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INFLATION AND SWITCHES BETWEEN SPECIE AND PAPER STANDARDS IN SWEDEN 1668 - 1931: A PUBLIC FINANCE INTERPRETATION

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Abstract

In this study, the recent literature on the integration of fiscal and monetary policy is used to examine the suspensions and resumptions of currency convertibility in Sweden during the period 1668–1931. We demonstrate that urgent demands for financing of war expenditures forced the Swedish Riksbank to abandon convertibility of its notes in all cases of suspensions prior to 1914. We argue that the suspension periods should be regarded as unexpected lapses into discretion from rule-bound convertibility regimes rather than as part of an optimal ex ante public finance policy. All resumptions of convertibility, except for the resumption of 1924, implied an ex post formal devaluation. All suspensions were illegal, except in 1931 when a constitutional escape clause was invoked.

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