

# The Stability of the Inter-war Gold Exchange Standard - Did Politics Matter?

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## Summary:

The collapse of the inter-war gold standard has frequently been studied in economic history. This paper proposes a discrete time duration model to analyze how economic and political indicators affected the length of time a country remained on the gold standard. We rely on a panel data set of 24 countries over the years 1922-1938, and incorporate new measures of political and institutional variables. The results of this study identify high per capita income growth, large foreign currency and gold reserves, trade with other countries on gold, international creditor status, and the prior experience of hyperinflation as factors that increased the probability that a country would remain on gold. In contrast, democratic regimes that were exposed to a relatively high percentage of left-wing representation in parliament left the gold standard early. We also offer predicted survival probabilities for selected key countries on the gold standard. These survival rates show that Britain abandoned the gold exchange standard at a much higher survival probability, compared with other countries in the system.