined in October 1990, left the ERM. Eventually, the currencies of Spain, Portugal, and Ireland were devalued within the mechanism. Exchange market pressure continued through summer 1993, leading the remaining

ERM members to widen the permitted fluctuation bands to 15 per cent (except for the Dutch guilder, which remained at 2.25 per cent).

Both aspects of the argument presented above should be relevant to European monetary integration. First, political attention to monetary issues should be related to the level of commercial and financial integration within the Union. This should be true both over time and across countries. That is, as the Union became more economically integrated, the prominence of discussions of monetary union (or some related form of monetary and exchange rate arrangements) should have grown. In addition, those countries most strongly integrated into the Union should have been those most interested in such movement toward monetary integration.

Second, EU members' support for and opposition to monetary integration, inasmuch as this meant fixing exchange rates, should follow the principles evinced above and applied in the American case. That is, import-competing tradables producers should be the strongest supporters of maintaining the option of a national devaluation; and internationally (or, in this instance, regionally) oriented banks and corporations should be the strongest supporters of currency stabilization.

Both these hypotheses appear consistent with the evidence from recent European monetary events. The literature on this experience, especially the domestic political aspects of it, is particularly poorly developed.²⁴ However, even a casual examination of recent history indicates that interest in monetary integration grew in tandem with the level of financial and commercial integration in the Union. It was in fact the removal or prospective removal of capital controls and residual trade barriers among the members of the EU that quickened the pace of monetary integration over the course of the 1980s. The higher levels of international goods and capital market integration within the EU raised the probability that divergent macroeconomic policies would lead to countervailing trends on capital and currency markets. This is simply another illustration that high levels of capital mobility make independent monetary policy inconsistent with a fixed exchange rate – although, of course, this is true only for countries other than Germany, which became the *de facto* determiner of EMS monetary policy. Greater integration of financial markets within Europe tended to quicken the rate at which divergent national monetary policies led to substantial capital flows and eventually currency crises. Financial integration made the resolution of the conflict between national monetary autonomy and exchange rate stability pressing.

Similarly, the countries most enthusiastic about monetary integration have indeed been the small, open economies of the Union (and even some outside it). Support for monetary integration (including, in some cases, monetary union) has been relatively strong from Belgium and

Luxembourg, the Netherlands, Denmark, Ireland, Spain, and Portugal; and from Austria, Norway, Finland, and Sweden outside the EU. The larger EU members less integrated into Union trade and finance – prominently the UK and Italy – have been far less enthusiastic.²⁵

On the second dimension, higher levels of economic integration within Europe affected the interests of domestic economic actors. As trade and capital flows within the EU grew, ever larger segments of EU business communities developed more important markets and investments in other EU nations. The growth of intra-EU trade and investment, therefore, increased the real or potential support base for economic policies that would facilitate and defend such economic activities. Stabilizing exchange rates within the EU was a prominent example of a policy that benefited the growing ranks of economic actors with cross-border intra-EU economic interests, whether these were export markets or investment sites. By the same token, import-competing tradables producers – especially those in traditionally high-inflation countries – faced the prospect that fixing their exchange rate would lead to a real appreciation of the currency that would harm them in important ways.

There is in fact substantial anecdotal evidence that much of the private sector's support for monetary integration came precisely from internationally oriented firms in the EU. Perhaps more striking is evidence that principal opposition to fixing exchange rates came from import-competing producers in relatively high-inflation countries that anticipated (correctly, as it turned out) that fixed exchange rates meant real appreciations.

The most prominent cases of domestic political divisions over European monetary relations were France and Italy in the early and mid-1980s.²⁶ These two were, along with Ireland, the countries whose inflation rates had been divergent from – that is, higher than – those of Germany for longest. From 1981 until 1985 both countries were torn by debates over whether to undertake the sacrifices necessary to keep their currencies fixed to the Deutschmark.

In France, the decision to stay in the EMS was made by the Socialist Mitterrand government in 1982 and 1983. In the midst of major domestic political conflict, the government faced the clear choice of forgoing its reflationary macroeconomic policies and keeping the franc in the ERM, or leaving the ERM and devaluing. After much strife it chose the former course. Similarly, in Italy, the government undertook a series of policies – including giving the central bank more independence and reducing wage indexation – meant to allow the lira to remain within the ERM. In both instances, the divisions over these policies are instructive.

