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# THE GOLD STANDARD ILLUSION

## FRANCE, THE BANK OF FRANCE, AND THE INTERNATIONAL GOLD STANDARD 1914–1939

*Kenneth Mouré*

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*L'étalon-or, je m'en fous*

Pierre Laval, October 1931

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| | |
|---|---|
| ADPdD | Archives Départementales de Puy de Dôme (Clermont-Ferrand) |
| AN | Archives Nationales (Paris) |
| AP | Archives Privées, AN (Paris) |
| AQ | Archives des Entreprises, AN |
| BdF | Banque de France (archives of) |
| BDN | Bons de la Défense Nationale |
| BIS | Bank for International Settlements |
| BoE | Bank of England (archives of) |
| BU | Jean du Buît Papers, FNSP |
| CAMT | Centre des Archives du Monde de Travail (Roubaix) |
| CD | Chambre des Députés |
| CDC | Caisse des Dépôts et Consignations |
| CGPF | Confédération Générale de la Production Française |
| CHEFF | Comité d'Histoire Économique et Financière de la France |
| CGT | Confédération Générale du Travail |
| CNE | Conseil National Économique |
| CVIA | Comité de Vigilance des Intellectuels Antifascistes |
| DCG | Délibérations du Conseil Général, Banque de France |
| DCP | Délibérations du Comité Permanente, Banque de France |
| EEA | Exchange Equalisation Account |
| FDRL | Franklin D. Roosevelt Library (Hyde Park, New York) |
| FNSP | Fondation Nationale des Sciences Politiques (Paris) |
| FO | British Foreign Office papers (PRO) |
| FPVM | Fédération des Porteurs de Valeurs Mobilières |
| FRBNY | Federal Reserve Bank of New York |
| *FRUS* | *Foreign Relations of the United States* |
| FSC | Fonds de Stabilisation des Changes |
| GLH | George L. Harrison Papers, Sterling Library, Columbia University |
| IGF | Inspection Général des Finances |
| JPM | J. P. Morgan Papers, The Pierpont Morgan Library, New York |
| JPM&C | J. P. Morgan and Company |
| *JMK* | *Collected Writings of John Maynard Keynes* |
| *JO* | *Journal Officiel* |
| LDH | Ligue des Droits de l'Homme |
| MAE | Ministère des Affaires Étrangères |
| MD | Henry Morgenthau Diaries (FDRL) |
| MF | Minister of Finance |
| MGF | Mouvement Général des Fonds |
| MH&C | Morgan Harjes et Cie |
| PCF | Parti Communiste Français |
| PRO | Public Record Office (Kew) |
| RCL | Russell C. Leffingwell Papers, Sterling Library, Yale University |

| | |
|---|---|
| *REP* | *Revue d'économie politique* |
| RG 59 | Record Group 59; General Records of the US State Department |
| SAEF | Service des Archives Économiques et Financières (Savigny-le-Temple) |
| SDN | Société des Nations |
| SFIO | Section Française de l'Internationale Ouvrière |
| T | British Treasury papers (PRO) |
| TWL | Thomas W. Lamont Papers, Baker Library, Harvard University |

# Introduction

In Dashiell Hammett's *The Thin Man* (1934), a drunken friend warns detective Nick Charles to get his money out of the Golden Gate Trust in San Francisco, as he's heard it is on the rocks. Charles claims he hasn't much there. Asked what he does with his money, Charles replies: 'Me and the French hoard gold.' Hammett's reference reflected a widespread belief that French gold accumulation was the single most important factor in the decline of world prices and economic activity since 1929, the fundamental cause of the Great Depression. The friend shakes his head and gripes, 'It's fellows like you that put the country on the bum.' Charles retorts, 'And it's fellows like me that don't go on the bum with it.'[1]

Contemporaries believed that French gold policy from 1928 to 1932 not only caused the Depression, but insulated France against the worst ravages of the global crisis, delaying the onset of the slump in France. By the mid-1930s, however, France seemed immune to recovery. Failure to share in the global economic recovery after 1932 followed directly from determination to defend the franc Poincaré with high interest rates and domestic deflation.[2] France's plight attracted little sympathy abroad: French gold policy was seen as the key factor imposing monetary contraction and price deflation on the gold standard world. Shortly after Britain went off gold in 1931, John Maynard Keynes predicted that only the 'grinding pressure of events', meaning gold losses and the economic strain of sustained deflation, would alter French views: 'They think that if everyone behaved as they have, everyone would have as much gold as they have. Their own accumulations are the reward of virtue, and the losses which the rest of us have suffered are the penalty of imprudence.'[3]

After a lengthy absence, French gold policy has recently returned to centre stage in the history of the Great Depression. A new orthodoxy explaining the world's most severe economic slump argues that the inter-war gold standard played a fundamental role in the origins, transmission, severity, and duration of the crisis.[4] Within national economies,

[1] Dashiell Hammett, *The Thin Man* (New York: Vintage Black Lizard Edition, 1992; 1st pub. Alfred A. Knopf, 1934), 110.

[2] For the importance of declining exports and investment, both results of the overvaluation of the franc, on French experience of depression, see Pierre Villa, *Une analyse macroéconomique de la France au XX$^{e}$ siècle* (Paris: Éditions CNRS, 1993), particularly 91–103, 189–95.

[3] *The World Economic Crisis and the Way of Escape* (London: George Allen and Unwin, 1932), 87.

[4] The essential synthesis for this interpretation is Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (Oxford: Oxford University Press, 1992). See also Barry Eichengreen, 'The Origins and the Nature of the Great Slump Revisited', *Economic History Review*, 45, no. 2 (1992), 213–39; Peter Temin, *Lessons from the Great Depression* (Cambridge, Mass.: MIT Press, 1989); Peter Temin, 'Transmission of the Great Depression', *Journal of Economic Perspectives*, 7, no. 2 (1993), 87–102; James D. Hamilton, 'Role of the International Gold Standard in Propagating the Great Depression', *Contemporary Policy Issues*, 6 (Apr. 1988), 67–89; and Ben Bernanke and Harold James, 'The Gold Standard, Deflation, and Financial Crises in the Great Depression', in

gold standard belief determined policy within a framework of understanding that required domestic deflation if gold losses threatened monetary reserves. This 'external constraint' required tighter monetary and fiscal policies in order to maintain gold reserves and the gold parity of the currency, even if the domestic economy was already in depression. Internationally, the gold standard transmitted the shocks from national economies throughout the international monetary system. The French contribution to this deflationary crisis was substantial. From June 1928, when the franc returned to gold, to June 1932, which marked the bottom of the slump for most countries, French gold reserves increased by 55 billion francs, rising from 11.6 per cent to 28.3 per cent of official world monetary gold reserves. One recent account claims that French policy caused the Great Depression, and holds Prime Minister Raymond Poincaré and Bank of France Governor Émile Moreau personally responsible for the global deflation.[5]

*The Gold Standard Illusion* takes the new, gold-standard-based interpretation of the Great Depression as its point of departure. Based on archival research, particularly in recently available records at the Bank of France, this study uses a careful exploration of French experience to test how far the new orthodoxy is supported by the historical record of gold standard policy in the country where belief in the gold standard was strongest and most stubborn, and whose gold policy is held to have had the most pronounced impact on the international system. The results sustain much of the gold standard interpretation of the Depression, finding gold standard belief and logic to have played a determining role in the deflationary impulse that brought on the Depression. But they do not support claims that a gold standard 'regime' determined policy, or that 'rules of the game' played a significant role in policy making. Individual and institutional players were involved in a game, the contours of which were determined not by gold standard rules, but by rigid conceptions of economic orthodoxy. Rather than a flawed gold standard leading ineluctably to world depression, *The Gold Standard Illusion* finds policy errors in France and elsewhere to have been rooted in contemporary economic belief, of which gold standard orthodoxy was but one part. Belief in a mythical gold standard promoted policy choices (and arguments to justify them) that encouraged contraction in the midst of depression. The severity of the Depression in the 1930s was in good part the price paid for this gold standard illusion.

Contemporary British explanations of the Depression emphasized the decline in world prices as its key symptom, and attributed this decline to the maldistribution of world gold reserves. France and the United States were the obvious culprits, holding 60 per cent of the world's gold reserves in June 1931. Financial writer Paul Einzig held an extreme view, blaming France alone for the Depression, writing in October 1931 that 'the financial warfare conducted by France in order to acquire political power over Europe has largely contributed to the development of the economic depression since 1929, and has been the direct cause of

R. Glenn Hubbard, ed., *Financial Markets and Financial Crises* (Chicago: University of Chicago Press, 1991), 17–56, and Ben S. Bernanke, *Essays on the Great Depression* (Princeton: Princeton University Press, 2000), chs. 1–4. This interpretation is well employed in an account intended for historians, integrating the gold standard explanation with political repercussions, in Patricia Clavin, *The Great Depression in Europe, 1929–1939* (London: Macmillan, 2000).

[5] H. Clark Johnson, *Gold, France, and the Great Depression, 1919–1932* (New Haven: Yale University Press, 1997), esp. 186–9. Johnson disagrees with the new orthodoxy, as will be explained below.

its accentuation during the second half of 1931 into a crisis without precedent'.[6] British authorities generally interpreted the crisis as one of falling prices and saw the working of the international gold standard, in particular American and French gold policies, as fundamental to explaining the slump. The *Macmillan Report* of 1931 explained the price decline as a 'monetary phenomenon' resulting from the failure of the monetary system to solve unprecedented problems of a non-monetary character. It identified two problems in the recent working of the gold standard. First, currencies had returned to gold with disparities in their purchasing power, thus affecting relative producer costs and incomes, which in turn disturbed trade and capital flows. These disparities had not been corrected by the gold standard system. Second, France and the United States, the latter having taken Britain's place as the main creditor nation, had been drawing their balance of payments surpluses in gold rather than increasing their imports and foreign lending, 'a contingency which the normal working of the international gold standard does not contemplate and for which it does not provide'.[7] Many British accounts of the crisis, particularly after sterling was forced off gold, blamed the gold standard and French and American gold policy.[8] Keynes blamed their 'selfishness and folly' for the gold standard having become 'a curse laid upon the economic life of the world'.[9]

Analyses after the Second World War tended to focus on the domestic origins of the crisis in the United States, where the change from unprecedented growth and prosperity to severe depression was most dramatic and preceded the onset of the crisis in most other economies. Explaining the American slump became the key to understanding the global depression, and the large US gold reserve at the end of the 1920s seemed to preclude a gold shortage as the explanation for the onset of the crisis.[10] By the 1970s, debate on the origins and dynamic of the Great Depression had become a conflict between monetarist and Keynesian interpretations. Monetarists argued that monetary policy, particularly the unprecedented contraction of the US money supply in the period 1929–33 and the failure of the Federal Reserve System to deal with a series of banking crises, was to blame for the severity of the Depression. Bad monetary policy, not a failure of markets, was the key.[11] The 'Keynesian' counter-argument was that the monetary contraction was not

[6] Paul Einzig, *Behind the Scenes of International Finance* (London: Macmillan, 1932 reprint with new preface [1931]), p. v, replied to critics that rather than his view of France being 'prejudiced and exaggerated', he had understated the case against the French (ibid., pp. xi–xii).

[7] Committee on Finance and Industry, *Report* (*Macmillan Report* hereafter) (London: His Majesty's Stationery Office (Cmd. 3897), 1931), 70–9, 93, 106–7; Sir Henry Strakosch, 'The Economic Consequences of Changes in the Value of Gold', in League of Nations, *Selected Documents Submitted to the Gold Delegation of the Financial Committee* (Geneva: League of Nations, 1930), 7–36, and 'Gold and the Price Level', supplement to *The Economist*, 5 July 1930. See also Ian M. Drummond, *The Floating Pound and the Sterling Area 1931–1939* (Cambridge: Cambridge University Press, 1981), 127–33.

[8] Lionel Robbins is an exception, blaming Britain for not following the 'rules of the game' in his *The Great Depression* (London: Macmillan, 1934), 22–9.

[9] John Maynard Keynes, 'A Gold Conference', *The New Statesman and Nation*, 12 Sept. 1931, reprinted in *The Collected Writings of John Maynard Keynes*, vol. xx, *Activities 1929–1931: Rethinking Employment and Unemployment Policies*, ed. Donald Moggridge (London: Macmillan, 1981), 600.

[10] See the comments on both these points by W. Arthur Lewis, *Economic Survey, 1919–1939* (London: George Allen and Unwin Ltd., 1949), 52.

[11] Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton: Princeton University Press, 1963), ch. 7, 'The Great Contraction, 1929–33'.

exogenous to declining output and prices, and that 'real' factors, most notably a decline in consumption spending (particularly on housing and durable goods), provided the shocks to which monetary policy responded.[12] Both explanations focused on the US experience. Charles Kindleberger offered a distinct alternative, insisting that the crisis was more complex (combining real and monetary causes) and that it was *international*, with capital flows in the international economy critical to explaining the scale and severity of the Depression. A failure of leadership, in particular the absence of an international lender of last resort, made the Depression 'so wide, so long, and so deep'. Britain had fulfilled this role in the pre-1914 gold standard; after 1918 Britain could no longer do so, and the United States was unprepared to take its place.[13] On the fiftieth anniversary of the 1929 Wall Street Crash, this discord was aired in the *Journal of Portfolio Management*, assessing 'What happened and why?' Paul Samuelson claimed the Depression was a product of the 'somewhat fortuitous' combination of structural factors and monetary policy errors. Kindleberger insisted on the international dimension to the crisis and the absence of a lender of last resort. Milton and Rose Friedman reiterated that the slump had been a 'garden-variety recession' until banking crises and Federal Reserve policy produced a catastrophic monetary contraction in the United States, which was exported to the rest of the world.[14]

Ten years later, new research and analysis had radically transformed the debate. The Keynesian–monetarist conflict gave way to a new interpretation stressing the structural changes that followed the First World War and explaining the crisis as essentially monetary in character. Peter Temin marked out the contours of the new explanation in his Lionel Robbins lectures in 1989, and Barry Eichengreen filled in detail and added nuance in *Golden Fetters* (1992), his full-scale history of the Depression.[15] Surveying new research, Eichengreen described a 'hidden revolution' in study of the Depression. This explanation argued that two key structural changes took place after the First World War. Shifts in the composition of production (geographic pattern, and a shift toward consumer durables that accentuated the trade cycle) and in labour markets (increased rigidities via unionization and unemployment insurance) were particularly important in the United States. Changes in the international monetary system (partial adoption of the gold exchange standard) and in international payments (the reparation and war debt payments of the 1920s that came to depend on American foreign lending in order to 'recycle' payments back to the United States) had global repercussions. These structural changes accentuated the shock to debtor countries when contractionary monetary policy in the United States in 1928 set off a deflationary spiral with a global impact. The scale of the deflationary compulsion and its durability were products of the gold standard, which served as a transmission mechanism

[12] Peter Temin, *Did Monetary Forces Cause the Great Depression?* (New York: Norton, 1976).

[13] Charles P. Kindleberger, *The World in Depression, 1929–1939*, revised edn. (Berkeley and Los Angeles: University of California Press, 1986 [1973]), quote from 289; also id., 'Keynesianism vs. Monetarism in the 1930s Depression and Recovery', in his *Keynesianism vs. Monetarism and Other Essays in Financial History* (London: George Allen and Unwin, 1985), 287–92.

[14] Paul A. Samuelson, 'Myths and Realities about the Crash and Depression'; Charles P. Kindleberger, 'The International Causes and Consequences of the Great Crash'; and Milton and Rose D. Friedman, 'The Anatomy of Crisis'; all in *Journal of Portfolio Management*, 6, no. 1 (1979), 7–21. For a survey of scholarly opinion at this time, see Peter Fearon, *The Origins and Nature of the Great Slump 1929–1932* (Atlantic Highlands, NJ: Humanities Press, 1979).

[15] Temin, *Lessons from the Great Depression*, and Eichengreen, *Golden Fetters*.

to spread deflation internationally, encourage speculation on weak currencies, and fetter policy makers to a programme of restrictive policies.[16]

This interpretation differed from the inter-war British criticism of French and American gold policies in two important ways. First, the earlier explanation supposed that with *correct* policies in France and the United States, the gold standard system would have worked smoothly: the Depression was a product of policy errors within a sound system. The new interpretation stresses that the gold standard itself was flawed: deflationary pressure was inherent in the system restored in 1925. Second, gold standard orthodoxy in 1930 precluded the use of monetary policy to stabilize prices. The key new argument that freeing monetary policy from its *golden fetters* was necessary to achieve recovery had been the terrain of 'currency cranks' in 1930. Active monetary policy to stabilize prices and promote employment, presented as the solutions to the crisis, were part of the legacy of the Depression and the development of policy and theory in the 1930s, facing problems for which orthodox prescriptions proved ineffective.

Eichengreen's *Golden Fetters* explored in detail how the gold standard functioned as the 'principal culprit' in the onset and rapid transmission of the depression, explaining the synchronized, global nature of the economic decline and how departure from gold held the key to recovery.[17] The gold standard earned this ignominy on the basis of its structural asymmetry, operating with a powerful deflationary bias, and for its tenacious ideological grip on policy makers. The gold standard, Eichengreen maintained, was structurally flawed: the external constraint of gold losses required a prompt, contractionary policy response, whereas gold accumulation was not accompanied by any particular pressure or requirement for credit expansion. The burden of adjustment tilted heavily to the debtor countries, those losing gold, and it required restrictive monetary and fiscal policies to staunch gold losses and speed balance of payments adjustment. The gold standard's powerful deflationary bias, uncompensated by deliberately expansionary policies elsewhere, drove the world ever deeper into depression after the American monetary contraction began in 1928.[18]

Structural changes magnified the adjustment problem.[19] The pattern of international payments had been altered by changing trade and credit flows during and after the war, reparation and war debt payments, and the concentration of gold reserves in the United States. US gold reserves doubled from December 1913 to December 1918, and the US share of world reserves increased from 26.5 per cent to 39 per cent while total world gold

[16] Eichengreen, 'The Great Slump Revisited'.

[17] The phrase 'principal culprit' used by Ben S. Bernanke in his review essay, 'The World on a Cross of Gold', *Journal of Monetary Economics*, 31 (1993), 251–67.

[18] Kindleberger posed the question of why the international monetary mechanism did not work symmetrically, answering that the gold standard system gave way to individual countries seeking to maximize their own gains in a system needing leadership, rather than seeing the asymmetry as inherent in the system. Kindleberger, *World in Depression*, 9–11.

[19] Both Eichengreen and Temin stress the roots of the crisis in war-induced changes; comment during the inter-war period recognized the war as a critical dislocation: see John Maynard Keynes, *The Economic Consequences of the Peace* (London: Macmillan, 1919) for an early statement of this sort; Robbins's *The Great Depression* (p. 1) counted 1933 as the nineteenth year of the crisis.

reserves had increased 40 per cent, mainly through the withdrawal of gold coin from circulation.[20] Determination to restore the pre-war gold standard was tempered by concern that it would produce a scramble for gold as European countries sought to replenish depleted reserves. The 1922 Genoa Conference tried to establish central bank practices to economize gold through co-operation and wider use of gold currencies as monetary reserves (the gold exchange standard). The restoration of gold convertibility at rates that mis-valued major currencies in terms of their purchasing power parity increased the strains of adjustment within a system poorly equipped to handle them.

The most important impulse that destabilized the restored system was restrictive monetary policy in the United States. The Federal Reserve sought to curb excessive stock market speculation in 1928–9; this compounded the impact of high money rates in New York, curtailing US foreign lending and drawing funds from abroad.[21] The gold standard transmitted this shock abroad to give the slump its international dimension; countries wishing to remain on gold had to tighten monetary and fiscal policy. The gold standard then magnified the shock by promoting speculation against currencies in countries with adverse balance of payments and/or budget deficits that threatened the maintenance of their gold parity, thus increasing destabilizing short-term capital flows and the financial crises they induced.[22] Rather than guaranteeing stability in a world of smooth economic adjustment, the gold standard provided sitting-duck targets for rational speculation in a world of pronounced financial and political instability.

Only escape from the 'fetters' of gold convertibility would liberate domestic policy, particularly monetary policy, to counter the contractionary forces with greater spending and cheaper credit in order to maintain employment and promote investment. Going off gold did not work primarily through reducing export prices in a period of contracting trade and competitive currency depreciation. Suspending convertibility permitted lower domestic interest rates to revive investment and consumption, gave greater leeway for deficit spending, and improved the trade balance by shifting expenditure to the domestic market, curtailing imports even if currency depreciation did not provide new stimulus for export industries. In short, 'Depreciation was the key to economic growth.'[23] Escape from the gold standard as an 'institution' by suspending convertibility was not sufficient in itself. The continuing influence of a 'gold standard ethos' restricted policy after the suspension of convertibility, crippling opportunities for reflation.[24]

[20] US Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics* (Washington, DC: National Capital Press, 1943), 544.

[21] Eichengreen, *Golden Fetters*, 12–15, 216–20, and id., 'The Great Slump Revisited', 221–4.

[22] In addition to Hamilton, 'Role of the International Gold Standard', Bernanke and James, 'The Gold Standard, Deflation, and Financial Crises in the Great Depression', and Peter Temin, 'Transmission of the Great Depression', cited in n. 4, see Harold James, 'Financial Flows across Frontiers during the Interwar Depression', *Economic History Review*, 45, no. 3 (Aug. 1992), 594–613 and J. Peter Ferderer and David A. Zalewski, 'To Raise the Golden Anchor? Financial Crises and Uncertainty during the Great Depression', *Journal of Economic History*, 59, no. 3 (1999), 624–58.

[23] Eichengreen, *Golden Fetters*, here p. 21, and chs. 9 and 10.

[24] Ibid. 21–2, 288–93, and 393–4; Temin, *Lessons from the Great Depression*, and most recently Barry Eichengreen and Peter Temin, 'The Gold Standard and the Great Depression', *Contemporary European History*, 9, no. 2 (2000), 183–207.

Blaming the gold standard for the Depression requires that one distinguish with precision what went wrong in the inter-war period, for the gold standard had seemed to function smoothly for more than thirty years prior to 1914. No monocausal explanation can suffice for this complex problem. War-induced changes played a part, but to rely on these as explanation begs the question of why these changes were not accommodated in the reconstructed gold standard. The gold exchange standard promoted at Genoa and adopted only partially thereafter as a means to economize gold reserves increased instability: it depended on confidence in the reserve currencies, rendering the gold centres—New York and London—vulnerable to greater external pressures. The system needed much *greater* co-operation than the pre-war gold standard. Britain's decline in economic stability and financial power, such that it could no longer direct the international system, and the rise of New York and—to a lesser extent—Paris and Berlin as rival financial centres, increased competition and conflict at the core of the gold standard system.[25] The war increased the government role in national economies; despite a marked retreat after the war, the pre-war status quo was not restored. The extension of the voting franchise generated new political demands on governments and central banks. Nurkse noted in his 1944 review of inter-war monetary experience that gold flows were neutralized with increasing frequency as domestic economic stability challenged the primacy of balance of payments equilibrium and exchange rate stability as the objectives for monetary policy. Gold and foreign exchange reserves were increasingly used as shock-absorbers to protect domestic economies against shocks from abroad.[26] A major evolution was under way, towards greater state and bank management to protect and promote domestic economic welfare.[27] The shock of severe price declines, industrial collapse, and massive unemployment would demand even greater attention to domestic economic activity by governments and central banks, with stability of domestic activity and employment replacing the balance of payments as the primary objective of policy. The 1930s constituted a vital period of transition between the weak, often passive monetary management by central banks under the classical gold standard and the active, interventionist monetary policies employed after the Second World War.

The classical gold standard depended, in Eichengreen's analysis, on a combination of credibility and co-operation: the credibility of government commitments to maintain gold parities and, when parities were challenged, international co-operation to maintain the system. The Bank of England, rather than being lender of last resort to other central banks, was the 'borrower of last resort' in crises in 1890, 1906, and 1907. Political developments after 1914 eroded both credibility and co-operation. The extension of suffrage and the rise of parties representing working-class constituencies increased attention to domestic employment, the interests of which often clashed with those of the external balance.

[25] See Frank Costigliola, 'Anglo-American Financial Rivalry in the 1920s', *Journal of Economic History*, 37, no. 4 (1977), 911–34.

[26] Economic, Financial, and Transit Department, League of Nations, *International Currency Experience: Lessons of the Inter-War Period* (Geneva: League of Nations, 1944), 213–16, 231–2.

[27] See Douglas J. Forsyth and Ton Notermans, 'Macroeconomic Policy Regimes and Financial Regulation in Europe, 1931–1994', in Forsyth and Notermans, *Regime Changes: Macroeconomic Policy and Financial Regulation in Europe from the 1930s to the 1990s* (Providence, RI: Berghahn Books, 1997), 17–68.

Monetary policy was subjected to increased scrutiny and political demands. Central banks lost their immunity from politics. International politics were crisis ridden. With declining credibility, 'the requisite level of co-operation was not forthcoming' to maintain the system. The interference of domestic political pressures, international political controversies, and conflicting conceptual understandings of the opportunity, need, and priority for co-operation, reduced co-operation. With both credibility and co-operation weakened, 'The instability of the interwar gold standard was the inevitable result.'[28] Yet the period of monetary reconstruction saw new initiatives in the development of formal relations between central banks and a new emphasis on the importance and autonomy of central banking. Co-operation increased and improved during this period, but was unequal to the new challenges it faced, particularly the interference of political concerns in matters of monetary policy and international finance.

If instability was indeed inherent in the inter-war system (historians tend to shy away from absolute claims of inevitability), the Depression need not have been the outcome.[29] According to H. Clark Johnson, Eichengreen overstresses co-operation and pays too much attention to crises, overlooking the 'underlying structural weakness of the interwar gold standard'.[30] Johnson contends that the gold standard had been re-established with an inadequate supply of gold for reserves and a historically low real price of gold (with the dollar's parity unchanged at $20.67/oz despite wartime inflation), which increased non-monetary use of gold and discouraged new production. This produced underlying systemic pressure for price deflation in order to raise the real price of gold. Implicitly, a devaluation of the dollar after the war could have prevented the Depression. Yet the onset of the Depression was delayed until 1929, so the price collapse did not follow directly and inevitably from the undervaluation of gold. Johnson argues that 'avertable malfunctions of the interwar gold standard' intervened to bring on the price collapse and depression.[31] The system itself, therefore, was not flawed. All countries committed policy errors that increased the systemic deflationary pressure.

But if all countries erred, some erred more grievously than others. The concentration of gold and its sterilization in France, by its timing and its extent, exerted tremendous contractionary pressure on monetary policy in countries losing gold from 1929 to 1932. France returns as the principal culprit, in Johnson's indictment, first charged as such by British critics while Britain struggled to remain on gold, and a charge echoed in Nick Charles's retort in *The Thin Man*: 'Me and the French hoard gold.'

Johnson's charge against French policy, and against Poincaré and Moreau, would be persuasive if the gold standard had functioned symmetrically, if French policy had violated clearly established 'rules of the game', and if policy makers had consciously sought to lower world prices. Such was not the case. The gold standard did not function symmetrically, there was no agreement on the basic 'rules of the game', and French policy was determined by desire to avoid inflation, the hallmark of gold standard policy.

[28] Eichengreen, *Golden Fetters*, 5–12; quotes from 10 and 12.

[29] Temin comes very close to arguing it was in his *Lessons from the Great Depression*, treating the gold standard as a regime that determined policy.

[30] Johnson, *Gold, France, and the Great Depression*, 178.

[31] Ibid. 2.

French gold policy was one part of a larger, systemic problem: policies now recognized to be perverse were the product of beliefs that placed great faith in the gold standard as an automatic mechanism of adjustment. Both its logic and its efficacy were misunderstood; faith was based on a gold standard illusion. Given the uncertainty as to 'rules of the game', one could argue that France in fact played the gold standard game better than its rivals, who chose to leave the game when they could not win by insisting on an alteration of the rules.

To understand French policy and the gold standard's contribution to the global slump, one must look closely at contemporary understanding of the problems they faced, and at the results they expected from policy choices made in light of their economic knowledge. Even if a flawed gold standard pushed the international economy ineluctably toward a major depression, policy decisions played a determining role in the timing and severity of the slump. The pre-1914 gold standard had not led to depression; its reconstruction required policy choices in order to adapt the 'accidental' pre-war gold standard to suit post-war conditions. An understanding of monetary management, of the institutional development of treasuries and central banks, and of the politics of inter-war monetary and fiscal policy is fundamental to the new interpretation of the Great Depression.

*The Gold Standard Illusion* is an archivally based study of gold standard belief and policy in France from 1914 to 1939. The Bank of France was an adamant and tenacious advocate of the restoration of the pre-war gold standard in the early 1920s, opposed to innovations such as those recommended at Genoa in 1922, and convinced until 1926 that the franc could be returned to its pre-war parity. The French stabilization undervalued the franc, seeking to facilitate domestic adjustment to monetary stability, and the Bank of

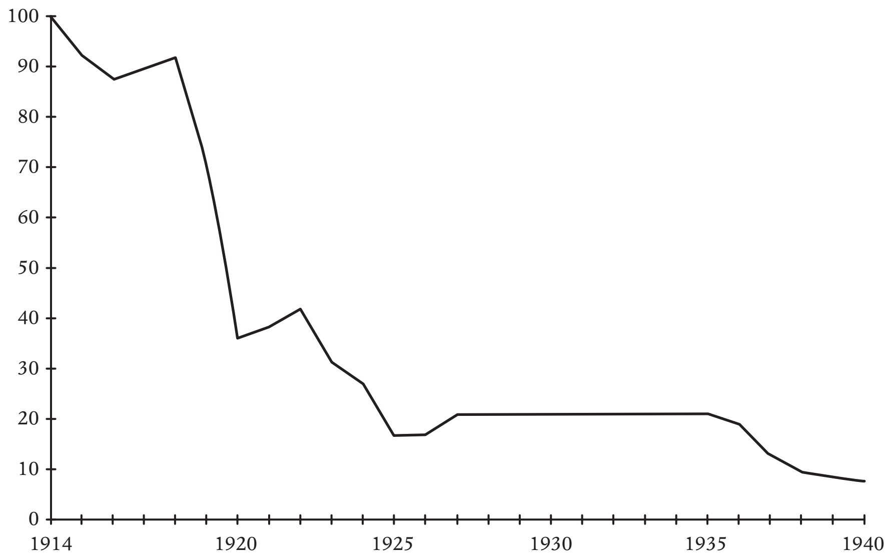


**Figure 0.1.** *Gold value of the franc, 1914–1940 (annual averages, 1914 = 100)*

*Source*: 'Variations de la valeur-or du franc calculée d'après les cours du dollar à Paris', BdF, 1069199312/8.

France then sought to increase French gold reserves and to restrain the forces working to raise prices in France. When other countries devalued in the early 1930s, France remained faithfully on gold, convinced that the link to gold was essential to prevent a drift into monetary chaos. The decline of the gold value of the franc, by 93 per cent from 1914 to 1940, charts dramatically the crisis experienced by the gold standard's true believers in inter-war France.

Yet the Bank of France was the central bank that did the most to disrupt the smooth operation of the reconstructed gold standard, a curious paradox only if one ignores the variety of gold standard beliefs held by central bankers in the 1920s and the lack of consensus on how the reconstructed gold standard should work.[32] The strength of Bank of France claims for the gold standard and the tenacity of its belief make the Bank an ideal test case for key elements in the new gold standard interpretation of the Great Depression. The prolonged French struggle to return to gold, the circumstances under which they succeeded in doing so, and the renewed faith in the gold standard after twelve years of inflation and currency depreciation present a situation that illuminates how true gold standard believers survived their time of trials after the First World War with reinforced dedication. The deflationary bias to the gold standard is in full evidence from the perspective of the most important country to be gaining gold in the critical years 1928–32. The Bank of France argued that corrective action was the responsibility of the country losing gold, and that the flow of gold into France was temporary and would be allowed to leave without obstruction. (See Figure 0.2 for changes in French gold reserves and note circulation.) By May 1935, France was losing gold and had been trying for five years to lower prices. The policy response to gold movements, however, was still mediated by institutional, political, and ideological factors that obstructed effective action.

Professed faith did not lead to virtuous practice conforming to the precepts of the faith. More often and more seriously than any other country, France seemed to violate the so-called 'rules of the game'. But these rules were never clearly established during the reconstruction of the gold standard. In fact, no central bank followed the rules of the game.[33] The phrase gained widespread currency when critics tried to determine why the system was running awry in the first years of the Depression. Central bankers opposed having their policy decisions constrained by formal rules; the 'rules of the game' trope had greater utility as a guise for polemics by critics than as a guide to appropriate policy for inter-war monetary authorities.

[32] Gustav Cassel, *The Downfall of the Gold Standard* (New York: Augustus M. Kelley, 1966; reprint of 1936 OUP edn.), 46–51, 59–62; League of Nations, *International Currency Experience*, 216–17; Johnson, *Gold, France, and the Great Depression*.

[33] The phrase was used by Keynes in his 'The Economic Consequences of Mr. Churchill' in 1925: John Maynard Keynes, 'The Economic Consequences of Mr. Churchill (1925)', in his *Essays in Persuasion* (New York: Norton Library, 1963 [1931]), 259; it gained wider currency with the onset of the Depression and attempts to determine what had gone wrong. On central banks and one fundamental rule of the game, which they did *not* follow, see League of Nations, *International Currency Experience*, 66–72 for the inter-war years, and Arthur I. Bloomfield, *Monetary Policy under the International Gold Standard, 1880–1914* (New York: Federal Reserve Bank of New York, 1959).

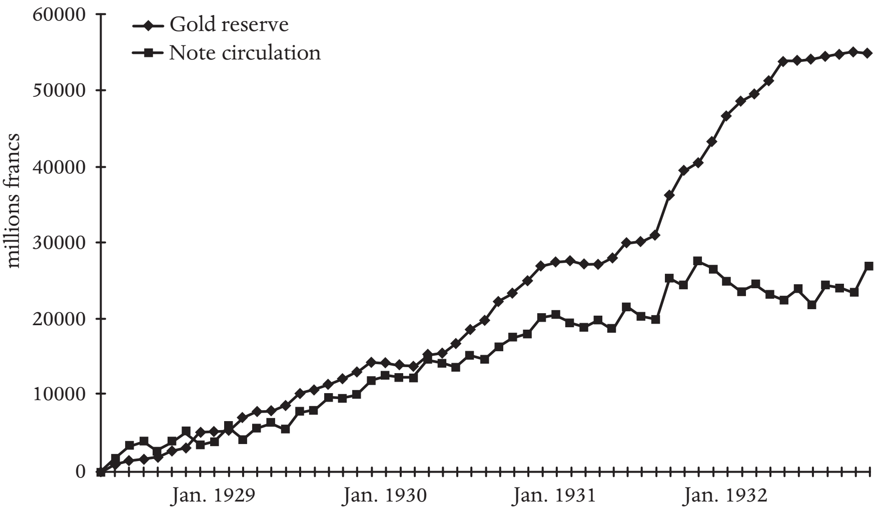


**Figure 0.2.** *Increase in Bank of France gold reserves and note circulation, June 1928–December 1932*
*Source*: Bank of France annual reports, 1929–1933.

*The Gold Standard Illusion* follows several lines of development. It is first of all a history of French gold policy from 1914 to 1939, as a case study for exploration of inter-war monetary instability and the role of the gold standard in the Great Depression. The Bank of France seldom explained its gold policy, and never did so accurately. The account that follows draws on internal evidence from the Bank of France and takes into account the overlapping fields of monetary and fiscal policy for their impact on French gold policy. The account is necessarily comparative, particularly with regard to the Bank of France's two closest cohorts and rivals, the Bank of England and the Federal Reserve Bank of New York.

The French case demonstrates the importance of gold standard belief in the deflationary impulses that produced the Great Depression, but the gold standard as 'principal culprit' needs to be treated with caution. The gold standard could not and did not by itself determine policy. To understand the policy choices in France and elsewhere, one must look beyond the gold standard as a 'regime' determining policy, to examine the understanding, alternatives, priorities, and decisions of the players, and how these evolved over time. The basic condition of gold convertibility gave significant control to the central banks entrusted with maintaining convertibility, and most central banks in the inter-war period were autocratic in character and possessed substantial autonomy from politics. Central bank governors determined much of the policy at issue. They did so in light of their understanding of the gold standard and the external constraint it imposed, which was influenced in turn by a combination of institutional history and traditions, and national experience with currency (mis)management. The character of the governors also played an important part, as did that of their advisers and 'court', and that of those in positions outside the central bank who influenced its views and policy. Governors also considered a wider array of concerns that included responsibility for domestic matters other than gold convertibility including responsibility to shareholders (as most were private banks), pressures from politics and public finance, the influence and role of the central bank in the national banking system, and relationships with other central banks. Gold policy was the product of ideas and relationships in constant evolution, and the gold standard itself needs to be treated as a historical concept changing over time rather than as a fixed regime.

For this reason, the second line of inquiry follows the institutional development of the Bank of France in the inter-war years, a period of transition from the Bank's follow-the-market behaviour as a bank of issue toward modern central banking engaged in active monetary management. Of prime interest is the degree to which gold standard belief impeded the development of modern central banking practice. The gold standard was supposed to be an automatic system that eliminated the human element prone to errors in judgement. Even though this was not the case even for the Bank of France, claims to rely on an automatic mechanism of adjustment, insisting this would reduce errors in judgement, worked in powerful opposition to the development of active policy intervention. R. S. Sayers described the 'essence of central banking' as 'discretionary control of the monetary system'. However much critics might regret discretion, working to a rigid rule as the gold standard was supposed to require has been described as 'the antithesis of central banking'.[34] The development of the Bank of France as a modern central bank was retarded by gold standard belief in the inter-war years.

The book's third line of inquiry reassesses the problems and failings of the inter-war gold standard as viewed through the experience of French policy and diplomacy, examining whether the gold standard depended in fact upon a combination of credibility and co-operation, and whether its failure in the inter-war period was a result of insufficient co-operation in a process of declining credibility of government commitments to maintain gold convertibility. France provides a significant test case because it was the 'lender of last resort' in the pre-war period, providing critical assistance to the Bank of England, and second only to the Federal Reserve in the United States in its potential to assist other central banks in maintaining the gold standard in the inter-war years. The archival record shows that French efforts prior to 1914 were a product of enlightened self-interest rather than co-operation for systemic stability. French co-operative effort increased significantly in the inter-war period, but central bank co-operation could not replace credibility and sustain a system undermined by political conflict.

The fourth track of analysis in these pages is the role of gold standard belief and a 'gold standard rhetoric' in fostering misperceptions of economic and monetary problems, and in aggravating the political instability of the French Third Republic. It is in this sense that the book's title, *The Gold Standard Illusion*, merits brief explanation. Belief in the efficacy of the gold standard was based in part on an uncritical acceptance of an idealized version of pre-war experience in which all worked smoothly in the best of all possible gold

[34] R. S. Sayers, *Central Banking after Bagehot* (Oxford: Clarendon Press, 1958), 1.

standard worlds. In this sense the pre-war gold standard was a myth, based on a limited conceptual understanding that did not correspond to historical reality. But pre-war experience was accorded little attention because the gold standard's assumed value was the track it would lay for future policy, economic stability, and national prosperity. Policy choices were not based on the gold standard myth of the pre-war system, or on any detailed analysis of the working of the pre-war system. One could say that a gold standard paradigm determined policy, but the gold standard was not free-standing and self-sufficient. It was one key element in a larger system of classical liberal belief in the efficiency of free markets, free trade, and liberal government, in which balanced budgets and gold convertibility allowed the free play of market forces with minimal government interference. All aspects of this system of belief were threatened in the inter-war period, which saw increased government intervention in markets, renewed protectionism, the effacement of liberal-democratic governments by newly authoritarian regimes in much of Europe, and the burgeoning of budget deficits as a product of war and depression. Gold convertibility seemed to be one of the easiest characteristics of the pre-war system to restore.

The phrase *gold standard illusion* captures essential aspects of the influence of the gold standard in two important regards. First, belief in the gold standard anticipated results that did not materialize: rather than economic stability and prosperity, policies determined according to gold standard belief brought instability and the worst depression in history. Faith in the gold standard substituted for sound analysis, and decisions were based on false estimations of their outcomes. The precise character of the illusion differed between countries, and between different institutions and individuals within single countries. Conceptualizations of what the gold standard was and how it would deliver the ends desired varied according to particular national domestic needs, historical experience, and individual preferences; the gold standard would secure monetary experience in future against the evils experienced since 1914. Thus there was a significant degree of illusion at work in reference to the gold standard as if it were one commonly understood system. Gold convertibility was abandoned when the benefits it was supposed to deliver proved illusory, leading some economists to wonder whether the gold standard they had tried to reconstruct had ever, in fact, existed at all.[35] Second, the gold standard was used as a rhetorical device to further other agendas in institutional competition and domestic politics. Claims of the unfettered operation of free-market principles and an automatic adjustment mechanism could disguise the real workings of policy and the political and social stakes in policy alternatives.[36] This rhetoric could also provide the illusion of effective action to face urgent problems when in fact nothing was being done.

The book proceeds chronologically. Chapter 1 provides essential background on the development and functioning of the pre-war gold standard, and on the development of

[35] B. Nogaro, 'L'Étalon d'or a-t-il existé? Étude sur la signification théorique du régime dit de l'étalon d'or', *REP* 54 (1940), 161–84; Cassel, *Downfall of the Gold Standard*; and Sir Charles Morgan-Webb, *The Rise and Fall of the Gold Standard* (New York: Macmillan, 1934), 68.

[36] Keynes commented on how the gold standard functioned as a 'part of the apparatus of Conservatism'. John Maynard Keynes, *A Treatise on Money* (New York: Harcourt, Brace, 1930), ii. 300; also id., *A Tract on Monetary Reform* (London: Macmillan, 1923), 164.

central banking and the Bank of France to 1914. Chapters 2 to 5 cover gold policy and the actions of the Bank of France from the suspension of the gold standard in August 1914 to the stabilization of the franc, and its return to gold convertibility at one-fifth its pre-war value in June 1928. Chapter 2 chronicles the Bank's wartime efforts to preserve the franc and its immediate post-war frustrations with the state's failure to repay Bank advances. Chapter 3 treats the Bank's policy of deflation in the early 1920s and growing Treasury resistance to the Bank logic of deflation based on the repayment of wartime Bank advances, as well as the limited public debate on alternatives to deflation. Chapter 4 shifts terrain to the political dilemmas facing French governments from 1924 to July 1926, and the important role of the Bank in the collapse of the Cartel des Gauches. Chapter 5 focuses on the stabilization of the franc in 1926 and its return to gold in June 1928, emphasizing the struggle for policy control between the Bank of France and the government, and the Bank's influence on the timing and rate of stabilization.

The chronology is interrupted in Chapter 6, backtracking to 1916 in order to follow the development of central bank co-operation from its wartime origins through post-war reconstruction and the restoration of monetary stability. It shows inter-war co-operation to have differed markedly from pre-war co-operation in its systematic nature, regularity of contact, and its purpose and ambitions. The chapter concludes with the return of the franc to gold, a measure which should have crowned the restoration of the gold standard edifice, and with subsequent central bank co-operation to obstruct a League of Nations inquiry into the working of the gold standard.

Chapter 7 resumes with the onset of depression, examining the role of French gold policy in the onset of the Depression, the failure of the gold standard in 1931 and the role of central bank co-operation in that failure, and the maintenance of the gold standard in France on an increasingly illusory basis from 1931 to 1936. Unlike the previous chapters and the one which follows, this chapter does not treat French monetary policy in detail, as I have done so in an earlier book.[37] The analysis here focuses on four aspects that complement my earlier study: the role of the gold standard and French policy in the onset of the Great Depression, whether there was a failure of central bank co-operation in the breakdown of the gold standard in 1931, the development of central bank relations from 1931 to 1936, and the actions of the Bank of France to defend the gold standard in France from 1933 to 1936. Chapter 8 takes the story from the reform of the Bank of France in July 1936, a product of its political role in defence of the gold standard, through the initial devaluation in 1936 and the decline of the franc in the following two years, to the restored stability from late 1938 to the start of the war. It also analyses the internal developments that led the Bank from gold standard passivity towards taking a more active role in monetary management.

The final chapter draws together the several lines of inquiry to formulate conclusions on the nature of the inter-war gold standard and the ways in which examination of inter-war French gold policy advances our understanding of the gold standard and its contribution to the Great Depression. The conclusions address four critical points in the

[37] Kenneth Mouré, *Managing the Franc Poincaré: Economic Understanding and Political Constraint in French Monetary Policy, 1928–1936* (Cambridge: Cambridge University Press, 1991).

current literature. First, corroborating the new gold standard interpretation of the Depression, the logic of the gold standard is shown to have played a significant role in French policy decisions leading into depression, and departure from gold to have been a necessary step in the development of monetary management. But the notion that policy was determined by the underlying principles of a 'gold standard regime' is criticized. In France and elsewhere, policy was determined by political influences, economic ideas, and by institutions and individuals deciding policy within intellectual constraints they adopted willingly. The argument favours the agency of individuals and institutions over regime- and rule-determined predestination. Second, the 'credibility and co-operation' explanation which contrasts the stability of the pre-1914 gold standard with the instability of the inter-war period is discounted. Co-operation played only a minor role in gold standard stability before the war, and increased co-operation in the inter-war period could not prevent a collapse of the gold standard system produced by problems that were fundamentally political. Third, gold standard belief and the success of French gold policy are found to have slowed the development of active monetary management in France and the development of modern central banking in the Bank of France. Fourth, the rhetoric of the gold standard, with its claims for automatic adjustment and a natural regulation of prices and external balance, is argued to have contributed significantly to misperceptions of the economic problems of the inter-war period, producing mis-prescriptions in order to resolve them. In this sense, gold standard rhetoric misled inter-war policy, with the Great Depression of the 1930s part of the price paid for the gold standard illusion.

