COMMENTS TO "THE WORLD AFTER THE "SPANISH DOLLAR""

BY A. CALDERÓN, R. DOBADO, A GARCÍA-HIERNAUX AND J. FLORES ZENDEJAS

I. Argimón

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1. SUMMARY

The goal of the paper is testing the hypothesis that silver production in New Spain/Mexico had a significant influence on the evolution of prices across the world (before and after 1821).

How do they do it?:

- Gather historical evidence of evolution of silver production and trade in different parts of the world
- Describe evolution of prices and silver production (calculate different price series and use others already available)
- Use econometrics
  - to test for bilateral cointegration between price indices in different continents. They find there is.
  - test for cointegration between average price evolution and silver production. They find there is.
- Conclude that:
  - International price correlation existed before 1800
  - Deflationary period after 1820 is “first global crisis”
  - Silver supply may have affected price evolution

2. DESCRIPTIVE PART

They argue that: the *reales de a ocho* were international currency from first half of 16th century until the post independence decades (Cipolla, 1999).

They refer to political events affecting the period: French Revolution, Napoleonic wars, Hispanic America Independence

They provide empirical evidence that:

- *New Spain was main world silver producer (60%). In the 1810s, production drops (weight not so much).*
- *Inflation characterizes 2nd half of 18th and beginning of 19th and deflation started in the mid-1810s. Data on China, the US, Europe, New Spain/Mexico*

They explore links of international economic trade and silver

•**QUESTIONS:**

- What about fiduciary money? What about the evolution of other coins (Cu)?
- Could the fall in supply be DD driven?
- Reaction of Monetary authorities? Role of monetary regime (convertibility)?
- Why the high increase in silver production during the 18th: the all-time record?

3. FRAMEWORK

Theoretical background to the hypothesis: relationship between monetary base and prices. Fisher's Quantity Theory of money:

$$MV=PT$$

- The hypothesis as presented, assumes constant T and constant v.

Q: Evidence that this is so. Role of financial institutions

- Data used: Silver is only a part of money stock.

Q: Is it the relevant production data?

- Production and productivity:

Q: can we distinguish between the two?

- The case of JP:

Q: how can we establish that openness is a pre-requisite for globalization?

4. ECONOMETRIC METHODOLOGY

- They describe the evolution of inflation or price level as inverted U shaped, but test for integration.

  Q: Why not test for integration with structural change?
- They carry out pairwise analysis of co-movements between prices in different countries and continents

  Q: Consider using factorial analysis: main components? It will establish whether the patterns coincide and if there is one which dominates the rest.
- They do not establish causality between production and prices

  Q: Consider using the PCA to run the regression. Consider running a dynamic specification (ECM)

3. CONCLUSIONS

- They claim that their results support the hypothesis that the extent and intensity of economic integration across distant parts of the world was large before the beginning of the globalization of the 19th century.

- **Q:** What about textiles (cotton)? Wouldn't the textile trade well before the 1820 reflect such globalization?
- **Q:** What is the role of institutions? Banks?
- **Q:** What are the consequences of the drop in silver production for the monetary system?

OVERALL

Relevance of the topic: globalization

Analysis of a historical period characterized by large changes: choose relevant elements

A very promising research: the analysis gives rise to many questions as to its implications

Thank you!!

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