In France, principal opposition to the fixed exchange rate came from the Communist Party (PCF) and the left wing of the Socialist Party (PS),

backed by the Communist-oriented union federation (the CGT). Principal support within the government came from the mainstream and right wings of the PS, backed by the Socialist-oriented union federation (the CFDT). There were important sociological characteristics of these organizations. The PCF was, as elsewhere in Europe, heavily oriented toward blue-collar workers in traditional industries. The Socialist Party was essentially middle class, dominated by managers, professionals, and white-collar workers. The PS membership relative to the population at large in 1973, for example, had a heavy overrepresentation of upper managers (11% of the party and 6% of the labor force), and of teachers (17% of the party and 3% of the labor force); workers were underrepresented (19% of the PS and 37% of the labor force).²⁷ Of the 169 PS deputies elected in 1981, to take another example, fully 47 per cent were teachers; another 22 per cent were professionals, and 20 per cent were upper managers and senior civil servants.²⁸

The trade unions also differed quite a bit as to their composition. The CGT was especially strong in traditional manufacturing industries: while three-fifths of CGT union election voters were in industry, less than half of CFDT voters were. On another measure, CGT votes in union elections in 1981 were 32 per cent of total votes. In such industries as metalworking, pulp and paper, and chemicals, the CGT vote was between 45 and 51 percent of the total; while in finance and services the CGT vote was between 10 and 22 per cent of the total. Within the public sector, the CGT dominated the steel, chemical, and auto firms, but had little strength in high-technology and financial firms.²⁹ Overall, the CGT in 1979 union elections received 50 per cent of the votes of industrial workers, 30 per cent of the vote among agricultural workers, and 33 per cent of the votes of other workers.³⁰

The general pattern within the labor movement, then, was that the CFDT was concentrated in non-tradable (service) sectors and competitive high-technology firms, while the CGT was prominent among tradable producers, especially those most affected by import competition. This division was mirrored to some extent by that between the Socialist and Communist parties. In this context, recall the expected policy differences between uncompetitive tradables sectors, competitive internationally oriented firms, and non-tradables producers. The first are expected to be especially hostile to a strong currency, the second favorable, and the third ambivalent.

These sectoral divisions were exacerbated by the economic trends of the early 1980s. As the franc appreciated in real terms against other EMS currencies, relative prices moved against tradables and in favor of the non-tradables (and cross-border investing) segments of the French economy. Indeed, in 1981–2 the prices of industrial products rose 19.5 per cent, while prices of private services rose 28.3 per cent and those of public

services by 34.8 per cent. This put serious pressure on tradables producers.³¹ Indeed, between 1980 and 1983, employment in tradable sectors declined 7 per cent. Meanwhile, employment in construction, trade, and services held steady, while that in energy, transport, telecommunications, and finance rose 5 per cent.³² It is not surprising that tradables producers were adamant in their desire for further devaluations.

In Italy, too, the principal opponents of EMS entry and eventually the policies undertaken to sustain a fixed exchange rate were in the Communist Party (PCI) and the Communist-oriented labor federation (CGIL). In 1978 the Communists voted against the law authorizing Italian accession to the exchange rate agreement, arguing that a delay of at least six months was advisable to avoid too severe a shock to employment and wages.³³ The PCI and the CGIL similarly fought against the reduction of wage indexation made necessary by the fixed exchange rate.

Some insight into the reason for these divisions is provided by a look at the socioeconomic differences among the major labor federations. As in France, the Communist-dominated CGIL was more heavily represented in traditional industries than the Socialist-oriented CISL and the more independent UIL. In 1983 CGIL members were 55 per cent of Italy's unionized industrial workers (CISL 29%, UIL 16%), 48 per cent of the country's organized workers in private services (CISL 31%, UIL 21%), and 36 per cent of union members in public services (CISL 43%, UIL 21%).³⁴

Although data are not available, impressionistic evidence indicates that the Communist – Socialist social composition mirrored that of their unions, and was therefore similar to that of France. In both instances, the French generalization held for Italy: the Socialists were more representative of those in services and high-technology industries, while the Communists were concentrated in traditional import-competing manufacturing. This, again, helps explain why the PCI was more inclined toward devaluations, with the PSI more favorable to the EMS.