# 1

# The Gold Standard and Central Banking to 1914

The working of the pre-war gold standard and the development of modern central banking in the late nineteenth century form the essential backdrop to the inter-war struggle to restore stability and order to the world economy after the First World War. The gold standard was believed to be an ideal and natural system whose restoration was indispensable; the role of central banks received little debate in the inter-war years after an initial push to establish new central banks; their role was in a process of substantial evolution. Closer attention to pre-war experience might have shown that the gold standard was a recent and evolutionary system, and that central banks were undergoing significant development in terms of their responsibilities and practice. The classical era of the gold standard up to 1914 owed its stability to temporary, contingent factors that were altered radically by the war. The organization and the objectives of modern central banking and the international monetary system would be reshaped in a prolonged process of adjustment to wartime and post-war changes.

## 1. THE ACCIDENTAL GOLD STANDARD

'The world that disappeared in 1914 appeared, in retrospect, something like our picture of paradise.'[1] Policy makers after the First World War sought to recover the 'normalcy' of the pre-war era, a normalcy recalled with greater nostalgia than insight. In monetary affairs, normalcy meant restoring gold convertibility. In contrast to the monetary convulsions since 1914, the pre-war gold standard appeared an enviably stable, efficient, and secure system. Gold convertibility at fixed rates had provided exchange-rate and price stability, facilitating the tremendous expansion of international trade and payments of the late nineteenth century.

The gold standard that policy makers sought to restore—efficient, durable, and independent of historical circumstances—was an imaginary construct. The classical gold standard as it really worked has been subject to extensive analysis and debate since the 1930s, and has been revealed to be more complex, more asymmetrical in its operation (with the bulk of economic adjustment shifted to the periphery of developing nations by the wealthier and more financially advanced core countries), and more contingent upon

[1] J. H. Jones, 'The Gold Standard', *Economic Journal*, 43, no. 172 (1933), 553.

favourable historical circumstances than most policy experts realized in the inter-war period. A brief review of the current state of our understanding of the classical gold standard is needed in order to appreciate the difficulties facing policy makers in their inter-war efforts to turn back the clock.

The most influential exposition of the gold standard's smooth operation, the *Interim Report* of the Committee on Currency and Foreign Exchanges after the War in 1918 (the Cunliffe Committee), explained the adjustment process as simple, automatic, and efficient. In the event of seasonal gold losses, an increase in Bank Rate would immediately alter short-term capital movements to check the losses. Gold losses caused by a more durable trade deficit would be corrected by the increased Bank Rate through a longer process of restriction of domestic credit, which would in turn curtail investment, employment, and consumption, and thus bring about the required fall in prices. The Cunliffe Committee urged restoration of the gold standard as 'the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit'.[2] The changes made during the war need only be reversed and the system would resume its function with all the ease, efficiency, and automaticity presumed to characterize its pre-war operation. The Cunliffe summary and prescription dealt specifically with the gold standard in Britain, and were not written for general application in all gold standard countries.

'So long as the machine worked satisfactorily, there was no occasion to inspect it, or to doubt its future efficiency'.[3] The machine's performance proved far from satisfactory in the inter-war period. Its troubles corroded faith in the simple and automatic operation of the gold standard and prompted closer analysis to determine just why and how the classical gold standard had worked so well. Such analysis has significantly revised our understanding of the classical gold standard. The adoption of the gold standard by most economically advanced nations in the last third of the nineteenth century, rather than being a rational choice of best (British) practice, prompted by the inadequacies of bimetallism or driven by changes in the relative supplies of gold and silver, is now seen to have been the result of a combination of structural developments and proximate forces. A monometallic gold standard to some extent was a historical accident. Currency regimes based on metallic reserves of gold and/or silver had provided relative price and exchange-rate stability for a half-century prior to the adoption of the gold standard. The shift to gold came about through a combination of factors: the failure of international efforts at monetary co-operation in the 1860s; the benefits believed to follow from adherence to the gold standard that were associated with British prosperity, particularly opportunities for international trade and access to international capital; and decisions made with regard to currency that were short-sighted and at times controversial.

The US Coinage Act of 1873, which discontinued the free coinage of silver, became known as 'the crime of 1873', and the gold standard was denounced as 'a conspiracy

[2] Committee on Currency and Foreign Exchanges after the War, *First Interim Report* (London: HMSO, 1918), 5; see also Eichengreen, *Golden Fetters*, 32–6.

[3] Charles H. Walker, 'The Working of the Pre-War Gold Standard', *Review of Economic Studies*, 1 (1933–4), 196–7.

against the human race' in the United States. Adherence to the gold standard was made possible by tariff protection and the surplus it yielded to buy political support; the gold standard would probably have been abandoned if it had had to survive on its own merits.[4] The French decision to limit silver coinage in 1873 was intended as a temporary measure to preserve bimetallism. Germany's adoption of the gold standard in 1871–3 was based on the preferences of German commerce, dictated in good part by reasons of prestige and rivalry with England. As Jacques Mertens concluded many years ago, the key decisions were 'neither fully rational nor fully conscious, in the sense that their authors did not realize the consequences their decisions would entail, and they did not have as their direct goal the establishment of the gold standard and the definitive elimination of bimetallism. . . . The gold standard owed its success less to an objective and reasoned preference for the yellow metal than to restrictive measures against silver.'[5]

England had been on a gold standard *de facto* since 1717, *de jure* since 1821. Both British decisions contained a distinctly *accidental* element. In 1717 Sir Isaac Newton, Master of the Mint, set the silver price for gold guineas too high, intending that it be revised. It was left unchanged, driving silver coin out of circulation in England, making sterling a 'virtual' gold currency.[6] Specie payments were suspended in 1797; when restored in 1821, sterling was defined as a gold currency on the basis of little study and mistaken expectations.[7]

British monetary theorists viewed the spread of the gold standard on the Continent in the 1870s and its entrenchment in Britain with scepticism. In 1886, Herbert S. Foxwell condemned the gold standard as 'a most triumphant proof of the barbarism of the 19th Century', a censure Keynes would echo in declaring the gold standard to be a 'barbarous relic'.[8] British theorists were particularly concerned by the potential deflationary consequences as expansion of the gold standard increased the needs of central banks for gold reserves. The Gold and Silver Commission of 1888–9 recommended sticking with the gold standard because it seemed to work and was accepted by the financial system and the public, not because there was theoretical justification for preferring it to bimetallism.

[4] Richard Franklin Bensel, *The Political Economy of American Industrialization, 1877–1900* (Cambridge: Cambridge University Press, 2000); my thanks to Roger Ransom for calling my attention to Bensel's work.

[5] Jacques E. Mertens, *La Naissance et le développement de l'étalon-or, 1690–1922* (Louvain: Éditions Em. Warny, 1944), 111–51, 358; and Marc Flandreau, 'The French Crime of 1873: An Essay on the Emergence of the International Gold Standard, 1870–1880', *Journal of Economic History*, 56, no. 4 (1996), 862–97. See also Bertrand Blancheton, 'Trésor, Banque de France et politique monétaire de la France entre 1914 et 1928' (doctoral thesis completed under the direction of Jean-Charles Asselain, Université Montesquieu-Bordeaux IV, 1999), 97.

[6] R. G. Hawtrey, *The Gold Standard in Theory and Practice*, 5th edn. (London: Longmans, Green and Co., 1947), 66–70.

[7] Milton Friedman, 'Bimetallism Revisited', *Journal of Economic Perspectives*, 4, no. 4 (Fall 1990), 85–104; for more detailed discussion of debate on the matter and opposition to the new gold standard, see Frank Whitson Fetter, *Development of British Monetary Orthodoxy, 1797–1875* (Cambridge, Mass.: Harvard University Press, 1965), chs. 3 and 4. For a Whiggish perspective on the British decision as progress towards the 'apparently ideal system' of the international gold standard, Angela Redish, 'The Evolution of the Gold Standard in England', *Journal of Economic History*, 50, no. 4 (Dec. 1990), 789–805.

[8] Foxwell cited in David E. W. Laidler, *The Golden Age of the Quantity Theory* (Princeton: Princeton University Press, 1991), 153–4; on monetarist criticism of the gold standard in this era, see ibid., ch. 6; Keynes's 'barbarous relic' in Keynes, *A Tract on Monetary Reform*, 172. Keynes was overly optimistic about the advance of monetary thinking; a few pages further, he stated 'The Cunliffe Report belongs to an extinct and an almost forgotten order of ideas.' Ibid. 195.

The advocacy of theoretical proposals for bimetallism, or for indexation to improve price stability, was weakened by the obvious self-interest of the silver lobby arguing for bimetallism in the United States.[9] The reasons for such proposals disappeared when gold production from the Transvaal and the Yukon and the development of the gold exchange standard in India, Central Europe, Central America, Asia, and Africa eased the supply constraint on gold reserves.

The stability of this 'accidental' gold standard, which thrived without dissent for scarcely twenty years before 1914, depended upon a series of contingent factors rather than upon timeless attributes inherent to the system. The first was the relative homogeneity of the core gold standard countries: similar levels of economic and financial development, compatible liberal policies with regard to their monetary regimes, and an environment of expanding multilateral trade and investment centred in financial facilities offered in London.[10] The second was the gold standard's operation as a tiered system, allowing core countries to shift a significant share of the burden of adjustment to weaker nations on the system's periphery. The adjustment mechanism for international payments imbalances worked primarily by interest rate adjustment to draw short-term capital. London, at the centre of the system, had the greatest drawing power; Paris and Berlin yielded to London but drew in turn on smaller centres. The operation of the gold standard varied both within and between different countries, with notably greater stability at its centre.[11]

The third factor was the discovery of gold in South Africa and the Klondike, and the consequent increase in the supply of monetary gold. The first twenty years of the classical gold standard had been years of gradual deflation; the success of the gold standard and the general satisfaction it had won in 1914 would have been greatly reduced had the system not benefited in its second twenty years from the new supplies of gold to promote stronger economic growth by facilitating rising prices and wages. The fourth factor was the ease with which the system developed without rigid rules or the need for international agreement on how the system would work. Britain's role as leader of the system was significant in this regard, encouraging by its example increased use of the gold exchange standard (in which countries issued currency against sterling reserves held in London rather than against gold) to economize reserves and minimize potential disruptions from silver countries. The fifth and final factor was the relative political calm of the

[9] See Laidler, *Golden Age of Quantity Theory*, ch. 6; for thorough analysis of the actual operation of mid-century bimetallism and its benefits, see Marc Flandreau, *L'Or du monde: la France et la stabilité du système monétaire international, 1848–1873* (Paris: L'Harmattan, 1995).

[10] William Adams Brown Jr.'s classic *The International Gold Standard Reinterpreted 1914–1934* (New York: National Bureau of Economic Research, 1940) stresses the difficulties created by the 'decentralized' system of the inter-war years, particularly in chs. 20 and 21.

[11] The classic study making this point is A. G. Ford, *The Gold Standard 1880–1914: Britain and Argentina* (Oxford: Clarendon Press, 1962); see also Peter H. Lindert, 'Key Currencies and Gold 1900–1913', *Princeton Studies in International Finance*, 24 (Aug. 1969); Marcello de Cecco, *Money and Empire: The International Gold Standard, 1890–1914* (Totowa, NJ: Rowan and Littlefield, 1974), and Michael D. Bordo and Anna J. Schwartz, 'The Operation of the Specie Standard: Evidence for Core and Peripheral Countries, 1880–1990', in Jorge Braga de Macedo, Barry Eichengreen, and Jaime Reis, eds., *Currency Convertibility: The Gold Standard and Beyond* (London: Routledge, 1996), 11–83.

late nineteenth century: economic and financial shocks were not compounded by violent political shocks, and state budgets did not make heavy demands on central banks for money creation to cover deficits. The suspension of convertibility in August 1914 was considered 'normal practice' in the case of war. The pre-war gold standard was indeed 'a socially constructed institution whose viability hinged on the context in which it operated. ... The exchange rate stability and mechanical monetary policies that were its hallmarks were exceptions rather than norms.'[12]

The gold standard has been understood as a hegemonic system in which the London market and the Bank of England provided leadership and 'lender of last resort' facilities that stabilized the international system. Interest rates throughout the system followed the lead set by the Bank of England, and London's position as the dominant financial centre (with bills of exchange drawn in pounds sterling the main means of settlement for trade even when it came nowhere near London) meant that the gold standard was in good part a sterling standard. Britain's influence was unique, a product of the British lead in industrialization and in the provision of financial services and maritime transport. The power exercised by London was counterbalanced by the responsibility it accepted as lender of last resort to countries in need and as a market for distress goods, providing an essential stabilizing force in the international system. After 1918, Britain no longer had the power to act as hegemonic leader of the international system; the rise in financial power of the United States was not accompanied by the ability or the willingness to take charge.

Eichengreen challenged this hegemonic interpretation of the gold standard, arguing that the international monetary system was essentially co-operative. The Bank of England depended on lending from other central banks, the Bank of France in particular, to stabilize the system in times of crisis. The success of the classical gold standard resulted from a combination of the credibility of individual government commitments to maintain gold convertibility (and balance of payments equilibrium) and co-operation among the central banks on gold, such that international crises were dealt with quickly and effectively before they could disrupt the system. Co-operation between central banks, 'increasingly frequent and regularized' in the years before the war, prevented systemic destabilization in times of crisis. In the inter-war period, the credibility of government commitments to gold was undermined by essentially political factors: the extension of the franchise and the growth of working-class political representation increased the political pressure on central banks, eroded credibility and 'rendered the interwar system increasingly vulnerable to destabilizing shocks'. With the erosion of credibility, greater international co-operation was needed, yet increasing political tensions, incompatible institutional arrangements, and conceptual disagreements reduced co-operation. The decline of both credibility and co-operation produced systemic instability.[13]

This co-operative interpretation has been challenged in turn. Co-operative efforts, Gallarotti argues, were intermittent, occurred on an ad hoc basis when crises threatened, were bilateral rather than systemic, and were effected in order to protect domestic markets

[12] Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, updated edn. (Princeton: Princeton University Press, 1998), 30 and 42.

[13] Eichengreen, *Golden Fetters*, 5–12; here p. 9.

from disturbances abroad rather than to preserve the system.[14] Efforts at co-operative organization of the international monetary system repeatedly ended in failure, with the development of the gold standard in the 1870s being the product of one such failure. Rather than co-operative, Gallarotti explains the classical gold standard as an 'additive' system. Decisions regarding national monetary regimes cumulatively produced a system in which domestic concerns determined policy, but consistency in domestic policy produced an implicit co-ordination of policy and a set of 'credible rules' for behaviour.[15] The contrast with the inter-war system then lies in the degree of stability in the regime's core countries, the greater shocks to the international system, and the overt efforts at co-ordination that tended to produce conflict rather than co-operation.

The 'classical' gold standard emerges from these analyses as a system in constant evolution rather than one cast immutably for all time. The classical gold standard was neither natural nor inevitable, but the product of particular historical circumstances. The war brought disruptive change to the system; monetary reconstruction had to recognize and accommodate these changes if it was to re-establish a system providing the same stability as the classical gold standard. Policy makers sought to turn back the clock and restore a mythic gold standard. The inter-war system was reconstructed on a compromise basis, seeking to reconcile nostalgic longing for stability with adaptation to an altered economic world. The result was systemic instability and conflict.

## 2. MODERN CENTRAL BANKING

The classical gold standard era coincided with the development of modern central banking, a process in which state banks of issue adopted 'modern' functions and operational techniques. The oldest central banks—the Sverige Riksbank (1668) and the Bank of England (1694)—were founded long before the concept of central banking was needed. Such banks of issue were established for a variety of reasons: to act as banker to the state; to restore monetary stability after excessive issue of paper currency, especially in wartime; to provide commercial banking services where none existed. Although granted special legislative status, these were private banks seeking profit, often in increasing competition with commercial banks as the economies they served matured financially. In the late nineteenth century, some banks of issue gained national monopoly of issue and began accepting responsibility for the nation's banking system, acting as lender of last resort. Acceptance of this role required that public responsibilities override narrower institutional concerns for profit, and public responsibilities were shouldered with reluctance and with some notable opposition after 1870.[16] Bagehot's *Lombard Street* (1873)

[14] Guilio M. Gallarotti, *The Anatomy of an International Monetary Regime: The Classical Gold Standard, 1880–1914* (Oxford: Oxford University Press, 1995), ch. 3; also Marc Flandreau, 'Central Bank Cooperation in Historical Perspective: A Sceptical View', *Economic History Review*, 50, no. 4 (Nov. 1997), 735–63. This argument is elaborated at greater length in Chapter 6 section 1, below.

[15] Gallarotti, *Anatomy*, 5–6, 17–26, 227–35.

[16] Charles Goodhart, Forrest Capie, and Norbert Schnadt, 'The Development of Central Banking', in Forrest Capie et al., *The Future of Central Banking: The Tercentenary Symposium of the Bank of England* (Cambridge: Cambridge University Press, 1994), 5–6, esp. table 1.1.

helped win wider acceptance of these responsibilities; his arguments were aimed at the particular, and in his view exceptional, situation of the Bank of England.[17]

The late nineteenth-century developments in central banking took place as the gold standard became the common international monetary standard. Linking currencies to gold provided central banks with a clear and uncontroversial primary objective: to maintain currency convertibility to gold at a fixed parity. Their main instrument was short-term interest rates, with considerable discretion as to when and how much to change rates. An array of alternative 'gold devices' were also increasingly employed to stop gold losses without changing the central bank discount rate.[18] There were eighteen central banks by the Goodhard, Capie, and Schnadt definition in 1900.[19] By 1913,

> a common, standardised role for the central bank had become generally adopted among all the main industrialised countries. Its main functions and operational techniques were generally accepted, with little political controversy . . . Its main objective was to maintain convertibility of the currency into gold, the gold standard; its main control instrument was to vary interest rates to that end; it made its interest rate effective by discounting bills and, increasingly, by open market operations. It operated independently from government. It had become the bankers' bank, a role enhanced by withdrawing from commercial rivalry.[20]

Inter-war experience of inflation, boom, bust, deflation, and persistent unemployment first created false expectations of what central banks and the gold standard could accomplish in restoring stability, then damaged faith in the gold standard and removed the external objective of convertibility, shifting attention towards the stability of domestic prices and employment and power over monetary policy from central banks to treasuries.

In the evolution of central bank policy from passive, follow-the-market behaviour towards active monetary management, the Bank of France had far to go in 1914, and had gained little ground by 1939.[21] It was founded in 1800 with Napoleon's support, in order to restore confidence undermined by the inflationary experience with *assignats* and *mandats territoriaux* during the French Revolution, and to facilitate management of the public debt and state finance. Initially, Bonaparte insisted on the independence of the Bank, but the financial needs of the state and a poorly managed banking crisis in 1805 brought

[17] The development of central banking in Britain is treated more thoroughly than developments elsewhere; see E. Victor Morgan, *The Theory and Practice of Central Banking 1797–1913* (New York: August M. Kelley Reprints of Economic Classics, 1965; 1st pub. Cambridge University Press, 1943), and Fetter, *Development of British Monetary Orthodoxy*; for Continental developments in comparison with British and American experience, Vera C. Smith, *The Rationale of Central Banking and the Free Banking Alternative* (Indianapolis: Liberty Press, 1990; 1st pub. London: P. S. King & Son, 1936).

[18] For British development of 'gold devices' see R. S. Sayers, *The Bank of England 1891–1944* (Cambridge: Cambridge University Press, 1976), i. 47–53.

[19] 'This definition is functional, identifying a central bank as (i) the government's bank, (ii) the monopoly note issuer and (iii) the lender of last resort.' Goodhart, Capie, and Schnadt, 'The Development of Central Banking', 5, n. 3.

[20] Goodhart, Capie, and Schnadt, 'The Development of Central Banking', 15.

[21] There exists as yet no complete history of the Bank, although research in recent years has been working to fill this gap; for comment on the older histories of the Bank and the revival of research interest in the Bank as its archives have been made accessible to researchers in the last ten years, see Alain Plessis, 'La Banque de France, objet d'histoire', in Alain Plessis, *Histoires de la Banque de France* (Paris: Albin Michel, 1998), 11–53.

a restructuring of the Bank's administration, with effective control placed in the hands of a state-appointed governor and two deputy governors. Bonaparte declared, 'I want the Bank to be sufficiently in the hands of the government, but not overly so ...'[22] The Bank received a legal charter and the exclusive right to issue bank notes in Paris in April 1803. The *franc Germinal* was given legal definition in the same month, a silver value (5 grams of silver 900/1000) that would be maintained until 1914 (nominally until the monetary reform of June 1928). From 1803, the stability of the franc was intimately bound to the history of the Bank of France.

During the Bank's first 100 years, convertibility was suspended twice: during the revolution of 1848 (from 15 March 1848 to 6 August 1850), and during the Franco-Prussian War (suspended on 12 August 1870; resumed unofficially in 1873, officially on 1 January 1878).[23] The Bank's monopoly of note issue expanded gradually, becoming national in 1848; in the latter part of the century, an increasing note circulation and the declining circulation of specie coin reflected the growing prestige of and public confidence in the Bank of France.[24] Its responsibilities also increased. Successive renewals of its issuing privilege imposed new requirements to extend its network of branches in order to offer banking services and provide uniform conditions of credit throughout the country. The Bank resisted demands to open branches when they came directly from interested municipalities; the opening of new branches was a political decision, with local notables working through municipal and regional councils to obtain this result, the benefits to the community being greater than the benefits to the Bank.[25]

The Bank's 'fundamental statutes' of 1808, like its initial statutes in 1800, stated the Bank's principal function was to discount commercial paper. Napoleon insisted that he wanted to make credit available at the rate of 4 per cent (earlier 5 per cent), and provision of a stable rate of discount was the Bank's chief function.[26] The state requirements for the increase in branches of the Bank were intended to provide a national network of credit, available on reasonable terms, to French commerce and industry. The final prewar renewal of the Bank's privileges in 1897 required it to increase its number of branches (*succursales*) from 94 to 112 by upgrading 18 auxiliary offices (*bureaux auxiliaires*), to open a new branch in each *chef-lieu de départment* that did not have one, and to

[22] For the early history of the Bank see Gabriel Ramon, *Histoire de la Banque de France d'après les sources originales* (Paris: Bernard Grasset, 1929); also A. Dauphin-Meunier, *La Banque de France* (Paris: Gallimard, 1936) and Alain Prate, *La France et sa monnaie: essai sur les relations entre la Banque de France et les gouvernements* (Paris: Julliard, 1987). The independence of the Bank of France is the central theme for Blancheton's 'Trésor, Banque de France et politique monétaire de la France entre 1914 et 1928', in which chs. 1–3 survey the development of the Bank from 1800 to 1914.

[23] Jean-Marcel Jeanneney, 'Monnaie et mécanismes monétaires', in Maurice Lévy-Leboyer, Jean-Claude Casanova et al., *Entre l'État et le marché: l'économie française des années 1880 à nos jours* (Paris: Gallimard, 1991), 290–1.

[24] Harry D. White, *The French International Accounts 1880–1913* (Cambridge, Mass.: Harvard University Press, 1933), 177–8.

[25] See Alain Plessis, 'Le "Retard français": la faute de la banque? Banques locales, succursales de la Banque de France et financement de l'économie sous le second Empire', in Patrick Fridenson and André Straus, eds., *Le Capitalisme français xix$^e$–xx$^e$ siècle: blocages et dynamismes d'une croissance* (Paris: Fayard, 1987), 206–9; also Alain Plessis, *La Politique de la Banque de France de 1851 à 1870* (Geneva: Droz, 1985), 295–6.

[26] Charles Goodhart, *The Evolution of Central Banks* (Cambridge, Mass.: MIT Press, 1988), 118.

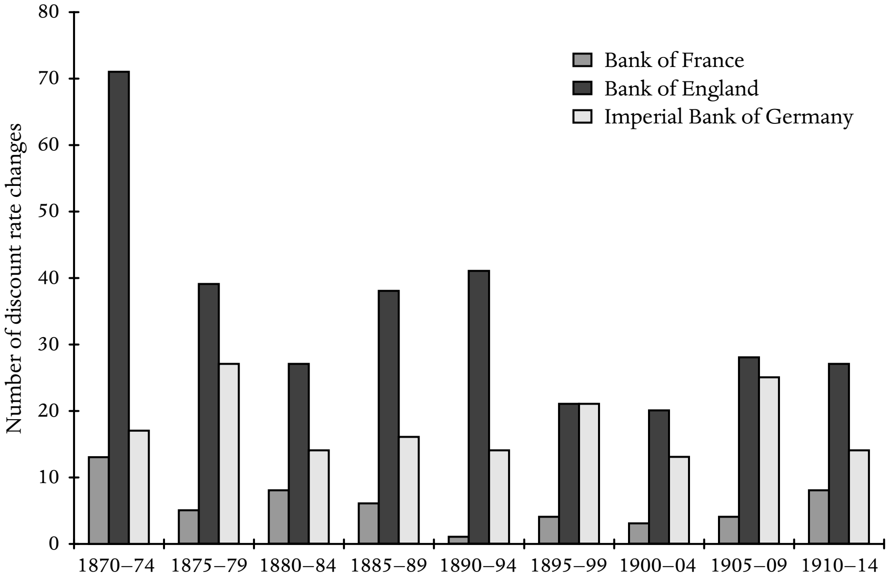


**Figure 1.1.** *Central bank changes in discount rate, 1870–1914*

*Source: The Banking Almanac for 1915* (London: Waterlow and Sons, 1915), 1239–42.

create 30 new auxiliary offices.[27] The Bank's new governor, Georges Pallain, took the responsibility seriously; from 1897 to 1913 the number of *places bancables* increased from 261 to 583.[28] The role of providing stable credit conditions was fundamental, reflected in the effort to maintain a stable rate of discount that was uniform throughout the country. 'There is something more important for a country than the figure of the discount rate, and that is the uniformity of this rate in space and time.'[29] The discount rate remained unchanged at 4 per cent from 1820 to 1847, and at 3 per cent from 1900 to 1906. This rate stability, in comparison with the volatility of central bank discount rates in Britain and Germany, was a source of pride for the management of the Bank, and the 'conspicuous steadiness and moderation' of the Bank's discount rate was attributed to its large gold reserve (Figure 1.1).[30]

[27] 'Loi portant prorogation du privilège de la Banque de France', 17 Nov. 1897, in *Lois et statuts qui régissent la Banque de France* (Paris: Paul Dupont, 1926), 162–3.

[28] Blancheton, 'Trésor, Banque de France et politique monétaire', 119.

[29] Courcelle-Seneuil, quoted with approval in Maurice Patron, *The Bank of France in Its Relation to National and International Credit* (Washington, DC: Government Printing Office, 1910), 31–2. The quote continues: 'While it is not possible to reach absolutely fixed and uniform rates of discount and credit conditions, the nearer they are approached the nearer we are to perfection.'

[30] See for example Patron, *Bank of France*, 27–37, quote p. 37. Charles Conant more perceptively attributed the rate stability to the size of the metallic reserve, lesser demands on the Bank by French commercial banks, and Bank willingness to buy gold at a loss rather than increase its discount rate; Charles A. Conant, *A History of Modern Banks of Issue*, 5th edn. (New York: G. P. Putnam's Sons, 1915), 72–6.

The Bank of France still remained a considerable distance from being a modern central bank on the eve of the First World War—British critics would question whether it was a true central bank even in the 1930s. The Bank had a national monopoly of note issue, and acted regularly as a lender of last resort not only to French banks in need, but to the international system. Its large gold reserve served as a basis for the stability of the international system, in contrast to the gold reserve the French judged lamentably insufficient at the Bank of England: 'If the Bank of England is for the present the great clearing house of the world, the Bank of France is and remains the general gold reservoir.'[31] The Bank of France had a mixed record of independence from the state,[32] a record that would be tested and a reputation that would suffer in its experience lending to the state after the First World War. The last third of the nineteenth century marked *l'âge d'or* for the Bank in this respect; the absence of financial demands from the state gave the Bank exceptional operational autonomy, and this became the essential period of reference for the Bank's desire to return to 'normalcy' after the First World War.[33] In terms of leadership in the Paris money market, it had considerable room for improvement. The commercial banks maintained good relations with the Bank but competed with it for direct discounting and as such were reluctant to work closely with the Bank or to share information with it. Gathering sufficient information to supervise and control the Paris market would be a major task begun but not completed in the inter-war period. Lack of trust on the part of the commercial banks hampered the Bank's efforts to obtain reliable information and co-operation, until the Bank retreated from direct discounting in order to obtain their co-operation in defence of the franc in 1935.

The objectives of Bank policy and the instruments used to achieve it would evolve in the inter-war period. The stability of the franc and its legal definition of 1803 were taken for granted in the nineteenth century; there was no doubt that convertibility, when suspended, would be restored at the same rate. Inflation off gold would destroy this security after the spread of the international gold standard at the end of the nineteenth century had made preservation of the currency's gold parity the principal object of central bank policy. The reconstruction of the gold standard in the 1920s and the depression in the 1930s would pose in an acute fashion the policy conflicts between external (exchange-rate) and domestic (price) stability. The Bank would maintain throughout the inter-war period that exchange stability was more important, and price stability neither possible nor desirable: price changes were the means to equilibrate shifts in supply and demand domestically and internationally. Having retreated from gold devices after 1897, the Bank of France would rely principally on changes in its discount rate to defend the currency. The alternative instrument employed elsewhere, particularly in England—open market operations—was rejected by the Bank through most of the inter-war period, and accepted reluctantly and on a limited scale at the end of the 1930s.

[31] Patron, *Bank of France*, 107–12; here p. 112.

[32] Jean Bouvier, 'The Banque de France and the State from 1850 until the Present Day', in Gianni Toniolo, ed., *Central Banks' Independence in Historical Perspective* (Berlin: Walter de Gruyter, 1988), 73–104; Alain Plessis, 'Les Rapports entre l'État et la Banque de France jusqu'en 1914: tutelle ou indépendence?', reprinted in Plessis, *Histoires de la Banque de France*, 161–82; and Blancheton, 'Trésor, Banque de France et politique monétaire'.

[33] Blancheton, 'Trésor, Banque de France et politique monétaire', 102–6.

The inter-war period marked a critical shift in the development of central banks and economic policy. The number of central banks increased from twenty-three in 1920 to forty-one in 1940,[34] encouraged by the role central banks were expected to play in restoring systemic stability after the war. More important than the increase in number was the shift in perceptions of the appropriate objectives and policy instruments of central banks. In the marked instability of the inter-war years, unusual compared to the period of the classical gold standard, 1880–1914, defence of gold parities became a much more immediate, and ultimately a deceptive and frustrating objective. Restoring the gold standard raised anxiety at the prospect of falling prices as central banks returning to gold competed for scarce but necessary metallic reserves.

From the 1922 Genoa Conference onward, concern for price stability would mean concern for *deflation* as well as inflation, although deflation would remain the concern of economists rather than policy makers until it became a major force to be reckoned with in the 1930s. Concern to avoid 'undue fluctuations in the purchasing power of gold' would be replaced by the more manageable task (for individual central banks) of preventing undue fluctuations in the level of domestic prices and economic activity. The gold standard's priority to maintain gold parity and the external balance before worrying about the stability of domestic prices and economic activity would be reconsidered. Departures from gold in the 1930s and the fact that disasters did not follow in their wake encouraged a reorientation of priorities to emphasize domestic conditions. British monetary theorists' dissatisfaction with the gold standard's capacity to provide price stability, and hence stability of output and employment, became widespread. With the advent of Keynesian theory and profound discontent with inter-war economic performance, policy underwent a major macroeconomic shift from the 1930s continuing into the 1950s, shifting to demand management giving priority to economic growth and full employment rather than the avoidance of inflation. The shift proved temporary: high inflation rates after the collapse of Bretton Woods in 1971 brought back disinflation as a primary objective. But the key task for central bank policy, in contrast to the deflationary impulse of the early 1920s, has become the maintenance of price stability.

In 1914, gold convertibility and fixed exchange rates constituted normalcy for any economically developed, fiscally responsible nation. No one expected this to change.

[34] Goodhart, Capie, and Schnadt, 'The Development of Central Banking', 6.

# 2

# The Worm in the Fruit, 1914–1920

> The worm is in the fruit; it must be removed. We must force ourselves to cleanse our fiduciary circulation, to reabsorb bit by bit the parasitic fraction of the circulation, in order to be able to envisage the return to a normal regime of issue and convertibility of the currency.
>
> Jules Décamps

With the outbreak of war in August 1914, international financial markets faced massive demands for liquidity and gold. The international gold standard collapsed. Where convertibility was not suspended by belligerents to prevent gold losses (as in France, Germany, Russia, Austria-Hungary, Belgium), it was effectively impaired (Britain); even creditor countries (Argentina, Denmark, the Netherlands, Norway, Spain, Sweden) intervened to obstruct gold imports.[1] A semblance of international order was maintained in preserving the forms of the gold standard—gold reserves and fixed exchange rates—but these forms were emptied of much of their substance, and maintained as a promise for a future return to order. Monetary authorities assumed that the gold standard could and would be restored after the war. No one foresaw the duration of hostilities, their enormous cost, or the difficulties in returning to gold. The assumption of a prompt return to gold facilitated the necessary task of war finance, maintaining confidence in domestic banking systems and currencies; the road back to gold would prove much longer and more arduous than policy makers foresaw in August 1914.

France suspended convertibility of the franc on 5 August 1914; it would take fourteen years to return to gold in 1928 at one-fifth the 1914 parity. This chapter focuses on French gold policy from August 1914 to December 1920. The first section surveys Bank of France behaviour during the First World War, paying particular attention to the Bank's role in war finance and its commitment to return to gold after the war. The second section follows the record of the Bank's frustrations in the immediate post-war period as it sought to obtain repayment of its wartime advances when the state gave priority to demobilization and reconstruction. The Bank's efforts culminated in the François-Marsal Convention of December 1920, in which the government agreed to repay at least 2 billion francs in Bank advances per year. The convention was a product of Bank frustration, the government having refused to honour its 1914 pledge to make repayment of Bank advances its first financial priority after the war. The government's financial position did not improve significantly after 1920, and the François-Marsal Convention evolved from a stopgap measure to provide minimum payments into the only official programme to return the franc someday to gold.

[1] Brown, *International Gold Standard Reinterpreted*, 30–4.

The chapter has three objectives. First, to clarify the Bank's role in France's war effort on the financial front, and the subordination of the monetary objectives normally overseen by the Bank to financing the war and reconstruction. Second, to detail French gold policy during the war; the Bank's parsimonious use of gold reserves to guarantee French borrowing abroad, in combination with a substantial campaign to 'harvest' gold from the public. In exchange for public delivery of gold, the Bank and the state promised a restoration of the franc at pre-war parity. Third, to explain the evolution of Bank policy in attempting to deal with inflation after the war, up to the passage of the François-Marsal Convention in December 1920.

## 1. THE BANK OF FRANCE AT WAR

While it is an exaggeration to claim that 'all had been foreseen' for France's financial mobilization in August 1914,[2] France was by no means financially unprepared for war. All belligerents were caught unawares by the duration, the cost, and the economic and financial dislocation of the war that unfolded after August 1914. In France, 'competent authorities' predicted the war might cost France 15 to 20 billion francs. It would cost nearly 200 billion.[3] Gaston Jèze's post-war declaration that 'France's financial policy during the war will always be a model of what not to do' is an example of retrospective wisdom,[4] but the extent of French planning and the flaws in war finance require some explanation.

Anticipating a European war and drawing on Bank experience in 1870, the Bank of France signed two conventions with the state in 1911 to supply the funds for a full mobilization in the event of war. These provided an advance of 2,900 million francs in exchange for three-month Treasury bills at 1 per cent interest.[5] Governor Pallain is said to have told his staff on taking office in 1897 that the Bank must be prepared for 'any eventuality', meaning a war seeking revenge for 1870.[6] Pallain increased the Bank's gold reserves, from 3,517 million francs (December 1913) to 4,141 millions on 30 July 1914, 'in order to assure an ever larger base for the issue of additional bank notes required to meet wartime needs'. He was acting in response to German efforts to increase their gold reserves; the Bank of France quickly proved it could outdo the Reichsbank in this regard.[7]

The 1911 conventions were activated by decree on 5 August 1914. A one-month moratorium on all negotiable instruments imposed on 1 August was extended to 15 March

[2] L.-L. Klotz, *De la guerre à la paix: souvenirs et documents* (Paris: Payot, 1924), 16.

[3] Henri Truchy, *How France Met Her War Expenditure* (New Haven: Yale University Press, 1927), 190.

[4] Cited in François Caron, *An Economic History of Modern France*, trans. Barbara Bray (London: Methuen, 1979), 248. Jèze supported government policy during the war; see Truchy, *War Expenditure*, 214.

[5] Banque de France, *Lois et statuts qui régissent la Banque de France* (Paris: Paul Dupont, 1926), 199–205; Blancheton stresses the precedent set by experience in the 1870s in 'Trésor, Banque de France et politique monétaire', 88, 122, 129, and 139. See also Pierre Desplan, *La Banque de France dans ses rapports avec les finances publiques de 1914 à 1920* (Montpellier: Imprimerie l'abeille, 1923), 26–31; and Truchy, *War Expenditure*, 228–30.

[6] Sayers, *Bank of England*, i. 185.

[7] Banque de France, *Compte rendu des opérations de la Banque de France pendant l'année 1914* (Paris: Paul Dupont, 1915) (Bank annual reports are cited as *Compte rendu* with year hereafter), 4; and Strong record of conversations in Paris in June 1914; FRBNY, Strong Papers, 1000.1.

1915;[8] the Paris Bourse was closed (it would reopen on 7 December), convertibility of the franc was suspended. The 'short war illusion' prompted belief that normal financial life could be suspended for the duration. Anticipating the hoarding of coin and increased need for *monnaies divisionnaires*, the Bank had printed and prepared for distribution notes of 5 and 20 francs, issued beginning 31 July. This alleviated but did not prevent shortages of small change. A 10 franc note was added in May 1916,[9] but coin remained in short supply. Local chambers of commerce were authorized to issue paper notes; by May 1918, 500 million francs had been issued in this way.[10] The German invasion necessitated the removal of bank notes, securities, and gold reserves from the departments invaded and, between 18 August and 3 September, from Paris itself. The Bank destroyed remaining currency reserves and the plates for printing new bank notes. After the war, it would take months to return the reserves, currency notes, and securities to Paris.[11]

The suspension of convertibility on 5 August followed the precedent set in 1870. It occasioned no recorded debate in the Conseil Général, which affirmed 'the strict duty' of the Bank: 'This duty, before which all others must yield today, is to maintain intact the credit of its bank notes.'[12] In Britain, on the other hand, the joint stock banks had pressed for years for an increase in the Bank of England's gold reserves. On 31 July 1914, they submitted a plan to the Chancellor of the Exchequer, David Lloyd George, which included the suspension of gold convertibility. The Chancellor favoured the plan initially, but was dissuaded by the efforts of the Bank of England and the Treasury; the latter solicited a memorandum from Keynes.[13]

Basil Blackett, in the British Treasury, had earlier contrasted British gold policy with that of the Bank of France, whose larger reserves were the result of deliberate policy. '[T]he economic waste involved in keeping so large an amount of barren metal' was too high a price to pay for the limited advantages it offered. In the event of war, there was no reason to believe Britain would need to suspend convertibility, excepting a general collapse of credit, in which case, 'no Gold Reserve, not even that of the Bank of France, would suffice to prevent immediate suspension of cash payments'.[14] Keynes argued that London's present and future position as a free gold market and an international financial centre depended upon 'complete confidence in London's unwavering readiness to meet

[8] A moratorium had been imposed in 1870 as well; its purpose was to reduce demand for currency and runs on banks.

[9] See Marcel Netter, *Histoire de la Banque de France entre les deux guerres, 1918–1939* (Pomponne: Monique de Tayrac, 1993), 13; Klotz, *De la guerre à la paix*, 17; and Ramon, *Histoire de la Banque de France*, 428, 437–8. On the various *monnaies divisionnaires* brought into existence to meet local needs, see René Sédillot, *Histoire du franc* (Paris: Recueil Sirey, 1939), 283–5.

[10] See discussion of these notes in the second meeting of the 1918 Commission Monétaire on 28 May 1918; procès-verbal in BdF, 1397199403/29.

[11] Between 18 Aug. and 3 Sept. 1914, the Bank removed 36 million francs in silver, 4 billion francs in gold, and more than 40 million in securities to the south of France.

[12] DCG, 12 Aug. 1914.

[13] On the conflict between the Bank and the clearing banks in 1914, see De Cecco, *The International Gold Standard*, ch. 7 and appendices. On Keynes's role, see D. E. Moggridge, *Maynard Keynes: An Economist's Biography* (London: Routledge, 1992), 234–7.

[14] 'Gold Reserves', 22 May 1914, PRO, T 170/19; reproduced in Sayers, *Bank of England*, iii. 4–30, and De Cecco, *The International Gold Standard*, 173–206.

the demands upon her'. Suspension of specie payments should be a last resort, not a first resort, and there was 'no *present* reason' to expect a foreign drain of gold that the Bank could not support.[15]

This highlighted a critical distinction between British and Continental, particularly French, attitudes. The British kept minimum reserves and were prepared to use them. 'It is useless to accumulate gold reserves in times of peace unless it is intended to utilize them in time of danger', Keynes observed. 'I have always believed that Continental state banks would realize this as little in the future as in the past, and that in accumulating gold they were making sacrifices to comparatively little purpose.' Later, regarding gold in Russia, he claimed that 'Only the English have realized that the main use of gold reserves is to be *used*. Elsewhere the gold reserve has become a mere fetish or superstition.'[16] In his view, 'The right policy', once gold convertibility had been suspended, was 'to commandeer the gold, in effect, for government purposes and then to *use* it.'[17] The proportion of gold reserves to bank notes had little influence on public confidence, permitting governments to draw on reserves as needed for external purchases.

In France, authorities highly sensitive to the psychological effect of the proportion of gold reserves to notes in circulation attached great importance to their existence as *reserves*: the suspension of convertibility was intended to conserve gold, rather than to permit its use. They wished to concentrate gold disbursements at those points where they would have the greatest effect, and maintain as large a reserve as possible in order to sustain confidence in the franc. This meant, after the initial rise of the franc in the opening weeks of the war, using gold in London to support the sterling–franc exchange. They wished to keep use of gold reserves as a last resort, relying on the confidence gold would inspire by its *potential* for use, thus bolstering confidence in the currency and facilitating easier credit conditions for French borrowing. 'This living force,' one commentator told the Société d'Économie Politique, 'our duty is to conserve it intact and also to augment it ... Gold is an acting force [*une force agissante*]; it can fight for victory only if it is brought in to the Bank of France.'[18]

How would gold reserves conserved intact in the vaults of the Bank 'fight for victory'? The economist Charles Gide remarked in 1916 on the seeming inconsistency in amassing gold before the war as a *trésor de guerre*, which now, in time of war, had become a *trésor de paix* to be preserved for post-war restoration of the franc. Even 'hidden' at the Bank of France, the gold reserves acted by their potential for use, which Gide compared to the British fleet: 'it is hidden who knows where, in some port, and all the same it maintains the liberty of the seas and the security of our shores!'[19] This difference in attitude proved a persistent source of strain between France and Britain as France sought to conserve its

[15] 'Memorandum against the Suspension of Gold', in *The Collected Writings of John Maynard Keynes*, ed. Elizabeth Johnson [*JMK* hereafter], vol. xvi, *Activities 1914–1919: The Treasury and Versailles* (London: Macmillan, 1971), 7–15.

[16] Keynes, 'Memorandum', 10; 'Russia', note dated 30 Jan. 1915 from PRO T 171/107, in *JMK* xvi. 72.

[17] Keynes, from 'A Summary of the Gold Position', 19 Aug. 1915, in *JMK* xvi. 109.

[18] Conference of M. Guilmard to the Société d'Économie Politique, 4 Nov. 1916, reprinted in *Journal des économistes* (Nov. 1916), here p. 295.

[19] Charles Gide, 'L'Or et le change', *REP* 30 (1916), 94. The statement is noteworthy not only for its explicit statement of the role of the gold reserve as *reserves*, but for its statement by Gide, who thought the Bank of France could and should ship more gold in support of the franc's exchange rate.

metallic reserves while Britain, with smaller reserves, tried to mobilize allied gold for 'use' in financing Allied purchase of war *matériel*.[20]

Beyond financing the initial mobilization, little thought had been given to French war finance. In September 1914, Minister of Finance Alexandre Ribot (August 1914 to March 1917) increased the ceiling on Bank advances to the state from 3 to 6 billion francs and adopted short-term financing by means of Bons de la Défense Nationale (BDN), the main means by which the state would finance its war effort.[21] Ribot made no effort to master war finance. The war was an emergency, and France an invaded country; he refrained from demanding higher taxation until 1916, relying on the expedient of BDNs. Approximately 54 per cent of French war expenditure was covered by domestic borrowing; 15 to 18 per cent was covered by taxation, 16 per cent was met by foreign borrowing, and the remainder in excess of 12 per cent by advances from the Bank of France.[22] Charles Gide commented afterwards that the war had been a golden age in which no taxes, rents, or debts were paid; until 1917, 'The French Government had performed the feat of carrying on the most expensive of all wars without requiring the French taxpayer to contribute a single penny.'[23] Ribot's excuses in his post-war *Lettres à un ami*—that France was an invaded country and that no one demanded a greater fiscal effort in the first two years of the war—were self-serving.[24] If invasion brought greater confusion and resource restrictions than were experienced in Britain, the immediacy of the danger might also have prompted greater sacrifice. The Bank of France and the parliamentary finance committees called repeatedly for a greater fiscal effort. Ribot was out of his depth with no idea how to plan war finance; current sacrifice was minimized in hopes that the war could be won without greater financial effort, and that the loser would pay the bulk of uncovered war costs.

