Simmons, *Who Adjusts?*, Chapters 1-3.

Week 4, IR field seminar

In these chapters, Simmons argues that the willingness of states to abide by the international norms of the gold standard during the interwar years must be explained in part by reference to domestic politics and institutions. Specifically, she finds that states that were small, highly trade-dependent, with stable governments and quiescent labor movements were capable of responding to balance-of-payments deficits with internal adjustment. Large, economically insulated countries with unstable governments and societies were most likely to choose to adjust externally with "beggar-thy-neighbor" policies.

For Simmons, the crucial factor linking domestic political and social conditions to the commitment of states to the international gold standard was the credibility of their commitment to the domestic macroeconomic policies required by the gold standard. Essentially, in addition to domestic political pressures against adjustment, governments lacking credibility faced speculative capital outflows that increased inflationary pressures and tended to worsen current account deficits. The combination of current and capital account deterioration produced extremely serious difficulties in abiding by international adjustment norms. Simmons finds three especially significant factors in determining the credibility of governments to avoiding inflationary policies: the stability or anticipated longevity of the governments, which affected their perceived time horizons; the susceptibility to political manipulation of the central banking institutions; and the degree of labor unrest.

Acceptance of the gold standard implied commitment to three basic norms: the priority of currency stability, in the form of external balance, over domestic macroeconomic policy; a preference for reasonably liberal external policies over external controls, particularly in the area of international trade; and the provision of liquidity in the form of exceptional financing by surplus countries. The nineteenth-century gold standard was based on domestic political systems characterized by stable governments and political philosophies and realities that permitted governments to pursue economic policies to the exclusion of domestic social demands. Accordingly, these governments were able to abide by the norms of the gold standard, especially the priority of currency stability over domestic macroeconomic adjustment, and the confidence of rational, forward-looking markets in the commitment of individual states to the gold standard was generally high.

By the 1920s, governments frequently faced conditions that undermined the credibility of their official commitments to deflate in response to balance-of-payments deficits: inclusive, democratic politics, left-leaning governments, labor unrest and government instability all undermined the confidence of markets that monetary policy would remain independent of domestic political pressures. On the other hand, insulation of monetary authority in the form of independent central banks lead to enhanced credibility of commitment to adjustment norms.

Simmons refines her argument by distinguishing among approaches to handling balance-of-payments deficits. She argues that center-right governments and independent central monetary authorities tended to protect investment and savings by avoiding devaluation and favoring protectionism. Leftist governments, by contrast, tended to defend labor interests by avoiding protectionist measures and devaluing the currency.