In Europe in the 1980s as in the United States in the late 19th and early 20th century, then, political attention to international monetary issues grew as levels of economic integration rose. And in both instances, tradables producers were the principal supporters of currency devaluations, while internationally oriented banks and corporations were the principal supporters of fixed exchange rates. Similar patterns can be observed both historically and today.

CONCLUSIONS: LESSONS FROM THE DISTANT AND RECENT PAST

This essay has identified a set of factors expected to affect the political prominence of international monetary policies, and the sorts of political

cleavages to be expected in this area. As such, it is relevant to contemporary problems.

The first implication of the analysis and evidence presented here is that political debates over exchange rates can be expected to grow as the world becomes more financially and commercially integrated. It is also the case that the more financially and commercially open a country is, the more politically important currency issues are likely to be.

This implies that as the international economy becomes more integrated, controversies over economic policy will be more oriented toward issues that directly or indirectly implicate exchange rates. In this sense, while history will certainly not repeat itself, some of the flavor of gold standard-era mass politics concerning monetary policy may recur. It is certainly already the case that since 1980 in some developing countries, and some European countries, exchange rates and monetary policy have moved toward the top of the political agenda.

The second implication concerns the political cleavages that can be expected over exchange rate policy in a world in which goods and capital markets are closely integrated. Those observed in the American case, as indicated in Figure 1, reflect general economic regularities, and analogous divisions exist today in most countries. This means that I expect domestically oriented economic agents to be unenthusiastic about fixing the exchange rate, and tradables producers to want a lower exchange rate. On the other hand, the international financial and commercial sectors, along with multinational corporations and some exporters, will be supportive of a fixed rate.

Inasmuch as exchange rates become more politicized, and the divisions over exchange rates are as I anticipate, this implies a relatively new set of political cleavages and potential alliances. Divisions between tradables and non-tradables sectors were not particularly important in closed economies, in which other class or sectoral divisions predominated. Such divisions appear to be increasing in many of the world's nations, and may presage a reformulation of both politics and political institutions as they solidify.

None of this says very much directly about the *outcomes* of the policy debates in question. These outcomes will largely be the consequence of a wide range of socioeconomic, political, institutional, and historical factors that vary in important ways from country to country. However, understanding the conditions under which exchange rates are likely to be a major issue, and the sorts of socioeconomic divisions likely to arise as they are debated, is a first step on the road to analyzing international and domestic monetary policy. In a world increasingly tied together by trade and investment, this set of issues is likely to be ever more important – and understanding it ever more crucial.

NOTES

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- 1 Among the prominent exceptions are Joanne Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods* (Ithaca, NY: Cornell University Press, 1983); John Odell, *U.S. International Monetary Policy: Markets, Power, and Ideas as Sources of Change* (Princeton, NJ: Princeton University Press, 1982); and I.M. Destler and C. Randall Henning, *Dollar Politics: Exchange Rate Policymaking in the United States* (Washington, DC: Institute for International Economics, 1989).
- 2 This refers to covered real interest rates; currency, country, and inflation risk all affect interest rates.
- 3 The original reference is Robert A. Mundell, 'The appropriate use of monetary and fiscal policy under fixed exchange rates', *IMF Staff Papers* 9 (March 1962), pp. 70–7; see also his 'Capital mobility and stabilization policy under fixed and flexible exchange rates', *Canadian Journal of Economics and Political Science* 29, no. 4 (November 1963), pp. 475–85. The basic model can be found in any good textbook discussion of open-economy macroeconomics; a useful survey is W.M. Corden, *Inflation, Exchange Rates, and the World Economy*, 3rd edn (Chicago: University of Chicago Press, 1986).
- 4 Unfortunately, there is surprisingly little empirical work on these issues. One study found that output fluctuations in the consumer and producer's durables industries were two-thirds due to exchange rate changes and one-third to interest rate changes, while fluctuations in residential construction were entirely due to interest rate changes. M.A. Akhtar and Ethan S. Harris, 'Monetary policy influence on the economy – an empirical analysis', *Federal Reserve Bank of New York Quarterly Review* (Winter 1987), pp. 19–34. See also J. Ceglowski and S. Hilton, 'Interest rate and exchange rate effects in selected manufacturing industries', in Federal Reserve Bank of New York, *Research Papers on International Integration of Financial Markets and U.S. Monetary Policy* (New York: Federal Reserve Bank of New York, 1987), pp. 403–500. William Branson and James Love, 'U.S. manufacturing and the real exchange rate', in Richard Marston (ed.) *Misalignment of Exchange Rates: Effects on Trade and Industry* (Chicago: University of Chicago Press, 1988), pp. 241–70, focus on the differential impact of exchange rate movements. Suggestive results along similar lines are reported in Linda Goldberg, 'Nominal exchange rate patterns: correlations with entry, exit, and investment in U.S. industry', NBER Working Paper no. 3249 (Cambridge, 1990).
- 5 For those unfamiliar with the approach, the real exchange rate can be expressed as the relationship between the price of non-tradables and the price of tradables. By assumption the price of tradables is set on world markets and cannot be changed (in foreign currency terms) by national policy. In other words, the foreign currency price of tradables is an anchor around which domestic currency prices move. Depreciation (appreciation) makes tradables relatively more expensive (cheaper) in domestic currency terms, while non-tradables become relatively cheaper (more expensive). A useful survey and application to the LDCs is Sebastian Edwards, *Real Exchange Rates*,