The state's easiest source of revenue was advances from the Bank. The legal ceiling on Bank advances to the state, raised to 3,100 millions when war was declared and to 6,000 million francs in mid-September, would reach 21,000 million francs by the end of the war. It would climb a further 6,000 million francs in 1919 (see Table 2.1). The intention was clear from the outset: the advances were an emergency measure and the state would do all in its power to repay them as rapidly as possible when the war was over. Ribot wrote to

[20] On the role for gold in British external finance at this time, see G. C. Peden, *The Treasury and British Public Policy, 1906–1959* (Oxford: Oxford University Press, 2000), 98–107.

[21] Bons de la Défense Nationale were created as a temporary means of short-term borrowing, and became the main vehicle for French war finance, yielding about 75 billion francs 1914–1919. The original idea had come from journalist Alfred Neymarck. See Truchy, *War Expenditure*, 246–53, and Alexandre Ribot, *Lettres à un ami* (Paris: Éditions Bossard, 1924), 26–37.

[22] Based on calculations from Harvey E. Fisk, *French Public Finance in the Great War and Today* (New York: Bankers' Trust Company, 1922), 31. Fisk's calculations include French expenditure in 1919; Dan Silverman states French taxation covered 15 per cent of French war costs compared to 28 per cent in Britain (Dan P. Silverman, *Reconstructing Europe after the Great War* (Cambridge, Mass.: Harvard University Press, 1982), 133). Blancheton cites proportions as 15 per cent from taxation, 57 per cent from domestic borrowing, 17 per cent from foreign borrowing, and 11 per cent from Bank advances; Blancheton, 'Trésor, Banque de France et politique monétaire', 133. Jèze's post-war *The War Expenditure of France* stresses in its long first chapter the incalculability of French war expenditure owing to the disorder of French public accounts, and laments the losses of life and the decline in morals, the expenditure calculable in money being 'the least important of the consequences' of the war.

[23] Charles Gide, *Economic Journal*, 29, no. 114 (June 1919), 129.

[24] Ribot, *Lettres à un ami*; Truchy, *War Expenditure*, 198; Klotz, *De la guerre à la paix*, 59–64.

**Table 2.1.** *Legal limits on Bank advances to the state and the note issue, 1914–1925 (figures in millions francs)*

| Date | Legal limit on advances to the state | Date | Legal ceiling for note circulation |
|---|---|---|---|
| 31 Dec. 1913 | 200 | 29 Dec. 1911 | 6,800 |
| 5 Aug. 1914 | 3,100 | | 12,000 |
| 21Sept. 1914 | 6,000 | | |
| 4 May 1915 | 9,000 | 11 May 1915 | 15,000 |
| | | 15 Mar. 1916 | 18,000 |
| 13 Feb. 1917 | 12,000 | 15 Feb. 1917 | 21,000 |
| | | 10 Sept. 1917 | 24,000 |
| 26 Oct. 1917 | 15,000 | | |
| | | 7 Feb. 1918 | 27,000 |
| | | 3 Mar. 1918 | 30,000 |
| 21 Apr. 1918 | 18,000 | | |
| 5 June 1918 | 21,000 | | |
| | | 5 Sept. 1918 | 33,000 |
| 13 Feb. 1919 | 24,000 | 25 Feb. 1919 | 36,000 |
| 24 Apr. 1919 | 27,000 | | |
| | | 17 July 1919 | 40,000 |
| | | 28 Sept. 1920 | 41,000 |
| 31 Dec. 1921 | 25,000 | | |
| 31 Dec. 1922 | 24,000 | | |
| 31 Dec. 1923 | 23,200 | | |
| 31 Dec. 1924 | 22,000 | | |
| 15 Apr. 1925 | 26,000 | 15 Apr. 1925 | 45,000 |
| 30 June 1925 | 32,000 | 30 June 1925 | 51,000 |
| 24 Nov. 1925 | 33,500 | 24 Nov. 1925 | 58,500 |
| 3 Dec. 1925 | 39,500 | | |

*Source*: Eleanor Lansing Dulles, *The French Franc 1914–1928* (New York: Macmillan, 1929), 232.

Governor Pallain in September 1914 in terms the Bank would cite repeatedly in seeking post-war repayment:

Nothing would be more disastrous than to yield to the temptation to defer this reimbursement in order to avoid issuing the necessary loans and to profit from the lower rate of interest on state debt to the Bank. The credit of the Bank would suffer grievously from such a short-sighted policy .... The credit of the Bank and that of the state must not be confused, and when a crisis like that we face today obliges the state to have recourse to the Bank, it can do so without danger only on condition that it restore normal conditions [*l'ordre habituel*] as soon as possible.[25]

[25] Ribot to Pallain, 18 Sept. 1914, Banque de France copy in BdF, 1397199403 / 158; *Lois et statuts*, 208. The letter also stated: 'You can give the Council of Regents the assurance that the repayment of the state's debt will be made, in the shortest time possible, either by means of resources from the ordinary budget, or by taking the sums necessary from the first loans or other exceptional resources at our disposal. There is no reason to fear that the chambers will not ratify this engagement that I am making to the Bank in the name of the government as a whole.'

'L'ordre habituel' was the pre-war gold standard. The Bank's gold policy from the very start of the war is best interpreted as saving gold for post-war needs, a *trésor d'après-guerre*.[26] The Bank's justification for increasing its gold reserve in 1914 had been 'in order to assure an ever-larger base for the exceptional issue of notes made necessary by the war'.[27] French gold reserves *increased* during the war, despite shipments of gold to London in exchange for British credits to cover purchases in the United States. At the end of 1918 the Bank's reserves had reached 5,477 million francs.

At the Bank's request, the government prohibited the export of gold by private citizens on 3 July 1915.[28] It then launched a campaign to encourage the public to exchange gold coin for bank notes. Gold committees were organized throughout France, on the Bank's initiative and with its financial support; in 1916 the forty-seven gold committees formed in cities outside Paris federated under a National Gold Committee to co-ordinate propaganda and encourage the founding of new committees (there were 104 committees by the end of November 1916).[29] Lectures, posters, postcards, and moral fables were employed to encourage gold *versements*. A pamphlet told of an elderly peasant woman turning in 150 gold francs at a post office, her son having written to her that, 'it may be your gold, you see, that saves my life'.[30] The campaign to 'harvest gold' garnered 2,400 million francs in total, approximately half the specie coin held by the French public. Gold Committee propaganda committed the government to maintain the gold value of the franc. It promised that French citizens could exchange their gold for bank notes at the Bank of France, 'without losing even the smallest part of their savings, without running any risk, without having to pay more dearly for the goods they wish to purchase'.[31] 'To give gold is to gain without losing a thing' was another slogan used to promote dishoarding of gold and subscription to BDNs.[32] In a talk titled 'Le Devoir des détenteurs d'or', the president of the gold committee in Calvados promised:

> This gold can be exchanged for bank notes, *which have exactly the same value. Those who have any fears in this regard should consider carefully: the state will never harm the interests of those who have given their gold for National Defence, and this is only fair*. The bank notes of the Bank of France will have, for as long as necessary, the power to purchase goods and pay off debts *equal to that of gold*.[33]

[26] The British Ambassador noted that the Bank was 'as dilatory as possible in carrying out the obligations of the Bank to give coin, whether gold or silver, in exchange for its notes' in late July 1914. Lady Algernon Gordon Lennox, ed., *The Diary of Lord Bertie of Thame, 1914–1918* (London: Hodder and Stoughton, 1924), i. 5.

[27] Banque de France, *Compte rendu 1914*, 4.

[28] Requested in Pallain to Ribot, 19 June 1915; 'Note', 29 June 1915 (explaining that the *exposé des motifs* should justify measure on the basis of gold losses to enemies, although the motive was clearly the pressure on French exchange); Ribot to Poincaré, 3 July 1915; BdF, 1069198926/2; DCG, 6 July 1915.

[29] 'Renseignements statistiques demandés', 29 Nov. 1916, and 'Procès-verbal analytique de l'assemblée génerale du Comité National de l'Or du 18 Décembre 1916', in BdF, 1060193601/11. Much of the material for Bank co-ordination of the campaign can be found in BdF, 1060193601/9.

[30] Pamphlet in Comité National de l'Or files; BdF, 1060193601/11.

[31] Notice of the Comité National de l'Or to French mayors in 1916, encouraging them in their *duty* to promote the exchange of gold for currency notes, and the purchase of Bons de la Défense Nationale; BdF, 1060193601/11.

[32] 'Verser de l'or, c'est gagner sans rien perdre'; pamphlet from BdF, 1060193601/11.

[33] M. Villey, 'Le Devoir des détenteurs d'or' (Paris: Comité National de l'Or, n.d.); copy in BdF, 1060193601/11. Emphasis in original.

Georges de Nouvion explained that although the Bank was temporarily relieved of its duty to provide gold, 'its responsibility, completely distinct from that of the state, remains the same', and that its prudent management justified *absolute confidence*, as for more than a century the Bank had scrupulously honoured its engagements.[34]

Even the Catholic Church was mobilized, from the archbishop of Paris down to rural parish clergy: Catholic clergy collected more than 5 million francs in their parishes from October 1915 to August 1916. Sermons, pamphlets, and articles in the local issues of *La Semaine religieuse* encouraged Catholics: 'Make yourselves apostles for the giving of gold for your country.'[35] When initial enthusiasm for the campaign flagged, the clergy were seen as ideally suited, 'in the course of the multiple acts of their ministry and in virtue of the access this gives them to the most private consciences' of their parishioners, to persuade refractory hoarders of their duty 'to give all, down to their last and smallest gold piece'. It was a mission for which the clergy were eminently qualified, 'a mission for which success now depends on devotion, perseverance and discretion'.[36]

The campaign to 'harvest gold' promised those who turned their gold in to the Bank that they would suffer no loss; clergy participation in the campaign made the commitment to restore the pre-war gold parity *sacrosanct*. The harvest of gold reflected a combination of patriotism, public confidence in the Bank, and popular belief that convertibility would be restored promptly to pre-war parity.[37] The Bank played a leading role in encouraging citizens to turn in gold coin, and differentiated the security of its commitment from that of the state, insisting on its faithful honouring of engagements throughout the nineteenth century. This commitment, made in good faith during the war, would later make it more difficult for the Bank to forsake restoring the franc to pre-war parity.

The reserves amassed in the campaign to harvest gold were intended to serve both wartime finance and post-war stabilization. In the interests of both, the Bank sought to use its reserves judiciously to maximize foreign financial support. The outbreak of war had sharply weakened the dollar and strengthened the pound sterling (through demand for sterling for international payments). The franc benefited, rising against the dollar and remaining strong until mid-February 1915. Increased imports and the resulting trade deficit were, the Bank stated, 'the unique cause of the temporary change in our exchange rate' in 1915, which only a resumption of exports could correct.[38] The franc exchange would need support for the rest of the war, which the Bank accomplished with the assistance of foreign credits from Britain, and after March 1917, from the United States (see Figure 2.1). The French government relied mainly on British loans to 1917 to pay for its purchases in both Britain and the United States; the British in turn needed French

[34] Nouvion, 'L'Or de la victoire', 14 June 1916; BdF, 1069198926/1.

[35] Copy of lecture by Canon Gaudeau, undated; BdF, 1060193601/5.

[36] 'Les Versements d'or et le clergé', 30 June 1917; BdF, 1060193601/8. This and bundles 4 and 5 in BdF 1060193601 contain organizational material and correspondence for the mobilization of the clergy.

[37] 'With no pressure and by means of simple advice, the citizens of the smallest villages have not hesitated to exchange their gold for bank notes of the Bank of France, which, *in their eyes, possess the same value*'. Georges Lachapelle, *Nos finances pendant la guerre* (Paris: Librairie Armand Colin, 1915), 237, emphasis added. Pressure *was* exerted later in the war, especially in 1918.

[38] Banque de France, *Compte rendu* 1915, 9–10.

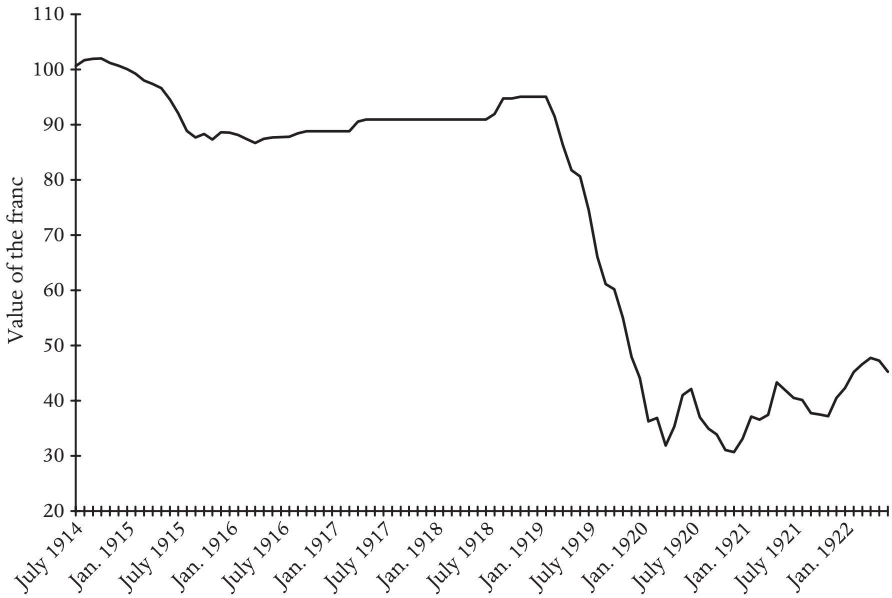


**Figure 2.1.** *Value of franc, July 1914–July 1922 (1914 = 100)*

*Source*: 'Variations de la valeur-or du franc calcuée d'après les cours du dollar à Paris', BdF, 1069199312/8.

gold to support the sterling–dollar exchange. French gold reserves played a vital role in French war finance, and became a chronic point of contention in Anglo-French financial relations.[39]

The Bank sent nearly 3 billion francs in gold abroad during the war, two-thirds of that (1,955 million francs) deposited at the Bank of England, to be returned after the war and remaining on its books as *or à l'étranger*. The first agreements to ship gold were made with the intention of reinforcing the gold reserves of the Bank of England. In February 1915, the Bank of France and the Bank of Russia agreed to transfer gold to London to support the sterling–dollar exchange if Bank of England reserves fell below £80 million. At Boulogne in August 1915, the Bank of France agreed to send £40 million in gold to New York to facilitate Anglo-American financial negotiations. British reserves did not fall sufficiently to require the shipment of gold under the first agreement; Governor Cunliffe misunderstood the Boulogne agreement and neglected to request the shipment of

[39] On Anglo-French financial relations at this time, see Martin Horn, 'External Finance in Anglo-French Relations in the First World War, 1914–1917', *International History Review*, 17, no. 1 (Feb. 1995), 51–77, and id., 'Anglo-French Relations 1914–1917', Ph.D. diss., University of Toronto, 1994, particularly ch. 5 for relations in 1916; see also Georges-Henri Soutou, *L'Or et le sang: les buts de guerre économiques de la Première Guerre mondiale* (Paris: Fayard, 1989).

French gold to New York.[40] Under a separate agreement of 30 April 1915, France shipped £20 million in gold sovereigns to the Bank of England in exchange for a £62 million credit, specifying that the gold would compensate Britain for gold losses resulting from French purchasing in the United States.[41] Bank of France gold reserves increased in 1915, reaching a peak of 5,431 million francs in December, and leading British authorities to believe that France could do more to support its own purchasing and currency.[42] On 8 February 1916 a new credit to the French Treasury committed the Bank of France to sell £12 million in gold to the Bank of England, the French Treasury receiving a credit of £42 million for war purchases in the United States and Britain.[43]

When the franc weakened against sterling in 1916, the Bank's willingness to send gold to London increased, as it needed sterling to support the franc. In March 1916, Pallain requested a sterling loan from the Bank of England to the Bank of France which would include a further sale of French gold. He also asked Ribot whether British sterling payments for military expenditure in France could be put at the Bank's disposal to defend the exchange; Ribot refused.[44] Cunliffe proposed that France sell up to £5 million in gold, with French Treasury bonds discounted in exchange in a proportion of 2 : 1 rather than the previous ratio of 3 : 1. Pallain bridled at borrowing on worse terms than previous loans, and Baron Rothschild, involved as a regent of the Bank, suggested *lending* gold to the Bank of England, 'which would permit us to maintain the gold we have lent in our official balance', which Rothschild did not wish to see fall below 4 billions. Cunliffe agreed and signed a protocol that the Bank of England would extend a credit of £120 million against the discounting of French Treasury bills and the shipment of £40 million in gold, on loan until the discounted Treasury bills were repaid after the war.[45] Sharp opposition from the British Treasury and the Bank of England's Court of Directors halted this initiative. On 14 April a new agreement, reached with difficulty in London, provided a credit of £60 million, the Bank of France depositing £20 million at the Bank of England, for 'the sole purpose of rehabilitating the exchange between England and France'; the franc had fallen to 29 frs. /£ from its pre-war rate of 25.22.[46] Pallain reassured Bank shareholders that the gold sent to

[40] When Cunliffe complained in subsequent negotiations of the Bank of France's failure to send gold to New York, Pallain pointed out that article 3 in the agreement required the Bank of England to determine the amount of gold to be sent in consultation with the Bank of France, and that no such consultation had taken place. Cunliffe apologized, stating that had he realized this, he would have requested the £40 million in gold immediately. See Cunliffe to Pallain, 16 Mar. 1916, and discussion in DCG, 21 Mar. 1916, and Cunliffe to Pallain, 24 Mar. 1916, in DCG, 28 Mar. 1916. On British desire for French gold at the Boulogne conference, see Kathleen Burk, *Britain, America and the Sinews of War, 1914–1918* (Boston: George Allen and Unwin, 1985), 64–5, and Peden, *The Treasury and British Public Policy*, 101–2.

[41] Copies of these agreements in BdF, 1069199521 / 10.

[42] See Horn, 'External Finance', 216–17.

[43] DCG, 10 Feb. 1916; 'Agreement between the French and British Ministers of Finance, February 8th, 1916', in BdF, 1069199521 / 11.

[44] Pallain's concerns and his letters to Cunliffe and Ribot are in DCG, 9, 14, and 18 Mar. 1916.

[45] DCG, 28 Mar. 1916; this suggestion had already come up in January as the Bank reviewed its gold resources, 'La Question des envois d'or et les arrangements franco-anglais', 20 Jan. 1916; BdF, 1069199521 / 11. There is a copy of the agreement reached on 28 Mar. in BdF, 1069199521 / 12.

[46] Fleuriau to MAE, no. 377, 3 Apr. 1916; MAE, Guerre 1914–1918, no. 1388; and De Peyster confidential record of conversations for director, MGF (Célier), 18 Apr. 1916; SAEF, B 12677; copy of agreement in BdF, 1069199521 / 12. The agreement was negotiated without a representative of the Bank of France present, given the urgency of obtaining support for the franc. On these discussions see Horn, 'Anglo-French Financial Relations', 218–23, and DCG, 18 Apr. 1916.

London would be returned after the war. Lending the gold was intended 'to make certain that we have for the immediate post-war period a stock of reserves capable of supporting our fiduciary circulation'.[47]

The Calais agreement of 24 August 1916 complicated matters. It retroactively altered the agreements of February and April 1916 to make their dates of repayment coincide. Pallain had expressed great concern to the Conseil Général about the depletion of the Bank's foreign exchange reserves, and proposed to Ribot that he suggest an extension of their April arrangement to the Bank of England, along the same lines, in order to increase their sterling reserves. Britain pledged to provide France with £25 million per month for six months (of which £17 million in American dollars), discounting French Treasury bills. The Bank of France would supply the Bank of England with a guarantee of £50 million in gold in exchange for £10 million per month for six months to meet its foreign exchange needs. Pallain attended the conference, and the regents agreed to the accord, their only reservation being that £10 million per month was insufficient to meet market demands, which had averaged £12 million since April and were rising steadily.[48] Pallain saw the £50 million as a loan of gold to the Bank of England, like that agreed in April; in all likelihood Pallain himself suggested the transfer.[49]

Pallain and French banking representatives at the Calais conference repeatedly stressed the psychological importance of maintaining the gold reserve in France rather than shipping it to London or New York. Briand explained, 'M. Pallain's resistance, you must understand, reflects a state of mind in the nation, a sentiment which in France is so profound that you would run the risk, in crossing it without care, of weakening the credit of the French state. This sentiment exists in all classes of society, and it would not be in your interest to misjudge it.'[50] Although the banker Octave Homberg would later caricature Pallain as 'a dragon resting on his gold hoard',[51] in 1916 he argued that France's gold contribution left her with 'a metallic cover very reduced, much too reduced'. Charles Sergent likewise defended French economy in committing its gold resources, explaining that 'In France ... the spectre of the *assignat* haunts the *esprit du paysan*.'[52] The point was of fundamental importance in explaining the difference between gold policies in France and Britain.

The Calais accord ran for six months, to mid-March 1917; it was extended for one month under the same terms to tide over the French central bank and the Treasury until American entry in the war obviated the need for further gold shipments.[53] Advances from the US Treasury then covered French needs for the purchase of war *matériel* and

[47] Banque de France, *Compte rendu* 1916, 9–13.

[48] Copies of letters in SAEF B 31384 and in DCG, 28 Aug. 1916.

[49] See discussion and draft letter in DCG, 22 Aug. 1916.

[50] See compte-rendu by Paul Mantoux, 'Conférence financière du 24 août 1916 à Calais', 25 Aug. 1916; AN 94 AP 167.

[51] Octave Homberg, *Les Coulisses de l'histoire, 1898–1928* (Paris: Fayard, 1938), 154; cited in Horn, 'External Finance', 56.

[52] Discussion of Commission Financière Franco-anglaise, 4 Oct. 1916; SAEF, B 12677. The gold provisions of the Calais accord would later become a matter of dispute; see Chapter 5.

[53] For a shipment of £8,333,000 in gold, the Bank wanted the £25 million credit increased to £32; it was successful on neither count. DCG, 23 and 24 Mar., and 12 Apr. 1917; correspondence from late Mar. 1917 in SAEF, B 12677.

support of the franc. These advances totalled nearly $3,000 million from April 1917 to the end of 1919.[54] In fact, French insistence that they needed $160 million per month, a rough approximation, yielded a surplus, while American payments to cover the French currency needed for its troops in France in 1918 provided a still larger, although temporary source of dollar funds.[55]

The Bank's gold reserves at the end of 1918, thanks to 2,400 million francs acquired from the French public, totalled 5,477 millions, of which 3,440 millions were *en caisse*; significantly more than the Bank's reserves in July 1914. *Trésor de guerre* or *trésor d'après guerre*? The answer is both. The Bank's gold exports amounted to more than two-thirds of its pre-war reserves, sent mainly to London in exchange for British credits to support war purchases abroad and the franc exchange. The Bank of France noted with vexation that the Bank of England's own gold reserves *increased* during the war, from £40 million in July 1914 to over £55 million in 1917; they believed that gold reserves backed the Treasury issue of currency notes as well, bringing total British reserves to over £80 millions. France, the Bank believed, had paid more than its share in gold sent to the United States to cover war purchases.[56] The French gold reserves had been amassed before the war not to be *used* in the British sense of purchasing war imports, although they were used in this way, but rather to maintain confidence in the franc and to guarantee its return to par after the war.[57]

Apart from maintaining the franc's exchange rate and guarding the nation's gold, the Bank provided 17,150 million francs in advances to the state, discounted 3,526 million francs in Treasury bills in order to effect state advances to allied governments, and placed more than 33 billion francs in Bons et Obligations de la Défense Nationale and more than 25 billion francs in *rentes de guerre*.[58] The Bank's financial service to the state and the nation in time of war was recognized and appreciated in the debate on renewal of the Bank's issuing privilege, scheduled to expire at the end of 1920. The massive increase in the note circulation and the commitment to recover French gold from the Bank of England after the war had provoked regents' concerns about renewal.[59] When the Ministry of Commerce and Industry investigated business attitudes towards renewal of the Bank's privilege, chambers of commerce and professional associations now—in contrast to a similar inquiry in 1911 when one respondent in three had wished to see

[54] Truchy, *War Expenditure*, 316.

[55] André Kaspi, *Le Temps des américains: le concours américain à la France en 1917–1918* (Paris: Publications de la Sorbonne, 1976), 53–8, 330–4. Jacques de Neuflize reported Bank of France dollar holdings with some alarm at their size in November 1918, when the Bank had over $100 million on deposit at J. P. Morgan & Co. alone; Neuflize to Pallain, 8 Nov. 1918, and Neuflize, 'Existence d'un avoir trop important de la Banque de France aux Etats-Unis', 10 Nov. 1918; in BdF, 1069198926/2 and AN 44 AQ 21.

[56] 'Note pour le Ministre', 29 [*sic*] Feb. 1919, and 'Note', 23 June 1917; BdF, 1069198926/1.

[57] 'To give up a considerable part [of the gold reserves] would certainly mean adjourning, without doubt for a very long time, all hope of restoring convertibility and normal exchange for the currency, and would constitute a very alarming loss'. Pallain to Klotz, DCG, 14 Mar. 1919.

[58] For details see the Bank's survey of its wartime efforts in Banque de France, *Compte rendu 1918*.

[59] Pallain to Ribot, 19 Apr. 1916, in DCG, 25 Apr. 1916. When asked about renewal in discussion of the agreement with the Bank of England on 18 Apr., Pallain told the regents he had already urged Ribot to undertake an early renewal several times. DCG, 18 Apr. 1916.

changes in the Bank's operations—unanimously favoured renewal with no new charges or responsibilities. The Bank was 'the financial incarnation of national defence'.[60]

In the discussions in 1918, the Bank argued that the task of restoring the convertibility of the franc, by reducing the fiduciary circulation, recovering the gold deposited at the Bank of England and reducing the enormous burden of public debt, would require a sustained effort in the Bank's next term of privilege. The 1897 renewal, extending the Bank's issuing privilege to the end of 1920, had included a provision (termed a *clause résolutoire*) by which a law voted in both chambers of parliament in 1911 could bring the Bank's issuing privilege to an early end in 1912. A new *clause résolutoire* calling for a review of the Bank's performance would create doubts about the continuity of the post-war monetary regime and the restoration of the franc, with its 'threat of termination of the Bank's privilege'. Confidence in the franc rested on two pillars, the Bank argued: the credit of the state, and that of the Bank. 'Credit is fragile: one cannot be too careful in seeking to avoid anything which could undermine it, particularly at a time when the value of our enormous circulation is based primarily on the credit of the Bank.' The Bank linked the confidence of foreign lenders explicitly to the return of the franc to gold: '[T]hey must be able to count on the restoration of convertibility of the bank note into gold. For them today, the notes of the Bank of France represent deferred gold.' To place the Bank in the strongest, most secure position possible, and thus to assist the government's efforts to restore the national economy and a sound monetary regime, it was essential to avoid a new *clause résolutoire*.[61]

Parliament renewed the Bank's privilege in 1918. As Netter noted, 'its credit, its moral authority, its prestige, were greater than at any time since its founding'.[62] Albert Thomas (a socialist deputy who would serve as Minister of Munitions during the war) had tried to co-ordinate opposition in 1911 in order to turn the Bank of France into a Bank of the State. In 1918 he conceded that 'Private bank or state bank, it is now a dead issue.'[63] The Bank viewed the renewal for twenty-five years to 1945 without a *clause résolutoire* as intended to place the Bank in the strongest possible position to liquidate the monetary difficulties created by the war.[64] Governor Pallain echoed the statement of the new Minister of Finance, Lucien Klotz, that the renewal expressed parliament's wish to 'mark their firm resolve to neglect nothing in their effort to return as soon as possible to normalcy [*la situation normale*]'.[65]

Return to 'la situation normale'—gold convertibility at pre-war parity—would require considerable effort. Notes in circulation had increased from 6 to 30 billion francs; gold and silver coin totalling perhaps 7 billion francs in 1914 had been turned in to the Bank or withdrawn from circulation; monetary means of payment had roughly doubled from

[60] *Enquête faite par le Ministère du Commerce et de l'Industrie au sujet du renouvellement du privilège de la Banque de France* (Paris: Imprimerie Nationale, 1916), copy in AN F[12] 8163.

[61] 'Contre la clause résolutoire', Mar. 1918, and note of 7 June 1918, in BdF, 1397199403 / 143.

[62] Netter, *Histoire de la Banque de France*, 9.

[63] Cited in Paul Durand, *Le Renouvellement du privilège de la Banque de France en 1918* (Poitiers: Imprimerie G. Basile, 1919), 36. On Thomas's unsuccessful efforts to obtain reform of the Bank in 1911, see his papers in AN 94 AP 363.

[64] 'Loi portant renouvellement du privilège de la Banque de France', 23 Jan. 1919, BdF, 1397199403 / 143.

[65] Banque de France, *Compte rendu 1918*, 12.

21 to 42 billion francs.[66] Prices had risen more than threefold; only British and American support to peg the exchange rate had prevented a significant fall of the franc. The gold reserve had increased from 4,141 million francs in July 1914 to 5,477 million francs in December 1918, of which 2,037 million was on deposit abroad, chiefly at the Bank of England, leaving 3,440 million to cover a note issue of 30 billion francs (a reserve ratio of less than 12 per cent). The Bank's assets, previously a combination of gold and commercial paper (92 per cent of the Bank's assets in 1913), had been replaced in large part by advances to the state (70 per cent of its assets in 1919). The Bank's chief concerns at the end of the war were to obtain repayment of its advances to the state, to reduce the quantity of notes in circulation, and to recover the gold used to guarantee wartime borrowing.[67] As Pallain put it to the Bank's general assembly in January 1919, 'It is important to ... progressively reduce our circulation. The repayment of the state debt to the Bank is the necessary condition for this reduction and the unique means to re-establish a normal monetary regime.'[68]

## 2. UNE FOIS DE PLUS DEVANT L'INÉVITABLE: POST-WAR DISORDER

If French financial preparations for war had been reasonably sound, adaptation to the requisites of war finance was mediocre, and financial arrangements for peace almost non-existent.[69] The formal end to hostilities opened a new phase in French monetary difficulties. There was no question that the country should return to the gold standard at pre-war parity. But the French monetary committee appointed in April 1918 was no parallel to the Cunliffe Committee in Britain: it met infrequently over the next three years to discuss the proliferation of *monnaies divisionnaires*, and did not tackle the question of how to return the franc to gold.[70]

Expenditure for the purchase of war *matériel* and demobilization continued through 1919, while reconstruction in the regions occupied by the German armies or devastated by war began immediately. No serious effort was made to curtail expenditure or raise taxes in 1919. The Bank termed it 'a year of transition', a euphemism for the postponement of necessary financial measures. Henri Truchy characterized it 'a year of deplorable financial administration'.[71] The promise of reparations encouraged massive

[66] Netter, *Histoire de la Banque de France*, 30–2; Patat and Lutfalla calculate M2 increased from 15 to 46 billion; Jean-Pierre Patat and Michel Lutfalla, *Histoire monétaire de la France au XX$^e$ siècle* (Paris: Economica, 1986), 30.

[67] See Netter, *Histoire de la Banque de France*, 32–8, and the breakdown of Bank assets in Jean Bouvier, 'The French Banks, Inflation and the Economic Crisis, 1919–1939', *Journal of European Economic History*, 13, no. 2 (Fall 1984), 43.

[68] Banque de France, *Compte rendu 1918*, 9.

[69] Silverman defends French post-war financial policy against what he sees as an Anglo-American financial entente hostile to France in *Reconstructing Europe after the Great War*, ch. 1.

[70] The committee reconstituted an 1886 committee that had reported on the question of variations in the relative values of gold and silver; there are records of the committee's meetings, from Apr. 1918 to Mar. 1921 in BdF, 1397199403/29.

[71] Pallain in Banque de France, *Compte rendu 1919*, 3; Netter adopts the term for 1919 in *La Banque de France*, ch. 2. For critical views of fiscal policy in 1919 see Truchy, *War Expenditure*, 240, and Charles Rist, *La Déflation en pratique*, 2nd edn. (Paris: Marcel Giard, 1927), 66. Klotz refused to impose significant new taxes so long as Germany's war debt was undetermined, hoping American lending would bail him out; Silverman, *Reconstructing Europe*, 71–2.

spending for reconstruction in the belief that such expenditure would be covered by German reparation payments, the bulk of this spending in the first half of the 1920s.[72] Administrative disarray played a significant part. French financial accounts were chaotic, and complicated budget procedures obscured actual spending: official documents recorded credits opened rather than actual expenditure. Reviewing the post-war budgets in 1925, the economist Gaston Jèze wrote that 'the prevailing disorder in the public accounts makes it impossible to draw up an accurate record of the State expenditure'. Personnel problems plagued the state administration: after wartime personnel losses, the state had difficulty retaining skilled civil servants when salaries failed to keep pace with inflation.[73] Treasury accounts were in good part guesswork. André Célier, a former director of the Treasury, admitted in 1922: 'No one … knows today either the amount of our receipts and expenditures nor that of our debt.' The Treasury told parliamentary finance committees that it did not know within 10 billion francs the total of BDNs outstanding at any given time.[74] The Director of Government Accounts complained in July 1924 that the entire tax collection system was approaching a state of collapse, with wartime accounts still not settled. The principal problem was 'the insufficiency of personnel in quantity and in quality', with a desperate need for competitive salaries in order to be able to recruit and retain qualified personnel.[75] But the fundamental problem was reconstruction after four years of war: a costly new battle was necessary to restore France's devastated areas. The state's budget deficit, over 34 billion francs in 1918, was still 27 billion francs in 1919 according to official figures; Treasury figures several years later showed an even larger deficit (see Table 2.2).[76]

The Bank agreed to new advances to the state in February and April 1919, increasing the ceiling on advances from 21 to 27 billion francs and the ceiling on note circulation from 33 to 40 billion francs. In response to the first request on 10 February, Pallain authorized raising the ceiling on advances to 24 billion francs, but asked that the increase be reserved for use only if national defence needs could not be covered by taxes, loans, and

[72] On rural restoration after the war, Hugh Clout, *After the Ruins: Restoring the Countryside of Northern France after the Great War* (Exeter: University of Exeter Press, 1996); on the failure of wartime plans for industrial reconstruction, Thomas W. Grabau, *Industrial Reconstruction in France after World War I* (New York: Garland Publishing, 1991).

[73] Gaston Jèze, *The War Expenditure of France* (New Haven: Yale University Press, 1927), 27–40, here p. 27; Pierre Hamp, *La Nouvelle Fortune* (Paris: Gallimard, 1926), 14–18, 265; Silverman, *Reconstructing Europe*, 63–6, 70–1.

[74] A. Célier, 'La Situation financière', and comment by Raoul Péret, in A. D'Aubigny, et al., *Problèmes financiers d'après-guerre: conférences organisées par la Société des Anciens Élèves et Élèves de l'École Libre des Sciences Politiques* (Paris: Félix Alcan, 1922), 8–10, 31–2.

[75] Directeur de la Comptabilité Publique, 'Note pour le Ministre', 12 July 1924; Clémentel Papers, Archives Départementales de Puy de Dôme (ADPdD), 5 J 46. The note pointed out that costs for collecting direct taxes, 7.6 per cent of receipts in 1913, had fallen to 2.3 per cent in 1923. 'In order to avoid some millions in expenses, the state deprives its Treasury of hundreds of millions or even of billions in receipts; unable to recruit the personnel it needs because the salaries it offers are too low, it has been left to decline into disorder in its accounting, and it can no longer establish clearly the current situation of its finances'.

[76] For official figures, Alfred Sauvy with Anita Hirsch, *Histoire économique de la France entre les deux guerres*, rev. edn. (Paris: Economica, 1984), iii. 379, which gives no figures for war years; Treasury recalculation of the numbers for Poincaré in preparing the 1927 budget shown in Table 2.2 (from SAEF B33985) are likely to be more accurate.

**Table 2.2.** *French budget balance and public debt, 1913–1926 (millions francs)*

| Year | Budget balance (Bonnefous) | Domestic public debt | Budget balance (B33985) |
|---|---|---|---|
| 1913 | 25 | 33,600 | |
| 1914 | −5,517 | 38,400 | |
| 1915 | −16,795 | 49,700 | |
| 1916 | −22,862 | 73,900 | |
| 1917 | −28,377 | 98,400 | |
| 1918 | −34,276 | 143,100 | −49,858 |
| 1919 | −26,688 | 204,700 | −42,601 |
| 1920 | −17,140 | 232,100 | −25,171 |
| 1921 | −9,275 | 250,800 | −16,726 |
| 1922 | −9,761 | 243,100 | −13,715 |
| 1923 | −11,806 | 268,700 | −10,233 |
| 1924 | −7,121 | 264,700 | −3,455 |
| 1925 | −1,507 | 288,500 | −1,195 |
| 1926 | 1,088 | 294,400 | 362 |

*Sources*: Édouard Bonnefous, *Histoire politique de la Troisième République*, vol. iv, *Cartel des Gauches et Union Nationale (1924–1929)* (Paris: Presses Universitaires de France, 1960), 396–7, and 'Renseignements demandés par Monsieur le Président du Conseil, Ministre de Finances', SAEF, B 33985.

reparation payments.[77] The regents discussed whether they should state their opposition to any further increase, but Pallain dissuaded them from doing so on the grounds that this was implicit in accepting the increase to 24 billions.[78] Two months later, Minister of Finance Lucien Klotz requested a further 3 billions. Baron Édouard de Rothschild and the Bank's Comité des Livres et Portefeuilles recommended that the Bank refuse. Advances had been justified when the survival of the nation was at stake, but this was no longer the case. 'We must set ourselves to block this policy, we must stop the government from proceeding down a path perilous for the country; we must defend with all our strength the credit of our bank note, which is linked to the credit of France,' Rothschild stated.[79]

Pallain preferred to specify the terms on which the Bank would accord a further advance. The Conseil agreed he would tell Klotz that a new advance must be temporary, with repayment required no later than the next issue of state *rentes* or *obligations*. Klotz offered to reduce his demand to 1 or 1.5 billion francs if there was no clause concerning reimbursement, or to promise repayment in two years for an advance of 3 billion, hoping German reparation payments would make this possible. The regents were prepared to advance 1 billion francs only if the convention specified that repayment would have first claim on any new state financial resources.[80] Klotz offered to add the reimbursement clause in exchange for an advance of 3 billion francs. After sharp discussion the regents decided that it was more important to maintain the principle of ending advances than

[77] Pallain to Klotz, 13 Feb. 1919, in DCG of same date. [78] DCG, 20 Feb. 1919.
[79] DCG, 15 Apr. 1919. [80] DCG, 15 and 16 Apr. 1919.

to impose new conditions, and agreed to provide 1 billion francs on the same terms as previous advances.[81]

One week later, Klotz requested the original 3 billion francs. The Bank agreed, but insisted on special conditions: by article 3 of the convention of 24 April 1919, the Treasury agreed to reimburse the new advances from the product of the next loan issued by the state.[82] Although still intending to repay advances and reduce the note circulation in order to return to gold, France was moving further from this goal. And monetary difficulties were aggravated by the ending of Allied support for the pegging of the exchange rate, on which France depended to maintain the franc.

France, having borrowed heavily to cover its war purchases in Britain and the United States, relied on assistance from both countries to support the franc exchange. The abrupt withdrawal of support in 1919, *la chaise retirée* in Gabriel Terrail's phrase, was a shock to the French authorities.[83] In late November 1918, Chancellor of the Exchequer Bonar Law had proposed strict limits on British post-war assistance, particularly the transfer of sterling to the Bank of France. Klotz feared this would impose either an abrupt end to French purchases in Britain or a serious depreciation of the franc. After the sacrifices France had made during the war, abrupt, unilateral termination of aid was unmerited and unjust.[84] France hoped to receive continued support from both the United States and Britain, but neither country was prepared to finance French purchasing after the war. British aid depended on American lending, which was under scrutiny as authority for wartime funding came to an end.[85] The Americans had noticed before the end of hostilities that 'No plan has been evolved to meet the situation and the rapid movement of the war does not give time for the evolution of a satisfactory plan. Thoughtful men here believe that serious troubles are ahead of France in this respect.'[86]

The British Treasury cut credits, in December 1918 to the Bank of France and on 3 January to the French Treasury. Ambassador de Fleuriau protested that France would have no choice but to suspend payments in Britain, and could not cover cheques already written. After considerable tumult, Britain loaned a further £500,000 on 6 January, and agreed on 10 January to provide for French needs in Britain for further three weeks.[87]

[81] DCG, 17 Apr. 1919; several regents thought there was little purpose in restricting this advance if the only result would be to accelerate a new demand for the next advance.

[82] DCG, 23 and 24 Apr. 1919; *Lois et statuts*, 263; *Compte rendu 1919*, 11–12.

[83] Mermeix [Gabriel Terrail], *Histoire du franc depuis le commencement de ses malheurs* (Paris: Albin Michel, 1926), 13; and see Lucien Petit, *Histoire des finances extérieures de la France pendant la guerre (1914–1919)* (Paris: Payot, 1929), 166–9, 322–8, and 529–35.

[84] Bonar Law to Klotz, 28 Nov. 1918; Klotz to Clemenceau, 30 Nov. 1918, and Klotz to Bonar Law, 7 Dec. 1918; SAEF, B 12676 and B 31846. The British proposal took into consideration that France had not required extra financial assistance since August, thanks to the payments made for support of US and British troops in France; but as Klotz pointed out, these payments would fall sharply with the war's end.

[85] Bonar Law to Klotz, 18 Dec. 1918; SAEF, B 12676 and B 31846; 'Note pour Monsieur le Ministre des Finances', 24 Feb. 1919; SAEF, B 12676; Anne Orde, *British Policy and European Reconstruction after the First World War* (Cambridge: Cambridge University Press, 1990), 37–8.

[86] Crosby to McAdoo, 25 Oct. 1918, RG 59, 851.51/101.

[87] De Fleuriau to Bonar Law, 5 Jan. 1919; Bonar Law to de Fleuriau, 6 Jan. 1919; Avenol to MF, 10 Jan. 1919; SAEF, B 12676.

The French mission in London lived from hand to mouth: according to financial attaché Joseph Avenol, their account at the Bank of England was regularly overdrawn two or three times each week.[88] Silverman posits an 'Anglo-American financial entente in which the French found themselves the chief victim',[89] but French financial attaché Guionic was probably closer to the mark in suggesting that British pressure on France, whose need for funds was clear, was exerted in hopes of obtaining more aid from the United States.[90] Keynes, who conducted the British negotiations with Guionic and Avenol, suggested several times that the United States finance French reconstruction, a proposal that met with no enthusiasm whatsoever in the United States.[91]

American and British representatives believed France needed to make a greater effort to obtain private financing for its purchases, that the franc was overvalued at 27 frs./£, and that France should take steps to reduce the money supply and ease inflationary pressures. Keynes stated explicitly that it was a mistake to support the current pegged rate when the franc was probably worth 40 or 50 frs./£.[92] American representatives agreed that 'use must be made of French private resources and that these resources will not be used unless franc exchange is permitted to seek a more natural level'.[93] The United States provided aid for purchases in the United States, but was unwilling to provide dollars for purchases elsewhere. The British wished to obtain dollars in payment for purchases made by their allies in Britain.[94] At tripartite meetings in Paris in early March 1919, a French note explained the need for assistance to cover external purchases, such credits being 'of the gravest political and social necessity'. While acknowledging the need to revise the wartime financial regime, it urged continuance for two months in order to ease the transition to new funding arrangements. An abrupt end to exchange-rate support could produce financial panic, increasing government recourse to Bank advances and international exchange disorder without altering the French need for external support.[95]

The British offered transitional aid of £52 million in exchange for the sale of the £21.5 million (550 million francs) in gold to the Bank of England, currently held as a guarantee for the April 1916 credit to the Bank of France. Klotz, emphasizing the political importance of the agreement for Anglo-French financial relations, urged Pallain to obtain the regents' consent, but they rejected the proposal.[96] As Pallain posed the problem for the Comités des Livres et Portefeuilles et des Succursales Réunis, the Bank was asked to

[88] Avenol to Célier, 8 Feb. 1919; SAEF, B 12676.

[89] Silverman, *Reconstructing Europe*, 19.

[90] Guionic to Fromage, 4 Jan. 1919; SAEF, B 12676.

[91] Orde, *British Policy and European Reconstruction*, 39; Orde gives very good coverage of Anglo-American discussions at this time, and the British frustrations with American policy, in contrast to Silverman's argument about an Anglo-American entente.

[92] Davis to Sec. of State for Rathbone, 22 Feb. 1919; US RG 59, 851.51/118; see also *JMK* xvi. 406. The logic of the British position received a sympathetic exposition in 'Note pour le Ministre des Finances', 24 Feb. 1919; SAEF, B 12676. On discussions between France, Britain, and the USA regarding financial assistance, see Orde, *British Policy and European Reconstruction*, 35–51.

[93] Davis for Rathbone, 10 Mar. 1919; RG 59, 851.51/124.

[94] 'Note remise le 12 Mars 1919 à M. le Col. House', SAEF, B 12676.

[95] 'Note pour le Ministre, copie remise aux Anglais et Américains le 10 mars 1919', SAEF, B 12676.

