

sumably be to raise or lower the odds of any given country joining (leaving) the convergence club. Yet, with these caveats in mind, we observe that the early 1870s marked the beginning of the international gold standard while the 1970s witnessed the breakdown of the Bretton Woods gold-backed dollar standard.

Pre-1870, the monetary standards around the world varied with some countries on gold, others on silver and still others with bimetallic (gold and silver). In some countries, copper was part of the mix. The trigger for the formation of the international gold is usually identified as Germany's switch to the gold standard following its victory in the Franco-Prussian war, using the indemnification received from France to acquire the necessary gold reserves, while at the same time dumping its silver. Germany's switch to gold meant that Europe's two leading industrial powers were on the gold standard. This triggered a global shift towards gold-backed currency and thus ushered in the international gold standard.<sup>8</sup> While the snowball effect took time, and even at the outbreak of the First World War its reach was not global, economic historians comment on the remarkable degree of price stability evident in this era.<sup>9</sup>

With this history in mind, it is interesting to note that studies of the period up to 1870 find strong divergence. For the period after 1870, studies vary in their conclusion as to when convergence started: some place it at about 1880 (based on the most commonly cited data, namely that compiled by Angus Maddison) and one study at about 1890.<sup>10</sup> The latter date also turns out to be of some significance in that it marks the end of the great deflation that was associated with the demonetization of silver as the world switched to gold.<sup>11</sup>

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<sup>8</sup> For a history of this period, see Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton: Princeton University Press, 1996).

<sup>9</sup> See Harley footnote 66 supra.

<sup>10</sup> See Branko Milanovic's discussion at pg 16-20.

<sup>11</sup> See Barry Eichengreen, *op. cit.*, pg 19.