- Devaluation and Adjustment* (Cambridge, MA: MIT Press, 1989). More technical essays are in John Bilson and Richard Marston (eds) *Exchange Rate Theory and Practice* (Chicago: University of Chicago Press, 1984).
- 6 See, for example, Larry Neal, 'Integration of international capital markets: quantitative evidence from the eighteenth to twentieth centuries', *Journal of Economic History* 45, no. 2 (June 1985), pp. 219–26; and Lawrence Officer, 'The efficiency of the dollar–sterling gold standard, 1890–1908', *Journal of Political Economy* 94, no. 3 (1986), pp. 1038–73.
 - 7 American capital controls were only in operation from 1963 to 1974, and American banks found many ways to circumvent them. It is in fact ironic that the great expansion of international financial activity in the 1970s may be related to the rise of the offshore markets, which itself was in many ways a response to American capital controls. In any case, the capital controls did serve to drive a wedge between American and offshore or foreign interest rates.
 - 8 I discuss some of these experiences in 'The dynamics of international monetary systems: international and domestic factors in the rise, reign, and demise of the classical gold standard', in Robert Jervis and Jack Snyder (eds) *Coping with Complexity in the International System* (Boulder, CO: Westview Press, 1993).
 - 9 Debates do continue about exactly how mobile capital is. An influential article was M. Feldstein and C. Horioka, 'Domestic saving and international capital flows', *Economic Journal* 90 (1980), pp. 314–29. For more on the issue, see Jeffrey A. Frankel, 'Quantifying international capital mobility in the 1980s', in Douglas Bernheim and John Shoven (eds) *National Saving and Economic Performance* (Chicago: University of Chicago Press, 1991). Frankel (Tables 2 and 3) finds that between 1929 and 1979, capital was not particularly mobile between the United States and the rest of the world, while since 1980 it has become very mobile.
 - 10 The implication is that for these last – typically producers of highly specialized machinery on long-term contracts – competition was not primarily on price terms. I should note again that in summarizing these complex divisions, I am not doing justice to the nuances of the debates. For more details, the reader can refer to my manuscripts, 'Economic integration and the politics of monetary policy in the United States', and 'Greenbacks, gold, and silver: the politics of American exchange-rate policy, 1870–1973', both available upon request.
 - 11 The standard history of this period is Irwin Unger, *The Greenback Era: A Social and Political History of American Finance, 1865–1879* (Princeton, NJ: Princeton University Press, 1964). See also Milton Friedman and Anna Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton, NJ: Princeton University Press, 1963), pp. 15–88. A more detailed discussion of all four episodes is in my 'Greenbacks, gold and silver', op. cit. note 10.
 - 12 An excellent survey of this period is John Hicks, *The Populist Revolt* (Minneapolis, MN: University of Minnesota Press, 1931); see also Friedman and Schwartz, op. cit. note 11, pp. 89–134.
 - 13 See David A. Lake, *Power, Protection, and Free Trade* (Ithaca, NY: Cornell University Press, 1988), pp. 91–118, for a survey of American trade policy in this period.
 - 14 I ignore the 1907–13 debates over the founding of the Federal Reserve. These debates focused on the central bank's lender of last resort and international bargaining functions, on which see Lawrence Broz, *Wresting the sceptre from London: the international political economy of the founding of the Federal Reserve*, PhD dissertation (UCLA, 1992). The monetary policy aspects of the

debate are relevant, but they do not differ significantly from those carried out in the 1920s, so I omit discussion of them in the interests of brevity.