[96] Klotz to Pallain, 12 Mar. 1919, in DCG, 13 Mar. 1919 and SAEF, B 12676.

choose between new gold losses or depreciation of the franc. The regents preferred depreciation. A *crise des changes* appeared inevitable: aid from the Bank of England, dearly bought with gold, would merely delay the crisis, depleting the gold reserves on which eventual stabilization depended. Better to face the crisis immediately and blame it on the withdrawal of British support, without engaging the Bank's responsibility in defence of the franc.[97] The French Treasury promptly announced that it would no longer provide foreign exchange (mainly sterling) at a fixed price to importers: wartime pegging of the franc ended on 14 March 1919.

Britain decided to unpeg sterling on 20 March and left the gold standard officially on 31 March. Employment and export concerns were key factors in the decision to go off gold.[98] Keynes commented later that continued support for the franc exchange when sterling was to be unpegged was 'preposterous'.[99] The French decision was taken in the Bank. The regents unanimously opposed any weakening of the gold reserve, which would risk 'the most serious repercussions on the credit of the banknote in France'. The public viewed French gold abroad as equivalent to gold in France under the sole condition that the state would honour its engagements. A significant reduction in gold reserves in France or abroad could shatter this public confidence, creating justified disquiet, as 'although one can claim that gold does not play the role of an effective guarantee while the *cours forcé* is in effect, gold remains the only means to escape such a regime'.[100]

Klotz protested that he could not accept this decision without examining all aspects of the question with Bank representatives.[101] A new British proposal suggested a consortium of British and French banks furnish exchange for French purchases abroad, guaranteed by the French gold on deposit in London (the same £21.5 million).[102] The Bank refused, declaring it could not agree to any new losses or engagements of its gold.[103] A subcommittee of five regents considered the proposal; in their view the Bank had undertaken irregular measures to assist the defence of the country in time of war, but the war was over. The heavy deficit in trade and payments required a long-term strategy to restore

97 Procès-verbal, Comités des Livres et Portefeuilles et Succursales Réunis, 13 Mar. 1919, in BdF, 1069199521 / 12, and DCG, 14 Mar. 1919. There was a clear challenge to Britain in the choice, believing that the British need for French purchase of their exports would provoke more aid from Britain. In René Laederich's words, 'Only when England has its back to the wall will the British make the necessary effort, and thus make improvement of the market possible.' Procès-verbal, 13 Mar. 1919; this view is also evident in Pallain's letter to Klotz in DCG, 14 Mar. 1919.

98 See Susan Howson, *Domestic Monetary Management in Britain 1919–38* (Cambridge: Cambridge University Press, 1975), 12; Peden, *The Treasury and British Public Policy*, 112; and Soutou, *L'Or et le sang*, 763–4. On the conflict between social policy and financial orthodoxy, Paul Barton Johnson, *Land Fit for Heroes: The Planning of British Reconstruction, 1916–1919* (Chicago: University of Chicago Press, 1968), 364–74.

99 Keynes letter to *The Times*, 27 Feb. 1924, reprinted in *JMK* xvi. 412.

100 Pallain to Klotz, discussed in DCG, 14 Mar. 1919; copy of letter in SAEF, B 12676.

101 DCG, 18 Mar. 1919. The Bank's refusal was embarrassing for Klotz, as Britain had advanced £2 million to the French Treasury on the understanding that the gold on deposit in London would be sold to Britain; see the exchanges between Keynes and Célier, particularly 20 Apr. 1919, in SAEF, B 12676.

102 'Note soumise par M. Avenol aux membres délégués du Conseil', 21 Mar. 1919; BdF, 1069199521 / 12, and DCG, 27 Mar. 1919.

103 DCG, 27 Mar. 1919; the Ministry of Finance case for the consortium was put in 'Memorandum pour la Banque de France', 21 Mar. 1919; SAEF, B 12676.

equilibrium; the government was failing to attack the root of the problem. The Bank had a responsibility to push the government 'to end as soon as possible this regime of expedients'. In a choice between a *crise des changes* and a *crise du billet*, it was the Bank's duty to defend its note issue and the gold reserve that guaranteed it.[104]

Klotz claimed it was 'indispensable' for financial relations with Britain that the proposal not be turned down flat, suggesting direct discussions with the Bank of England.[105] The Bank complied without enthusiasm; the unwillingness of the Bank to use its gold in London as a guarantee rendered further British assistance impossible.[106] The Bank refused, absolutely, to engage its gold reserves to support French purchases abroad. The trade and payments deficits, the budget deficit, and any capital or exchange controls needed, were matters in the hands of the government. The duty of the Bank, in Rothschild's words, was 'to conserve its resources jealously for urgent needs in the future', the principal need being to guarantee the note circulation. It was an attitude the Bank held consistently in the 1920s. The *trésor de guerre* not spent during the war must be kept intact as a *trésor de paix* to support the franc when monetary order was restored. This Bank passivity aggravated France's financial difficulties and prolonged the wait for a stable franc.

The franc tumbled from its pegged rate of 5.45 frs./$ to 6 frs./$ by the end of March, 10.80 at the end of the year, and 16.60 at the end of 1920 (sterling, unpegged, fell from $4.76 to $3.30 in March 1920). This was the steepest decline in the interwar franc (see Figure 2.1). The franc's decline against sterling and the dollar provided a highly visible marker by which the French public judged government fiscal and monetary management and the gap to be closed if the franc were to return to gold at pre-war parity. There was no plan setting out how to accomplish this. Klotz sought foreign loans to cover imports and support the franc, and delayed increasing taxes. Even if he never claimed 'L'Allemagne paiera!' this was widely understood to be his view; even if amended to 'que l'Allemagne paie d'abord', it postponed needed domestic measures to limit spending and raise taxes.[107] The economist Charles Rist noted there was no plan, nor even a specific *goal*, for French deflation after the war. As inflation and the decline of the franc widened the distance between the franc and the ultimate goal of pre-war parity, the authorities set more immediate policy objectives.[108] The Bank of France harped, in its annual reports and in its exchanges with Ministers of Finance, on the need to curb expenditure, fund the floating debt, and repay Bank advances in order to reduce currency in circulation. But with the Treasury nominally in command of expenditure (thus inflation) and the exchange rate (thus depreciation), there was little the Bank could do to influence Treasury policy.

[104] The committee, chaired by Pallain, consisted of regents Richemond, Rothschild, Laederich, Heine, and Luquet. 'Réunion des délégués du Conseil pour étudier les nouvelles suggestions de l'Angleterre au sujet de nos crédits dans le Royaume-Uni transmises par le ministre des finances'; BdF, 1069199521 / 12.

[105] Klotz to Pallain, in DCG, 27 Mar. 1919; Avenol explained the Bank's objections and suggested this alternative in 'Note pour le Ministre', 26 Mar. 1919; SAEF, B 12676.

[106] DCG, 27 Mar., 3 and 10 Apr. 1919.

[107] See Marc Trachtenberg, *Reparation in World Politics: France and European Economic Diplomacy, 1916–1923* (New York: Columbia University Press, 1980), 41–3; Trachtenberg defends Klotz's position on reparations, not his budget policies.

[108] Rist, *La Déflation en pratique*, 61.

The nearest thing to a specific plan to return to gold was the François-Marsal Convention of December 1920, in which the Treasury undertook to repay Bank advances at the rate of at least 2 billion francs each year, which would liquidate Bank advances in thirteen years if the schedule was maintained. It originated not as a plan to extinguish Bank advances and restore the franc to par, but as an awkward compromise in the struggle between the Bank and the state, seeking to assure regular repayment of Bank advances. It marked a brief, partial victory for Bank efforts to curb state spending and reduce the note circulation, and it signalled the weakness of the Bank's position and the strength of its faith in the gold standard.

In March 1920, Governor Pallain wrote to Klotz's successor as Minister of Finance, Frédéric François-Marsal, reminding him that the April 1919 advance had been temporary, intended to last no more than a year and to be repaid from the first loan issued by the state, and asking what measures he would take to meet the promise of repayment. François-Marsal replied that increased expenditure on defence, demobilization, and reconstruction had delayed reimbursement of the Bank advances; he proposed a prolongation of the 27 billion franc ceiling until the end of the year, to be reduced then to 24 billion francs.[109] The regents opposed signing a new convention to this effect, preferring to extend the existing agreement in exchange for a renewed state commitment to repay the 3 billion francs from the product of its next loan. They did not insist on an amortization schedule for the advances, conceding that non-fulfilment could have a disastrous effect on confidence and state credit. Instead, they adopted a compromise suggested by regent Georges Heine, that the state assign a minimum of 2 billion francs each year in its budget for the repayment of Bank advances.[110] Communicating the regents' views to François-Marsal, Pallain conveyed their dismay at the Treasury's failure to fulfil its obligations, and urged a loan issue to reduce advances below 24 billion francs. He proposed that the state make a firm commitment to a minimum annual amortization: 'This minimum could be fixed henceforth at the *extremely* moderate figure of 2 billion francs', leaving open the possibility of accelerating the rate of reimbursement, the amount being one which 'certainly does not exceed the effort the Treasury must impose upon itself'.[111]

The convention signed in April 1920 was a stopgap. François-Marsal opposed a state commitment to repay the April 1919 advances from the next state loan and to make the reimbursements 'definitive', allowing no reborrowing of repaid advances. The Bank signed the convention after unusually sharp discussion whether to accept the minister's request that they drop the clause requiring that reimbursements be definitive. Pallain did not insist, as this might delay state repayments and provoke parliamentary criticism.[112]

[109] Pallain to François-Marsal, 25 Mar. 1920, in DCG of same date, and François-Marsal to Pallain, 31 Mar. 1920, in DCG, 1 Apr. 1920.

[110] DCG, 1 Apr. 1920.

[111] The reason stated was that the Conseil Général 'believes it indispensable, even at a moment when the first adjournment of repayment risks unsettling public opinion, to reassure it by provision for a minimum state payment that will be definitively amortized each year beginning 1 January 1921'. Pallain to François-Marsal, 8 Apr. 1920, in DCG of same date.

[112] DCG, 13 Apr. 1920; Pallain stated that to insist on repayments being definitive 'would mean reopening in Parliament dangerous discussions, with the risk of raising again the question of the Bank's regime and imprudently opening the door to all nature of propositions'. The letter and convention were recorded as 'approved', without the usual specification that the decision was unanimous.

François-Marsal signed, hoping that something would turn up to improve the Treasury's financial situation before the end of the year.

On 14 December, François-Marsal warned Georges Robineau, the new governor of the Bank, that the Treasury did not have the funds available to make the 2,600 million franc payment necessary to reduce advances below the 24 billions ceiling agreed in April. He sent a new draft convention extending the 27 billion franc ceiling to 31 December 1921, after which it would be reduced by annual 2 billion franc increments as in the April convention. 'The Conseil Général has been, once again, profoundly disappointed', Robineau replied. 'It believed it could rely on the Treasury to rigorously fulfil its engagements.' '[I]n bowing once again to the inevitable', the Conseil Général added a further condition: that the 2 billion franc reimbursement of Bank advances be covered by a formal credit in the state budget each year until the advances had been repaid.[113] The finance committees in the Chamber and the Senate objected, and after arguing the case with both parliamentary finance committee presidents, François-Marsal and Alexandre Ribot (who was vehemently opposed), the Bank withdrew the demand. Robineau told the Bank's general assembly shortly afterwards, 'It is not without very profound disappointment, rest assured, that your Council has been obliged to yield, on two occasions, to the inevitable.'[114]

It is easy with hindsight to dismiss the convention as a product of 'sheer ignorance ... based on a complete misapprehension of the inflationary process' and as 'ineffective and totally unrealistic'.[115] So it was. But taking into account the political and institutional context of the time, it is not the ignorance that is striking so much as the impotence of the Bank. It had very limited power to demand the repayment of advances; Treasury priorities lay elsewhere. The Bank felt betrayed. Ribot had promised in September 1914 to repay Bank advances after the war and thus resolve the *monetary* problem of increased circulation, inflation, and exchange depreciation. The Treasury retreated in the face of the *financial* problems posed by reconstruction and inefficient taxation. For both parties, the François-Marsal Convention marked an unhappy concession in the face of 'actual developments'.[116] Robineau signed the convention with a clause requiring payment from the *budget ordinaire*, i.e. from taxes rather than loans. This provision encountered stiff resistance in both finance committees, and Klotz warned that insistence would lead to a parliamentary debate 'in the course of which the Bank itself would be called into question'. The regents removed the offending article, hoping the government would honour its commitment of April 1920.[117] They would be disappointed (see Table 2.1).

[113] François-Marsal to Robineau, 14 Dec. 1920, and Robineau to François-Marsal, 16 Dec. 1920, in DCG, 16 Dec. 1920. The state had agreed to inscription of the 200 million franc repayment it was to make on Bank advances after the Franco-Prussian War in its budget in a law of 21 June 1871; see Blancheton, 'Trésor, Banque de France et politique monétaire', 96.

[114] Banque de France, *Compte rendu 1920*, 16.

[115] First quote from Jacques Rueff, *The Age of Inflation*, trans. A. H. Meeus and F. G. Clarke (Chicago: Gateway Editions, 1964), 2–3; second from Silverman, *Reconstructing Europe*, 138. See also the critical comment in Stephen A. Schuker, *The End of French Predominance in Europe: The Financial Crisis of 1924 and the Adoption of the Dawes Plan* (Chapel Hill: University of North Carolina Press, 1976), 44.

[116] The phrase is from Rueff's condemnation in *The Age of Inflation*, 3.

[117] DCG, 29 Dec. 1920.

The state repaid 2 billion francs in December 1921 as required by the François-Marsal Convention, reducing the ceiling on Bank advances to 24,600 million francs. The economic slump since May 1920 facilitated the repayment by increasing the idle deposits of commercial banks in Treasury accounts.[118] But future payments proved more difficult as the economy recovered. The recurrent failure of the state to meet this obligation set the Bank and the Treasury in opposition to each other, with diverging priorities. For the Bank, the François-Marsal Convention evolved from a minimum programme for the repayment of advances into the *only* programme for a return to monetary stability and gold convertibility, and was lauded by sympathetic authorities for its promise of doing so. For the Treasury, the convention became an albatross, the symbol for a deflationary programme mistaken in its conception, damaging and ultimately futile in practice.

[118] Georges Lachapelle, *Les Finances de la IIIème République* (Paris: Flammarion, 1937), 103, and Rist, *La Déflation en pratique*, 67–8.

# 3

# Deflation in Practice, 1920–1924

'Gold is the only common standard which all European countries could at present agree to adopt,' the Genoa resolutions declared in April 1922. Financial deliberations in Genoa reached no consensus on how to get back to gold, nor on how the restored gold standard should operate, although delegates agreed that a durable restoration required balanced budgets and external payments equilibrium. In retrospect, monetary authorities clearly underestimated the importance of a series of problems in returning to gold: structural changes in the world economy had altered patterns of trade and payments, domestic inflation had drastically exceeded expectations and control, deflation encountered unexpected difficulties in the downward rigidity of wages and the increased burden of public debt, and reconstruction expenditures were not covered by reparation payments from defeated enemies.

Contemporaries believed that returning currencies to gold at pre-war parity would be possible through a dramatic, but feasible and desirable, reduction in note circulation and prices. Even critics admitted that the gold standard was the only possible basis for a restoration of sound currency and stable exchange rates, and monetary authorities prepared to commit considerable time and effort to that end. Although some policy makers were reluctant, initially, to impose dear money, post-war experience with inflation persuaded them that the gold standard was essential to institutionalize restrictive monetary policy.[1] In Britain, the Cunliffe Committee considered the conditions 'likely to prevail during the ten years immediately following the end of the war' and called for further review no later than the end of that period. In France, the François-Marsal Convention would have required fourteen years to repay central bank advances to the state and restore the franc to parity if payments had been maintained at 2 billion francs each year. Deflation was widely accepted as necessary medicine to restore financial and monetary health. The Bank of England stated in February 1920 that 'The first and most urgent task before the Country is to get back to the gold standard,' by reversing the 'artificial creation of currency and credit' with high interest rates. 'The process of deflation of prices which may be expected to follow on the check to the expansion of credit must necessarily be a painful one to some classes of the community, but this is unavoidable.'[2]

Post-war arguments for the return to gold were based not on careful analysis of the operation of the pre-war gold standard and wartime changes, but on retrospective

[1] Ton Notermans, *Money, Markets, and the State: Social Democratic Economic Policies since 1918* (Cambridge: Cambridge University Press, 2000), ch. 3, particularly 65–71.

[2] Bank memorandum of 10 Feb. 1920, cited in Howson, *Domestic Monetary Management*, 18–19.

longing for the stability of the pre-war system and a desire to reverse the most obvious changes that had taken place since August 1914. This explains much of the difference in views among parties discussing international monetary reconstruction at Genoa. Each country sought a gold standard system that would meet the needs of its own economy, and a route back to gold that would accommodate the specific problems posed by its own experience of inflation and currency depreciation. Genoa marked a major step towards reconstruction of the international monetary system, establishing a series of resolutions to guide international monetary conduct under British guidance. But the progress at Genoa did not lead to a durable reconstruction of the system. The French role at the conference and policy thereafter illustrate how little real consensus existed among the conference participants, and how opposition to the Genoa principles, present from the start, developed in the later 1920s.[3]

Dissent from gold standard belief was rare; even critics such as Keynes and Hawtrey in England were concerned by the rate at which currencies would return to gold, not the gold standard itself. Keynes admitted the gold standard was the only practicable means of stabilizing currencies. Proponents of managed currencies were treated as currency cranks, and even in the Soviet Union, where the Bolshevik regime had claimed it would abolish money as a bourgeois anachronism, returning to a gold basis seemed the best way to end rampant inflation and restore international trade in 1922.[4] Policy makers and economists alike stated emphatically that war-induced changes had not altered the validity of conventional economic wisdom. In the first issues of the *Revue d'économie politique* after the war, editors Charles Gide and Charles Rist ran a black-bordered notice informing readers:

> We are not among those who announce the birth of a new world, who proclaim the failure of the old economic policy. Even if the war proved the predictions of the most eminent economists to be wrong on many points, this does not matter, as it in no way demonstrated that the principles taught and known as the laws of political economy were mistaken.[5]

Both Gide and Rist soon realized that restoring the franc's pre-war parity would exact too high a cost. Jules Décamps at the Bank of France abandoned his hopes to restore the franc less readily. The difficulties of restoring the franc and the challenges to orthodox policy fixed more firmly the belief of French monetary authorities in the need for determination and discipline to restore the franc:

> Some have proclaimed the failure of the principles of economic science. It is obviously easier to deny the determining force of these principles than to submit to the discipline of work and economy they demand. Nonetheless, only this discipline can produce an honourable solution to the crisis, for it alone can modify the fundamental causes.[6]

The problem was not whether wartime experience had somehow altered the laws of political economy, but that policy makers had to make choices on how to apply those laws, given the current circumstances in France and the anticipated results.

[3] See Chapter 6 on central bank co-operation for opposition to the 'Genoa principles' after European currencies had been stabilized in the mid-1920s.

[4] Alec Nove, *An Economic History of the U.S.S.R.*, 2nd edn. (London: Penguin, 1989), 54–6, 80–2.

[5] 'A nos lecteurs', *REP* 33 (1919), nos. 1, pp. v–vi, and 3, 257–8.

[6] Jules Décamps, *Les Changes étrangers*, 2nd edn. (Paris: Félix Alcan, 1922), 271.

This chapter begins with French policy at the Genoa Conference and the declarations of French monetary authorities a few weeks later during a 'Semaine de la Monnaie' in June 1922. France declared its absolute commitment to restoration of the franc at pre-war parity on gold. Yet the spring of 1922 was an inauspicious moment for such declarations. The improvement in the franc since December 1920 came to an end in May and the franc resumed its downward path (see Figure 2.1). The second section reviews Bank of France understanding of the problem of monetary stabilization in the early 1920s, the importance and meaning it attached to 'deflation', and the resources it mobilized to impose its views on the general public and on the politicians who would ultimately decide policy. The third section looks at the critics of deflation, particularly in the French Treasury, which worked at increasing odds with the Bank and competed for political support in trying to promote monetary stabilization rather than the Bank's programme to restore the franc to its pre-war parity.

## 1. THE GENOA CONFERENCE AND *LA FORCE DÉTERMINANTE DES PRINCIPES*

The Genoa Conference convened in April 1922 to discuss European reconstruction, particularly the restoration of trade with Central Europe and the Soviet Union. Britain and France called the conference (rather than the League of Nations), hoping to obtain American participation. The ruse succeeded only in part. Americans joined as sceptical spectators, seeing the conference as 'a misconceived conjuring trick to deal with the superficial features of trade depression on the Continent'. They believed the conference premature in that the political prerequisites for European reconstruction—reduced reparations for Germany, the funding of war debts to the United States, and reduced armaments spending—had not been achieved. The meagre results of the conference confirmed their view that European problems were fundamentally political, not economic.[7] The conference financial committees, seeking to restore international monetary and financial stability, produced a loose agreement on principles for the restoration of the gold standard. All parties agreed on the need to return to gold, but the resolutions fudged on just what the gold standard was and would be, and when and how countries off gold would get there. Although France played a prominent part in setting the financial programme, its signing of the Genoa resolutions should not be mistaken for French belief in or support for the views expressed therein.[8]

[7] Stephen A. Schuker, 'American Policy toward Debts and Reconstruction at Genoa, 1922', in Carole Fink, Axel Frohm, and Jürgen Heideking, eds., *Genoa, Rapallo, and European Reconstruction in 1922* (Cambridge: Cambridge University Press, 1991), 95–122; here p. 95. For the diplomatic history of the conference see Carole Fink, *The Genoa Conference: European Diplomacy, 1921–1922* (Chapel Hill: University of North Carolina Press, 1984); also, the contemporary account in J. Saxon Mills, *The Genoa Conference* (New York: E. P. Dutton and Co., 1922).

[8] Michael D. Bordo, Dominique Simard, and Eugene N. White, 'France and the Bretton Woods International Monetary System 1960 to 1968', in Jaime Reis, ed., *International Monetary Systems in Historical Perspective* (London: Macmillan, 1995), 153–80, mistakenly contend that the Genoa resolutions were the earliest version of a 'French vision for the international monetary system'.

The financial and monetary programme for the conference was largely the work of R. G. Hawtrey, Director of Financial Enquiries at the British Treasury. Hawtrey hoped to improve on the pre-war gold standard's performance by ameliorating the trade cycle, and hoped to speed the return of depreciated currencies to gold without precipitating a rush by central banks to obtain the gold reserves necessary to do so. The invitation to write draft resolutions for the financial discussions at Genoa gave him an opportunity to put his ideas forward on an international stage.[9] His draft resolutions advocated an international convention to prevent central bank competition for scarce gold reserves, and urged the devaluation of currencies that had depreciated significantly, in order to speed restoration of the gold standard. Hawtrey proposed the adoption of a gold exchange standard, in which central banks would hold gold currencies as reserves for their currency issue in order to reduce their demand for gold. During the conference Keynes, covering the proceedings for the *Manchester Guardian*, suggested that a depreciation of more than 20 per cent would warrant devaluation, the most important goal being to achieve stability.[10] The franc at this point was 60 per cent below par (Figure 2.1); the British programme ran in direct opposition to official French determination to restore the franc.

Charles Sergent, a former deputy governor of the Bank of France and former director of the Treasury, chaired a subcommittee of French experts to discuss the Genoa financial programme. He reported to Premier Raymond Poincaré that although the British financial proposals were acceptable as recommendations, 'it would be dangerous for France to bind itself on this point with a monetary convention. We can neither re-establish the free export of gold nor hamper the policy of the Bank of France by precise accords with the other great banks of issue, nor do we have the right to accept the depreciation of the franc.'[11] When financial experts met in London to discuss a preliminary draft of proposals, French opposition frustrated the British programme. Ambassador Saint-Aulaire reported that French amendments had been incorporated into the programme, 'which give the British resolutions a more general character and assign them a more distant goal in removing that which would give them an obligatory character'.[12] He viewed obstruction of the British proposal for a monetary convention to hasten the restoration of the gold standard as a major accomplishment, given French wishes to postpone stabilization until the franc regained its pre-war parity.[13]

[9] See R. G. Hawtrey, 'The Gold Standard', *Economic Journal*, 29 (1919), 428–42, and Susan Howson, 'Hawtrey and the Real World', in G. C. Harcourt, ed., *Keynes and His Contemporaries* (New York: St Martin's Press, 1985), 153–5.

[10] John Maynard Keynes, 'The Stabilisation of the European Exchanges: A Plan for Genoa', *Manchester Guardian Commercial*, 20 Apr. 1922, reprinted in *The Collected Writings of John Maynard Keynes*, ed. Elizabeth Johnson, vol. xvii, *Activities 1920–1922: Treaty Revision and Reconstruction* (London: Macmillan, 1977), 355–69.

[11] Minister of Finance [Charles de Lasteyrie] to Président du Conseil and Minister of Foreign Affairs [Poincaré], 16 Mar. 1922; MAE, B 82-16/113.

[12] Saint-Aulaire [Seydoux] to Poincaré, no. 338, 25 Mar. 1922; this followed the instructions Poincaré had given to the delegation in Poincaré to Seydoux, 18 Mar. 1922; MAE, B 82-16/115.

[13] Saint-Aulaire to Poincaré, 25 Mar. 1922, and Seydoux to Poincaré, 30 Mar. 1922, in which Seydoux noted that 'We have reduced the original English propositions to being merely an agenda for the future, and we have squelched the convention for which the English were pushing right up until the last moment.' MAE, B 82-16/115.

Suspicion and distrust characterized the French preparations for the financial aspects of the conference. The first meeting of Sergent's subcommittee noted a fundamental opposition between French and British views. France sought the means to restore production in Central and Eastern Europe, while Britain was preoccupied with finding markets for its own goods to alleviate the higher level of unemployment there.[14] In March, considering the British draft proposals for central bank co-operation and currency stabilization on gold, committee members opposed this as it could only mean devaluation of the franc. European monetary officials would then turn inevitably to London for stabilization assistance: 'the project has no other goal than to substitute the pound sterling for the franc,' the deputy governor of the Crédit Lyonnais observed.[15] The report on the British draft stated explicitly: 'there is no question of a devaluation for France, which is resolved to restore progressively the former value of its currency.'[16]

France was no more sympathetic to British views when the programme was submitted to the conference. Hawtrey's draft had garnered support from the Treasury, the Bank of England, Keynes, and Gustav Cassel, and been adopted as the British view.[17] Poincaré refused to attend the conference and sought to undermine its efforts, sending his deputy premier Louis Barthou 'with a firm mandate not to agree to anything'.[18] Paul Ernest-Picard, deputy governor of the Bank of France and principal French financial delegate, insisted that currency stabilization must be decided by the countries concerned, and that devaluation should not be encouraged as an easy way out for those making a serious effort to return their currencies to par.[19] He seconded Belgian criticism of the British-inspired programme for its stress on the benefits of devaluation without enumerating either its costs or the advantages to be gained from sustained deflation. The French delegation, Picard declared, believed that a country must only resort to devaluation when it became manifestly impossible to return its currency to par by progressive reduction of its fiduciary circulation. For those countries resolutely engaged in this process, there could be no question of devaluation.[20]

The financial commission produced a set of resolutions on currency stabilization intended to restore a working gold standard and to improve its operation. Central bank co-operation would economize scarce gold reserves through use of a gold exchange standard, and co-ordinate credit policies 'not only with a view to maintaining the currencies at par with one another, but also with a view to preventing undue fluctuations in the purchasing power of gold' (resolution 11 (7)). Hawtrey acknowledged that the Genoa resolutions contained a number of 'pious platitudes', but he insisted on the practical import of measures to co-ordinate central bank gold policy and to use credit policy in

[14] Compte rendu, Commission chargée de préparer le programme des questions financières à soumettre à la Conférence de Gênes, 17 Feb. 1922; BdF, 1069199610/1. This conflict was stressed in Celtus (pseud.), *La France à Gênes: un programme français de reconstruction économique de l'Europe* (Paris: Librairie Plon, 1922).

[15] Commission chargée etc., 'Compte rendu de la 4° séance tenue au Ministère des Finances le 15 Mars 1922', BdF, 1069199610/1.

[16] 'Rapport sur l'avant projet britannique', n.d., BdF, 1397199403/236.

[17] Howson, 'Hawtrey and the Real World', 155–6.

[18] J. F. V. Keiger, *Raymond Poincaré* (Cambridge: Cambridge University Press, 1997), 288.

[19] MAE to Diplomatie-Paris, 20 Apr. 1922; BdF, 1397199403/236.

[20] Belgian views in their 'Précisions touchant le rapport du Comité des Experts'; Picard declaration to financial subcommittee, 20 Apr. 1922; in BdF, 1397199403/236.

order to maintain general price stability. The only aspect of the resolutions he found unsatisfactory was the uncertainty as to when they would be given effect. No one could predict how long it would take to close budget deficits and restore convertibility; the determination of France, Belgium, and Italy to return their currencies to par promised 'almost indefinite postponement of stabilisation'.[21] Keynes likewise warned that the determination of France, Belgium, and Italy to return their currencies to par would 'if it were possible, create endless trouble in the countries affected . . . doubling or trebling the burden of their internal debts' and postponing stabilization indefinitely.[22]

French agreement to the Genoa resolutions was not in support of the innovations to speed stabilization, nor to establish a gold exchange standard and continuous central bank co-operation. French delegates agreed with the orthodox recommendations for balanced budgets and return to the gold standard, but accepted the experts' report and the resolutions only as a basis for study that did not commit France to anything in particular. It was on French recommendation that the meeting of central banks advocated in resolution 3 was to be convened by the Bank of England, not as 'an astute device for blocking the development' of central bank co-operation, but in recognition that the Bank of England might obtain participation of the Federal Reserve.[23] Picard's qualified acceptance of the principle of such a meeting exemplifies his attitude toward the entire Genoa programme: 'The motions submitted to the Commission should be considered only as suggestions, proposed for free examination by the banks, and it was well understood that detailed study of these motions could lead to conclusions very different from those of the experts.'[24]

Although Jacques Rueff would later claim that Genoa marked the end of the gold standard, French observers professed satisfaction with the work of the Genoa finance commission. They were satisfied not with what had been accomplished, but with what had been avoided. *Le Temps* noted the successful French and Belgian opposition to the proposal that currencies more than 20 per cent below par be devalued: a devaluation of the franc 'would constitute the bankruptcy of the state, pure and simple'. The only route open to France was that of 'its traditions of national honour'—deflation to return the franc to its pre-war parity.[25] Keynes's ideas drew more attention than the resolutions; his conference articles for the *Manchester Guardian* were reprinted in *L'Ère nouvelle* and provided a scenario for currency devaluations against which the Genoa resolutions appeared modest and responsible. Keynes's clever substitution of 'stabilization' for 'devaluation' would not bring stabilization, but rather a universal bankruptcy which only

21 R. G. Hawtrey, 'The Genoa Resolutions on Currency', *Economic Journal*, 32, no. 127 (Sept. 1922), 290–304.

22 'Financial Resolutions of Genoa', *Manchester Guardian*, 27 Apr. 1922; reprinted in *JMK* xvii. 409–10.

23 Quote from Sayers, *Bank of England*, i. 161; see discussion of the proposed conference in the monetary subcommittee on 19 Apr. 1922, afternoon session, minutes in MAE, B 82-16/121.

24 MAE to Diplomatie-Paris, 20 Apr. 1922; BdF, 1069199610/1. Picard specified to the Financial Commission that he accepted the resolutions as identifying questions for study, not solutions for adoption. Procès-verbal for 3rd meeting of Finance Commission, 20 Apr. 1922, in BdF, 1397199403/236.

25 *Le Temps*, 23 Apr. 1922. The press paid little attention to the financial commission, more interested in high politics and the rude surprise of the Rapallo Treaty between Germany and Russia. Relevant financial articles are collected in BdF, 1069199610/3.

the United States would escape. According to the *Journal des économistes*, Keynes profoundly influenced the views of the assembled delegates, and only Picard's intervention had prevented the imposition of 'obligatory devaluation even in those countries where inflation has been stopped and deflation has begun'.[26]

A few weeks later, a major conference in Paris discussed the post-war problems facing French monetary and fiscal policy. Its proceedings provide an authoritative survey of the views of those deciding French policy at this time.[27] The conference, organized by Georges Valois (a royalist economic commentator who would soon leave the Action Française to found the first French fascist party, the Faisceau des Combattants, des Producteurs et des Chefs de Famille) and *La Journée industrielle*, subsidized in part by the Bank of France, and including past and present Ministers of Finance and central bankers in its list of participants, had quasi-official status. Jules Décamps, the director of economic studies at the Bank of France, noted that the conference showed that 'a vast majority of industrialists and businessmen is capable of understanding the general and permanent interests of the country'.[28] But there was no majority of industrialists and businessmen at the conference: the politicians, bankers, economists, and financial writers who met from 6 to 11 June represented the financial circles closest to official policy. They agreed with near unanimity on the need to restore the franc to its pre-war parity, that state budget deficits were the source of inflation, and that fulfilment of the François-Marsal Convention marked the best route back to sound money.

The session devoted to monetary policy examined the prospects for deflation and devaluation in France. Yves Guyot, reporting on deflation, posed the choice as one between inflation leading inevitably to destruction of the currency and deflation leading to sound money. 'Can there be any hesitation in making this choice?' he asked rhetorically.[29] Jacques Arthuys, who worked in close collaboration with Valois at this time, carefully explained the economic logic for devaluation as a quick solution to monetary instability avoiding the difficulties prolonged deflation would impose on debtors and commerce. But Arthuys thought devaluation impossible under current circumstances. The unresolved problem of inter-allied debts, the French budget deficit, and the morally repugnant character of devaluation made his preferred course of action 'a policy of sensible, moderate deflation' as laid out in the François-Marsal Convention. The choice between deflation and devaluation might be reconsidered once the international payments questions had been resolved and the budget balanced. In the meantime, an 'extremely slow' deflation of 6 to 10 per cent per year would not impose an intolerable burden, as prices would fall by *only* 3 to 5 per cent every six months. Such a modest deflation would not compromise future decisions, in contrast to 'a too-hasty devaluation, which would bring a brutal plunge into monetary instability'.[30]

In the discussion that followed, some expressed concern that the state could not meet its repayments to the Bank without increased borrowing. But the deflationary programme of

[26] J.-B. Legros, 'Chronique de l'inflation', *Journal des économistes* (May 1922), 169.

[27] Semaine de la Monnaie, *La Politique financière et monétaire de la France* (Paris: Félix Alcan/Plon/Nouvelle Librairie Nationale, 1922).

[28] J. Décamps, 'Pour une saine monnaie', *Revue de Paris*, 1 July 1922, 164.

[29] Yves Guyot, 'La Déflation', in Semaine de la Monnaie, *Politique financière*, 143.

[30] Jacques Arthuys, 'La Dévaluation', ibid. 152–71. Arthuys gave a balanced summary of the 'inflationist' arguments against deflation in his *Le Problème de la monnaie* (Paris: Nouvelle Librairie Nationale, 1921).

the François-Marsal Convention was deemed necessary by François-Marsal himself, chairing the discussion. Jules Décamps defended the convention with vigour, insisting that merely to debate the need for the convention would be 'to commit a crime against the credit of France'; devaluation could ruin the confidence of savers for many years.[31] Throughout the conference, the convention was invoked as the touchstone for return to sound currency. The nature of the problem and its necessary solution were summarized by Senator Raphaël-Georges Lévy: 'All monetary ills stem from budgetary problems. It is the needs of the budget that create the over-issue of bank notes. To work to re-establish the equilibrium between public receipts and expenses is thus to work to re-establish sound money.'[32] Décamps summed up the conference as a condemnation of inflation, support for the François-Marsal Convention as the means to accomplish the *assainissement monétaire* necessary to avoid devaluation, and agreement on the need for a balanced budget and a favourable balance of payments in order to return to the gold standard.[33]

The assumptions on which this programme was based—that France was making steady progress back to sound finance and sound money with a balanced budget, and that steady repayment of Bank advances would return the franc to par—were already ceasing to hold. In July 1922, the *rapporteur général* of the Chamber finance committee, Maurice Bokanowski, proposed that the Treasury suspend its reimbursement for that year, which otherwise would increase state borrowing at 4.5 per cent. Continuing the Bank advances on which the state paid 0.5 per cent would save the Treasury 80 million francs. The suggestion provoked vigorous protest from the Bank. Robineau recapitulated the government's repeated promises that repayment of Bank advances would take precedence over all other objectives after the war, and stressed that the state's engagement had been made not simply to the Bank, 'but to all of France and even, one can say, to the ensemble of nations who observe and judge us'. Any indication, even inexact, that the state would postpone monetary rehabilitation, could spark a flight from the franc and a steep fall in the franc exchange rate.[34] The idea was dropped, but the reimbursement at the end of 1922 was reduced to 1 billion francs. At the end of 1923 the repayment was lower still, 800 million francs, roughly the interest on the advances paid into the state's account for reimbursement that year. In 1924 the repayment increased to 1,200 millions, and the ceiling on advances fell to 22 billions. In 1925, advances were ratcheted upwards, to nearly 40 billion francs by the end of the year, and no repayment was possible under the François-Marsal Convention. The deflationary policy advocated by the Bank of France, in conflict with the political necessity of reconstruction spending and the practical possibilities for Treasury finance, had ground to a halt and been reversed.

## 2. THE BANK OF FRANCE AND THE CASE FOR DEFLATION

There was no question in France that gold convertibility should be restored as quickly as possible after the war, and the broad consensus supporting this view included not only

[31] Semaine de la Monnaie, *Politique financière*, 547–52. [32] Ibid. 520.
[33] Décamps, 'Pour une saine monnaie', 165–7.
[34] Robineau to Lasteyrie, 5 July 1922, and Robineau explanation to regents, in DCG, 6 July 1922.

the Bank of France as the bastion within which no doubt was possible, but most politicians, Ministry of Finance personnel, journalists, and the financial community at large.[35] The financial press of the interwar years relied heavily on subsidies from financial institutions for survival; the Bank of France used the press to promote the return of the franc to pre-war parity, and was known to rely on several journals—the *Journal des économistes* and the *Journal des débats* in particular, to propagate its views. Bank influence was spread widely by sympathetic journalists and financial writers in other newspapers wishing to maintain good relations with the Bank, and by the discreet use of financial inducements.[36]

The François-Marsal Convention formed the keystone to Bank deflationary policy because it would act directly on the matter of most concern to the Bank: the currency in circulation backed by Bank advances to the state. In insisting on 'deflation' the Bank stressed reducing this part of the note circulation, rather than deflating prices, which might follow as a result of advance repayments, but need not do so.[37] Articles critical of the official policy of deflation were rare at the beginning of the 1920s, and were quickly countered by proponents of the official view, as the following two examples demonstrate. Régis de Vibray put the case against deflation in the *Mercure de France* in September 1921. If a miracle returned currency in circulation and the franc to their pre-war levels, he argued, it would be a cataclysm for state finance and for French industry and commerce: the increased burden of domestic debt and the decline in state revenue would produce economic and fiscal crisis. Better to stabilize the franc at its current level, maintaining the export premium and promoting a renovation of national economic equipment in order to encourage production.[38] Edmond Villey replied in the next issue of the *Revue d'économie politique* that the monetary stabilization Vibraye lauded as 'heroic' would be 'criminal'. A return to pre-war parity was essential to restore normalcy: state revenue would adjust to deflation, and lower prices for imported primary materials would ease debt repayment.[39]

Maurice Bokanowski, *rapporteur général* for the Chamber finance committee, provided a more influential critique written with his brother-in-law Robert Wolff, head of the foreign department of the investment bank A. S. Cahen & Cie. They published a short essay stressing the harmful effects of exchange instability, arguing that stabilization at *any* level was preferable to targeting a rate to which the franc would be raised, and they implicitly rejected a return to pre-war parity for the crippling deflationary effort it would require.

[35] See Netter, *Histoire de la Banque de France*, 40–1; Georges Lachapelle, *Le Crédit public* (Paris: éditions Berger-Levrault, 1932), ii. 148; Jean-Noël Jeanneney, *François de Wendel en République: l'argent et le pouvoir 1914–1940* (Paris: Seuil, 1976), 184–5; Schuker, *The End of French Predominance*, 44–6; and Blancheton, 'Trésor, Banque de France et politique monétaire', ch. 5.

[36] When subsidies were not forthcoming, some of this press resorted to blackmail; see Jean-Noël Jeanneney, 'La Vénalité du journalisme financier entre les deux guerres', in *L'Argent caché: milieux d'affaires et pouvoirs politiques dans la France du XX$^{e}$ siècle*, 2nd edn. (Paris: Éditions du Seuil, 1984), 205–30.

[37] Rist provided three definitions of deflation in *La Déflation en pratique*, 1–7; the Bank was most concerned with deflation of the note circulation.

[38] Régis de Vibraye, 'Le Problème monétaire: déflation ou stabilisation', *Mercure de France*, 15 Sept. 1921, 604–30; quotes from 604 and 629.

[39] Edmond Villey, 'Le Problème monétaire: déflation ou stabilisation', *REP* 35 (1921), 753–60.

Instead, they proposed a two-stage programme for stabilization anticipating that of the Committee of Experts in 1926, first narrowing the franc's fluctuations to a limited range, then stabilizing *de jure* with the help of an international loan. The appropriate rate of stabilization would be one at which the balance of payments achieved a slight surplus, i.e. slightly higher than the current rate of 13 francs to the dollar, and less than half its 1914 value.[40] Raphaël-Georges Lévy, senator for the department of the Seine, member of the Institut de France and professor of finance at Sciences Po, an ardent advocate of restoring the franc to its pre-war parity, responded in the *Revue politique et parlementaire*. Stabilization at an 'arbitrary' value determined in exchange markets was the path for 'feeble nations.' Lévy sketched an alluring scene in which all France flourished as repayment of Bank advances contracted currency in circulation, lowered prices, raised the standard of living, and eased government debt payments by permitting debt conversion to the 3 per cent rate that had prevailed in 1900. The only path for 'courageous people' was return to the franc Germinal: 'The only stabilization of the franc to which we can rally is that which has for its goal to restore its value of 1913, which was that of 1803, and which will be that of the twentieth century.'[41] Bokanowski and Wolff were attacked in *Le Temps* and the *Journal des économistes* as well, both known to voice Bank opinion.

The Bank of France, always ready to defend inaction on the grounds that particular actions were not authorized by its fundamental statutes of 1808, had no statutory responsibility to educate the public regarding sound monetary policy. It did, however, have a vital interest in public attitudes toward the gold standard and public support for the monetary policies needed to return the franc to gold, as public attitudes and debate affected political decisions. The Bank's normal channel of influence was via the Ministry of Finance, and Bank views carried considerable weight with most Ministers of Finance. The Bank was supposed to work in close co-operation with the Treasury, but this co-operation was only close when their institutional interests and policy objectives coincided. On the issue of deflation in the early 1920s, and interest rate policy and devaluation in the mid-1930s, Bank and Treasury interests diverged. As faith in the François-Marsal Convention weakened and public interest in alternatives to deflation increased, the Bank intervened to influence the presentation of arguments in the press and to encourage 'sound' monetary views in politics. The Bank developed an informal, and indeed in part surreptitious, role in order to influence public opinion. In the early 1920s, this role was taken up by the Bank's economic studies section, which had been created as a formal service in the Secrétariat Général in 1902, and became an autonomous service, the Direction des Études Économiques, in 1920. Its first director, Jules Décamps, had been recruited from the Inspection des Finances in 1910 and quickly found a niche in the economic studies section. As director (1920–6), Décamps acted as a semi-official spokesman for the Bank, addressing public forums through lectures and published

[40] Robert Wolff and Maurice Bokanowski, *A Study in the Stabilization of the French Franc* (Paris: published by the authors, 1921).

[41] R.-G. Lévy, 'La Stabilisation du franc', *Revue politique et parlementaire*, 10 Nov. 1921, 155–67; 10 Oct. 1921, 187–8. Minister of Finance Paul Doumer approved of Lévy as 'one of those whose views can most usefully be taken into consideration' when the Sound Currency Association sought French delegates for an international monetary conference in London. See correspondence from Nov. 1921 in MAE, Série Y Internationale 250.

articles.[42] His views on French monetary policy from 1918 to 1924 provide a useful perspective on how one key official's views evolved, one who was both a spokesman for the Bank and a knowledgeable analyst in a strong position to influence policy within the Bank.

Décamps's views were not precisely those of the Bank. He spoke as an individual, and his views show a consistency, a depth of insight, and a coherence not evident at the institutional level.[43] In contrast to Bank-supported propagandists such as Yves Guyot and Arthur Raffalovich, discussed below, Décamps offered a moderate, informed, and logically consistent justification for deflation. The pre-war gold standard, he claimed, had provided a 'central axis' for the regulation of prices and exchange rates in the world economy. Any increase in the note circulation in excess of new production raised prices, discouraged exports, encouraged imports, and thus produced a trade deficit and a loss of gold. The central bank raised its discount rate to reverse these changes and restore order. 'Monetary policy was limited, as a consequence, to surveying and maintaining the good functioning of the gold standard; in that way relative price stability and exchange-rate stability were assured.'[44] Unfettered operation of the gold standard maximized price stability.

Wartime inflation, Décamps argued, was the obvious origin of post-war monetary difficulties. The French government had relied too heavily on advances from the Bank, the means of war finance *the most convenient and the least costly* on the surface, but the source of subsequent inflation. The state would have to rely on taxes and domestic loans after the war to meet its wartime obligations, and reducing the state debt to the Bank was the most obvious means to act upon inflation.[45] Décamps distinguished between notes issued against discounted bills, which represented existing goods and services, and the notes backed by advances to the state, which he termed claims on future production that increased the price of existing goods and services. They were not true bank notes at all, but rather '*a paper money which takes on the appearance of bank notes in order to live as a parasite on the sound circulation*'.[46] His distinction between true and false bank notes was bizarre even by contemporary standards, but it was often repeated by more extreme deflationists, and it highlights the obsession with obtaining repayment of Bank advances to the state.

[42] Robert Lacour-Gayet, Décamps's successor in the 1930s (1930–6), later complained that Décamps's public interventions in the 1920s were more inconvenient than helpful because it was difficult to distinguish Décamps's personal views from the official doctrines of the Bank. Lacour-Gayet preferred to place articles written by Direction des Études personnel anonymously in newspapers. Lacour-Gayet, 'Note sur l'organisation de la Direction des études économiques', 27 Mar. 1931; BdF, 1397199403/202.

[43] His views were more moderate than those of the Bank's influential secretary-general under Robineau, Albert Aupetit. Aupetit began his career at the Bank in 1902, having failed to obtain a university post in 1901 and 1903. Unfortunately, Aupetit's influence was through personal contact rather than written argument. On Aupetit, see Blancheton, 'Trésor, Banque de France et politique monétaire', 182–4, and André Zylberberg, 'Les Premiers Disciples français de Léon Walras', *Economies et sociétés*, 28, nos. 10–11 (1994), 76–9.

[44] Jules Décamps, 'La Question monétaire', *Revue de Paris* (15 Mar. 1922), 414. See also Décamps's 'La Stabilisation du change', *Journal des économistes* (Dec. 1921), 460–1.

[45] Décamps, 'La Guerre et les finances de la France', *REP* 32 (1918), 209–29.

[46] Décamps, 'La Question monétaire', 423, Décamps's emphasis. He made the same point in 'La Semaine de la Monnaie et les expédients inflationnistes', *Revue de Paris*, 1 May 1922, 196–7, and in 'La Crise du franc', *Revue de Paris*, 1 Mar. 1924, 216–18. Similar analyses can be found in *Journal des économistes* (Apr. 1923), 115–17; and in Yves Guyot's dispute with Charles Gide in *Journal des économistes* (May 1921), 129–31; also in Robineau to Loucheur, 8 Nov. 1922, Hoover Institution Archives, Loucheur Papers, Box 10G.

When his book *Les Changes étrangers* was published in 1921, Décamps believed that France had turned the corner in 1920, and that tighter control of state expenditure and steady repayment of Bank advances would restore the franc. In a December 1921 lecture on 'La Stabilisation du change' to the Société d'Économie Politique, he stressed the international dimension of exchange-rate instability, which was itself a consequence of price instability. The gold standard was the necessary, but not in itself sufficient, condition for the restoration of international stability. Of three potential routes back to the gold standard—an immediate devaluation, a future devaluation after prices had stabilized, and a return to gold at pre-war parity—Décamps rejected the first two on 'practical' grounds. The instability of exchanges elsewhere and the volume of speculative franc holdings made exchange-rate stability unattainable at present; devaluation was neither desirable nor possible. Yet Décamps declared himself an optimist. France was on the right path back to gold at pre-war parity, with prices falling and circulation contracting; time and perseverance would produce this result. 'So long as events have not shown the rehabilitation of the franc to be impossible, we must believe in it and attempt it'.[47]

The exchange rate fell in the second half of 1922 after France reaffirmed its intention to restore the franc to pre-war parity at Genoa. Despite the stability in notes in circulation and the first repayment of Bank advances, renewed economic growth after the slump in 1921 increased demand for currency, limiting the Treasury's ability to repay Bank advances,[48] and the slow pace of German reparation payments prompted scepticism with regard to the future of the franc.[49] Taking account of these new problems, Décamps employed three elements in the French monetary situation to explain the weakening of the franc from mid-1922. The first was the withdrawal of foreign financial support which the French had expected would share the burden of reconstructing regions devastated by war. The abrupt end to British and American financial support in 1919 had been a rude shock, contrary to wartime negotiations which had led the French to believe that reconstruction would be an Allied effort. After this desertion by erstwhile allies, the stability regained in 1922 was in turn undermined by *la carence de l'Allemagne*. The German default on reparations discouraged those holding francs anticipating currency appreciation. France stood at a crossroads in 1923, Décamps argued, needing to make up for the German default either by further inflation or by reducing government expenditure.[50] Realization that France would have to rely on its own resources came very slowly. In 1924, Décamps recognized the reliance on German reparation payments to cover French budget deficits as a major policy error.[51]

[47] Jules Décamps, 'La Stabilisation du change', in Société d'Économie Politique, meeting of 5 Dec. 1921, reproduced in *Journal des économistes* (Dec. 1921), 454–76; quotes p. 465. Alfred Sauvy uses quotes from this meeting to argue that French economic and financial experts were unable to apply their 'bonne connaissance des questions monétaires' to the real problems of the French economy; Alfred Sauvy with Anita Hirsch, *Histoire économique de la France entre les deux guerres*, rev. edn. (Paris: Economica, 1984), i. 26–7.

[48] Lachapelle, *Les Finances de la IIIème République*, 103–4.

[49] Blancheton, 'Trésor, Banque de France et politique monétaire', 238–40.

[50] Jules Décamps, 'A la croisée des chemins', *Revue de Paris*, 15 Feb. 1923, 865–76.

[51] Décamps, 'La Crise du franc', 220. Georges Lachapelle criticized the length of time taken to realize German payments were illusory in *Les Finances de la IIIème République*, 102 and 110.

The second element in Décamps's explanation was the large foreign holdings of French francs. Speculative purchases in 1919–20 had helped maintain the franc exchange rate when support was suspended in March 1919 and France was running a heavy balance of payments deficit. This 'beneficial speculation' had provided the foreign exchange necessary to cover France's imports when foreign credits were terminated, but posed a problem when foreign holders lost faith in the recovery of the franc and sold francs in reaction to state financial policy and political uncertainty.[52] Décamps argued that these foreign holdings of francs were the origin for the speculative attack on the franc in early 1924. Only a convincing demonstration that no further inflation would be permitted, which required a tightening of budget expenditure, increased taxes, and fiscal innovation to provide immediate sources of new revenue, would create the conditions necessary for the recovery of the franc.[53]

The third element was the massive floating debt, which required the renewal of 55 to 60 billion francs in short-term government paper each year, and thus provided a month-to-month plebiscite on government financial management. Although a large proportion was held by banks and state financial institutions, the non-renewal of only a small part of the floating debt created immediate problems for the Treasury. The non-renewal of the floating debt resulted mainly, Décamps argued, from fears that the state would resort to currency inflation to cover Treasury needs, and allowing floating debt to run off would produce the result holders feared. At the same time, the floating debt crippled the Bank's use of its discount rate to control credit: commercial banks in need of funds could run off their bond holdings if the Bank raised its discount rate. The solution needed was *une politique de confiance*: 'the problem posed by the optional redemption of bonds ... is not a financial problem: it is fundamentally political'.[54] Décamps did believe that Poincaré's tax increases in March 1924 marked a major advance towards a restoration of confidence. But the election of the Cartel des Gauches two months later altered the state of 'confidence' and opened a new period of political conflict.

Views held by individuals within the Bank and expressed by financial writers sympathetic to the Bank lacked Décamps's coherence and restraint. Yves Guyot and Arthur Raffalovich were frequent contributors on monetary questions to the *Journal des économistes*, which began a regular monthly feature after the war, the 'Chronique de l'inflation', to report on monetary developments and refute heretical views advocating any variety of inflation. Their essay volume *Inflation et déflation* represented radical deflationary views. Guyot and Raffalovich rejected the quantity theory of money, ignored developments in monetary theory since the mid-nineteenth century, stressed the increase in the value of gold since 1914, and argued that paper francs were not really money at all. The book was

[52] Décamps, 'Le Crédit international et la crise du change', *Journal des économistes* (Apr. 1920), 116–19; *Les Changes étrangers*, 228–32, 354–61.

[53] Décamps, 'La Crise du franc', 216–22.

[54] Décamps, 'La Situation monétaire et l'avenir du franc', *La Finance de demain*, 31 May– 7 June 1925, copy in Loucheur Papers, Box 4, Folder 6; there is an earlier copy of this as presented to the members of the Union Républicaine, Union Démocratique et Radicale, and the Gauche Républicaine du Sénat in conference form on 19 Dec. 1924 in the library of the Banque de France. See also id., 'Crise de franc et dettes flottantes', *Revue de Paris*, 15 Apr. 1924, 939–44, and 'L'Avenir du franc', *Revue de Paris*, 1 Dec. 1924, 666–80.

an extended diatribe against inflation—a term used to condemn all they disliked that had changed since 1914, the vehemence of their denunciation serving to justify deflation.[55] When presenting the arguments for and against deflation at the Semaine de la Monnaie in 1922, Guyot devoted his address to attacking Keynes's programme for currency stabilization at Genoa, condemning such stabilization as devaluation, and devaluation as bankruptcy. He dismissed arguments against deflation as specious, endorsed the François-Marsal Convention as a moderate path to eliminate 'the worst of loans' (the Bank's advances to the state), and concluded that 'Everyone must be firmly convinced that the steps to restore the credit of France are the steps of deflation.'[56]

Differing views were quickly denounced. Raffalovich dismissed the efforts of the executive committee of the financial conference in Brussels in 1920 as the work of 'men of science accustomed to weighing problems in the silence of their study'.[57] When the economist Charles Rist, co-editor of the *Revue d'économie politique* (his views are explained in the next section), warned of the dangers of deflation in articles in the *Moniteur des intérêts matériels* in October 1921, Raffalovich replied that deflation was the sole remedy for inflation and condemned Rist's views as 'councils of timidity' and an 'opportunist plea'. Raffalovich rebuked critics of deflation as 'ignorant of the past, incapable of encompassing the ensemble of facts and determining their repercussions. … What distinguishes these people', he concluded, 'is their pusillanimity'.[58] As Rist noted later, regarding the arguments made for stabilization of the franc at a new, lower exchange rate in the early 1920s, 'This counsel of common sense, which could be supported by high authorities from the past such as Jean-Baptiste Say, was combated with extreme vigour by all the financial publications dependent upon the Bank of France.'[59] Clément Colson, a noted economist and vice-president of the Conseil d'État, was nearly dismissed 'for venturing to suggest at a meeting of the Academy of Moral and Political Sciences that there might be a case for stabilizing the franc at a revised level'.[60] When Robert Wolff quoted Colson during a meeting of the Société d'Économie Politique in support of his argument that it was better to restore convertibility at a new rate than to wait indefinitely to return to a rate 'fallen in disuse', Raphaël-Georges Lévy dismissed the quote as a theoretical observation that did not apply to France: everyone remembered the franc of 1914.[61]

The Bank wished to stand above political and theoretical quarrels, yet it felt a clear responsibility to intervene in defence of sound policy when the François-Marsal

[55] Rist's review of their book concluded 'One learns from the indictment of MM. G. et R. that inflation is deplorable, but on the means to escape it, one will scarcely be better-informed for having read it.' *REP* 36 (1922), 94. In *La Déflation en pratique* Rist noted that Guyot was one of the ardent deflationists 'who are adversaries of the quantity theory and who deny that a reduction in currency in circulation can lead to declining prices or an economic depression. One can no longer distinguish what economic principles their doctrine is based on.' (115 n. 1) In reply, Guyot accused Rist of wishing to conserve the inflation that had taken place. The deflation they advocated was intended to lower prices, and 'the decline of prices is essential to prospects of economic prosperity'. *Journal des économistes* (Jan. 1924), 47–8.

[56] Yves Guyot, 'La Déflation', in Semaine de la Monnaie, *La Politique financière*, 129–51.

[57] Arthur Raffalovich, 'La Conférence internationale de Bruxelles', *Journal des économistes* (Nov. 1920), 355.

[58] Rist's letter appeared on 27 Oct., Raffalovich's reply on 30–1 Oct.; Raffalovich's letter was reprinted in *Journal des économistes* (Nov. 1921), 303–6. The quotes are from Raffalovich, 'Le Chaos monétaire', *Journal des économistes* (Dec. 1921), 409.

[59] Charles Rist, 'Notice biographique', *REP* 65 (1955), 995.

[60] Rueff, *Age of Inflation*, 4.

[61] *Journal des économistes* (Dec. 1921), 470–1, 475.

programme was threatened. Bank intervention to influence the views of politicians and the public at large followed naturally from its concern to restore the franc, as monetary control was in the hands of the government and the Treasury. Beyond expressing concern repeatedly in its annual reports, pressing for a balanced budget in contacts with Ministers of Finance and the Treasury, and deploring the breaking of solemn wartime promises to restore the franc, the Bank could not compel repayment of its advances. Its incentive to intervene in public debate was increased by a growing resistance on the part of key Treasury officials to the Bank's deflationary programme.

## 3. THE CASE AGAINST DEFLATION

The consensus in favour of deflation was by no means complete, even at the start of the 1920s.[62] In addition to Gide, Villey, Colson, Bokanowski, and Wolff as mentioned above, C.-J. Gignoux argued in 1922 that the ten years it would take to restore pre-war parity in France would create an intolerable strain on the economy and end in catastrophe.[63] Bertrand Nogaro, an economist at the University of Caen and a prolific commentator on monetary affairs, pointed out in 1920 that repaying Bank advances in order to reduce fiduciary circulation would not act directly on prices, but rather on demand, reducing output without necessarily lowering prices.[64] Robert Wolff attacked the idea behind the François-Marsal repayments as fundamentally misconceived. Repayment of Bank advances would increase Treasury difficulties and raise interest rates, aggravating the real problem: the state's massive floating debt.[65] Economists figured prominently in the list of critics. Charles Rist, co-editor of the *Revue d'économie politique* and professor of political economy at the University of Paris, was the most visible and influential opponent of the François-Marsal programme. He campaigned against deflation from 1921 to 1923 in the *Moniteur des intérêts matériels*, and developed his arguments at length in 1923 in *La Déflation en pratique.*

Based on a review of deflationary experience in England, the United States, Czechoslovakia, and France since the war, Rist contended that supporters of the deflation advocated by the Bank (reducing currency in circulation) built their arguments on a misunderstanding of the relationship between prices, currency, and goods. They assumed that the inflationary process—an increase in currency notes without change in the quantity of goods raised prices—could be reversed by its opposite, a reduction in the quantity of notes in circulation. But the inflationary and deflationary processes were not symmetrical.[66] Inflation and expansion of output were easier to achieve than deflation

[62] Blancheton exaggerates the degree of consensus up to 1922 in 'Trésor, Banque de France et politique monétaire', ch. 5.

[63] C.-J. Gignoux, 'Le Problème monétaire mondial et la théorie du Professeur Cassel', *REP* 36 (1922), 600–14. Although sympathetic to Cassel's purchasing power parity theory, Gignoux concluded that conditions were not sufficiently stable to effect devaluation in France in 1922.

[64] Bertrand Nogaro, 'Les Phénomènes monétaires et la théorie de la monnaie', *Revue économique internationale* (Nov. 1920), 768–9.

[65] Robert Wolff, 'État et Banque d'émission', *Revue économique internationale* (Mar. 1923), 556–71.

[66] Bertrand Nogaro argued this same point in *Traité élémentaire d'économie politique*, 2nd edn. (Paris: Marcel Giard, 1921), 275–6.

and contraction. Reducing currency in circulation would not act on prices directly, and would encounter strong resistance within the French economy. Exchange-rate instability complicated the problem by its influence on prices and activity, with a declining franc raising import prices immediately and an appreciating franc reducing French exports. Seeking to improve the exchange rate by reducing the volume of currency in circulation was particularly difficult, as this form of deflation acted only indirectly on prices. The most efficacious means to contract economic activity and curtail domestic demand (and thus lower prices) were to increase the discount rate and the exchange rate. Declining prices would then permit the withdrawal of currency, as during the recession in 1920–1. But the most effective way to reduce prices, as distinct from the note circulation, would be to increase the quantity of goods through policies encouraging increased output.[67]

Rist's recommendations followed from this. Control of the exchange rate was essential to controlling domestic price movements, and the most critical factor influencing both the exchange rate and prices was the state budget. Budget deficits kindled fears of inflation, and capital movements anticipating inflation acted immediately on the exchange rate and then on prices. A balanced budget was essential in order to end capital flight and exchange depreciation and to turn market psychology to the advantage of the state and the franc. This would attract capital, improve the exchange rate, lower domestic interest rates and prices, foster economic expansion, and facilitate the repayment of Bank advances.[68]

The most important locus of resistance to the Bank's deflationary programme, pushing the Bank to mobilize forces in politics and the press, was not individual economists but the directors of the Treasury. Directors (of the Mouvement Général des Fonds) were appointed by Ministers of Finance, and drawn from the ranks of the Inspection des Finances; they generally met on a daily basis with their minister to advise on all matters involving payments by and to the state. Directors in the early 1920s repeatedly contested the logic of the François-Marsal Convention and insisted on the need to address the interlinked problems of persistent budget deficits and the floating debt. François-Marsal's reluctance to agree to the convention in 1920 was no doubt prompted by Treasury need to renew 7 to 8 billion francs in floating debt each month with advances from the Bank their only recourse should they fail to do so.[69] Jean Parmentier, director from January 1921 to March 1923, warned repeatedly that budget deficits covered by short-term borrowing posed a grave threat to the Treasury and the franc. Any weakening of confidence would bring a flight from government paper, particularly by foreign holders of BDNs, and there was no prospect that reparations would ease a financial problem requiring strict economies. Parmentier's arguments represented a strong current of Treasury opinion. He and his directeur-adjoint, Pierre de Moüy, developed their critical view of the convention in the early 1920s in discussion with former Treasury directors Charles Sergent,

[67] Rist, *La Déflation en pratique*, 113–24, especially p. 118.

[68] Ibid. 128–9. Fulfilment of the François-Marsal Convention in Dec. 1921, he noted, had meant that Bank advances to the state fell by 2,300 million francs between 31 May 1921 and 31 Aug. 1922, but the budget had remained in deficit and the state's floating debt had increased by nearly 11 billion francs. Ibid. 71.

[69] Lachapelle, *Les Finances de la IIIème République*, 102–3.

André Luquet, and André Célier.[70] In mid-April 1922, Parmentier and Moüy proposed terminating the François-Marsal Convention in order to increase Treasury margin for manoeuvre in managing the exchange rate and government debt, and to break the linkage between exchange depreciation, non-renewal of floating debt, and Treasury recourse to Bank advances.[71] They were under no illusion that the franc would or could be brought back to its pre-war parity.[72] In November 1922, Parmentier recommended cuts to the 1923 budget in order to halve borrowing, suspending state funds for the repair of war damage, and eliminating military pensions to all but disabled veterans.[73] The government did not agree.

Parmentier reiterated his views in February 1923: state borrowing was the fundamental reason for the decline of the franc, exposing France to 'all the consequences of a prolonged panic leading to monetary catastrophe'. Heavy reliance on short-term borrowing made the state's nominal policy of deflation via repayment of Bank advances impossible; it left the Treasury with insufficient freedom to manage the floating debt. Deflation could be undertaken only after consolidation of the floating debt. Parmentier urged reducing both expenditure and borrowing in order to avert a financial and monetary cataclysm. He threatened to resign if current Treasury obligations were not modified, and he did indeed resign in protest a few weeks later. His resignation had been rumoured for months and the rumours had been repeatedly denied by the Ministry of Finance.[74]

Parmentier's successor was Pierre de Moüy, who shared his views and his frustrations. In October and December 1923 he warned that the François-Marsal Convention was crippling the Treasury's capacity to manage the floating debt. The Convention, he stated, 'rests upon a complete misunderstanding of the mechanism which has permitted the considerable development of the floating debt', with advances from the Bank being the only way for the Treasury to guard against fluctuations in the level of floating debt. He proposed that the Bank return to the Treasury the repayments on advances made in the previous two years, and that the ceiling on advances be raised by 1 billion francs. Taking into consideration the inflation in 1923, the Treasury would need indirect advances from both the commercial banks and the Bank of France to meet end-of-year payments and would have no margin whatsoever for further advances, indirect or otherwise, in the new

[70] Their role is discussed briefly in Georges Lachapelle, *Les Batailles du franc: la Trésorerie, le change et la monnaie depuis 1914* (Paris: Félix Alcan, 1928), pp. v–vi.

[71] Schuker, *End of French Predominance*, 43–4. Schuker's account and that of Blancheton ('Trésor, Banque de France et politique monétaire', 257) are based on de Moüy's June 1924 reference to a Treasury note of 15 Apr. 1922, of which no one has yet turned up a copy in the archives.

[72] When Thomas Lamont suggested that 'far-sighted finance ministers' in Europe would 'naturally seek to borrow as much as possible in the American market' with the borrowed funds to be repaid easily when their currencies appreciated, Parmentier replied that he did not expect significant improvement in the franc during the next ten to fifteen years. See Lamont to Jay, 3 June 1922 and Jay to Lamont, 15 June 1922; J. P. Morgan and Co. Papers (JPM), The Pierpont Morgan Library, New York, JPM 378D.

[73] Parmentier to Lasteyrie, 14 Nov. 1922, reprinted in *Le Quotidien*, 7 Feb. 1928, and in Lachapelle, *Le Crédit public*, ii. 140–6; also Schuker, *End of French Predominance*, 40–2.

[74] Parmentier to Lasteyrie, 17 Feb. 1923, reprinted in Lachapelle, *Le Crédit public*, ii. 151–3, and on rumours of Parmentier's resignation, Herrick to Sec. of State, 12 Oct. 1922; RG 59, 851.00/365.

year.[75] The Treasury had borrowed 525 million francs from deposit banks in October, covered by discounting at the Bank of France. Minister of Finance Charles de Lasteyrie persisted, nonetheless, in repaying 800 million francs in partial fulfilment of the François-Marsal Convention.

The regents deplored the government's inability to match the previous year's payment of 1,000 million, stating that efforts to balance the budget, combat *la vie chère*, and raise interest rates on government debt would be 'absolutely ineffective' so long as the Convention's 'very reasonable engagements' were not honoured.[76] Moüy, on the other hand, deplored the Bank's interference in public discussion, which he believed had ultimately decided the issue. The 1923 repayment was not being made for technical reasons, but rather

> in consideration of the strong emotions raised in the public by a press campaign pursued strenuously in the last few days. Numerous signs coincide to make me think, and I don't fear to write it, that this campaign has been incited and sustained by the administrative personnel of the Bank of France, personnel nominated by the government.[77]

Bank suspicions of the Treasury were heightened by differences in their attitude towards the French gold reserves in London; the Treasury was closer to the British view that gold reserves could and should be used in times of stress. In 1917, the Bank had obstructed a Treasury effort to use French gold in London to reduce French state debt to Britain. Pallain made it absolutely clear that the gold belonged to the Bank, not the government.[78] In December 1919, the British claimed that Ribot had agreed to this arrangement, and that it remained in force despite the absence of any formal, signed agreement.[79] Louis Loucheur, the French Minister of Finance at the time, was negotiating the issue of a French loan in London and agreed that France would not demand return of the £53.5 million in gold on deposit in London until the British advances to the French government had been repaid in full.[80]

The Bank of France learned of this accord when it was published in *Le Matin* in September 1921. Robineau protested vigorously, insisting that the Bank must be party to all agreements concerning its gold reserves; it had consistently resisted all British efforts

[75] Moüy to Lasteyrie, 13 Dec. 1923; MAE, PA-AP 089-Herriot/7; quoted in Lachapelle, *Le Crédit public*, 161–2 (misdated 31 Dec.); discussed in Schuker, *End of French Predominance*, 50–1.

[76] DCG, 14 Dec. 1923.

[77] Pierre de Moüy to Lasteyrie, 13 Dec. 1923; MAE, PA-AP 089-Herriot/7.

[78] This had been requested by the British Treasury; see Pallain to J. Thierry (Minister of Finance), 26 Mar. 1917, and 'Note au sujet de l'or remis à la Trésorerie britannique en exécution de l'accord de Calais (24 Août 1916)', 17 Dec. 1921; SAEF, B 31834.

[79] Chancellor of the Exchequer Austin Chamberlain gave the French a note dated 29 Mar. 1917, initialled by Keynes and Bonar Law, stating that Ribot had agreed to this and that although no document had been signed because of Bank of France objections, the agreement was binding; copy in SAEF, B 31834.

[80] Britain would otherwise be bound to return gold proportionate to the credits repaid; see Avenol to Klotz, telegram no. 11.570 LC, 15 Dec. 1919; 'Note au Ministre', 19 Feb. 1920; and Avenol note of 9 Jan. 1923; in SAEF, B 31834. The British believed that under this arrangement, they would in fact never have to return the gold because France would never pay off its war debts. The protracted arguments about this gold can be followed in detail in Arthur Turner, *The Cost of War: British Policy on French War Debts, 1918–1932* (Brighton: Sussex Academic Press, 1998).

to modify the Calais Accord in any way that would weaken French reserves. 'Because if, as the Bank wrote to one of your predecessors on 14 March 1919, one can claim that gold does not play the role of an effective guarantee while the *cours forcé* is in effect, gold remains the only means to escape such a regime.'[81] Although Robineau was assured that there had been no change to the Calais Accord, in January 1923 Britain again claimed that it was not obliged to return French gold until all French war debts had been repaid. An official Ministry of Finance statement and a note from attaché Joseph Avenol conceded that Avenol had written a letter to Basil Blackett on 25 February 1920 approving this arrangement (which dated to December 1919 but had been subject to Bank approval) regarding the French gold in London. Avenol claimed he had written this letter in accord with the views of then Minister of Finance François-Marsal, who denied that he had given his approval and termed it a 'singularly imprudent' letter between one *fonctionnaire* and another.[82] Avenol had been seeking a deal whereby France would cede its right to the gold on deposit in London until all war debt was repaid in exchange for the British Treasury exchanging short-term French obligations for long-term obligations, ultimate repayment of which would conform to the settlement Britain was negotiating with the United States.[83] The Treasury claimed that despite the Avenol note, there had been no reply to it and no exchange of signatures between ministers, so the Calais Accord remained unrevised.[84] For regents of the Bank of France, these episodes highlighted the unreliability of the Treasury, both for its willingness to commit gold belonging to the Bank, and for the prospect of having the return of French gold depend on the Treasury completely repaying its wartime borrowing in London.[85] The differing Treasury and Bank attitudes towards the gold on deposit in London and towards the importance of state repayment of advances from the Bank had set the two institutions on diverging paths with regard to ultimate stabilization of the franc in order to return to gold, the Treasury position reflecting the practical concerns of meeting state financial obligations, whereas the Bank worked at a distance from such concerns, and remained rigidly attached to setting back the clock and restoring the pre-war system.

With leading economists and the directors of the Treasury opposed to repayment of the Bank advances to the state, it is important to understand how public and political opinion were led to believe in deflation. The Bank's interest is obvious, and understandable in its concern that repayment of advances restore liquidity to its assets. That it believed this would improve the franc exchange and restore pre-war parity is less clear; Décamps retreated from this view, and Robineau was not entirely convinced that repayment would or should reduce the currency circulation by the volume of Bank advances.[86] There is no evidence that it concerned itself with the Treasury argument that repayment

[81] Robineau to Doumer (Minister of Finance), 22 Sept. 1921; SAEF, B 31834.

[82] Avenol to Blackett, 25 Feb. 1920; untitled notes of 9 Jan. 1923 and 14 July 1924, probably by Avenol, explaining negotiations and letter; and François-Marsal to Lasteyrie, 20 Mar. 1923; SAEF, B 31834.

[83] Avenol, 'Note au Ministre, modification à l'accord de Calais (Arrangement du décembre 1919), Consolidation de la dette française vis-à-vis du Gouvernement britannique', 19 Feb. 1920; SAEF, B 31834.

[84] 'Note sur la situation de l'or remise à la Trésorerie britannique en exécution de l'Accord de Calais', undated, and untitled note of 14 July 1924 reviewing dispute; SAEF, B 31834.

[85] DCG, 11 Jan. 1923.

[86] Robineau to Loucheur, 8 Nov. 1922; Loucheur Papers, Box 10G.

of advances crippled their ability to manage the floating debt. The Bank was not concerned with the solvency of the state, but with the financial and above all the *moral* obligation to have its advances repaid, as promised by Ribot in September 1914 and oft-repeated in subsequent conventions and correspondence.[87]

The Bank alone could not determine policy in this realm. The force of political and popular belief in deflation—meaning the reduction of the currency issue through repayment of Bank advances—as the necessary means to restore normalcy was essential to sustaining the Bank's view. Parmentier, Moüy, Rist, and Wolff repeatedly pointed out that the François-Marsal Convention rested on a 'complete misunderstanding' of credit and finance. The misunderstanding was widely shared. The Bank actively led misunderstanding on the issue, promoting articles in the press; most politicians and the public at large shared its views. If one accepted that Bank advances to the state were the origin of wartime inflation, it was easier to believe the process could be reversed by repaying those advances than to follow the more complex (and perceptive) analysis of economists who seemed to accept the inflation that had taken place. Furthermore, the state budget deficit was, as the Bank acknowledged, a political problem. Politicians did not wish to cut payments for reconstruction and pensions to veterans in order to balance the budget. They paid the price in persistent Treasury difficulties, a huge and problematic floating debt, and a steady deterioration of the franc exchange. As difficulties diminished the prospects for deflation and a return to the pre-war parity of the franc, support for the idea of stabilization at a new rate increased. But it took the new financial difficulties experienced after the Cartel des Gauches took power in 1924 and major monetary crises in March 1924 and July 1926 to finally destroy the illusion of a return to the pre-war world and to produce the political will needed to resolve France's post-war financial and monetary problems.

[87] Ribot himself claimed in discussion of the François-Marsal Convention payment in Dec. 1922 that his promise in Sept. 1914 'was, you will see, rather diplomatic . . . because it left a certain amount of latitude to the Minister of Finances'. From debate in the Senate, Dec. 1922, cited in Lachapelle, *Le Crédit public*, ii. 149.

# 4

# The Franc in Peril, 1924–1926

The French path from wartime inflation and budget deficits through the years of major reconstruction of devastated areas to stable currency and finance after 1926 was far from exemplary. From early 1924 to mid-1926, France made significant progress in eliminating the budget deficit, but increased taxation and tighter control on expenditure were decided as a product of sharp crises. The franc, having fallen dramatically in 1919–20, fell by a further 50 per cent in this period, and parliament voted the toughest tax measures in seeking to end flight from the franc. The unwillingness of French politicians to vote tax increases was a persistent factor producing financial and monetary instability. The resolution of the currency crises in March 1924 and July 1926 owed a great deal to the crises having confronted politicians with a worse alternative than voting new taxes: collapse of the franc. But successful resolution of the crises depended on co-ordinated action between the central bank and the government, as the crises were in part a product of conflict between the Bank of France and the Treasury.

The Bank believed repayment of its advances to the state would solve the monetary problem by restoring liquidity to its assets and eliminating the *circulation parisitaire* that caused inflation. The franc would ascend miraculously to its pre-war parity. Deflation would not hurt the French economy because credit would be made available on the sound basis of discounting commercial paper. Repayment of advances was part of the financial discipline necessary to restore order in state finance. Sound financial policy would restore the franc to its pre-war parity, at which point the Bank would again assume responsibility for the franc with gold convertibility restored.

The Treasury, on the other hand, argued that the supposed benefits of repayment of advances and reduction of the note circulation were offset by the non-renewal of floating debt, increasing Treasury payments *and* its cost of borrowing without reducing prices or the note circulation. Ministers of Finance, caught between political demands for increased expenditure and conflicting advice from the Bank and the Treasury, tended to adopt the easiest solution: verbal adherence to Bank orthodoxy without voting sufficient resources to meet reconstruction expenditure and repay the Bank on schedule. Keynes referred to French policy as 'the finances of Humpty Dumpty' and found it 'unthinkable' that the French taxpayer would support the increase in taxation necessary to restore the franc to par.[1]

Even the Cartel des Gauches opted for the monetary orthodoxy of the Bank's programme, seeking to maintain 'confidence' with no financial room for manoeuvre for

[1] Keynes, *A Tract on Monetary Reform*, 70–3.

the Treasury to cover floating debt maturities. The self-destruction of the first Cartel government in April 1925 was a product of political inexperience and Bank of France deceit regarding the note circulation: Herriot and Clémentel trapped themselves in trying to play the Bank's game of maintaining confidence. The slide of the franc thereafter marked declining confidence in the ability of successive Radical-led coalitions to manage French finances. The combination of rising prices, the threat of higher taxation and debt consolidation, the overhang of floating debt, and the proximity of the legal ceilings on currency and advances all worked to create 'constant apprehension' that government policy would produce either inflation or default.[2]

The conflict between the Bank and the Treasury was a contributing factor. Stronger political leadership and a compliant parliamentary majority were essential to stabilize state finance and the franc. The crisis in 1926 was fundamentally political, brought on in part by Bank pressure on the Cartel des Gauches. But the Cartel leaders were more vulnerable to pressure because of their reliance on the Bank for advice and help. Their ineptitude in financial and monetary affairs destroyed the confidence of parliament and of the public at large in their capacity to restore French finances and defend the franc. This chapter covers relations between the Bank of France and the state (governments and the Treasury), from the crisis in March 1924 through the election of the Cartel des Gauches in May 1924, the Herriot government's fate at the hands of the Bank, and the disintegration of the Cartel in the face of increasing capital flight and the dramatic fall of the franc to one-tenth its pre-war value in July 1926. It demonstrates the significant role played by the Bank and its policy advice in the fate of the Cartel, and the importance of co-operation between the central bank and the Treasury in restoring monetary stability.

## 1. THE FRANC IMPERILLED: MARCH 1924

The franc suffered two sharp crises, in January–March 1924 and May–July 1926 (Figure 4.1). In the first, a Bloc National government led by Raymond Poincaré was in power; in the second, moderate-left governments under the auspices of the Cartel des Gauches. Both crises have received considerable historical attention detailing the combination of domestic and foreign speculation against the depreciating franc.[3]

During the March 1924 crisis, the Poincaré government vilified foreign speculators as the cause of the crisis and attempted to restrict capital flight. Foreign speculation developed in February and March in response to government inaction on the massive overhang of short-term debt, the budget deficit, the decline of the franc, and the

[2] Leffingwell to MH&C for Harjes, no. 63.470, 17 Dec. 1925, RCL, Box 3, Folder 70.

[3] On the 1924 crisis, see in particular Schuker, *End of French Predominance*, Jean-Claude Debeir, 'La Crise du franc de 1924', *Relations internationales*, 13 (1978), 29–49, and Jeanneney, 'La Spéculation sur les changes comme arme diplomatique', *L'Argent caché*, 169–99. On 1926 see Jeanneney, *François de Wendel*, 263–313, and Kenneth Mouré, *La Politique du franc Poincaré: perception de l'économie et contraintes politiques dans la stratégie monétaire de la France, 1926–1936* (Paris: Albin Michel, 1998), 35–57. Both crises are covered in Blancheton, 'Trésor, Banque de France et politique monétaire', 295–319.

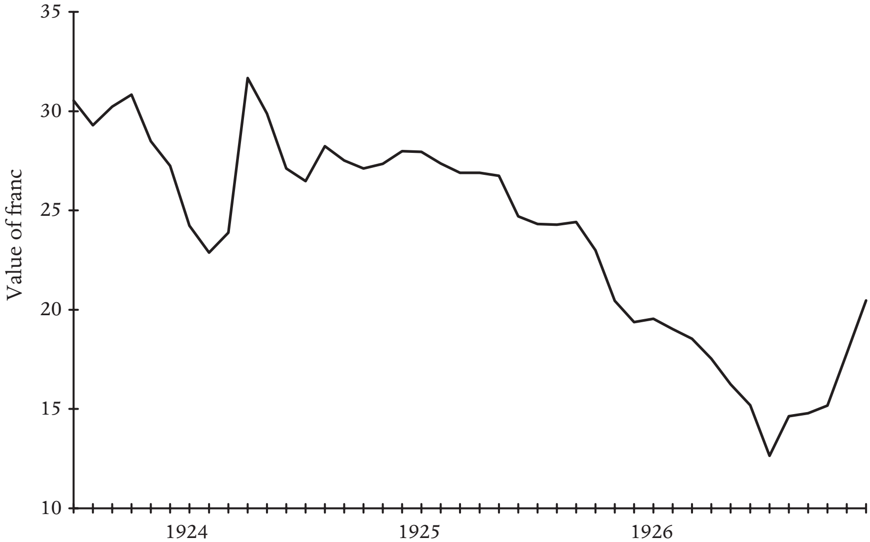


**Figure 4.1.** *Value of franc, July 1923–December 1926 (1914 = 100)*
*Source*: 'Variations de la valeur-or du franc calculée d'après les cours du dollar à Paris'; BdF, 1069199312/8.

Treasury's need for Bank advances to meet any shortfall in the renewal of floating debt. But the domestic speculative movement had begun at the end of 1923.[4] As the director of the Bank of France branch in Calais noted in January 1924, industrialists showed increasing pessimism about government finance and borrowing and thought it legitimate to protect their interests by purchasing foreign exchange, easy to do if they were exporters needing to repatriate only a part of their foreign earnings.[5] Maurice Bokanowski, *rapporteur général* for the Chamber of Deputies finance committee, insisted in January that 'inflation and the monetary depreciation which is its consequence always have as their origin an unbalanced national budget'. Bokanowski reviewed deflationary efforts abroad to stress that 'no measure to achieve monetary recovery, no effort to re-establish the exchange rate can work without restoring a balanced budget'. Since the ordinary budget had been balanced in 1923, the sole cause of flight from the franc was '*the existence of a special budget of recoverable expenses covered exclusively by borrowing*' rather than by reparation payments.[6] The J. P. Morgan Bank's assessment of the situation agreed. Poincaré's new

[4] See the perceptive analysis in Jeanneney, 'La Spéculation', 180–90.

[5] 'I heard one of them say that given the persistent decline of the franc, the principal cause of which was to be found, according to him, in the management of public finance, in the state's short-term borrowing of an unknown extent, and in the fear of new expenses that we can expect to be voted in the run-up to the legislative elections, it was legitimate to shelter his patrimony from complete depreciation by the purchase of foreign exchange.' Report of 7 Jan. 1924; BdF, 1069198810/2.

[6] Bokanowski report, *JO Chambre documents* no. 6980, 10 and 17, emphasis in original.

financial programme in January 1924, with a 20 per cent across-the-board increase in existing taxes (the *double décime*), marked a conversion to fiscal orthodoxy 'so abrupt as to suggest panic rather than settled conviction'. The fundamental problem was the budget of recoverable expenses, which bound French financial health to that of Germany, now bankrupt.[7]

Scepticism abroad was clearly stated in a confidential survey of French public finance by Biddle and Henry Investment Securities of Philadelphia. Their report informed clients that the most serious problem in France was 'the inability, or perhaps more accurately, the disinclination of the French Government to balance its budget'. The failure to increase taxation in order to cover the so-called 'recoverable' expenditures in the absence of German reparation payments would result in depreciation of the franc. They advised clients to sell French bonds and reinvest in more reliable securities.[8]

The Bank of France was unwilling to engage its reserves in crises it believed to be financial in origin and the responsibility of the government. Governor Robineau was a close friend of Poincaré and worked closely with him supporting government efforts to cover its reconstruction costs by domestic loans. He viewed the predicament of the Bloc National, trying to cover reconstruction costs in the absence of German reparations, with greater sympathy than he would the subsequent troubles of the Cartel des Gauches. Aside from raising the Bank's discount rate by half-steps on 10 and 17 January 1924, reasoning that the public expected it to do so, the Conseil Général gave little attention to the developing crisis. On the latter date it noted that the government was attending to the problem.[9] Poincaré presented his revised financial programme that day in the Chamber of Deputies, including the *double décime*. The programme took five weeks to clear the Chamber of Deputies, stalled by long debates of which 'the most striking characteristic ... was the extent of their irrelevance'.[10] It met further delay in the Senate, where the finance committee reported on the legislation on 13 March, eight weeks after its introduction in the Chamber.[11] Parliamentary inaction encouraged speculation. Treasury difficulties mounted as the franc fell to 106.53/£ by 4 March.

Most bankers advocated intervention to defend the franc.[12] Lazard Frères, considered by one J. P. Morgan banker to have 'the most capable exchange people on the continent',[13] attributed the sharp increase in pressure on the franc in early March to a concerted attack by German bankers. They recommended negotiating a foreign credit secured by

[7] JPM&C to MH&C, no. 62.204, 27 Jan. 1924; copy in CAMT 132 AQ 122. In a subsequent note, the American distrust of French financial policy was described as being present 'in the minds of thoughtful people in 1922', with the pessimism in March 1924 'a culmination of a trend of thought which has been developing for two years'. JPM&C to MH&C, no. 62.290, 10 Mar. 1924; copy in CAMT 132 AQ 122.

[8] Report summarized by Charles D. Westcott, consul at the American embassy in Paris, 18 Mar. 1924, from a copy sent to Mr A. P. Weil in Paris dated 4 Feb. 1924. RG 59; 851.51/447. The survey had been inspired by an article in *The New Republic*, presenting France as a 'second-class power', incapable of meeting its debt obligations and seeking to avoid national bankruptcy by military adventurism. John F. Sinclair, 'Is France Going Bankrupt?' *New Republic*, 9 Jan. 1924, 166–9.

[9] DCG, 10 and 17 Jan. 1924.

[10] Schuker, *End of French Predominance*, 61.

[11] On Senate procrastination, see ibid. 84–8.

[12] Ibid. 104–8; Raymond Philippe, *Le Drame financier de 1924–1928* (Paris: Gallimard, 1931), 31–6.

[13] N. Dean Jay cited in Schuker, *End of French Predominance*, 104–5.

Bank of France gold for a counter-attack. Their representatives met with Minister of Finance Charles de Lasteyrie on 5 March without convincing him, and collaborated with banker Octave Homberg to write directly to Poincaré on 7 March, urging this course.[14] Morgan representatives in Paris gave similar advice. Eventually the Bank of France agreed to guarantee a credit on 9 March after meeting in the office of the president at the Elysée Palace.[15] The step was exceptional, given Bank determination to maintain its reserves intact and to leave the restoration of order to the government. Lasteyrie argued that the speculative attack on the franc could only be opposed by exchange-market intervention on a scale which only the Bank of France could arrange, drawing on foreign credits. The regents agreed.[16] Little serious deliberation was needed. The Bank had agreed two days earlier to use its gold reserves to guarantee a loan by the more complicated procedure of a state railroad loan in the United States to repay railroad debts to the state, thus making the funds available for use in the exchange market. Morgans refused to collaborate in this stratagem, insisting that a strong government commitment to fiscal reform was essential to prevent any loan for exchange support being frittered away.[17]

The Bank of France agreed to use its reserves only in conjunction with immediate measures to balance the budget. Robineau warned: 'It would be disastrous, it would strike a new and even more fatal blow to the franc if it were to fail, because our next balances would reveal the same Treasury difficulties and the growing threat of a moratorium or inflation.'[18] Although Robineau had at first demurred from setting out a financial programme for the government,[19] he made specific suggestions on 9 March. Payments must be reduced to a strict minimum, all non-urgent expenditure put on hold (reconstruction expenses in 'liberated regions', Rothschild added, were 'economically and financially disastrous'), and immediate measures taken to restore confidence in BDNs. He suggested exempting BDNs from income tax and consolidating the floating debt by long-term loans with fiscal immunities sufficient to assure their success.[20]

Poincaré agreed. Although unwilling to promise a complete suspension of reconstruction expenditure, he would defer borrowing for this purpose until the financial and monetary situation had improved. The regents agreed to provide Bank support on the

[14] 'Note de la Maison Lazard Frères & Cie. au sujet des opérations pour le redressement du franc', n.d., ADPdD, 5 J 53.

[15] Harjes was convinced that cables from J. P. Morgan & Co. in New York brought about the 9 Mar. meeting between the Bank and the government at the Elysée Palace. Harjes to Morgan, 13 Mar. 1924; TWL, 83-17. Senator Lazare Weiller, too, claimed credit for the idea of an external loan to attack speculators: Weiller to Poincaré, 7 Mar. 1924 and Weiller to Clémentel, 11 July 1924; ADPdD, 5 J 53; cited in Jeanneney, 'La Spéculation', 181, n. 27.

[16] DCG, 9 Mar. 1924.

[17] Robineau to Rothschild Frères & Cie, 7 Mar. 1924, and JPM&C to MH&C for Harjes, no. 62.284, 8 Mar. 1924; CAMT, 132 AQ 122.

[18] Robineau to Lasteyrie, DCG, 7 Mar. 1924. The lack of any serious resistance to pledging gold in the Bank's account of the 9 Mar. meeting indicates Schuker's claim that Robineau and the regents 'fought to the end against pledging their gold' overstates their opposition (Schuker, *End of French Predominance*, 110).

[19] 'It is not up to the Conseil Général to suggest appropriate means to attenuate this threat [of a moratorium or inflation] and solve the current difficulties of the Treasury'; he did go on to state the need to limit payments, restore confidence in BDNs, and engage in consolidation of bonds. DCG, 7 Mar. 1924.

[20] Annexe to DCG, 9 Mar. 1924.

basis of government assurances that it would reduce expenditure, end reliance on borrowing, and hasten short-term debt consolidation. 'On the basis of these assurances, without which any market intervention, if it was contradicted by our own balances, would be ineffective and even injurious,' the Bank agreed to negotiate a credit guaranteed by its gold reserves to a maximum of 500 million francs.[21] Lasteyrie stated explicitly that he was prepared 'to give all the assurances that the Conseil Général is, before any decision, entitled to insist upon regarding the financial policy the government intends to follow'.