- 15 The outstanding source on this period is US House of Representatives, Committee on Banking and Currency, Subcommittee on Domestic Finance, *Federal Reserve Structure and the Development of Monetary Policy: 1915–1935* (Washington: GPO, 1971). The report was prepared by Jane D'Arista. Other sources include John T. Woolley, *Monetary Politics: The Federal Reserve and the Politics of Monetary Policy* (Cambridge: Cambridge University Press, 1984), pp. 30–47; and Donald F. Kettl, *Leadership at the Fed* (New Haven, CT: Yale University Press, 1986), pp. 18–44.
- 16 For surveys of the events leading up to, and through, the first stage of the Great Depression, see William J. Barber, *From New Era to New Deal* (Cambridge: Cambridge University Press, 1985); Barrie Wigmore, *The Crash and its Aftermath* (Westport, CT: Greenwood Press, 1985); Ronald Batchelder and David Glasner, 'Debt, deflation, the Great Depression, and the gold standard', in John Rollins (ed.) *Money and Banking: The American Experience* (Virginia: Durrell Foundation, 1992); Frank Freidel, *Franklin D. Roosevelt: A Rendezvous with Destiny* (Boston, MA: Little, Brown and Company, 1990), pp. 88–91, 100–5, and 133–4; D'Arista, op. cit. note 15, pp. 117–31; Friedman and Schwartz, op. cit. note 11, pp. 299–419; and Kettl, op. cit. note 11, pp. 29–44.
 Much of the sentiment for reflation and devaluation coalesced around the ideas of George Warren, a Cornell economist who believed devaluation would raise commodity prices. 'Rubber-dollar Warren', as his detractors called him, has received something of an undeservedly bad press. As Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression* (New York: Oxford University Press, 1992), pp. 340–1, notes, there were two sources of slippage in Warren's mechanism – between the gold price and the exchange rate, and between the exchange rate and commodity prices – so that the relationship was not unproblematic. Nonetheless, devaluation did in fact serve to raise commodity (and, more generally, tradables) prices. In some ways Warren's ideas were closer to modern real exchange rate analysis than those of his more orthodox contemporaries. For a flavor of his views, see George Warren and Frank Pearson, *Gold and Prices* (New York: John Wiley and Sons, 1935).
- 17 On which there is a small political economy literature, which tends to argue that Fed policy responded to the needs of its member banks rather than the macroeconomy. See Gerald Epstein and Thomas Ferguson, 'Monetary policy, loan liquidation, and industrial conflict: the Federal Reserve and the open market operations of 1932', *Journal of Economic History* 44, no. 4 (December 1984), pp. 957–83; and Gary Anderson, William Shughart II, and Robert Tollison, 'A public choice theory of the great contraction', *Public Choice* 59, no. 1 (October 1988), pp. 3–23.
- 18 Arthur Crawford, *Monetary Management under the New Deal* (Washington, DC: American Council on Public Affairs, 1940), p. 14; Batchelder and Glasner, op. cit. note 16.
- 19 In March 1933, the Chairman of the Clearing House Association and President of Central Hanover Bank and Trust recognized that the gold standard could not be sustained: 'in the face of today's figures we are already off the gold standard whether the fact is legally recorded or not' (Barrie Wigmore, 'Was the Bank Holiday of 1933 caused by a run on the dollar?', *Journal of Economic History* 47, no. 3 [September 1987], p. 748). After the crisis had receded, the bankers desired stabilization – and they got it, culminating in the Tripartite Agreement of 1936. An interesting incident was the involvement of Walter Lippman. Lippman was prevailed upon by Morgan's two leading partners to write a