Robineau negotiated a credit with Morgans which, at Harjes's suggestion, he doubled to $100 million.[22] Morgans deemed it necessary, despite the strictly private nature of the credit, to announce it to the press, stating that the French government had undertaken to insist on prompt passage of new taxes by the Senate, balance the budget, and suppress all new expenditure not covered by receipts. Morgan attached particular importance to the public statement that the Bank of France and the French government agreed 'that in the event the credit is not at maturity liquidated in other ways, gold in amount equal to the loan shall be shipped to us in New York'.[23]

The Bank negotiated smaller credits in New York ($5 million) and London (£4 million) to allow immediate intervention. The franc had fallen almost to 130/£ on Saturday, 8 March. Intervention on the 10 and 11 March brought it back to 116/£. On 12 March the 'incessant pounding' took effect, the sterling quote falling steadily, and on 13 March the announcement of the Morgan credit made the turn in the market definitive. On 15 March the franc/sterling exchange reached 90/£; on 24 March it closed at 78.10/£.[24]

Lazards' technical personnel warned against allowing the franc to appreciate further and Sir Robert Kindersley, who had negotiated the British credit, advised that the franc be allowed to go no higher than 80/£.[25] The Morgan partners in New York and Paris likewise recommended stabilization at about 80/£.[26] According to Raymond Philippe of Lazard Frères, instructions from the Bank of France demonstrating 'an absolute lack of understanding' lay behind the franc's rise to 63.50/£ on 25 April.[27] The Bank insisted on holding the franc when the exchange then turned, and spent $30 million in accumulated reserves to maintain the franc at 68/£ until 6 May. When Lazards complained to the Bank's directors, they were told that the Bank wished to return sterling to the Paris

[21] DCG, 9 Mar. 1924.

[22] JPM&C to MH&C for Harjes, no. 62.284, 8 Mar. 1924; CAMT 132 AQ 122. Details are recorded briefly in DCG, 10 Mar. 1924; the loans in London and New York, with interest and commission, totalled 620 million gold francs; Lachapelle, *Les Batailles du franc*, 127.

[23] J. P. Morgan to Sec. of State, 21 Mar. 1924; RG 59, 851.51/444; Lachapelle stresses the importance of this communiqué in *Les Batailles du franc*, 128–9.

[24] Raymond Philippe, one of the key private bankers (with Lazard Frères) in planning and executing the counter-attack, gives a dramatic account in *Le Drame financier*, 39–46; see also Mermeix [Gabriel Terrail], *Histoire du franc depuis le commencement de ses malheurs* (Paris: Albin Michel, 1926), 104–16.

[25] Lachapelle, *Les Batailles du franc*, 130.

[26] JPM&C to Harjes 'for Clémentel', no. 62.343, 29 Mar. 1924; TWL, 95–11; Schuker, *End of French Predominance*, 117–19; Philippe, *Le Drame financier*, 49–53. Morgans had warned earlier against using a gold loan to push the franc so far upward as to risk a subsequent, precipitous decline; JPM&C to MH&C, no. 62.204, 27 Jan. 1924; CAMT 132 AQ 122.

[27] Philippe, *Le Drame financier*, 51.

market so as not to draw unjustified profit at public expense. But both Lazards and the Bank warned Minister of Finance François-Marsal on 6 May that it would be 'imprudent' to use the Morgan credit in this way.[28] Support operations ended the next day, and the franc dropped to 74/£.

On 11 May, the Cartel des Gauches won a narrow victory in parliamentary elections, inheriting a financial situation in which parliament had increased taxes and forsworn new expenditure under duress, the franc had recovered to a level roughly appropriate to the economic situation, and speculators were licking their wounds and trying to recover from their losses.[29] But an opportunity to consolidate the recovery had been lost. Foreign exchange gained in the counter-attack had been dissipated in allowing the franc to rise too far and trying to defend it there. The success of the counter-attack in March, which would be argued as a precedent in May 1926, depended on co-ordinated action between the government and the Bank of France. In Georges Lachapelle's words, 'The action of a bank of issue cannot have the slightest effect, or at least any durable effect, unless it is reinforced by political action directed to the same goal.'[30]

## 2. *C'EST LA BATAILLE QUI COMMENCE*: HERRIOT IN OFFICE, JUNE 1924–APRIL 1925

The slender Cartel election victory in May 1924 brought to power a coalition with a tenuous majority and profound divisions on the financial issues that would confront and defeat it in office.[31] The Cartel des Gauches was an electoral coalition of Radicals, Left Radicals, and Socialists. The Radicals, self-proclaimed defenders of *les petits*, were perhaps the least likely party to provide a clear financial programme. Internally fragmented, they tended naturally toward conservative financial policies but required Socialist support for the Cartel to survive.[32] The Socialists refused to hold government office, freeing themselves from responsibility for co-operative, realistic policies. Further to the left the Communists, 'less a parliamentary party than a permanent scandal',[33] had not joined the Cartel. It was not an auspicious combination.

[28] 'Note de la Maison Lazard Frères & Cie. au sujet des opérations pour le redressement du franc', undated; ADPdD, 5J 53. There is no indication here that the franc was maintained to 6 May to assist the Bloc National in the election.

[29] See Pierre Frayssinet, *La Politique monétaire de la France (1924–1928)* (Paris: Sirey, 1928), 27, and Schuker, *End of French Predominance*, 92.

[30] Lachapelle, *Les Batailles du franc*, 129.

[31] On the 11 May election and Cartel victory, see Jean-Noël Jeanneney, *Leçon pour une gauche au pouvoir: la faillite du Cartel, 1924–1926* (Paris: Éditions du Seuil, 1977), 13–19; Jean-Jacques Becker and Serge Berstein, *Nouvelle Histoire de la France contemporaine*, vol. xii, *Victoire et frustrations, 1914–1929* (Paris: Éditions du Seuil, 1990), 245–50; and Charles S. Maier, *Recasting Bourgeois Europe: Stabilization in France, Germany, and Italy in the Decade after World War I* (Princeton: Princeton University Press, 1975), 475–6. Michel Soulié contends that the Cartel victory marked a more significant shift in *Le Cartel des Gauches* (Paris: Jean Dullis, 1974), 229–30.

[32] Serge Halimi, *Sisyphe est fatigué: les échecs de la gauche au pouvoir 1924, 1936, 1944, 1981* (Paris: Robert Laffont, 1993), 66–7; on the variety of programmes within the Cartel see Soulié, *Cartel des Gauches*, 215–18.

[33] D. B. Goldey, 'The Disintegration of the *Cartel des Gauches* and the Politics of French Government Finance 1924–1928', unpublished Ph.D. diss., Oxford University (1961), 92. As Goldey puts it, the Cartel were united on everything except financial policy; the National Union that replaced it was united on nothing else. Ibid., p. ix.

Owing its victory in good part to discontent with Poincaré's fiscal policies, the Cartel might have shifted from the deflationary posture of the Bloc National to a more pragmatic emphasis on consolidation of the floating debt and stabilization of the franc. Premier Édouard Herriot and his Minister of Finance, Étienne Clémentel, chose otherwise. Shortly after they took office, Pierre de Moüy, still director of the Treasury, outlined the Treasury case against deflation and repayment of Bank advances for Clémentel. The François-Marsal Convention, in combination with the legal limits on Bank advances to the state and on currency in circulation, imposed impossible constraints, which had already been violated by the Poincaré government. The legal limit on Bank advances to the state, 23,200 million since 14 December 1923, had been respected only thanks to indirect advances that had taken place 'accidentally' in July 1923 and systematically since January 1924. These advances were effected by having banks subscribe to Treasury bonds and then discount either commercial paper or maturing bonds at the Bank of France. On occasion, the Bank subscribed directly to Treasury bonds.[34] Further indirect advances would be needed to meet payments at the end of June. Notes in circulation were close to their legal maximum of 41 billion francs. Any non-renewal of floating debt, which now totalled 60 billions with an average maturity of six months, could only be met by advances from the Bank. Moüy recommended that the government make public the situation of the Treasury, raise the legal limits on note circulation (to 43 billions) and Bank advances (from 23.2 to 25 billions), and end the obligation to reimburse 2 billion francs in Bank advances each year.[35]

Clémentel chose to follow the advice of the Bank rather than the Treasury. 'I judged that the best way to fight was to defend the first line of trenches, to hold out there until the end and not to begin with a retreat, even strategic,' he explained later. He rejected Moüy's proposal as 'a political solution, a clever party attitude', that would revive speculation and weaken France's international bargaining position at the London conference to renegotiate German reparation payments. The cabinet approved this decision, he claimed, 'with an elevated sense of public interest superior to that of any party interest'.[36] But speculators were still hurting from their losses in March, and Cartel policy in fact weakened France's bargaining position.[37] For Raymond Philippe, the choice was based

[34] A presumably complete list of such advances from Jan. 1924 to Apr. 1925 can be found in 'Tableau des avances à l'État ne figurant pas dans le bilan de la Banque de France depuis le 1er Janvier 1924', ADPdD, 5 J 49. The banks utilized were most often the Banque de l'Algérie and the Banque du Maroc, but large advances required help from the commercial banks on 6 Mar. 1924 (700 million), 3 July 1924 (950 million), 1 Oct. 1924 (950 million), 31 Dec. 1924 (1,075 million), 5 Mar. 1925 (955 million), and 2 Apr. 1925 (650 million). On the difficulty in meeting Treasury payments at the beginning of Sept., see Moreau-Néret notes to Clémentel, 1 and 4 Sept. 1924; ADPdD, 5 J 49.

[35] Pierre de Moüy, 'Note pour le Ministre', 17 June 1924; and a longer 'Note pour le Ministre', 27 June 1924; MAE, PA-AP 089-Herriot/7. Cited in Édouard Herriot, *Jadis*, vol. ii, *D'une guerre à l'autre, 1914–1936* (Paris: Flammarion, 1952), 201–5; analysed in Schuker, *End of French Predominance*, 135–7, and Jeanneney, *La Faillite du Cartel*, 33–4.

[36] Clémentel speech in March 1927 to the Gauche démocratique du Sénat; reproduced in Édouard Herriot, *Pourquoi je suis Radical-socialiste* (Paris: Éditions de France, 1928), 119–38; quotes 123–6; cited with approval by Herriot, *Jadis*, ii. 205, who claimed Moüy's solution 'was not a national solution'.

[37] Jeanneney, *La Faillite du Cartel*, 40–2; and Schuker, *End of French Predominance*, 137–40, who concludes that 'economic ignorance, the exigencies of politics, and genuine conviction all played a part in determining the Cartel's financial strategy'.

on conceptions 'both false and harmful', and on 'hope for a financial miracle to fill the coffers of the Treasury, a miracle which did not come to pass, a miracle which could not come to pass'.[38]

Herriot met with Robineau on 2 June and was told of the indirect advances needed to meet Treasury payments.[39] Herriot and Clémentel nonetheless opted to work with the Bank to restore confidence and manage Treasury needs within the legal ceilings on the note circulation and Bank advances. This decision led directly to the financial and monetary troubles that would defeat Herriot's government, aggravate the fall of the franc, and eventually destroy the Cartel in July 1926.[40] To what degree can the Bank be blamed for the troubles that followed? Clémentel defended the Bank in December 1924 and in April 1925; even after the fall of the government, he and Herriot maintained that they had made the correct decision. Clémentel cited a letter from Robineau to demonstrate the Bank's loyal cooperation.[41]

The letter in question was a friendly letter, written in mid-July 1924 to 'Mon cher Ministre et ami', expressing Robineau's concern at the state of the Treasury and asking whether anything could be done to accelerate direct tax payments (in order to prevent further need for indirect advances), and reminding Clémentel that 'the peril of inflation, regardless of the insidious form in which it appears, is a threat of death to be avoided at any price'. The letter, quoted by Clémentel to show the helpful attitude of the Bank, is deceptive if considered in isolation. In the Conseil Général, Robineau had proposed an official letter to convey the Bank's 'very serious apprehensions' with regard to the situation of the Treasury, which had reached the legal limits on Bank advances and notes in circulation. 'It is this danger [the proximity to the legal limits] which, when the Treasury needs funds, depresses the exchange rate of the franc, and as a consequence compromises the placement of bonds, pushes up prices which increases public expenditure, and in the end risks, by this ineluctable interconnection [*enchaînement inéluctable*], rendering the situation inescapable.'[42] It was this 'enchaînement inéluctable' that Moüy had sought to avert with his policy recommendations in June. But on François de Wendel's suggestion, Robineau did not send this letter, out of concern for its potential consequences should it become known in London where Herriot and Clémentel were attending the London reparations conference.[43]

Clémentel's reply to Robineau's milder, unofficial letter revealed not only his disappointment, but a sense of betrayal. He had overcome his own pessimism and accepted the Ministry of Finance, he stated, largely on Robineau's counsel that the bleak financial situation could be improved by reassuring bond holders that they would not be subject to

[38] Philippe, *Le Drame financier*, 60–3. In Schuker's phrase, the Cartel 'embraced the most orthodox monetary policy possible' in choosing to work with the Bank of France rather than the Treasury. *End of French Predominance*, 139.

[39] Robineau agenda of meetings with Cartel, 2 June 1924 to 3 Apr. 1925; ADPdD, 5 J 45; and the longer version of this agenda, continuing to 29 Apr. 1925, in BdF, 1069198810/6. See also Moreau-Néret, 'Note pour le Ministre', 19 Aug. 1924; ADPdD, 5 J 62.

[40] Jeanneney, *La Faillite du Cartel*, terms this choice 'Le refus décisif', his title for ch. 2.

[41] Clémentel's explanation in Herriot, *Pourquoi je suis Radical-socialiste*; letter cited 124–5; typescript copy of letter in ADPdD, Clémentel Papers, 5 J 49.

[42] DCG, 17 July 1924.

[43] Ibid.

debt consolidation and by limiting Treasury outlays. He and Herriot had followed Robineau's advice to the letter, only to be told that the situation had not improved. 'You promised me a collaboration that I very much appreciate', he continued, 'which has not failed me in the month I have been in charge of public finances, a charge that I accepted only on your advice as a friend, so I believe I can permit myself to ask you, in this case, at this time when the financial destiny of the country is at stake: What would you do in my place.'[44] Robineau sought to soothe Clémentel in his next note, recording that Treasury accounts had improved and that he no longer foresaw great difficulty in meeting end-of-month payments.[45]

By opting to maintain 'confidence' within the straitjacket of the ceilings on note circulation and Bank advances, Herriot and Clémentel allowed the Treasury no margin to cover non-renewal of the floating debt. They also committed themselves to a position from which they could not retreat without loss of face and loss of credibility. Remarkably, the franc declined only slightly through 1924, from 82.5/£ in June to 86/£ in December (see Figure 4.1).[46] In November, the Clémentel loan (ten-year bonds issued at par, carrying a nominal interest rate of 5 per cent but reimbursed at maturity at 50 per cent over their face value, thus paying 8.6 per cent p.a.), pushed by the Bank of France in order to reduce the note circulation, was mainly subscribed with expiring debt, increasing the interest burden without reducing the note circulation.[47] The volume of BDNs outstanding rose slightly, from 56,343 million at the end of June to just over 57 billion, September to November. The published note circulation crept above 40 billions, ever closer to its legal ceiling, and the official level of Bank advances to the state varied within 500 millions of its maximum. The Bank pressed Herriot and Clémentel to reduce expenditures and repay Bank advances.

In early October, Robineau insisted it was 'absolutely urgent to find a remedy to our monetary situation, affected more and more by brusque variations in the exchange rate, and to the persistent and increasing difficulties of the Treasury, without which, the crisis we are now suffering, pushed to an acute stage, would become completely alarming'. Herriot and Clémentel agreed.[48] Robineau's urgency was prompted by a new development. Since March 1924 the Bank had manipulated its weekly balances to reduce the reported level of notes in circulation. The procedure had been initiated by Albert Aupetit, the Bank's general secretary, to prevent the rising note circulation adding to the problems of Poincaré's government.[49] The *faux bilans* (falsified balances) exploited the

[44] Clémentel to Robineau, 20 July 1924; ADPdD, Clémentel Papers, 5 J 49.

[45] Robineau to Clémentel, 23 July 1924; ADPdD, Clémentel Papers, 5 J 49.

[46] Néré attributes this success to the favourable psychological effect of a positive trade balance for the first time since 1875 and to British and American bankers hoping to keep Herriot in power to avoid his replacement by a leader with a less accommodating foreign policy; Jacques Néré, *Le Problème du mur d'argent: les crises du franc (1924–1926)* (Paris: La Pensée Universelle, 1985), 31–3.

[47] DCG, 2 and 9 Oct. 1924; Jeanneney, *La Faillite du Cartel*, 58–60; Moret, 'Note pour le Ministre', 20 Jan. 1925; ADPdD, Clémentel Papers, 5 J 62.

[48] Robineau report on meeting with Herriot and Clémentel in DCG, 2 Oct. 1924.

[49] Jeanneney provides a clear account in *François de Wendel*, 207–14. The week before the first falsified balance, Robineau called the regents' attention to the government's having in fact exceeded the note ceiling that week via indirect advances from commercial banks; DCG, 6 Mar. 1924. The press noted the 'certain action' of the increased note circulation on the exchange; see *Le Temps*, 9 Mar. 1924.

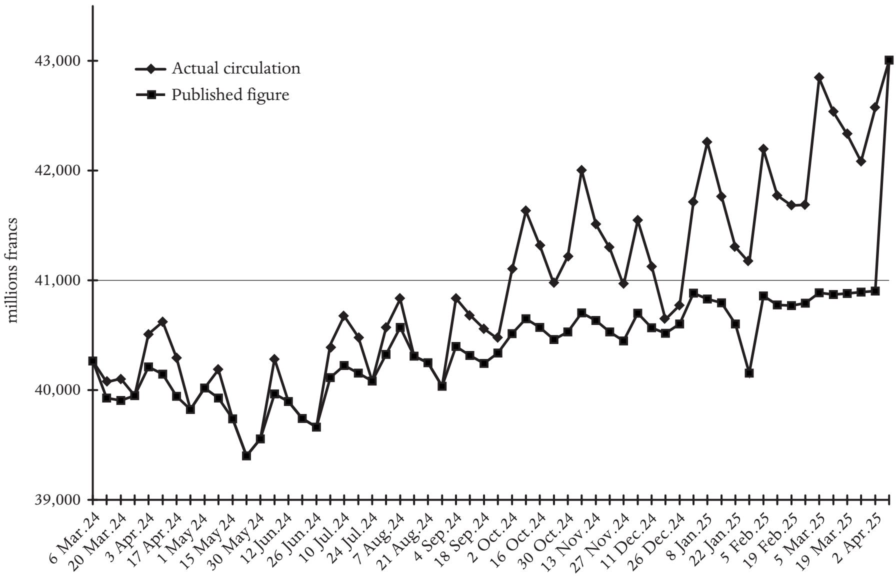


**Figure 4.2.** *Faux bilans, March 1924–April 1925 (millions francs)*

*Source*: Drouineau, 'Note sur les procédés employés par la Banque de France pour chiffrer le montant des billets en circulation', SAEF, B 18675.

fact that the weekly total was determined each Thursday by adding the notes at branches outside Paris at closing the previous Friday to those in Paris at closing on Wednesday. Accounting for notes in transit between branches and the central bank in Paris, and those sent to Clermont-Ferrand where notes withdrawn from circulation were destroyed, offered the opportunity either to neglect to count notes in transit or, the main stratagem employed, to anticipate the destruction of notes by subtracting them from currency in circulation before they were destroyed.[50] On 2 October, the uncounted notes totalled 566 millions, and put the actual (not the published) note circulation over its legal limit (see Figure 4.2).

Deputy Governor James Leclerc discovered the falsification at this point and insisted that Clémentel be notified.[51] Robineau's agenda of meetings with Cartel leaders records that he discussed the circulation with Clémentel on 8 October, with Clémentel, Ernest-Picard, and Leclerc on 22 October, with President Doumergue on 23 October, and with

[50] Drouineau, 'Note sur les procédés employés par la Banque de France pour chiffrer le montant des billets en circulation dans ses situations hebdomadaires', 9 May 1925, SAEF B 18675.

[51] Blancheton argues that Clémentel and Herriot were not told of the falsified balances until mid-December, in Blancheton, 'Trésor, Banque de France et politique monétaire', 266–7, 285. Leclerc told Wendel later that he had informed both Clémentel and Herriot in Oct. 1924; and Wendel suspected Robineau had told Herriot in July. Wendel, 'Conclusions à tirer de ma visite du 22 Mars 1932 à M. James Leclerc, Gouverneur du Crédit Foncier, 19, rue des Capucines, à Paris, sur l'affaire des situations inexactes de la Banque de France', 26 Mar. 1932; AN 190 AQ 20.

Herriot on 28 October.[52] Leclerc told Moüy of the problem on 3 November and said he would insist that Robineau inform the Conseil Général. If Robineau refused, he would go to Herriot and President Doumergue.[53] Moüy alluded to rumours that the note ceiling had been surpassed in a conversation with Clémentel on 5 November, and believed that Clémentel knew of the situation. Although Herriot and Clémentel were told of the *faux bilans* in early October, shortly after the legal ceiling for the note circulation was broken for the first time, they were not told that the procedure had been initiated in March 1924, and dealt with it as a problem specific to their time in office. Wishing to improve the Treasury's position with the Clémentel loan in November, which they hoped would reduce the note circulation sufficiently to resume honest accounting at the Bank, those in the know kept quiet.[54]

The Clémentel loan brought the note circulation back temporarily below the 41 billion ceiling. On 15 December, Clémentel called Leclerc to his office and offered him the post of Directeur Général of the Caisse des Dépôts et Consignations—perhaps an attempt to get him out of the way. Leclerc refused. Clémentel then met with Robineau, Aupetit, and Ernest-Picard. Robineau proposed that the government increase the note circulation by 2 billion francs 'pour le commerce'. Clémentel refused, stating that 'following my repeated declarations in the Chamber and the Senate, it is absolutely impossible for me' to propose any increase in the note circulation, a declaration which relieved Robineau. Even Moüy, who had pressed for such an increase in June, now thought it would be 'perilous for public finance'.[55] When Clémentel met with Robineau and Aupetit the next morning at Herriot's bedside, he declared he would resign rather than increase the legal limit on note circulation. Herriot proclaimed his complete accord, adding that 'anti-inflation was for him a religion, and that in these circumstances, he would rather leave office than adopt such a measure'. Robineau vowed that he, too, would resign.[56]

Robineau informed the Conseil Général on 18 December that the Bank's published balances understated the notes in circulation. The Clémentel loan, having reduced circulation slightly, had 'permitted for the first time to bring the total circulation back below the ceiling of 41 billions'.[57] He did not give full details, simply stating that the limit of 41 billions had been 'temporarily exceeded several times'. Regents assumed the falsification of balances had begun in an effort to deal with the rising note circulation under the Cartel des Gauches. François de Wendel, usually well informed, was shocked to learn in October 1930 that the *faux bilans* had begun not during the Cartel's tenure, which had been implied in Robineau's account, but in March 1924 under Poincaré.

The Bank's statement remained incorrect on 18 December, and would not show a true figure for notes in circulation until 9 April.[58] On 17 December, Clémentel named Moüy

[52] Robineau list of meetings with Cartel, ADPdD, 5 J 45 and BdF, 1069198810/6.

[53] According to Moret's account, Leclerc and Moüy agreed they would not tell Clémentel of their conversation. Moret, 'Note au Ministre, au sujet de la circulation des billets de banque en 1924 et 1925', 13 May 1925, SAEF B 18675.

[54] Moret, 'Note au Ministre', and Jeanneney, *François de Wendel*, 212–13.

[55] Clémentel, 'Visite de M. Leclerc le lundi 15 Décembre sur convocation', ADPdD, 5 J 49.

[56] Moret, 'Note au ministre'; Clémentel, 'Visite de M. Leclerc', ADPdD, 5 J 49; and Jeanneney, *François de Wendel*, 213–14.

[57] Jeanneney, *François de Wendel*, 208, and DCG, 18 Dec. 1924.

[58] On 18 Dec. the official notes in circulation understated the true figure by 127 million francs; statistics in the following discussion are drawn from the Ministry of Finance investigation of the *faux bilans* by inspector

the Directeur Général des Douanes (effective 17 January), a promotion carrying a clear loss of status.[59] *L'Action Française* blamed Jewish influence, particularly the banker Horace Finaly and Socialist leader Léon Blum.[60] Clément Moret, who succeeded Moüy as director of the Treasury, was told of the *faux bilans* officially at the end of February, although Moüy had given him 'unofficial indications' when he took charge.[61] Rumours circulated that Robineau would be sacked as well.

From this point in mid-December, knowledge of the *faux bilans* spread inexorably. Herriot and Clémentel had trapped themselves: having decided to defend 'the first trench' and resist inflation, and having colluded in covering up the breaking of the currency note ceiling since the beginning of October, they now needed a rapid resolution to the circulation problem before knowledge of the *faux bilans* spread. They were not aware that the procedure had begun before they took office.[62] Moüy's warnings of June 1924 were fulfilled with a vengeance: the limit on note circulation had proved impossible to honour, and the government's repeated disavowals of the 'inflation' he had recommended now made it impossible to accept the inflation that had already occurred. Herriot needed not only to prevent future inflation, but to reduce the note circulation to within its legal limit. The situation was made worse by Treasury need for indirect advances from the Bank, violating the spirit of the law setting the ceiling on advances. As Jeanneney notes, the chorus of resignation vows on 15 December was deluded: the inflation they vowed to resign rather than sanction had already taken place. The Bank of

Drouineau of 9 May 1925 and 15 May 1925, from SAEF B 18675. Drouineau was charged by Joseph Caillaux to report on the situation of the *faux bilans*, the Senate finance committee having requested 'des renseignements très précis' on the surpassing of the legal limit on note circulation and how it was concealed. Drouineau turned in three reports, dated 9, 15, and 19 May; Caillaux forwarded them to the Bank of France with a letter to Robineau in July; Robineau confirmed their accuracy. Caillaux to Robineau, 21 July 1925, Robineau to Caillaux, 13 Aug. 1925, and three notes by Drouineau are in BdF, 1397199403/150. Bertrand Blancheton provides a thorough explanation based on the Drouineau notes in 'Les Mécanismes des faux bilans de la Banque de France entre le 13 mars 1924 et le 2 avril 1925', *Études & documents*, 9 (1997), 455–70.

[59] Blancheton proposes the reason for this demotion was Moüy's failure to inform Clémentel of the falsified balances when he learned of them in November. But as shown above, Clémentel knew of the falsified balances, as Moüy correctly surmised on 5 Nov. It seems more likely that Moüy was to be transferred, and Leclerc offered a new position, in an effort to prevent news of the *faux bilans* spreading, Clémentel believing at this point that the circulation could be kept below its legal limit. Clémentel had told Moüy he planned to name him Directeur Général de l'Enregistrement during their conversation of 5 Nov., perhaps because Moüy's warnings in June were proving so well founded. For public suspicions about Moüy's transfer, see Blancheton, 'Trésor, Banque de France et politique monétaire', 266–7, and ministry insistence his transfer was a promotion in an undated note in ADPdD, 5 J 50; for Moüy's conversation with Clémentel, see Moret, 'Note au Ministre'.

[60] *L'Action Française*, 21 and 26 Dec. 1924; undated response denying allegations about Moüy's removal from the Treasury in Clémentel Papers, ADPdD, 5 J 50.

[61] Moret, 'Note au Ministre'.

[62] Clémentel learned this in July 1925 in talking to Senator Milliès-Lacroix, and had it confirmed by Aupetit. 'Note pour mon dossier relative à l'inflation', 2 July 1925; ADPdD, 5 J 52. Herriot was disingenuous, suggesting to the American economist Robert Haig that he had learned of the problem when the Senate Finance Committee was informed in late February 1925, but he clearly knew in December, and was probably informed by Robineau in October 1924. See correspondence between Haig, Herriot, and Clémentel in June 1930 in ADPdD, 5 J 66; Wendel believed Robineau had told Herriot in July, but Robineau's agenda shows no meeting with Herriot between 2 June and 17 October.

France had unintentionally created a powerful means of pressuring the government. Herriot and Clémentel, given their repeated declarations against inflation and their refusal to raise the ceiling on advances and circulation, were powerless to resist the tightening of a noose they had placed round their own necks. 'Never in the Bank's history has such influence on general policy been entrusted to the regents by a combination of circumstance and executive ineptitude.'[63]

At the end of December, Robineau specified that it was the responsibility of the government alone to rectify the situation, implicitly absolving the Bank for its primary role in the *faux bilans*. The regents discussed the measures to be undertaken by the Bank, then met with Clémentel to review the government's role. The triviality of these measures, and the weight attached to honouring the violated legal limit on notes in circulation by any means, are revealing of the mindset of the regents and the politicians alike. Developing the use of cheques was seen as '*incontestably the most effective* means to achieve a significant reduction in the note circulation'.[64] It would have no effect on the money supply or prices, but it would reduce the volume of notes in circulation. The Bank increased its discount rate to 7 per cent on 11 December after the Clémentel loan closed, 'the most effective means we can utilize', Robineau specified, 'to orient the financial market on a path of prudence and moderation'.[65] Since late November the Bank had sold foreign exchange, withdrawing from the market 700 million francs issued to purchase foreign exchange during the summer. By various further measures—reducing surplus funds in government accounts, returning notes from French banks abroad, issuing a new currency for Madagascar and an auxiliary currency for the French occupation of the Saar, and increasing the use of cheques—the Bank hoped to effect a further reduction. Wendel accurately termed the measures 'ineffectual palliatives'.[66] Perhaps the most improbable was a scheme to create certificates to encourage hoarders to deposit currency notes at the bank, 'as discreetly as possible, retaining the freedom to withdraw them on demand'.[67] Robineau recapitulated these measures in a letter to Clémentel, repeating the Conseil Général's unanimous conviction that 'no measure could be more harmful than to raise the legal limit on the note circulation. It would ruin the country's credit abroad and open the door to a progressive inflation that neither the government nor the Bank would be able to control'.[68] Clémentel promised tight control of expenditure and a reduction in payments to regions damaged by the war.

The Treasury's end-of-year payments increased the note circulation by 2 billions; the Bank's 8 January balance concealed over 1,400 million francs to keep the note circulation below the legal limit.[69] The Conseil Général sent a formal delegation of six regents to call

[63] Jeanneney, *François de Wendel*, 215; see also Prate, *La France et sa monnaie*, 90–2.

[64] DCG, 27 Dec. 1924; Clémentel's view, my emphasis.

[65] This increase was discussed on 6 Nov. and postponed to avoid adverse impact on the Clémentel loan. DCG, 6 Nov. 1924; Robineau to Clémentel, 29 Dec. 1924 in DCG of same date.

[66] Jeanneney, *François de Wendel*, 217.

[67] DCG, 27 Dec. 1924.

[68] Robineau to Clémentel, 29 Dec. 1924; Jeanneney, *François de Wendel*, 217. The letter, addressed to Clémentel personally, was not passed on to the Treasury until after Clémentel's resignation; Moret, 'Note au Ministre', 13 May 1925; SAEF, B 18675.

[69] Drouineau, 'Note', 9 May 1925; SAEF B 18675.

on Herriot. Baron de Rothschild, their spokesman, declared the Conseil Général 'cannot accept the prolongation of a situation as precarious as that in which it keeps finding itself caught': the Bank would support government efforts to restore the situation, but could not long tolerate the current state of affairs. Herriot promised to do all in his power to restore confidence: 'he will never consent to enter in the way of inflation, no matter what form it may take.' There was no question of altering the legal limit on the note circulation.[70] The Bank in effect absolved itself of responsibility for the *faux bilans* and insisted that the government restore order. When end-of-January payments increased the note circulation above 42 billion francs, Robineau warned that without quick government action to correct the situation, the weekly balance would reveal the excess circulation and require an increase in the legal ceiling.[71] Robineau composed his letter of resignation but was dissuaded from submitting it at this time.[72] Benjamin Strong would note later, without realizing Robineau's role in the *faux bilans* and believing he had submitted his resignation and had it refused, that 'a stronger man would have resigned' even if it had meant precipitating a crisis.[73]

The regent delegates saw Clémentel on 7 and 11 February; on 12 February they met with Clémentel, Herriot, and Robineau. They insisted that Herriot make a public statement in the Chamber of Deputies and take effective action to reduce the note circulation. On 10 February, Herriot and Clémentel revealed the *crevaison* to the presidents and reporters of the parliamentary finance committees; rumours spread thereafter, creating disquiet in the exchange market in late February. On 16 February, Herriot declared in the Chamber that 'No matter what the cost, we must seek the revalorization of the franc', and rejected all talk of devaluation.[74] But palliatives would not reduce the note circulation. Robineau informed Clémentel at the end of February that the Bank had done all in its power, and that only action by the government could restore confidence, reduce hoarding, assure Treasury resources, and improve the exchange rate in order to bring prices down. The Bank would publish a true balance on 5 March.[75] On an appeal from Herriot, Robineau granted a reprieve to the end of March.[76]

The excess circulation remained above 1 billion francs, and the decline of the franc foretold greater demand for currency, as authorities assumed that depreciation would increase domestic prices. On 12 March, Clémentel asked the Bank to support the franc in the exchange market with $30 million the Treasury transferred to the Bank (half of it drawn from the Morgan loan). Robineau stalled, claiming that action by the Bank would depend on the object the government had in mind. The $30 million were sufficient for only a limited action to moderate fluctuations, with little influence on the exchange and

[70] DCG, 14 and 15 Jan. 1925. [71] Robineau to Clémentel, DCG, 5 Feb. 1925.

[72] Jeanneney, *François de Wendel*, 221, 223.

[73] Benjamin Strong to Garrard P. Winston, 19 Aug. 1925; FRBNY, Strong Papers, 1000.6/2. Strong mistakenly believed that the regents, rather than the governor, had been responsible for the 'irregularities' in the Bank's balance. [74] Jeanneney, *François de Wendel*, 222; *JO Chambre,* 16 Feb. 1925, 900–1.

[75] Robineau to Clémentel, 26 Feb. 1925; DCG of same date and SAEF B 18675.

[76] Herriot to Robineau, 3 Mar. 1925, in DCG, 5 Mar. 1925.

none on the cost of living. Successful intervention in March 1924 had relied on greater resources and decisive state action to reduce the budget deficit.[77]

On 30 March Clémentel admitted that the circulation could not be brought below the legal limit and promised to introduce legislation raising the note ceiling.[78] Herriot decided to 'fall to the Left', introducing a capital levy proposed by the Socialists. Clémentel resigned rather than advocate the capital levy; Herriot and his new Minister of Finance, Anatole de Monzie, introduced a bill to raise the note ceiling and the limit on Bank advances by 4 billion francs. The *exposé des motifs* stated that the government was not so much taking a new initiative as accepting its responsibilities. 'The most important element in credit', it noted belatedly, 'is the truth. We are stating it completely.'[79] The truth condemned the Herriot government, which lost a vote of confidence in the Senate on 10 April. The Bank balance published the day before showed a note circulation 2 billion francs above its legal limit. Herriot announced to those on the Right as he left the Senate, 'Messieurs, c'est la bataille qui commence!' The battle was well under way, and the Cartel in full retreat.

Jeanneney has argued that Herriot and Clémentel's refusal to follow the advice tendered by Moüy in June 1924 was decisive: Herriot placed his head in a noose that the Bank then pulled tighter, strangling his government in April 1925.[80] Berstein replied that Jeanneney gave too much responsibility to Herriot, who did not have the freedom of choice implicit in Jeanneney's posing of the technical choice offered in June 1924: Herriot was a victim of 'mental constraints that weighed on him as on all his generation; a reverential respect for the intangibility of the value of the currency, which was a fundamental dogma for all French opinion'.[81] It is not his commitment to the *intangibility of the value of the currency* that is striking, however, but his refusal to consider raising the ceiling on note circulation. From his own statements one cannot distinguish whether he refused on technical grounds, misunderstanding the issues and thus making unsound decisions,[82] or whether he was obsessed with the political need to avoid an increase in the legal ceilings. When the president of the Senate finance committee, Raphaël Milliès-Lacroix, insisted in February that he raise the note ceiling by 3 or 4 billions, Herriot responded: 'I shall never do that: I would be dishonoured.'[83]

Berstein's admonition remains relevant, however, in that it was not Herriot's shortcomings that set the Cartel on its fateful course, but the widespread belief that French

[77] Robineau to Clémentel, 13 Mar. 1924, in DCG of same date; also in BdF, 1397199403/150.

[78] DCG, 30 Mar. 1925. [79] Cited in Lachapelle, *Le Crédit public*, ii. 231.

[80] Particularly in Jeanneney, *La Faillite du Cartel*, 134–43; the *lacet* metaphor is used in id., *François de Wendel*, 215.

[81] Serge Berstein, *Édouard Herriot ou la République en personne* (Paris: Presses de la Fondation Nationale des Sciences Politiques, 1985), 136.

[82] See the article 'M. Robineau fait à M. Herriot un cours sur les changes', *Les Nouvelles économiques et financières*, 27 June 1924; copy in ADPdD, 5 J 45, which recounts a meeting between Robineau, Herriot, and Socialist deputy Marius Moutet, in which Herriot was incapable of following Robineau's explanation of exchange markets.

[83] Recounted in the Senate discussion which preceded the vote of no confidence on 10 Apr.; cited in Lachapelle, *Le Crédit public*, ii. 248.

monetary and financial policy could restore the franc to pre-war parity. That belief would suffer repeated blows in the months to come, making the Poincaré stabilization possible when faith in restoration of the franc had been destroyed. Jeanneney does not argue that Herriot should have stabilized the franc in 1924, but that easing the legal constraints would have provided the Treasury with a greater margin for manoeuvre, possibly forestalling the crises and decline that followed. The *faux bilans* episode produced lasting damage to confidence in French monetary management; the note circulation as an indicator of the stance of monetary policy had been revealed as untrustworthy, the absolute character of the legal note ceiling had been broken.[84] The subsequent decline of the franc was virtually continuous, except during exchange market intervention to defend the franc from June to September 1925 and in late May 1926.[85]

The Bank contributed significantly to the fall of the Herriot government. Robineau encouraged Herriot and Clémentel in the course they followed regarding monetary and financial policy (Herriot praised the Bank's 'disinterested' assistance and noted the accord between his views and the Bank's),[86] and the Bank sought to guide public opinion in opposition to the Treasury's technical solutions intended to establish the conditions necessary for financial and monetary stabilization. The Bank's tolerance of the *dépassement* of the legal limit on Bank advances and notes in circulation, which so dismayed Wendel (he threatened resignation on the issue), demonstrated Bank tolerance for a government willing to follow its recommendations rather than those of the Treasury. The Bank exploited Cartel vulnerability, shunting the monetary problem into the lap of the government by a manoeuvre—the *faux bilans*—that Herriot and Clémentel initially welcomed as a means to prevent an all-but-inevitable increase in the legal note ceiling.

## 3. THE DISINTEGRATION OF THE CARTEL, APRIL 1925–JULY 1926

Herriot's successor, Paul Painlevé, chose as his Minister of Finance the one Radical with a reputation for financial ability: Joseph Caillaux. Despised by some as a wartime traitor, detested by others as the advocate of an income tax before the war, and personally opposed to the Socialist *baguette magique* of a capital levy, Caillaux was not a promising candidate to restore confidence. He quickly displayed his distaste for the current administration of the Bank of France, and the feeling was mutual.[87] Caillaux tried to remove Robineau in April 1925, a move blocked by President Doumergue; he succeeded when he returned to the rue de Rivoli in June 1926.

Cartel policy concentrated on eliminating the budget deficit, correctly judging it to be the fundamental cause of exchange depreciation, inflation, and the lack of confidence in

[84] Blancheton stresses the lasting influence, Apr. 1925 to July 1926, in 'Trésor, Banque de France et politique monétaire', 309–19.

[85] The intervention in 1925, explaining the stability of the franc through the summer, is revealed in Blancheton, 'Trésor, Banque de France et politique monétaire', 334–47.

[86] Cited in Lachapelle, *Le Crédit public*, ii. 237–8.

[87] Caillaux told the finance committee of the Chamber of Deputies, 'We have relinquished far, far too much power to the Bank of France in recent years.' Cited in Jeanneney, *François de Wendel*, 241.

French finance at home and abroad. Although the task had been largely accomplished by the Bloc National, the remaining deficit was significant for its influence on the short-term debt and hence confidence.[88] A capital levy, the Socialist remedy for the deficit, offered one potential solution to Cartel budget difficulties in February 1925; Léon Blum proposed it formally in late March. After Herriot chose to fall on this issue in April, Cartel governments were haunted by its influence as a threat causing capital flight.[89] Parliament voted the 1925 budget on 12 July, seven months behind schedule, leaving most reconstruction expenditures out of the budget to contrive a nominal surplus of 14 million francs; in the meantime the franc slipped steadily (Figure 4.1). The Treasury borrowed from the Bank of France as BDN subscriptions declined, and the note circulation climbed rapidly to its new, 45 billion franc limit. On 27 June, Caillaux increased the ceilings on advances and the note circulation by a further 6 billion francs. He threatened an increase of 7 to 9 billions, but yielded to Bank pressure. He also yielded to Wendel's insistence that consolidation of the floating debt be attempted by a new loan offering a *garantie de change*, a foreign-exchange guarantee against sterling.[90] Of the various explanations for the failure of this loan, the most persuasive is the relatively low rate of return: 4 per cent, rising marginally if the franc fell against sterling. This was the ministry's explanation in reviewing the loan failure: while the novelty of the *garantie de change* and calculation of the return it would bring discouraged subscription to the loan, longer-term government loans had fallen in price, increasing their return to from 7 to 10 per cent.[91]

The Treasury's incessant difficulties with the floating debt were of greater significance than the vague threat of a capital levy. Although there was no massive non-renewal of bonds (a good part of the decline of the short-term debt from a peak of 62 billion francs in August 1924 to 48 billion in November 1925 was via consolidation), it required only incremental non-renewals to provoke fears of inflation and severe difficulties for the Treasury. Russell Leffingwell, a partner of J. P. Morgan and Co., explained French difficulties at the end of 1925 by one factor: their reluctance to pay current interest rates. Their major loans, the 5 per cent Clémentel in 1924 and the 4 per cent Caillaux in 1925, had been offered on terms 'calculated to exaggerate apprehension as to the future'. The discussions of forced consolidation, a moratorium, and a reduction in interest rates made matters worse: 'Nothing could be more destructive of credit.' The statutory limits on the note issue and Bank advances were 'an absurdity' when France needed 'a definite policy

[88] Corrected budget figures shown in a memorandum prepared for Poincaré for debate on 1927 budget in SAEF, B 33985, show a much more substantial contribution by the Bloc National than the published budget figures; see Table 2.2.

[89] The threat of a capital levy is stressed by Alessandro Prati, 'Poincaré's Stabilization: Stopping a Run on Government Debt', *Journal of Monetary Economics*, 27, no. 1 (1991), 213–29, and its influence on interest rates in this period detailed in Pierre-Cyrille Hautcoeur and Pierre Sicsic, 'Threat of a Capital Levy, Expected Devaluation and Interest Rates in France during the Interwar Period', *European Review of Economic History*, 3 (1999), 25–56.

[90] Jeanneney, *François de Wendel*, 250–60.

[91] Note from Mar. 1937 in file F 9/7, AN 579 AP 65. For debate on reasons for the loan's failure, see Pierre Sicsic, 'Le Franc Poincaré a-t-il été délibérément sous-évalué?', *Études & documents*, 5 (1993), 265; G. Makinen and T. Woodward, 'A Monetary Interpretation of the Poincaré Stabilization of 1926', *Southern Economic Journal*, 56 (1989), 205; and Blancheton, 'Trésor, Banque de France et politique monétaire', 332–4.

to prevent by sound means further issues and advances'.[92] The interest rate on BDNs remained fixed while the Bank's discount rate and market rates increased.

> Until the French Treasury is dynamited out of this fantastic disregard for the elementary principles of finance and political economy, and becomes aware of the fact that like every other borrower, it must pay the market price for money, there can be no hope for the franc. If the franc does follow ... the course of the German mark, France and the world will have to thank for it, as much as anything, the sublime conviction of the French Treasury and most French financiers that the laws of public finance and political economy are not applicable to France.[93]

In Washington seeking a war debt settlement in October 1925, Caillaux was asked if the failure of his 4 per cent loan would not force him to raise interest rates. He replied, 'Ah yes, of course, but I cannot sacrifice industry to finance.' Morgans pressed him. 'The question is not of sacrificing industry to finance, or vice versa,' Leffingwell insisted, 'but of sacrificing both to paper money'.[94] When the Treasury consulted French bankers on whether to raise the interest rate offered on BDNs, the bankers advised unanimously against it: bond holders would see a rate increase as a sign that something was wrong, reducing subscriptions and renewals.[95]

Conflict within the Radical party over fiscal policy forced the Painlevé government to resign in October 1925, Herriot wishing to revive the capital levy, Caillaux adamantly opposed. The cabinets that followed from November to March tried to impose new taxes and balance the budget; resistance from the finance committee in the Chamber and from the Senate rendered the various projects ineffective. Georges Bonnet, Minister of the Budget in the next Painlevé government, found Robineau and the Bank regents completely unwilling to provide advice on the government's financial programme. When one regent suggested that it was necessary to restore confidence, hardly practical advice, Robineau rebuked him: 'You're going too far. We can affirm but one thing, that we are the soldiers of the franc and that we will get ourselves killed in the trenches for the franc.'[96] Although prices and the exchange rate held nearly stable in the first months of 1926, successive cabinets proved unable to pass sound fiscal legislation as successive Ministers of Finance after Caillaux were unable to rally parliamentary support for increased taxation.[97] 'Impotence!' declared *Le Matin* in mid-February; 'The proof is in that there is

[92] JPM&C to HM&C for Harjes, no. 63.470, 17 Dec. 1925; RCL, Box 3, folder 70. Harjes cabled back his 'Hearty congratulations on masterpiece'; MH&C to JPM&C, no. 84.043, 19 Dec. 1925; JPM 532C.

[93] Leffingwell for Harjes, 17 Dec. 1925; RCL, Box 3, folder 70.

[94] Leffingwell to Jay, 16 Oct. 1925; RCL, Box 4, folder 83.

[95] Strong to Winston, 19 Aug. 1925; FRBNY, Strong Papers, 1000.6/2.

[96] Georges Bonnet, *Vingt ans de vie politique 1918–1938: de Clemenceau à Daladier* (Paris: Fayard, 1969), 101–2; even if Bonnet is not irreproachable as a source, the similarity to Herriot and Clémentel's claims to defend the first trench is revealing as metaphor, for their determination to fight to the death clearly surpassed their knowledge of how to defend the trench.

[97] Robert Murray Haig, *The Public Finances of Post-War France* (New York: Columbia University Press, 1929), 124–37, and Lachapelle, *Le Crédit public*, ii. 261–7. See also Keynes's well-known 'Open Letter to the French Minister of Finance (whoever he is or may be)', *Essays in Persuasion* (London: 1931), written in Jan. 1926.

no majority to vote any tax, whether it be direct or indirect.'[98] The Cartel was crumbling, with an increasing number of Radicals looking to solutions from the Right and the capital levy urged by the Socialists becoming less and less acceptable.[99]

When Raoul Péret took over as Minister of Finance on 9 March 1926, no one expected him to last longer than his immediate predecessors. He adopted much of the programme on which Paul Doumer had just fallen, reintroduced the *carnet de coupons* to tax securities, increased the turnover tax the Cartel had pledged to remove, and introduced a 'voluntary contribution' in the naïve hope that public spirit would fill Treasury coffers when increased taxes did not. The threat of political instability overshadowed budget details as Péret introduced his budget: 'The political balance the government has achieved in the Chamber is as unstable as the budget balance', observed *Le Temps*. 'Both are like children's sand castles at the beach. A grain of sand could make the entire edifice crumble.'[100] Péret survived to pass a budget nominally in balance, on 27 April, and to oversee the signing of the Mellon-Bérenger war debt accord on 29 April. He hoped that these events would produce a 'natural stabilization' of the franc. It continued to decline: *Le Rentier* noted that the government having voted 5 billions in new taxes to balance the budget was greeted with a new fall of the franc.[101] The cumulative effects of political instability, fiscal uncertainty, continuing difficulties in rolling over floating debt, and the weakening of the franc rendered all Cartel management suspect; the credibility of Cartel leadership was the major concern. With the budget balanced and war debt settlements imminent, contemporary observers well versed in finance saw the key problem as political. When Herman Harjes took Morgan partner Thomas Lamont to call on Péret, Robineau, Jean Parmentier, and leading French bankers in mid-April 1926, they all attributed the continuing decline of the franc to political uncertainty.[102]

The Bank of France and the Treasury both suspected that foreign speculation might be responsible for the franc's decline. Morgans in New York, however, in response to a query from Clément Moret (director of the Treasury, 1924–8), reported by cable that there was no sign of speculative movement against the franc. They attributed its continuing weakness to the 10 billion franc increase in the note issue in the past year, and to fears that further increases would be needed to cover floating debt maturities. Progress on the budget and war debts left the floating debt as the critical difficulty to be resolved.[103] Discussing the Morgan cable with Robineau, Harjes agreed with their assessment, but saw 'nearly insurmountable difficulties' in the prevailing political uncertainty and the disagreement between the Bank of France and the commercial banks. The Bank opposed increasing the note circulation 'under any circumstances' while commercial banks opposed debt consolidation. Harjes, concluding there was no prospect for co-operation among the banks nor for development of a 'comprehensive plan' including

[98] *Le Matin*, 16 Feb. 1926, cited in Philippe, *Le Drame financier*, 89.

[99] See Gregory C. Schmid, 'The Politics of Currency Stabilization: The French Franc, 1926', *Journal of European Economic History*, 3, no. 2 (1974), 360–9.

[100] *Le Temps*, 3 Apr. 1926.

[101] Cited by Marguerite Perrot, *La Monnaie et l'opinion publique en France et en Angleterre de 1924 à 1936* (Paris: Librairie Armand Colin, 1955), 151.

[102] MH&C to JPM&C, no. 84.171, 14 Apr. 1926; JPM, 532C.

[103] JPM&C to MH&C, no. 63.634, received 17 Apr. 1926; JPM, 532C.

stabilization of the franc on gold, predicted 'inaction and a consequent further decline [of the franc]'.[104]

To the Morgan bankers, the situation seemed ripe for stabilization. The budget, balanced on paper, depended critically on maintaining the exchange rate: depreciation of the franc would increase foreign debt obligations and raise domestic prices, fuelling demand for higher wages.[105] Fear of monetization of the floating debt was seen as the main factor in the flight of French capital. A plan to stabilize the franc and consolidate the floating debt was essential to preserve Péret's progress with the budget. This required co-operation between the Treasury, the Bank of France, and the commercial banks (who stood to lose commission earnings on renewals of floating debt), and co-operation was not forthcoming. The Bank, the Treasury, and the minister each worked with a different end in mind. Péret's concerns were short-term and political, seeking to maintain the franc and preserve the Morgan loan to prevent the government falling on either count. The Treasury favoured intervention to support the franc; its views on ultimate stabilization are not clear. The Bank opposed intervention and had no intention of proposing or assisting any plan for monetary stabilization: with the Cartel floundering, it had no reason to provide more than minimal assistance to a government it disliked. It retained its conviction that the underlying problem was inflation, to be solved by repayment of the Bank's advances to the state.

When the Chamber of Deputies recessed after passing the budget, Péret's main preoccupation was to prevent deterioration of the financial and monetary situation as the franc continued to fall. He asked the Bank of France whether market intervention could be undertaken; he was told that the proceeds of the Morgan loan, $89 million, were sufficient for no more than a temporary improvement of the exchange rate.[106] Robineau asked Harjes and Lamont for their opinion on use of the Morgan funds; they advised against in the absence of a comprehensive plan for stabilization.[107]

In early May, Péret asked again that the Bank consider use of the Morgan loan and prepare to negotiate a further credit, for 'The circumstances seem to me to warrant intervention in the very near future.' Robineau responded that if the government wished a temporary intervention, the Bank would use the Morgan funds for this purpose, but it could not raise the franc by more than a few points, to be lost when intervention ended. 'Will we not risk losing, without any real benefit to the country, a notable part of the exchange reserves which, when the time is right, would aid us in restoring the value of our currency?' If, on the other hand, the government wished to undertake action to assure this recovery, present conditions made successful intervention unlikely.[108]

[104] MH&C to JPM&C, no. 84.183, 21 Apr. 1926; JPM, 532C. Harjes forwarded the cable to Thomas Lamont as well, stating 'I read the Riot Act to our friends, but frankly I am most discouraged over their inactivity'. Harjes to Lamont, 21 Apr. 1926; JPM, 532C.

[105] The precariousness of the budget balance was explained by Bokanowski on 25 Apr. 1926; see the summary by Herrick in Herrick to Sec. of State, 30 Apr. 1926; RG 59, 851.51/814.

[106] DCG, 20 Apr. 1926.

[107] MH&C to JPM&C, no. 84.203, 30 Apr. 1926; JPM, 532C; also in TWL, 172-28.

[108] Péret to Robineau, 6 May 1926; Robineau to Péret, 6 May 1926; in DCG, same date. Blancheton shows Péret's initiative to have been prompted by Clément Moret in a note of 5 May 1926 from SAEF, B 33198; Blancheton, 'Trésor, Banque de France et politique monétaire', 371–2.

Five days later, Péret nonetheless asked the Bank to open discussions with the Federal Reserve Bank of New York for a credit of $100 million, using the Bank's gold reserve as guarantee. Robineau refused. The regents insisted that a foreign credit backed by Bank gold would damage the credit of the French franc, which it was the Bank's 'essential mission' to safeguard.[109] Péret dispatched Jean Parmentier to London to see Benjamin Strong, who was in London to testify before the Royal Commission on Indian Currency and Finance at the start of a summer spent in Europe. Strong refused to discuss credits except with the Bank of France.[110] Péret brought senior Bank of France officials to London; after meeting with them, Governor Montagu Norman recorded that they had nothing to propose or discuss, having accompanied Péret at his request 'with no instructions or expectations'.[111] Strong and Norman both opposed any credit before France had worked out a 'thoroughgoing program of financial and monetary reform' including co-operation from the Bank of France and the commercial banks.[112] Morgans turned down requests from Péret for credits of $75 and $100 million, noting that he had no plan beyond bringing the franc back from 148 to 135 frs./£ before parliament resumed session.[113] When Péret tried Kuhn, Loeb and Co., and Dillon, Read and Co., word got back to Morgans immediately, and Lamont was outraged.[114]

Unable to obtain credits abroad, Péret called Robineau, the deputy governors, Baron Rothschild as the most influential regent of the Bank, the directors of the Treasury, and several private bankers familiar with the exchange market to meet at the Ministry of Finance on 15 May. Péret presented his case for intervention: letting events take their course could lead to 'the worst consequences', while trying to oppose the downward trend of the franc with co-ordinated interventions could prevent further deterioration. The private bankers and the Treasury favoured intervention, the Bank of France opposed. Robineau argued that crises abroad were forcing monetary authorities to sell francs to support their own currencies; intervention would merely exhaust dollar and sterling reserves without altering the situation.[115] He concluded the remedy for the flight of French capital, the main factor depressing the franc, lay in the hands of the government. Péret asked the regents to reconsider the matter two days later; they remained firm. Rothschild summed up the Bank's position: 'The day we are sure that neither the

[109] DCG, 11 May 1926.

[110] Parmentier's report to Péret is cited at length in Lachapelle, *Le Crédit public*, ii. 269–70.

[111] Norman diary, 18 May 1926; ADM20/15, and see Turner, *Cost of War*, 220.

[112] Strong to Pierre Jay, 9 May 1926; Norman to Strong, 19 May 1926; R. B. Warren, 'Conversation with Monsieur Péret', 19 May 1926; FRBNY, Strong Papers, French Situation files.

[113] T. W. Lamont and H. H. Harjes to JPM&C, no. 84.211, 3 May 1926, and no. 84.214, 10 May 1926; Lamont to Clarence Dillon, 13 May 1926; in JPM, 532C. Also Strong to Harrison, 15 May 1926, FRBNY, Strong Papers, French Situation files.

[114] 'At first, the Dillon episode got my goat tremendously. I just felt like raising hell with Everybody, smashing Peret in the nose, kicking Clarence in the stomach, throwing Logan over the Tour Eiffel. Then on second thoughts I calmed down. I don't see how Dillon can do worse than mess up a bad situation.' Lamont to Harjes, 13 May 1926; JPM, 532D.

[115] Robineau claimed that Parmentier shared this view, having just returned from London and conversations with Strong, Norman, and City bankers; but Parmentier's note argued that intervention would be ineffectual *if it was not accompanied* by a definite plan for financial and monetary stabilization.

government nor parliament will give in to the deadly facility of inflation, no matter what the pretext, our money will recover on its own and confidence will be reborn.'[116]

On 19 May, the regents met with Péret, Briand, and Doumergue at the Elysée Palace to discuss support for the franc, in imitation of the 9 March meeting that had led to the successful counter-attack in 1924. The franc had fallen to 162.50/£ and the financial press awaited intervention, criticizing government inaction.[117] In the meeting, Bank views were expressed by Robineau, by Rothschild (representing the bankers), and by Wendel (speaking for the industrialists). Robineau invoked the views of Governor Strong, who had met him and Péret earlier that day: intervention could produce no more than a temporary effect on the franc, and engaging the Bank's gold could alarm opinion causing further depreciation of the franc. He took pains to distinguish the current run on the franc from that resulting from foreign speculation in March 1924. The flight of French capital was due to

> worry by the possessing classes about the security of their holdings. From all sides we hear reports of the exodus of French capital to regions where there are believed to be guarantees against excessive taxation and confiscation. In sum, French fortune is seeking exile rather than assisting in national defence. That is the serious problem.

Rothschild agreed only momentary relief could be obtained by exchange market intervention. Lasting results required an attack on the fundamental problem: the threat of inflation, which, despite the balanced budget, would remain so long as parliament and the country had not accepted the subordination of all other considerations to improving the situation of the franc. The principles to be followed? 'No more inflation—no *plafond unique* [a single ceiling for the combined total of floating debt and currency in circulation]—no arbitrary and artificial stabilization.' Wendel called for 'a clearly deflationary policy', despite the difficulties it would mean for French industry: 'reduced domestic consumption—a closing of foreign markets—a crisis in production, certainly—an unemployment crisis, perhaps.' These short-term difficulties had to be confronted and overcome. Inflation was 'a danger infinitely more serious, which we must avert at any price'.[118]

Surprisingly, given the strength of Bank views just stated in opposition to intervention, Wendel concluded that in recent days the exchange market showed clear signs of speculation. He proposed using the Morgan loan for market intervention as long as there was no question of using Bank gold to defend the exchange or guarantee a foreign credit, and Robineau and Rothschild agreed. Here the Bank's actions become controversial. From 21 May to 2 June, $56 million of the Morgan funds were used to bring the franc back from 178 to 150/£. When intervention was suspended, the franc fell, and continued to fall (see Figure 4.3). Was the Bank of France to blame for the failure? Péret resigned on 15 June, making a clear reference to the Bank's refusal to provide aid the government had a right to expect. Raymond Philippe, closely involved in the exchange intervention

[116] DCG, 17 May 1926; see also Philippe, *Le Drame financier*, 96–8.

[117] To Péret's claim that the country could have absolute confidence in the energy of the government, *L'Avenir* riposted: 'The energy of the government? Where is the government? . . . Around the dying patient [the franc], the doctors stand with folded arms.' *L'Avenir*, 19 May 1926.

[118] DCG, Annexe au procès-verbal de la séance du 20 Mai 1926.

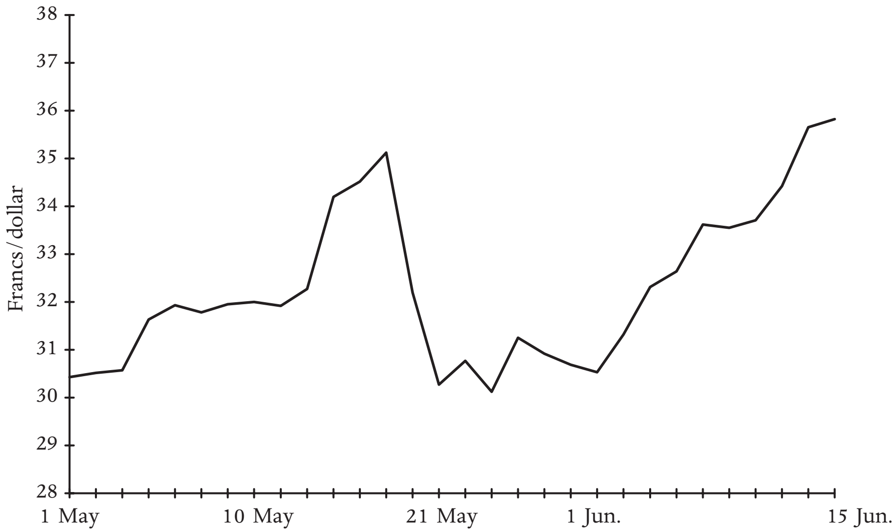


**Figure 4.3.** *Franc/dollar exchange rate, 1 May–15 June 1926*

*Source*: Dulles, *The French Franc*, 476–7.

managed by Lazard Frères, blamed the Bank, stating that Lazards' actions had been based on a verbal commitment from Robineau that he would convince the Conseil Général to negotiate a foreign credit if needed, which the Bank refused to honour.[119] Jeanneney claimed Lazards intervened on 19 May to cover their own speculation that the franc would appreciate, and pushed intervention to recover their funds.[120]

Péret had asked on 20 May that the Conseil Général state whether, in the event that greater funds than the Morgan loan were needed, the Bank would provide a greater *masse de manœuvre* by ceding gold for foreign exchange or negotiating a credit guaranteed by gold. The regents refused.[121] Briand insisted the government was asking the Bank to fulfil its assigned role: in the face of attacks on the franc the Bank could not stand idly by. Robineau replied that with the Morgan loan, the government possessed greater funds than had been used in March 1924, and that under current conditions any amelioration of the exchange rate would be temporary. Any credit based on gold would mean loss of the gold, 'a damage much more profound and irreparable'.[122] Philippe claimed that Robineau

[119] Philippe, *Le Drame financier*, 96–104.

[120] Jeanneney, *François de Wendel*, 285–90, quoting Wendel (290) that 'The Lazards are in a panic; they've botched their speculation and are exerting, with all those gravitating around the ministries, formidable pressure on Briand and Raoul Péret in order to recover their money.' Blancheton discusses the logic of Lazard's intervention in 'Trésor, Banque de France et politique monétaire', 375–9.

[121] DCG, 20 May 1926.

[122] Briand to Robineau, 20 May 1926 and Robineau to Briand, 21 May 1926, in DCG, 21 May 1926.

promised to try to persuade the regents to negotiate a credit, but even had he done so, given the regents' views he would have had little chance of fulfilling the promise.[123]

American bankers, too, sharply criticized the Bank's behaviour at this juncture, and their records show the reason. As in March 1924, defence of the franc depended on co-operation between the Bank and the government and on governmental action to demonstrate its commitment to ending inflation. On 26 May, Péret announced he would appoint a committee of experts to formulate a programme for financial and monetary stabilization. This marked a clear break: such a committee could only inspire confidence if weighted with bankers and proffering solutions acceptable to the Right. Robineau hoped the committee would decisively alienate the Cartel's Socialist support.[124] Deputies on the Left protested the removal of parliament's powers 'to the profit of a Committee of bankers' and the government placing itself in the hands of 'secret powers'.[125] Herriot and Radicals opposed to any effort to draw support from politicians further to the Right saw the undertaking as ominous.[126] Briand drew support from the Right to survive financial questions in parliament on 27 May and a vote of confidence on 1 June: the Socialists voted against him and a majority of Radicals abstained.[127] The committee members, announced on 31 May, included economists, representatives of industry and commerce, bankers, and Bank of France Deputy Governor Ernest-Picard.[128]

For American bankers the committee marked a fundamental change, as did Péret's announcement that the government would give priority to the franc and introduce no new fiscal innovations (that could damage confidence). Péret told Harjes on 22 May that after 'very arduous negotiations' he had the Bank's full co-operation: although the Bank would not use its gold for a credit, it would make foreign exchange available if necessary.[129] Robineau and Picard confirmed they were working in complete harmony with

[123] Blancheton suggests that Philippe misunderstood Robineau's undertaking, which was simply to represent the ministry's views to the regents; Blancheton, 'Trésor, Banque de France et politique monétaire', 377.

[124] Harjes to JPM&C, no. 84.274, 26 May 1926; JPM 532D.

[125] The deputies in question were Vincent Auriol and Bertrand Nogaro; see Herrick to Sec. of State, no. 6357, 28 May 1926; RG 59, 851.51/827.

[126] Serge Berstein, *Histoire du Parti radical*, vol. i, *La Recherche de l'âge d'or, 1919–1926* (Paris: Presses de la Fondation Nationale des Sciences Politiques, 1980), 426–7.

[127] Alfred Cameron reported that some Radicals wishing to support the government were unable to do so on 1 June because Radical party leaders had hidden their ballots! Alfred D. Cameron, 'Committee of Experts for French Finance', 3 June 1926; RG 59, 851.51/827; and Herrick's analysis of voting patterns, commenting on disintegration of the Cartel in Herrick to Sec. of State, 4 June 1926; RG 59, 851.51/826.

[128] The committee was chaired by Charles Sergent, former director of the Treasury and deputy governor of the Bank of France; the other members were Ernest-Picard, Émile Moreau of the Banque d'Algérie; economists Gaston Jèze and Charles Rist; René Duchemin (CGPF), Étienne Fougère (Association Nationale d'Expansion Économique), Henry de Peyerimhoff (Comité des Houillères), and five other bankers: Masson (Crédit Lyonnais), Lewandowski (Comptoir National d'Escompte), Simon (Société Générale), Oudot (of the Banque de Paris et des Pays-Bas, in place of Horace Finaly), and Philippe. Their letters of appointment are in SAEF, B 32315.

[129] Harjes and Jay to Lamont, 22 May 1926; JPM 532D. Herrick reported to Washington that the French government and the Bank of France had reached an accord on 22 May by which 'the Bank, without actually surrendering any gold or pledging it directly, would place 500,000,000 francs gold at the disposition of the government if other resources proved insufficient'. Herrick to Sec. of State, 28 May 1926; RG 59, 851.51/823.

Péret, but specified they had no wish for a credit, with or without a gold guarantee.[130] Two developments now damaged the effort to defend the franc.

First, in agreeing to intervene, the Bank had recognized the need to demonstrate complete accord between the Bank and the government: visible discord could prove devastating to defence of the franc. There seems to have been an understanding that the government could hint at greater resources than the Morgan dollars, but when this led to claims that the Bank of France had engaged its gold reserves to guarantee intervention (in *Le Quotidien*), the Bank protested, and mobilized the press open to its influence to argue against any commitment of the Bank's gold.[131] The conflicting arguments in the press, which swung sharply to the advantage of the Bank, revealed the lack of solidarity between government and central bank, and increased Bank determination to safeguard its reserves.

Second, the Bank refused to negotiate a foreign credit to support the franc. Robineau did ask if Morgans would offer a loan to the French government to supplement the dwindling Morgan funds. Harjes warned that because France had not ratified its war debt agreement this could not be done for the government, but he suggested arranging a loan to the Bank. Robineau claimed this was impossible: it would amount to a pledge of the Bank's gold. Were Morgans to suggest this, it might place the Bank 'in a most embarrassing position'.[132] When Robineau asked about a third party credit, Harjes replied that this would amount to a government obligation, which was impossible. Only a credit to the Bank would work.[133]

Later that day, Harjes learned of a 'serious misunderstanding'. The government had asked the Bank to request a central bank credit, not a loan to the government. Briand, 'much surprised' that the Bank had not done so, promised to pursue the matter immediately. Moret advised Briand that the critical moment had been reached to turn the situation in the market and route speculators as had been done in March 1924.[134] Harjes dashed off a cable warning Morgans in New York to expect a request for a credit to the Bank of France, and recommended that 'if we receive such a request we should be in favour of granting it but of course without any pledge of gold as we are sure that this could not be obtained and furthermore would not be consistent with our advice to them'. He stressed the progress in recent days with the appointment of the committee of experts and the strong government stance on its fiscal programme.[135] New York suggested a bank credit of three to six months 'to bridge over the interval until definitive action can result' from the experts' programme. They suggested a credit secured by Treasury bills, with a promise of gold shipment if no other means of payment were

130 Harjes to JPM&C, no. 84.270, 25 May 1926; JPM 532D.

131 Wendel to Robineau, 22 May 1926, in DCG, 27 May 1926; Jeanneney, *François de Wendel*, 290–3; Philippe, *Le Drame financier*, 102–3; and Blancheton, 'Trésor, Banque de France et politique monétaire', 378–9.

132 Harjes to JPM&C, nos. 84.274 and 84.275, 26 May 1926, and no. 84.277, 27 May 1926; JPM, 532D.

133 Harjes and Jay to JPM&C, no. 84.287, 31 May 1926; JPM, 532E.

134 Blancheton, 'Trésor, Banque de France et politique monétaire', 379–80.

135 Harjes to JPM&C, no. 84.290, 31 May 1926; JPM, 532E. Harjes concluded, 'In this whole matter it looks to us as if the Banque de France have been endeavoring to avoid placing themselves in the position of pledging their credit even at the risk of putting us in a false position vis-à-vis the Government.'

available at maturity. Briand liked the proposal; he believed the announcement of the credit would have an enormous psychological impact.[136]

The Bank refused to undertake any such credit, which would implicitly engage its gold reserves. When Péret asked formally that the Bank negotiate a credit on 2 June, Robineau protested that the timing was inopportune, that the psychological effect was doubtful, and that effective intervention required a massive return of confidence.[137] Péret insisted the credit's purpose was 'to demonstrate to the public the solidarity of the Bank and government in defence of the franc'.[138] Clearly, this solidarity did not exist, and the Bank was unwilling to pretend that it did. Harjes found Robineau 'discouraged and reluctant to assume any kind of responsibility', repeating that any Bank credit would amount to a pledge of gold. Exasperated, Harjes told him that he 'could not understand how they could expect foreign bankers to make a loan to their Government if they themselves were not willing to do so'.[139] Without new reserves, intervention ended on 2 June and the franc fell back below its mid-May level.

From 2 to 5 June Péret and Briand appealed repeatedly to the Bank for assistance. When Péret asked what more the government could do to restore confidence, Robineau replied that the Conseil Général could not substitute for the committee of experts, which had been appointed to determine the government's programme.[140] The government would have to wait for the experts' report. The experts, with the exceptions of Picard and Gaston Jèze, urged continuing support for the franc while they developed a stabilization programme, but further intervention was impossible without the support of the Bank. On 15 June Péret resigned, the franc at 175 / £, stating that the fall of the franc could have been arrested 'if certain aid on which we had a right to rely had not failed us'.

Harjes blamed the Bank of France explicitly, as did Jules Simon of the Société Général and Jean Parmentier. 'All our friends seem to be disgusted with the attitude of the Bank of France,' he reported; the lack of co-operation between the Bank and the government rendered the prospects for improvement dismal without 'a complete change in the Direction of the Bank of France'.[141] Parmentier thought the Bank's treatment of Péret 'perfectly disgraceful', intervention having been based on a promise from Robineau to obtain an American credit if needed. The Bank had 'left the Government in the lurch, stabbing it in the back'. At the same time, it had paid 'lavishly' for daily articles in the press to oppose the use of Bank reserves to obtain a credit. The committee of experts had been outraged at the Bank's irresponsible behaviour, and nothing constructive could be accomplished until Robineau and Aupetit were removed.[142] These observations were made after Harjes's initial anger had cooled. In the heat of the moment, he attacked the Bank directly:

> It is quite impossible for me to understand to-day how the Bank of France after having brought the Government to take the stand which it has now taken, by the appointment of a Committee of Experts and by the public declaration of its policy, if it believes that a credit of $100,000,000 by America is advisable for psychological effect, etc., is not willing to help out sufficiently to ask for a

[136] JPM&C to MH&C, no. 63.730, 2 June 1926; Harjes to JPM&C, no. 84.293, 2 June 1926; JPM, 532E.
[137] DCG, 3 June 1926. [138] Péret to Robineau, 4 June 1926, DCG of same date.
[139] Harjes to JPM&C, no. 84.295, 3 June 1926; JPM 532E. [140] DCG, 5 June 1926.
[141] Harjes to Lamont, 9 June 1926; JPM 532E. [142] Harjes to Lamont, 22 June 1926, TWL, 113–15.

credit itself, the Government being unable to obtain it otherwise. If I thought that they refused to do this because of any legitimate reason . . . it might be different, but I am as convinced as can be that they have no sound reason and simply don't want to do *anything* or take the slightest responsibility towards any programme.[143]

Even Benjamin Strong, previously sympathetic to the Bank of France and supportive of Robineau, came to see Bank leadership as obstinately opposed to necessary monetary reforms.[144] His assistant, Robert Warren, reported from Paris that

the Bank is unable to render effective aid in any program of monetary reform. It has no plan of its own, except to hoard its gold; it has no machinery to make a plan effective if it had a plan; and no will to demand from the Government the modifications of its relations which would enable it to function as a true central bank. . . . I cannot disguise my conviction that financial reform in France should begin with the Bank of France.[145]

Jeanneney has argued that the Cartel allowed France to fall into a state of 'shameful dependence' on American financial aid, with American diplomats and bankers in agreement that the Cartel could not restore the order needed in French finance.[146] The Morgan records suggest otherwise. The 'Anglo-Saxon bankers' agreed that with the budget roughly in balance and significant progress on war debt settlements, the French needed a comprehensive plan to stabilize Treasury short-term finances and the franc. Morgan bankers saw Péret as a weak minister, but the committee of experts seemed to promise a sound basis for stabilization if the Cartel could survive in parliament, and Leffingwell was emphatic that the franc should be stabilized on gold. Rather than using American financial power to oversee policy in France, Morgan bankers advocated withholding American financial resources when France sought foreign credits only to prolong domestic mismanagement. Leffingwell had earlier proposed a tripartite stabilization plan to revive the old Latin Monetary Union for the French, Belgian, and Italian currencies, optimistic that such an operation was feasible in late April. The Bank of France opposed the plan, and American hopes that Péret could be persuaded to impose it were overtaken by events.[147] Leffingwell urged use of French gold to support the franc:

These existing resources of the Bank of France are so stupendous that they make any possible foreign loans or credits look trivial. And the extent of the internal debt of France is so stupendous still that any imaginable foreign loans or credits would be hopelessly inadequate to deal with the situation. France must believe in herself and in her ability to solve her own problems and must be

143 Harjes to Leffingwell, 7 June 1926; JPM, 532E; Harjes also feared that Picard would cripple the efforts of the committee of experts.

144 See Strong to George L. Harrison, 5 July 1926, Butler Library, Columbia University, George L. Harrison Papers (GLH), Box 15.

145 R. B. Warren, 'Memorandum', 24 June 1926; FRBNY, Strong Papers, 1000.7.

146 Jeanneney, *La Faillite du Cartel*, 127–8.

147 Leffingwell proposed reviving the Latin Monetary Union, taking advantage of prospective war debt settlements to make a co-operative effort to stabilize the French and Belgian francs and the Italian lira at a ratio of $5\frac{1}{2}$ or 6 francs to one pre-war franc. His suggestion was relayed in JPM&C to MH&C for T. W. Lamont, no. 63.641, 22 Apr. 1926. Lamont suggested a strategy for persuading French politicians (Robineau would not act on such a plan) (MH&C (Lamont) to JPM&C for J. P. Morgan, no. 84.194, 28 Apr. 1926). Lamont and Harjes drafted a cable for Henry Bérenger, who had just completed negotiation of the Mellon–Bérenger debt accord, to send to Briand claiming that the Leffingwell plan offered an opportunity to realize 'a financial Locarno in

willing to use the resources she has already instead of hoarding them like a jibbering old miser dying of starvation.[148]

Pierre Quesnay attributed important influence over Bank policy to Albert Aupetit, the Bank's general secretary, who believed the French would not accept the sacrifices required for stabilization. The franc would go the way of the mark, and Aupetit intended 'at all cost to keep his reserve of some 4 billions of gold francs, with a view to making it the basis of the circulation after the crash'.[149]

Péret's resignation was followed by that of the Briand government. A new Briand government formed after prolonged negotiations with Caillaux as Minister of Finance and vice-premier. Caillaux removed Robineau and appointed Émile Moreau in his place. He shunted Picard to Moreau's former post as governor of the Banque de l'Algérie, promoted Leclerc to first deputy governor, appointed Charles Rist second deputy governor, and dismissed Aupetit. Harjes was delighted. Rist was reputed to be the most able member of the committee of experts; the changes would overcome Bank obstruction of serious monetary reform.[150]

Poincaré had called for a government of Union Nationale in the Senate session that defeated Herriot in April 1925, and the need for political co-operation to face France's financial and monetary crisis had gained ever-wider acknowledgement. Péret's letter of resignation attributed the flight from the franc to political instability and called for a reconciliation of parties to restore confidence: 'Only a ministry of Union Nationale will be capable, in their eyes, of assuring the safety of the franc.'[151] Briand asked Poincaré to succeed Péret, but Poincaré demanded a taxation programme unacceptable to the Radicals from whom Briand needed support.[152] Poincaré described the crisis in June as psychological, requiring measures to impress public opinion: 'The French malaise is more imaginary than real, more mental and emotional than physical or monetary ... A prudent and reasonable policy would quickly dissipate this sort of passing neurasthenia which has seized hold of part of the population and which makes it fear catastrophes.'[153] Given Socialist calls for a capital levy, broadening the cabinet to create a Union Nationale could only mean broadening to the Right, alienating Socialist support.

Europe'. The note concluded, 'You will perhaps think we are paying too much heed to the purely political aspects of the situation, but you know only too well that here they are controlling.' MH&C (Lamont and Harjes) to JPM&C, no. 84.202, 30 Apr. 1926. Péret expressed polite interest, but adverse comment in the press and distraction with the fall of the franc killed the project. It was with this plan in mind that Harjes discouraged use of the Morgan loan to support the franc in conversation with Robineau, suggesting that the war debt and budget situations would permit a stabilization of the franc with American assistance. MH&C (Lamont and Harjes) to JPM&C, no. 84.203, 30 Apr. 1926; JPM 532C.

[148] Leffingwell to Lamont and Harjes, 10 May 1926; RCL, Box 4.

[149] 'Note of a conversation with M. Quesnay on 13 October, 1926', BoE, OV45/78.

[150] Harjes to JPM&C, no. 84.337, 29 June 1926 and N. D. Jay, 'Memorandum', 29 June 1926, in JPM 532E; Strong to George Harrison, 5 July 1926, in GLH, Box 15.

[151] Cited in Lachapelle, *Le Crédit public*, ii. 272.

[152] Georges Suarez, *De Poincaré à Poincaré* (Paris: Les Éditions de France, 1928), 111–13; Herrick to Sec. of State, 18 June 1926; RG 59, 851.51/833.

[153] *Vanguardia*, cited in 'Dans la presse', 28 June 1926; AN $F^7$ 12594.

Caillaux's change in the direction of the Bank of France marked one essential step towards financial and monetary stabilization. The second was acceptance of the report of the committee of experts, issued on 4 July (details in Chapter 5). Caillaux sought American credits to assist stabilization, and stated a willingness to peg the franc at any level that would prove defensible—160, 180, even 200 frs./£.[154] But when Caillaux requested broad decree power to effect stabilization, the Chamber of Deputies refused to accord him confidence. Given the animosities he aroused on both sides of the Chamber and within the Radical party itself, this was hardly surprising. Herriot stepped down from the presidency of the Chamber to oppose Caillaux on the grounds of 'republican principle'. The Briand–Caillaux cabinet was overturned by a forty-five-vote margin with forty-eight Radicals voting against the Cartel. The attacks on Caillaux by Louis Marin and André Tardieu made it clear that this was not a vote on principle or programme, but in antipathy to Caillaux.[155]

The Cartel was in its final stages of disintegration. President Doumergue obliged an unwilling Herriot to form a new government. Poincaré declined to serve as his Minister of Finance, stating at the gravity of the situation (the franc having fallen to 200 frs./£) required that the premier take the Ministry of Finance.[156] The Bank warned that it would suspend Treasury payments if the government did not raise the legal note ceiling. Herriot's government fell on 21 July, with a crowd of thousands outside the Palais Bourbon chanting 'Down with Herriot! Dissolution!' The franc had begun to rise on exchange markets in anticipation of Herriot's defeat. As the news spread that his government had fallen the crowd fell silent, then began to sing the 'Marseillaise'.[157]

July 1926 marked the climax of a series of converging crises. French reconstruction expenditure, intended to be paid by German reparations, had been covered by borrowing and, ultimately, by inflation. In the absence of reparations, the state relied on short-term borrowing, creating a massive floating debt, which required regular renewal, and the dimensions of which were only approximately known by the Treasury. Renewal depended on the credibility of government financial policy: the budget deficit, the decline of the franc, and discussions of confiscatory taxation or debt consolidation all encouraged capital flight. The legal ceilings on the note circulation and Bank advances allowed little margin for manœuvre and excited fears of inflation when they were raised. The question of confidence, that is, the credibility of government policy, was vital.[158] Commentators repeatedly cited the budget deficit as the root of the problem. This was true insofar as it provoked fears of inflation. But the public paid closer attention to the

[154] Harjes to JPM&C, no. 84.335, 26 June 1926; JPM, 532E. Caillaux stated that he did not wish to follow the Belgian example of stabilizing at too high a level.

[155] See Berstein, *Histoire du Parti radical*, i. 429–31; Jean-Claude Allain, *Joseph Caillaux*, ii, *L'Oracle, 1914–1936* (Paris: Imprimerie Nationale, 1981), 359–61; Jean-Denis Bredin, *Joseph Caillaux* (Paris: Hachette, 1980), 259–62; and Jeanneney, *François de Wendel*, 312.

[156] Bonnet, *Vingt ans*, 118.

[157] *Le Figaro*, 22 July 1926. When Herriot left parliament, he was greeted with cries of 'A mort, Herriot!' and 'La République à la poubelle!' Soulié, *Cartel des Gauches*, 317.

[158] Albert Aftalion elaborated a psychological theory to explain the French exchange rate in the 1920s, chiefly in articles in the *Revue d'économie politique*, which Blancheton incorporates in his analysis of the franc's crises. See Bertrand Blancheton, 'Albert Aftalion, précurseur de la théorie moderne du change', *Revue d'économique politique*, 108, no. 5 (1998), 711–28, and Blancheton, 'Trésor, Banque de France et politique monétaire', 293 ff.

published figure for notes in circulation, and the crisis in 1926 followed the vote of a balanced budget. Any increase in the note circulation or any fall of the franc portended further inflation.

The crisis put in place the pieces necessary for a solution. The budget had been nearly balanced; war debt accords had been concluded with the United States and Britain (though Poincaré would delay ratification until July 1929); the Bank's position on stabilization would be completely reoriented by the appointment of Moreau and Rist. The collapse of the Cartel provided the political basis for stabilization, reconciling Radicals to joining a cabinet of republican concentration. Raymond Poincaré, recalled to form a new government after Herriot's defeat on 21 July, was handed an exceptional opportunity.

# 5

# *The Guillotine's Clean Cut*: The Bank of France and the Poincaré Stabilization, 1926–1928

Returned to office as leader of a Union Nationale coalition in July 1926, Raymond Poincaré abruptly reversed the decline of the franc, ended inflation, and effected a durable stabilization of the franc without major unemployment or economic distress. The speed and the low cost with which he ended the inflationary epoch have inspired conflicting explanations of the reasons for his success. The subsequent strength of the French economy has sparked debate on whether France undervalued the franc deliberately and the extent to which the stabilization adversely affected the international monetary system. This chapter assesses how Poincaré stabilized the franc, with particular attention to the role of the Bank of France.

The first section examines the process of stabilization from July to December 1926. During this period the Bank and the government worked at cross-purposes in a struggle over the timing and the terms of stabilization. Governor Émile Moreau desired prompt stabilization in accordance with the plan he had helped draw up as a member of Briand's committee of experts, while Poincaré wished to see a steady improvement of the franc's exchange rate. The *de facto* stabilization from December 1926 to June 1928 was a compromise solution. Moreau resigned himself in early 1927 to the fact that Poincaré would not stabilize the franc *de jure* prior to national elections in May 1928, and set to work reordering the internal affairs of the Bank. The second section reviews Moreau's actions within the Bank and the evolution of the Bank's financial situation in coping with the aftermath of war and reconstruction. It demonstrates the conflicts between on the one hand its in-house concerns for profitability in a period of dramatic change in its scale of operations and the structure of its earning assets, and on the other hand its responsibility for the franc and the French economy. The third section covers the *de jure* stabilization in June 1928, assessing the roles of the Bank of France, the Treasury, and parliamentary politics as managed by Poincaré, and the resulting monetary reform in June 1928.

The Bank of France played a fundamental role. Poincaré provided the political conditions essential for stabilization: public confidence in government and a political truce to gain a working majority for orthodox policies in the Chamber of Deputies. The truce depended upon the risk of renewed monetary crisis. Poincaré delayed stabilization for as long as possible, and resigned himself to *de jure* stabilization in 1928 genuinely wishing to resign rather than devalue the franc. The Bank, as personified by the triumvirate who dealt with the stabilization question—Governor Émile Moreau, Deputy Governor Charles Rist, and Director of Economic Studies Pierre Quesnay—desired prompt stabilization according to the terms set by the committee of experts. The 1928 stabilization was a product of compromise, but its terms and its timing were set by the Bank.

## 1. *DE FACTO* STABILIZATION

Poincaré's mastery of the July 1926 crisis, which had threatened to carry France to the brink of hyperinflation (prices rising at the annualized rate of 350 per cent) and currency collapse (the franc plummeted from 175 in mid-June to 243 frs./£) confirmed his reputation for financial acumen. Subsequent Ministers of Finance seeking to restore stability in French finances and currency would compare their records to that of Poincaré in 1926.[1] Economists in the era of oil-shock inflations seeking historical examples of successful ends to periods of inflation found Poincaré's experience to be a model for relatively cost-free stabilization after moderate inflation, although they disagreed on what, precisely, he had done right. For Thomas Sargent, the Poincaré stabilization was an example of a change in fiscal regime: building on a substantial consensus with regard to the policies needed and a strong reputation as a fiscal conservative, Poincaré imposed a political truce and settled a long-running dispute over whose taxes should be raised by cutting direct taxes on income and increasing indirect taxes.[2] Ten years later, Moreau's *Souvenirs* having appeared in English translation, Sargent no longer accorded a heroic role to Poincaré. Sargent recognized that Poincaré's programme was basically that of the committee of experts, and that Moreau had played a critical role in refusing to yield to Poincaré's demands for monetization of government debt in July 1926.[3]

In contrast to Sargent's change in fiscal regime, Gail Makinen and G. Thomas Woodward argued that the budget deficit was no longer a serious problem in 1926, and that Poincaré effected a change in monetary regime. They attributed the French inflation to monetization of government debt, and found that increased interest rates and the creation of a sinking fund, the Caisse Autonome d'Amortissement, were the measures that ended the inflation. The latter alone, they claimed, would have sufficed to permit stabilization.[4] They dismissed the threat of a capital levy and high direct taxation as insignificant, arguing that political instability should have made it obvious that the Cartel could not impose a capital levy.[5] Clark Johnson, too, explained the crisis as a result of poor monetary policy, with the failure to pay market rates on short-term government debt having a cumulative effect in damaging confidence.[6]

[1] Paul Reynaud did so explicitly in March 1939; see Michel Margairaz, *L'État, les finances et l'économie: histoire d'une conversion, 1932–1952* (Paris: Comité pour l'Histoire Économique et Financière, 1991), i. 475, and Ministère des Finances, 'Le Bilan économique et financier des cinq premiers mois du plan de trois ans', copy in SAEF, B 21848.

[2] Thomas J. Sargent, 'Stopping Moderate Inflations: The Methods of Poincaré and Thatcher', in Rudiger Dornbusch and Mario Henrique Simonsen, eds. *Inflation, Debts and Indexation* (Cambridge, Mass.: MIT Press, 1983), 58–64.

[3] Thomas J. Sargent, 'Stopping Moderate Inflations: The Methods of Poincaré and Thatcher', in id., *Rational Expectations and Inflation*, 2nd edn. (New York: Harper Collins, 1993), 153–4.

[4] Gail E. Makinen and G. Thomas Woodward, 'A Monetary Interpretation of the Poincaré Stabilization of 1926', *Southern Economic Journal*, 56 (1989), esp. 205–8.

[5] Ibid. 203.

[6] Johnson, *Gold, France, and the Great Depression*, particularly 82–7.

These views understate the importance of the political crisis in 1926. The cumulative impact of governmental instability, far from reassuring the public, obscured the real progress in balancing the budget and sharpened fears that French finances were out of control. Flight from the franc seemed entirely rational given the ever-lengthening record of Cartel inconsistency and mismanagement. Not just misdirected action, but government *inaction,* could produce financial and monetary chaos. *Le Temps* commented in mid-May 1926 that the franc could not be maintained without 'the urgent need for a policy of order, security, confidence. No more lethal experiments, no more miraculous promises. In other words: no more Cartel.'[7] But given the political composition of the Chamber of Deputies, Radical support for Cartel coalitions had to be destroyed before a government of Union Nationale would be possible, and it was the threat to the franc that produced this shift in Radical support.

Many interpretations accord considerable weight to the political aspect of the crisis. Alessandro Prati, Pierre-Cyrille Hautcoeur, and Pierre Sicsic have argued that fears of confiscatory taxation and the recurrent threat of a capital levy were the main reasons for the French capital flight and increased interest rates.[8] In earlier work, Sicsic and Rudiger Dornbusch both found that strictly monetary and fiscal explanations were insufficient to explain the crisis in 1926 and the steep decline of the franc.[9] Even Makinen and Woodward conceded, in their monetarist interpretation, that the crisis of 1926 occurred just when confidence should have been restored, and confessed that 'No good reason exists for the flight from the franc to have occurred at the time when it did.'[10]

In fact, if one takes account of the political situation, good reason did exist. Most of the measures recommended by the committee of experts in July and implemented by Poincaré in August had been under discussion in French financial circles since late 1925. But successive Cartel governments made such dilatory progress on fiscal policy, particularly in voting the taxes necessary to balance the budget, and made no visible progress whatsoever in defending the franc or gaining control of the floating debt, that capital flight took various forms, from purchasing of non-franc-denominated securities, to purchasing foreign exchange, to leaving payment for French exports abroad in foreign currencies. *Le Canard enchaîné*'s fable of Abraham-Jacob-Isaac Lévy in its 'Contes du canard' illustrates the point: finding a wallet stuffed with 50,000 francs on the boulevard Voltaire, Lévy started for the nearest police station. But upon reflecting that if unclaimed in one year and one day the wallet would be his, and that 'in a year and a day the franc, continuing its headlong tumble, will surely have fallen to zero, perhaps even lower', Lévy changed the franc notes to dollars before turning the wallet in to the police.[11]

[7] *Le Temps*, 20 May 1926.