- column about the need to go off gold; the column appeared on 18 April 1933, and was referred to repeatedly by Roosevelt in his justifications of his decision. See Ronald Steel, *Walter Lippman and the American Century* (Boston, MA: Little, Brown and Company, 1980), pp. 302–9.
- 20 There is no space for an evaluation of this issue here. As a curiosity, however, I can point out that the most popular propaganda tract of the Populists spoke primarily of prices, including relative prices; and at several points argued explicitly that farm prices especially needed to be and would be increased by Populist policies. See William Harvey, *Coin's Financial School*, reprint edited by Richard Hofstadter (Cambridge: Harvard University Press, 1963); for example, pp. 200–14.
 - 21 Of course, the two are difficult to separate: to the extent that a farmer's crop declined in price, he or she would have more trouble servicing the debt. Indirect support for my argument can be gleaned from the slender modern literature on the Populist era. For example, Robert McGuire, 'Economic causes of late-nineteenth century agrarian unrest', *Journal of Economic History* 41, no. 4 (December 1981), pp. 835–52, found Populist fervor closely related to price instability, while John Bowman and Richard Keehn, 'Agricultural terms of trade in four Midwestern States, 1870–1900', *Journal of Economic History* 34 (September 1974), pp. 592–609, found agrarian political unrest rose during periods of farm price declines.
 - 22 Again, more details can be found in my 'The dynamics of international monetary systems', op. cit. note 8.
 - 23 Good surveys of the process are Michele Fratianni and Jürgen von Hagen, *The European Monetary System and European Monetary Union* (Boulder, CO: Westview Press, 1992); and Francesco Giavazzi and Alberto Giovannini, *Limiting Exchange Rate Flexibility: The European Monetary System* (Cambridge, MA: MIT Press, 1989).
 - 24 For some exceptions, see John Goodman, *Monetary Sovereignty: The Politics of Central Banking in Western Europe* (Ithaca, NY: Cornell University Press, 1992); the special issue of *Economics and Politics*, 'The political economy of European Monetary Unification', 5, no. 2 (July 1993); and Wayne Sandholtz, 'Choosing union: monetary politics and Maastricht', *International Organization* 47, no. 1 (winter 1993), pp. 1–39.
 - 25 I make this argument in more detail, and with more systematic evidence, in 'Economic liberalization and the politics of European monetary integration' (unpublished paper).
 - 26 The politics of the 1992–3 crisis are a close second. Without engaging in detailed analysis, it can be noted that the degree of commitment to the ERM roughly tracked the degree to which individual countries were integrated into regional trade and investment – a rough proxy for the prominence of domestic interests associated with international economic activities.
 - 27 Patrick Hardouin, 'Les caractéristiques sociologiques du Parti Socialiste', *Revue française de science politique* 28, no. 2 (April 1978), pp. 220–56.
 - 28 D.S. Bell and Byron Criddle, *The French Socialist Party*, 2nd edn (Oxford: Clarendon Press, 1988), p. 203. David Hanley, *Keeping Left? Ceres and the French Socialist Party* (Manchester: Manchester University Press, 1986), pp. 177–97, has a useful compilation of his own survey of the PS and that of Cayrol, which addresses both the party's social composition and the differences among the factions.
 - 29 Guy Groux and René Mouriaux, *La CGT* (Paris: Economica, 1992), p. 103; René Mouriaux, *Syndicalisme et politique* (Paris: Editions Ouvrières, 1985), pp. 201–2.
 - 30 Gérard Adam, *Le pouvoir syndical* (Paris: Dunod, 1983), p. 164. The elections in question were the 'elections prud'homales'.

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- 31 Alain Fonteneau and Pierre-Alain Muet, *La gauche face à la crise* (Paris: Presses de la Fondation Nationale des Sciences Politiques, 1985), p. 319.
- 32 These are the figures given, and the aggregations (tradable, non-tradable, and 'sheltered') used, in Jeffrey Sachs and Charles Wyplosz, 'The economic consequences of President Mitterrand', *Economic Policy* 2 (April 1986), p. 275.
- 33 For two informed discussions of Italian accession see Luigi Spaventa, 'Italy joins the EMS: a political history', Occasional Paper No. 32, Johns Hopkins University Bologna Center (June 1980), and Giulio Andreotti, *Diari 1976-1979: Gli anni della solidarietà* (Milan: Rizzoli, 1981), especially pp. 284-9.
- 34 Guido Baglioni, Ettore Santi and Corrado Squarzon, *Le relazioni sindacali in Italia: Rapporto 1983-1984* (Rome: Edizioni Lavoro, 1985), pp. 194-6. Figures exclude retirees.