[8] Alessandro Prati, 'Poincaré's Stabilization: Stopping a Run on Government Debt', *Journal of Monetary Economics*, 27 (1991), 213–39; Pierre-Cyrille Hautcoeur and Pierre Sicsic, 'Threat of a Capital Levy, Expected Devaluation and Interest Rates in France during the Interwar Period', *European Review of Economic History*, 3 (1999), 25–56.

[9] Pierre Sicsic, 'Was the Poincaré Franc Deliberately Undervalued?' *Explorations in Economic History*, 29 (1992), 71–4; Rudiger Dornbusch, 'Credibility, Debt and Unemployment: Ireland's Failed Stabilization', *Economic Policy*, 8 (1989), 178–80.

[10] Makinen and Woodward, 'A Monetary Interpretation', 204.

[11] *Le Canard enchaîné*, 26 July 1926. The crisis in 1926 provided *Le Canard enchaîné* with inspiration for a good deal of amusement. One article described the 'certain' impact of the General Strike in England and Péret's

Contemporary observers in France and abroad saw the threat to the franc as fundamentally political, owing to a combination of political uncertainty (who would be in power and whether they would do anything) and a failure of political leadership. Cartel policy was failing: the declining franc and rising prices and note circulation were the clear signals of this failure; but it was not clear who would replace the Cartel, or when. When Benjamin Strong arrived in Europe in May 1926, he was briefed by the American ambassador to Britain, Alanson B. Houghton, who stressed the lack of leadership in France; a Federal Reserve official accompanying Strong recorded, 'There is no leadership in France today capable of controlling the parliamentary situation the Bank of France and the bankers.'[12] Strong wrote to Montagu Norman in mid-May, 'It really is more the need of a man than of a plan, and behind the man real patriotic cooperation by all parties.'[13] Herman Harjes reported gloomily in July, 'Our friends are all too divided and there is no strong man in sight capable of obtaining universal support to put over the measures necessary to straighten out the situation. It is really very depressing.'[14]

Poincaré's return to the premier's office on 23 July was not enough in itself to end the crisis, but it marked a sharp psychological break, and held a *conditional* promise of recovery. According to Charles Rist: 'his mere presence in the government inspired complete confidence in the French public and convinced them that the fall of the franc was not ineluctable, and that measures would be taken to arrest it.'[15] *Le Figaro* noted the role of confidence when Poincaré took office: 'The demonstration is even more convincing in that M. Herriot had not had time to do any harm, and that we do not yet know M. Poincaré's intentions. Moral and psychological factors alone have been in play over the last five days.'[16] Poincaré promised a possible solution to the crisis, but sustaining the turn in psychology required resolution of three closely interwoven problems.

The first was the political truce. Briand and Herriot had sought in vain to form governments of national union, which required disaggregating the Cartel in order to obtain participation of members from the Right, impossible with Socialist support. Poincaré formed a moderate, centrist government, excluding the Socialists, but drawing support from the Radicals, and including in his cabinet four Radicals and six former premiers. His government, he told the Chamber of Deputies on 27 July, was assembled 'in a spirit of national reconciliation in order to deal with the danger that threatens simultaneously the value of our currency, the liberty of our Treasury and the equilibrium of our finances'.[17] Although Poincaré would have preferred a broader coalition, a new *union sacrée*, his government did

measures of economy in France in an article titled 'Quand le franc sera à150 livres. A nous de visiter Londres! A nous les Girls! Et à nous le wisky!' (12 May 1926).

[12] 'Memorandum of Conversation between Governor Strong and Ambassador Houghton', 8 May 1926, and G. B. Winston to FRBNY for A. W. Mellon, cable no. 8, 14 May 1926; Strong Papers, FRBNY 1000.7/1.

[13] Strong to Norman, 18 May 1926; similar views expressed in Strong to Harrison, 15 May 1926; Strong Papers, FRBNY, French situation files.

[14] Harjes to Leffingwell, 13 July 1926; JPM 532E.

[15] Charles Rist, 'L'Expérience de 1926 et le franc d'aujourd'hui', in Jacques Lacour-Gayet et al., *Monnaie d'hier et de demain* (Paris: Éditions SPID, 1952), 65.

[16] Le Figaro, 24 July 1926.

[17] Cited by Émile Moreau in his *Souvenirs d'un gouverneur de la Banque de France: histoire de la stabilisation du franc (1926–1928)* (Paris: Éditions M.-Th. Génin, 1954), 47 [27 July 1926].

reconcile the Radicals with the moderate Right.[18] Once in existence, the Union Nationale had to be maintained, and Poincaré proved adept at preserving his diverse coalition by postponing the definitive solution to the problem it had been called into existence to resolve: to save the franc.

The second problem was the need to end the inflationary regime in place in France since the war. Unbalanced budgets, Bank advances to the state, and a large overhang of short-term debt had rendered the Treasury chronically vulnerable to non-renewals met by monetizing the debt. Poincaré ended this regime by following the programme set out by the committee of experts in their report of 4 July.[19] Indirect taxes were raised sharply to provide immediate resources for the Treasury, while the top marginal rates of direct taxes were cut to encourage a return of capital and payment of taxes. Poincaré still needed indirect advances to meet Treasury needs at the end of July. The Bank purchased the remaining $30 million dollars of the 1924 Morgan loan from the Treasury to provide it with francs on 24 July. On 26 July, Poincaré demanded that Moreau discount Treasury bills issued to commercial banks to provide Treasury resources. Moreau refused, and when Poincaré insisted this was not inflationary and that Robineau had done it many times, Moreau replied: 'Monsieur le Président, your idea is excellent. Recall M. Robineau. As for me, I'm leaving ...'[20] The next day, Poincaré met with Moreau and several regents and acceded to Moreau's insistence that the Bank discount only statutory commercial paper.[21] The Treasury squeaked through its end of July payments on behalf of the state; debt renewal and early tax payments thereafter eased its situation.

The third problem was monetary stabilization, and it was here that Poincaré departed most significantly from the experts' recommendations. Émile Giraud, writing to Pierre Quesnay at the end of July, supposed that Poincaré's ministry must be a disappointment because Poincaré would raise taxes but neglect monetary stabilization, a result particularly disappointing because 'Poincaré is a demi-god for the French bourgeoisie and all that he undertakes will have the utmost chance of success'.[22] Poincaré's monetary policy was a disappointment for Moreau, Rist, and Quesnay, all partisans of the experts' report, for which Rist had drafted the section on monetary stabilization. The experts had insisted that restoring gold convertibility and balancing the budget were complementary measures. Restoring convertibility would depend upon foreign credits, from the United States in particular, which in turn required ratification of the Mellon–Bérenger debt accord signed in April. Poincaré had criticized the accord in April and June, opposing ratification. At the end of July, he changed his mind and declared he would ratify the debt accords with

[18] Keiger, *Raymond Poincaré*, 320–1. The cabinet was termed an 'association of repentant daughters' (Goldey, 'Cartel des gauches', 325).

[19] François Piétri, comparing the Caillaux and Poincaré plans of July and August 1926, found both to be based on the experts' report; 'In truth, the Caillaux plan was the brother and friend of the experts' programme, while the Poincaré plan was its first cousin, but more resigned than enthusiastic'. Piétri, 'Plan Poincaré et plan Caillaux', *Revue de Paris*, 1 Oct. 1926, 481–99. See also Moreau, *Souvenirs*, 55, and Frayssinet, *La Politique monétaire*, 161 ff.

[20] Moreau, *Souvenirs*, 45 [26 July 1926].

[21] ibid. 46–50 [27, 28, and 29 July]; Moreau nonetheless agreed to accept some Bons de la Défense Nationale with commercial paper, and was not pleased when the Comptoir d'Escompte and the Crédit Lyonnais brought in almost entirely BDNs on 29 July.

[22] Giraud to Quesnay, 29 July 1926; AN 374 AP 9.

the United States and Britain in order to contract the foreign loans necessary to support a rapid stabilization. Moreau recorded his 'great astonishment' when Poincaré announced this programme to him.[23] But ratification proved politically impossible for Poincaré's coalition, and a press campaign mounted to promote it was hastily reversed.[24] Poincaré told Moreau on 4 August that he would not attempt ratification until after parliament's summer recess, and that he wished to see a period of exchange-rate recovery before attempting stabilization. As the franc remained steady in August and the political and financial crises eased, tackling the divisive issue of debt ratification lost its urgency. In September, François de Wendel told Moreau that Poincaré had no monetary plan whatsoever and would not seek ratification before March 1927.[25] In 1927, following *de facto* stabilization, the rapid accumulation of foreign exchange holdings at the Bank of France would render foreign credits unnecessary. Relying on 'confidence' rather than foreign loans, Poincaré 'guaranteed his own indispensability'.[26]

The Bank meanwhile launched its own programme to provide the necessary foundation for stabilization. Moreau met with Governors Montagu Norman of the Bank of England and Benjamin Strong of the Federal Reserve Bank of New York in July; both reinforced his convictions as to the importance of central bank autonomy and the need to have monetary stabilization directed by the central bank. When Poincaré claimed he would ratify the debt accords and stabilize the franc on 30 July, Moreau immediately proposed a law permitting the Bank to purchase gold and foreign exchange at market price (the Bank's statutes prohibited it from doing so, making direct exchange intervention by the Bank impossible), and increased the Bank's discount rate in order to draw capital to Paris.[27] Believing stabilization possible in the very near future, Moreau set his immediate collaborators—Rist, Leclerc, and Quesnay—to work drafting legislation to authorize foreign exchange and gold purchases, a twelve-point convention to reform state–bank relations, and a stabilization programme. The draft convention reflected the views expressed in Moreau's conversations with Strong: it sought guarantees of continuity in Bank direction, the governor and vice-governors to be appointed for terms of at least three years; the rate of stabilization to be fixed by an agreement between the government and the Bank; central bank advances to the state to be fixed at their current maximum with a new schedule for reimbursement; the interest rates on Treasury bills and approval for foreign exchange operations to be determined in accord with the Bank; and the negotiation of a foreign credit of at least $400 million to assure stabilization.[28]

[23] Moreau, *Souvenirs*, 55 [30 July 1926]; Poincaré's statements to Moreau followed immediately on a meeting with the Belgian Minister of Finance, Francqui, and Minister of Foreign Affairs, Vandervelde, on 30 July. *Le Quotidien* reported this change of views on 1 Aug. and declared it a result of Poincaré's discussions with Belgian officials; cited in Herrick to Sec. of State, 6 Aug. 1926; RG 59, 851.51/878.

[24] On political opposition to debt ratification, see Herrick to Sec. of State, 13 Aug. 1926, 851.51/880; B. S. Carter to Leffingwell, 12 Aug. 1926 and N. D. Jay to Leffingwell, 12 Aug. 1926; JPM, 532F; and Moreau, *Souvenirs*, 55, 59–62, 66 [30 July, 3, 4, and 6 Aug. 1926].

[25] Moreau, *Souvenirs*, 94 [3 Sept. 1926].

[26] Goldey, 'Cartel des gauches', 335.

[27] Moreau, *Souvenirs*, 55 [30 July 1926].

[28] 'Éléments d'une convention entre la Banque et l'État pour l'exécution du programme de stabilisation monétaire (remise au Président du Conseil)', 3 Aug. 1926, AN 374 AP 5; summary in Moreau, *Souvenirs*, 59–60 [3 Aug. 1926].

Poincaré acknowledged the need for continuity in the direction of the Bank during stabilization, but did not believe parliament would vote a law to this effect. He disagreed with Moreau on the rate for stabilization of the franc: Moreau favoured prompt stabilization following the recommendations of the committee of experts, whereas Poincaré desired a higher rate and declared he would not attempt debt ratification.[29] Moreau's journal may understate Poincaré's opposition; Quesnay described Poincaré as having termed the Bank demands 'impossible', particularly the suggestion that the Bank be guaranteed immunity from political interference, with the governor and deputy governors' positions having guaranteed terms.[30] Moreau and Quesnay composed a reply, entitled 'Points to be clarified before the Bank can assume responsibility for monetary policy', to serve as a programmatic statement for Bank policy on exchange market intervention. Without a reserve of foreign exchange obtained by foreign stabilization credits after ratification of the war debt accords, the Bank would be unable to prevent a fall of the franc if the market turned, and thus could not accept responsibility for French monetary policy.[31] Poincaré passed the law authorizing Bank purchase of foreign exchange and gold at market price on 7 August. Rist described the law as the key to French financial and monetary stabilization;[32] Rist and Moreau both noted with approval that it would make the return to pre-war parity impossible. Rist believed Poincaré agreed to it because seduced by the idea that it would increase French gold reserves.[33]

The matter was complicated by an amendment by Eugène Lautier, which required that currency issued to purchase foreign exchange or gold be withdrawn from circulation when the foreign exchange or gold was resold.[34] Compliance would restrict the Bank's freedom of action; Moreau insisted that the Lautier amendment and the lack of a guarantee that the Bank would not have to bear any losses incurred in foreign exchange transactions for the Treasury precluded Bank intervention. A secret convention signed on 16 September cleared these objections, but Moreau specified in signing it that the Bank had *not* agreed to intervene in the exchange market (the purpose of the convention for Poincaré), nor to take responsibility for the stabilization of the franc. Without a definite stabilization programme and foreign credits to counter bear speculation, Moreau declared the Bank unable to act.[35] He tried to use the issue to obtain guarantees of Bank autonomy, a strong Bank role in determining the essential features of the stabilization, and government agreement on a definite stabilization plan.

The Bank had developed just such a plan. In his last meeting with Moreau in July, Governor Strong had encouraged planning for stabilization, which at that moment

[29] Moreau, *Souvenirs*, 60–1 [4 Aug. 1926].

[30] Siepmann, 'Note of a Conversation with M. Quesnay on October 13th, 1926', AN 374 AP 6.

[31] 'Points à éclaircir avant que la Banque puisse prendre la résponsabilité de la politique monétaire', 4 Aug. 1926, AN 374 AP 5.

[32] Rist review of Haig's *The Public Finances of Post-War France* in REP 45 (1931), 199; id., 'L'Expérience de 1926', 66, and 'La Loi du 7 août 1926', *REP* 42 (1928), 9.

[33] Moreau, *Souvenirs*, 69 [9 Aug. 1926]; Rist, 'Notice biographique', 1000–1 and 'L'Expérience de 1926', 66. Rist wrote the *exposé des motifs* for the law.

[34] See Moreau, *Souvenirs*, 62–4, 69, and 75 [5, 9, and 20 Aug. 1926]; Jeanneney, *François de Wendel*, 325–6; Lautier to Clément Moret, 17 Aug. 1926, SAEF B 33201.

[35] Moreau to Poincaré, 16 Sept. 1926, in DCG of same date.

seemed imminent, and hoped to discuss a stabilization programme with Moreau on his return to Paris in August.[36] Quesnay drafted a provisional plan to discuss with Strong.[37] Three categories of preliminary measures were deemed necessary. First, public opinion needed to be prepared for stabilization, in France and abroad, so that it would take place 'in an atmosphere of sympathy, confidence and collaboration'. Second, the Bank needed guarantees of its autonomy and the continuity of its direction for the stabilization period, an end to Bank advances to the state, power over interest rates and foreign exchange transactions, and freedom to decide the timing, rate, and method of stabilization. Third, the Bank would need a strong reserve of foreign exchange, including loans from foreign central banks (which would in turn require ratification of the debt accords, particularly that with the United States).

Quesnay considered four factors affecting the choice of exchange rate: public debt as a proportion of national income, the ratio of revalued gold reserves to sight liabilities, per capita purchasing power compared to 1913, and the current price level in France. In each case, he determined a broad range within which stabilization would be feasible. Taking all four factors into account, the highest acceptable rate was 131 frs./£, the lowest 196 frs./£. Quesnay's preferred rate for immediate stabilization was between 160 and 170 frs./£. He had argued earlier that France must choose between a higher rate for stabilization to avoid further price increases in France and a lower rate to encourage exports.[38] The consequences of currency instability, driven home by the franc depreciation and domestic price inflation in the first half of 1926, had increased interest in stabilization; this in turn prompted concern that stabilization would mean an *inevitable* economic crisis while the adjustment to the new fixed exchange rate took place.[39] Quesnay remarked in the earlier note that a lower rate would ease the adjustment, as well as encouraging a return of capital by allowing lower taxes (via reduced value of government debt). In the stabilization programme he claimed that stabilization at a rate better than 160 frs./£ would mean an immediate economic crisis: 'the speed with which the crisis would be unleashed, with unemployment, bankruptcies, demands for credit, would cause general anxiety and discontent that would be deleterious to the success of the action.'[40]

Thus the Bank's concern that Poincaré wished to postpone stabilization indefinitely, seeking a higher exchange rate. Moreau and Rist were partisans of stabilization along the lines advocated by the committee of experts; Poincaré's government of Union Nationale had the political power to implement stabilization, and—perhaps most important for the Bank of France—the Federal Reserve Bank of New York approved the plan and encouraged

[36] Moreau, *Souvenirs*, 56 [31 July 1926].

[37] Quesnay, 'Programme de stabilisation du franc (remis àM. Strong)', 19 Aug. 1926; AN 374 AP 5. A shorter version is reproduced in Pierre Sicsic, 'Sur la stabilisation du franc (1926–1928)', *Études & documents*, 6 (1994), 660–7; summarized in Moreau, *Souvenirs*, 73–4 [18 Aug. 1926].

[38] Quesnay, 'Considérations pouvant intervenir dans la détermination du taux de stabilisation', 6 Aug. 1926; AN 374 AP 5.

[39] There was widespread belief that stabilization would inevitably be accompanied by an adjustment crisis; see for example the Committee of Experts' *Rapport*, and Charles Rist and Octave Homberg, *La Stabilisation: le problème dans son essence et son opportunité* (Paris: Comité National d'Études Sociales et Politiques, 1926).

[40] Quesnay, 'Programme de stabilisation du franc', 19 Aug. 1926; AN 374 AP 5.

belief that American loans would be available to reinforce French foreign exchange reserves once the war debt accord had been ratified.[41] By the time Strong returned to Paris in August, Poincaré had abandoned prompt ratification of the debt accords and stabilization of the franc with the assistance of foreign credits. In Strong's meetings with Moreau, Rist, and Quesnay between 24 August and 1 September, they discussed Quesnay's draft programme thoroughly, paying particular attention to the rate of stabilization and foreign (i.e. American) loans to facilitate stabilization. Strong described the task privately as 'long and tedious'; he found the Bank of France to have no experience with handling a money market, and 'no practical experience whatever in the operation of a bank of issue', having long been run as a subordinate arm of the Treasury. But Strong reported satisfaction with the progress under way, and growing confidence in the Bank.[42]

On 31 August, Moreau asked Strong for a list of the conditions 'absolutely indispensable' for French stabilization to assure foreign support. Strong responded: the political autonomy of the Bank, the continuity of Bank direction during stabilization, Bank control over timing, rate, and method of stabilization, Bank control of the domestic money market, and the assurance that it would not have to issue money to cover budget deficits or floating debt non-renewals.[43] These conditions, already present in the Bank memorandum after the first conversations with Strong, would reappear as conditions for market intervention when Poincaré sought Bank assistance with the exchange market.

The law of 7 August having passed, Poincaré asked the Bank to purchase foreign exchange acquired by the Treasury in order to facilitate Treasury purchases of foreign exchange. Moreau invoked the Lautier amendment and the Bank's liability for losses incurred on account of the Treasury to delay Bank intervention. Although an internal study of the Lautier amendment had concluded that it need not restrict the Bank and that there was no real risk of loss to the Bank in purchasing foreign exchange,[44] Moreau used this as an excuse to delay intervention. He specified in his journal that he was resolved that the Bank would accept no responsibility for supporting the franc 'so long as the government has not decided its monetary policy and so long as the Bank does not have the means to intervene in the market'.[45] When his objections to the law of 7 August were cleared by the 16 September convention and Poincaré requested details of the powers the Bank would need to enable it to intervene in the foreign exchange market, Moreau

[41] See Moreau record of meetings with Strong on 31 July and with Jean Monnet on 2 Aug., in Moreau, *Souvenirs*, 56–9, and the more detailed accounts in 'Conversations avec Monsieur Strong, Gouverneur de la Banque Fédérale de Reserve des États-Unis', and 'Entretien du 2 août 1926 avec M. Jean Monnet', AN 374 AP 5.

[42] Strong to Harrison, 28 and 30 Aug. 1926; Strong Papers, FRBNY, French situation files.

[43] Strong's comments on 31 Aug. in summary form and his letter of 9 Sept. can be found in Moreau, *Souvenirs*, 92 and 101–3 [31 Aug. and 10 Sept. 1926]; the French account of the 31 Aug. meeting is in AN 374 AP 6. Strong's first two of seven essential points in that meeting were: (1) The Bank cannot accept responsibility for the exchange rate before it is certain that it disposes of the means necessary to its task. (2) It must have guarantees of its powers, and notably, have its political independence clearly recognized. Only in these conditions will it be in a position to execute with continuity a complete programme (to decide the timing, the rate and the method).

[44] Undated note, 'Possibilités d'application de la loi du 7 août 1926', probably mid-Aug. 1926; AN 374 AP 5.

[45] Moreau, *Souvenirs*, 94 [3 Sept. 1926].

mentioned foreign credits to enable the Bank to counter downward pressure on the franc, and three further conditions to assure Bank mastery of the domestic money market: (1) a guarantee that the Bank would not have to issue currency notes to meet state needs from either a budget deficit or non-renewal of floating debt; (2) a reduction in state debt to the Bank, by state borrowing from the public to repay the Bank, as the three-quarters of the note circulation backed by Bank advances to the state was not under control of the Bank; and (3) a guarantee of the continuity of Bank direction.[46] Moreau termed an early draft of his letter 'a veritable pre-stabilization programme'.[47] Poincaré wanted the Bank to regulate the exchange rate of the franc. Since early August, the Treasury had used over-subscriptions to defence bonds and seasonal tax receipts to purchase exchange for foreign debt payments and to influence the exchange rate. As these resources dwindled, Poincaré stepped up requests for the Bank to take over market intervention without granting authority over decision making.[48] Moreau and the regents of the Bank refused to play along.

Poincaré contested the Bank's arguments for refusing intervention. Treasury purchasing of foreign exchange demonstrated that large purchases were possible, and would enable the Bank to obtain 'a very appreciable *masse de manœuvre*' without adverse consequences for the exchange rate or domestic money supply. Bank experience would prove his point during the first months of *de facto* stabilization. He dismissed the Bank's essential guarantees for mastery of the money market. The budget had been balanced, the floating debt reduced and placed under control of the Caisse Autonome d'Amortissement; amortization of Bank advances was now formally included in the state budget. Any further guarantee of Bank autonomy would require a change in its legal statutes, which he did not believe parliament would accept. Poincaré closed by regretting that the Bank would not use the powers granted by the law of 7 August to regulate the franc exchange. Moreau found the letter 'drafted in terms rather disagreeable for the Bank'; the regents agreed that they need not reply.[49]

Until mid-October the franc remained relatively steady, between 165 and 170 frs./£. Renewed demand for francs then pushed it across the 150 mark in early November, and to 125 in early December. Rist proposed that the Bank exploit the strong demand for francs to build up a reserve of foreign exchange; he instructed the Bank's new *service des changes* to purchase £250,000 without Moreau's authorization in mid-October, and threatened to resign if action was not taken to stabilize the franc.[50] As the franc climbed, Quesnay shared Rist's view.[51] Moreau would not budge, determined to force Poincaré to adopt the experts' plan for monetary stabilization by Bank non-intervention. In the

[46] For Poincaré's requests, see Poincaré to Moreau, 20 and 30 Sept. 1926; Moreau's replies of 23 Sept. and 10 (draft by Quesnay) and 13 Oct. 1926; AN 374 AP 6. Moreau's demands clearly reflected his discussions with Strong.

[47] Moreau, *Souvenirs*, 123 [7 Oct. 1926].

[48] This is particularly clear in Poincaré to Moreau, 30 Sept. 1926; DCG, 7 Oct. 1926. Quesnay gave a clear explanation of the Bank's strategy to H. A. Siepmann at the Bank of England; see 'Comptes rendus Siepmann de Convers. du 12 octobre 1926', copy in AN 374 AP 6.

[49] Poincaré to Moreau, 28 Oct. 1926, in DCG of same date; Moreau, *Souvenirs*, 147 [27 and 28 Oct. 1926].

[50] Moreau, *Souvenirs*, 122, 133–41, 149–50 [7, 18–21, and 29–30 Oct. 1926].

[51] Ibid. 166 [23 Nov. 1926].

press, financial writers began to discuss when and how the rise of the franc would bring a commercial crisis. Frédéric Jenny reported a widespread view that France was on the brink of a 'violent commercial and industrial crisis', and noted that the volume of French exports had ceased to rise and that price deflation was essential if markets were not to be lost. Lucien Romier wrote the same day that the franc had reached the level where economic difficulties began: 'If revalorization of the franc must continue at the same rate, we will soon witness brutal bankruptcies'.[52] Businessmen sought audiences with Poincaré to press for stabilization: Dean Jay reported that most of them now realized that further improvement of the franc would be as bad for business as depreciation had been.[53] Poincaré's director of the Treasury, Clément Moret, an advocate of intervention and stabilization, urged Deputy Governor Leclerc to purchase foreign exchange when Moreau left Paris for several days in early December. Leclerc refused to do so in Moreau's absence.[54] Léon Jouhaux, head of the powerful Confédération Générale du Travail (CGT), met with Poincaré to press for stabilization in order to forestall rising unemployment, an intervention Rist and Rueff judged decisive in persuading Poincaré to stabilize.[55]

Poincaré renewed his request on 18 November: he argued that fluctuations in the exchange rate encouraged speculation and hurt trade, and that limited intervention by the Bank could slow the rise of the franc. He called Moreau to the ministry to discuss the issue, and on 20 November requested that the regents meet on Monday to decide the question, the franc having risen to 134 frs./£, with Moret favouring Bank intervention to hold the franc.[56] On 23 November, Poincaré pointed out that the Treasury had sufficient foreign exchange to meet payments to the end of the year and had run down its franc resources, and urged that the Bank take its place in regulating the exchange rate. Such action would benefit French commerce and allow the Bank to amass a reserve of foreign exchange for use should the market turn.[57]

Moreau discussed intervention with Rist and with Léon Verdier, the foreign exchange expert on loan from the Crédit Lyonnais to oversee the setting up of the Bank's *service des changes* and the training of Bank staff.[58] Verdier cautioned that a quick intervention to stop the rise of the franc could turn speculation against the franc, and that the Bank lacked

[52] *Le Temps* and *Le Figaro*, 21 Nov. 1926; see also *L'Echo de Paris*, 21 Oct. 1926; *Le Figaro*, 22 Oct. 1926; *L'Avenir*, 22 Oct. 1926; and *Le Temps*, 23 Oct. 1926, and the survey of French financial press in Herrick to Sec. of State, 26 Nov. 1926; RG 59, 851.51/943.

[53] N. D. Jay to Leffingwell, 26 Nov. 1926; see also MH&C to JPM&C, no. 84.575, 25 Nov. 1926; JPM, 532G.

[54] Moreau, *Souvenirs*, 174 [7 Dec. 1926].

[55] Rist, 'Notice biographique', 1003, and id., 'L'Expérience du franc', 67–8; Jacques Rueff, 'Préface', in Moreau, *Souvenirs*, pp. viii–ix; and Jacques Rueff, *De l'aube au crépuscule: autobiographie* (Paris: Plon, 1977), 59.

[56] Moreau refused to call a meeting of the regents for Monday, telling Moret that the Ministry of Finance 'must lose the habit of treating the Bank of France as one of its branch offices. I do not intend to pester my Council of Regents constantly for a yes or a no. In short, I ask that the Ministry of Finance respect the independence of the Bank and leave it in peace.' *Souvenirs*, 165 [22 Nov. 1926].

[57] Poincaré to Moreau, 18 and 23 Nov. 1926; AN 374 AP 6, and DCG, 18 and 25 Nov. 1926.

[58] There was no one in the Bank with the expertise to set up the *service des changes*. Verdier was borrowed from the Crédit Lyonnais for three months, beginning in October 1926. His service was prolonged to May 1927; the *Service des changes* was directed from 1927 to 1945 by Charles Cariguel.

sufficient foreign exchange to keep the franc from falling back. Moreau agreed; this supported his own case for ratification of the debt accords and stabilization with the assistance of foreign loans.[59] Rist advocated intervention to stabilize the franc, believing that intervention merely to limit exchange-rate fluctuations would encourage speculation. The Bank should conserve its resources and intervene when the franc reached a predetermined level for stabilization, which Rist recommended at between 140 and 160 frs./£.[60] In response to Poincaré's request of 23 November, Moreau replied that according to the advice of 'authorized technicians', recent Treasury interventions had increased rather than limited fluctuations of the franc, and he repeated the regents' view expressed on 13 October that 'under the present circumstances, it is impossible for the Bank to assume responsibility for regularizing the rate of the franc'.[61] The Bank would continue to purchase foreign exchange from the Treasury and from private individuals 'in the interest of defence of the franc',[62] but without the reserve of foreign exchange the Bank desired from foreign loans, it would not intervene. A further letter from Poincaré contesting the Bank's view of exchange intervention was left unanswered.[63]

Pressure mounted for action to arrest the franc's rise. Business complaints to Moreau, to Poincaré, and to official bodies such as the Conseil National Économique (CNE) communicated the mounting distress in French commerce and industry as the appreciation of the franc provoked a dramatic decline in exports. The Ministry of Labour recommended shorter working hours rather than lay-offs in order to reduce unemployment, and the permanent committee of the CNE viewed rising unemployment with concern but felt powerless to argue for greater attention to the problem so long as Poincaré continued to favour appreciation of the franc.[64] In the press, articles warned of the certainty of an economic crisis that would increase in severity as the franc rose.[65] Quesnay worried in early December that holding the franc at its current level would 'provoke an economic catastrophe'. Export industries, he said, had had no new orders since the end of October; retail business was slumping, and the resulting decline in revenue from the turnover tax would be felt by the Treasury. His greatest fear was that the market would turn against the franc and that the Bank would have no resources to prevent a serious fall.[66] Rist again urged that the Bank take advantage of the demand for francs to accumulate a reserve of foreign exchange for exactly this purpose, and Moreau again refused. On 17 December,

[59] Moreau, *Souvenirs*, 163 [19 Nov. 1926].

[60] Rist recommended intervention when Moreau consulted he and Verdier before meeting with Poincaré on 19 Nov.; the account of Rist's views comes from a note dated 'Nov. 1926', which from its title would seem to have been written after the discussion with Moreau. Rist, 'L'Intervention de la Banque sur le marché en cas de retournement des changes', Nov. 1926; AN 374 AP 7.

[61] Verdier had advised Moreau that the impact of Treasury interventions had been negligible, and that the only result of the Bank taking them over would be that losses on the exchange would be borne by the Bank rather than the Treasury. Moreau, *Souvenirs*, 166 [23 Nov. 1926].

[62] Moreau to Poincaré, 25 Nov. 1926; AN 374 AP 6.

[63] Poincaré to Moreau, 1 Dec. 1926, and regents' comments in DCG, 2 Dec. 1926.

[64] Compte-rendus of Commission permanente, sessions of 15 and 22 Dec. 1926; AN CE//148.

[65] See for example Gaston Jèze, 'La Crise économique', *Le Progrès civique*, 11 Dec. 1926.

[66] 'Monsieur Quesnay's opinion on the French franc', 7 Dec. 1926; BoE, OV45/1.

Rist lamented that France was going through the pain of deflation without stabilization. Dean Jay reported from their conversation that

> The Bank is not yet master of the monetary policy and until the Government is ready to turn such matters over to the Bank, business will continue to live from day to day without being able to make any plans for the future. This uncertainty is beginning to have its effect on business and whereas a year ago one heard comparatively little said about the necessity of stabilization, to-day, business men generally recognize that it is absolutely essential and are expressing such opinions to the Government.[67]

When the 1927 budget was voted in record time and in surplus on 19 December, with Poincaré's desire for appreciation widely known, a new speculative surge threatened to carry the franc to 100 frs. / £ in a matter of hours.[68] The Treasury's *directeur-adjoint*, Léon Barnaud, made a desperate appeal to the Bank for intervention on 20 December and Moreau agreed, 'To avoid a veritable economic disaster, to prevent the closing of numerous industrial and commercial enterprises and the unemployment that would inevitably follow.'[69] Moreau took his decision on 20 December without formal consultation of the Conseil Général. Bank intervention became official on 23 December, when its success was clear; Moreau met with Poincaré, who subsequently announced the stabilization effort at 122.50 frs. / £. Moreau warned that he would purchase foreign exchange only until mid-January, and Poincaré agreed to provide a stabilization plan by that date, but insisted that he wished to see a further appreciation to 100 frs. / £.[70] The announcement of 23 December reflected an agreement for temporary stabilization, leaving unsettled the timing and the rate of stabilization; when word spread that this stabilization would be definitive, Moreau quickly quashed the rumour, prompting renewed speculation.[71]

The second decision, which turned temporary intervention into *de facto* stabilization, was the product of delaying the appreciation of the franc desired by Poincaré for so long that it became impractical. A good part of the Parisian banking and commercial communities favoured stabilization in order to avoid a sharp worsening of the adjustment crisis already underway, which hurt trade as well as employment. The intervention of Léon Jouhaux, the CGT leader credited with influencing Poincaré, was at too great a distance from the actual decision to deserve credit. He may have alerted Poincaré to the issue of unemployment, but his meetings with Poincaré in October were not immediate factors in the timing or rate of *de facto* stabilization. Clément Moret, in daily contact with Poincaré as director of the Treasury and a strong partisan of intervention, was without doubt more influential.[72] Jacques Rueff contributed a study of the level at which the

[67] N. D. Jay to Leffingwell, 18 Dec. 1926; JPM, 532E.

[68] Philippe, *Le Drame financier*, 126; he states Dutch interests were selling sterling heavily, and that Barnaud authorized Lazards to intervene initially while awaiting authorization from Poincaré and the Bank of France for Bank support.

[69] Moreau, *Souvenirs*, 182 [20 Dec. 1926].

[70] See Moreau, *Souvenirs*, 187 [23 Dec. 1926]; both the Bank and the government treated 23 Dec. as the date of stabilization.

[71] Moreau, *Souvenirs*, 188–9 [27 and 29 Dec. 1926].

[72] Jeanneney notes that Wilfrid Baumgartner understood the influence of Moret and the Treasury to have been decisive, but Moret had been pressing for Bank intervention without success up to this point. Jeanneney, *François de Wendel*, 345–6.

franc could be stabilized without needing to reduce wages in order to conserve export markets. The note, requested by Poincaré in September, was submitted in late November, recommending stabilization at between 120 and 145 frs./£.[73]

Poincaré's own views must be inferred from his deliberately enigmatic public statements and from impressions gathered by his collaborators. None of these suggest that he desired *de facto* stabilization in December 1926. Raymond Philippe catalogues a series of Poincaré public statements to the contrary, and insists that Poincaré was finally persuaded to stabilize in 1928 only by the insistence of Moreau and the unanimous opposition of technicians to further appreciation.[74] Moreau recorded that Poincaré desired an exchange rate of at least 100 frs./£,[75] and that he persisted for some time in this view, although by late January he was willing to countenance a long period of *de facto* stabilization.[76] Moreau promised only short-term intervention on 23 December, and warned the press that the Bank was acting 'only to check speculation on the rise of the franc and prevent the development of an economic crisis that would inevitably follow too rapid a revalorization of our currency'.[77] But relying on advice from Verdier, who was running the Bank's *service des changes* with great success, and allowed leeway by Poincaré to manage the exchange rate, Moreau settled into temporary stabilization.

*De facto* stabilization lasted eighteen months. Three factors made it last. First, the strong demand for francs allowed the Bank to accumulate a large reserve of foreign exchange, easing Moreau's fears that without foreign credits, stabilization would be impossible. Second, the economic slump that provoked intervention in December turned out to be relatively mild. It was sufficient to cause complaint, and to suggest the greater trouble that a further rise of the franc would produce.[78] Third, and probably most important, Poincaré realized the great political utility of *de facto* stabilization. It kept alive the threat of capital flight that bound the Radicals to his Union Nationale coalition, who might otherwise seek to revive the Cartel; at the same time, by postponing permanent stabilization, it offered the determined *revalorisateurs* on the Right the prospect of further appreciation. And even on the Right, deputies had been concerned that the rise of the franc was 'much too rapid to be healthy'.[79]

American private bankers, impressed with the strength of the French financial recovery, encouraged *de jure* stabilization. Dean Jay noted in mid-December that Poincaré had

[73] See Rueff, *De l'aube au crépuscule*, 59–60; the note is reproduced in Rueff, 'Sur un point d'histoire: le niveau de la stabilisation Poincaré', *Revue d'économie politique*, 69 (1959), 168–78. Rueff claimed that Poincaré requested the study; Jean du Buît, Poincaré's *chef du cabinet*, attributed the idea for the study to Rueff, with Poincaré agreeing without attaching much importance to the issue. See Nathalie Carré de Malberg, 'Les Inspecteurs des finances et la défense du franc (1934–1935)', in *Du franc Poincaré à l'écu* (Paris: Comité d'Histoire Économique et Financière de la France, 1993), 142.

[74] Philippe, *Le Drame financier*, 129–32.

[75] Moreau, *Souvenirs*, 187 [23 Dec. 1926].

[76] Ibid. 211 [25 Jan. 1927].

[77] Ibid. 188 [27 Dec. 1926].

[78] Contemporary views in the press emphasized the mildness of the crisis. For views stressing the significance of the French slump see James Bradford De Long, 'Returning to the Gold Standard: A Macroeconomic History of Britain and France in the 1920s', unpublished Ph.D. dissertation, Harvard University, 1987; Jacques Marseille, 'Les Origines "inopportunes" de la crise de 1929 en France', *Revue économique*, 31 (1980), 648–84, and id., 'La Crise des années 1930 ou le grand recul de l'industrie française', in L'Histoire, *Puissances et faiblesses de la France industrielle, XIX$^e$–XX$^e$ siècle* (Paris: Éditions du Seuil, 1997), 148–50. Blancheton refutes Marseille's linkage of the Poincaré stabilization with early onset of the depression in 'Trésor, Banque de France et politique monétaire', ch. 10.

[79] André Chéradame to Louis Marin, 21 Dec. 1926; AN 317 AP 14.

'succeeded to a remarkable degree in restoring confidence and in putting order into Government affairs'.[80] In late January, Morgan bankers in Paris suggested the promise of an American loan might be 'the very gesture' that would push Poincaré to undertake stabilization. Their New York office observed that the dramatic improvement in the French situation since the summer 'would enable us to make our response at the present time quite the opposite' of their refusal of a loan in May 1926.[81] But Moreau expressed only mild interest when Jay and Carter approached him on 31 January; shown the Morgan telegram by Rist, Moreau commented that it proved that the Americans, realizing their means of pressure to obtain ratification of the Mellon–Bérenger accord were no longer effective, were becoming more conciliatory.[82] Jay asked whether J. P. Morgan should come to Paris to negotiate a stabilization loan; Moreau recorded that the American bankers were growing anxious as France accomplished stabilization without them, and now rushed to offer assistance in order to realize their own designs: 'We must avoid the trap. If we can do without the aid of American banks, so much the better.'[83] The Bank had bought more than £1 million a day in mid-January, accumulating a sterling reserve of £20 million by the end of January. Summoned by Poincaré in early February, Jay and Carter anticipated that he would sound them on a stabilization loan. They had to ask him about his stabilization plans; he answered that he would not act until after the 1928 elections.[84]

Moreau, too, worried less about stabilization. On 31 January he instructed Marcel Hutin to write an article that appeared the next day in *L'Écho de Paris*, showing the extent to which Poincaré had accomplished the programme set by the committee of experts, the need to pursue a policy of reduced interest rates, and the present impossibility of proceeding with legal stabilization.[85] Moreau turned his attention to the domestic money market and an *assainissement* within the Bank in order to put it in sound shape for legal stabilization when that became politically possible.

## 2. PREPARING THE BANK FOR STABILIZATION

Moreau found a good deal of domestic housekeeping necessary to prepare the Bank for stabilization. There were four problems. The first was the expansion of Bank services since the war, and the resulting problems of paying staff and amortizing extensive real estate development. The second, the repayment of Bank advances by the state, had a major impact on the Bank's earnings, and the years 1927 to 1931 marked an important transition for the Bank, from the easy income from advances to the state to foreign

[80] Jay to Leffingwell, 18 Dec. 1926; JPM, 532E; Jay noted that foreign loans or credits were no longer necessary, but that 'no one seems to know what M. Poincaré's programme is, and some even say that he has none'. Both Jay and Leffingwell were opposed to pegging the franc without definitive stabilization; Leffingwell to Jay, 14 Jan. 1927, and Jay to Leffingwell, 25 Jan. 1927; JPM, 532E.

[81] See MH&C to JPM&C, no. 84.666, 25 Jan. 1927, and JPM&C to MH&C, no. 64.066, 27 Jan. 1927; JPM, 532E.

[82] Moreau, *Souvenirs*, 213, 218 [27 and 31 Jan. 1927].

[83] Ibid. 200–1 [13 Jan. 1927].

[84] MH&C to JPM&C, nos. 84.693, 5 Feb. 1927, and 84.697, 8 Feb. 1927; JPM, 532E.

[85] Moreau, *Souvenirs*, 218–19 [31 Jan. 1927], and Hutin, 'Le Plan de redressement financier de M. Poincaré se révèle déjà comme lumineux', *L'Écho de Paris*, 1 Feb. 1927, stating Poincaré believed that a 'very long' period of stability was needed as the prelude to definitive stabilization.

exchange holdings abroad and then to reliance on direct discounting during the Depression. The third and fourth were the related issues of Bank control of the French money market and the possible use of open market operations, and the Bank's efforts to adjust the structure of its earning assets. The difficulties of Bank finances underlay all four problems, with conflict between the Bank's objectives as a private corporation responsible to its shareholders and its conduct as a public institution responsible for the franc.

## *The extension of Bank services*

The law renewing the Bank's issuing privilege in 1918 required that the Bank extend its facilities by 12 branches (*succursales*) and 25 new discount counters (*bureaux auxiliaires*) in the next ten years. From 1918 to 1928 the Bank increased its number of branches from 218 to 262, and the number of 'connected towns' (*villes rattachées*) from 366 to 399. This included nine branches and discount counters in the recovered provinces of Alsace-Lorraine, and four branches opened in Paris to facilitate direct contact with commercial clients at counters opened to sell Bons de la Défense Nationale during the war. The Bank steadily acquired new real estate and renovated existing facilities in the early 1920s. In 1926 and the first months of 1927, politicians charged that the Bank was undertaking unnecessary and expensive real estate development in order to avoid paying the tax on excess profits that had been imposed in 1918. Joseph Caillaux later claimed (in 1936) that Bank real estate developments had cost 1,800 million francs, sufficient reason for 'a minister who does not like to see public funds squandered' to revoke Robineau's appointment as governor.[86]

Moreau asked the Bank's general secretary, Pierre Strohl, to investigate the 'irregular conditions' for Bank expenditures on construction and renovation under Robineau.[87] Strohl reported back on 17 November. Moreau recorded that 'Waste and lack of foresight on the part of the previous administration resulted in the expenditure of more than one billion francs which must now be amortized and regularized, as it was all invested in ways that run contrary to the statutes.'[88] Strohl found that the cost of property, renovations, and furnishings for the forty new branches opened since the war totalled 750 million francs. Expansion of the central offices and the four new branches in Paris cost a further 500 million francs. The Bank had violated article 17 of its fundamental statutes (1808), which required that all acquisitions and expenses for real estate 'can be taken only from reserve funds'. Such stipulations were normal in central bank statutes 'in order to prevent the Bank, by its acquisitions or excessive real estate spending, reaching a point where its note circulation is guaranteed by property holdings'.[89] 930 million francs in expenses and a further 250 million engaged but not yet paid were not being amortized, and thus counted as assets backing the currency. For Moreau, this was 'the ultimate in financial heresy'. He proposed liquidating reserves from the rubric 'Divers' to cover these costs and to increase amortization. The Bank's real estate

[86] Netter, *Histoire de la Banque de France*, 141.
[87] Moreau, *Souvenirs*, 127 [11 Oct. 1926].
[88] Ibid. 161–2 [17 Nov. 1926].
[89] Strohl to Moreau, 17 Nov. 1926; copy of this report in AN 374 AP 7.

problems were not completely regularized until June 1928, when the remaining amortization was covered by funds from the revaluing of Bank reserves.[90]

The Senate finance committee continued to demand explanations of Bank spending and a state share in the profits it believed the Bank was investing in real estate. Poincaré wished to give the government a closer supervisory role over Bank real estate purchases, construction, and renovations. Moreau resisted successfully. Such demands, he claimed, violated the 1808 statutes and the 1918 renewal; Poincaré's demands would deprive the Conseil Général of its legal authority over Bank policy and compromise the independence of the Bank.[91]

The real estate problems were linked to modernization of the Bank's physical facilities. The rise in the number of notes in circulation—from 14 million notes (not francs) in 1913 to 383 million in 1928—vastly increased the Bank's needs for paper-making and printing facilities. In 1916 the Bank began construction of a new printing facility in a suburb of Clermont-Ferrand, which began producing notes in 1920 and reached full operating capacity in 1926. The Bank manufactured its own paper for the notes, and replaced its factory at Biercy with a new one at Vic-le-Comte (near Clermont-Ferrand). These two developments cost 108 million francs. A new annexe was opened in Poitiers in 1921 to store securities far from any frontier. Lastly, huge subterranean vaults were constructed, 25 metres deep, beneath the Bank's central building in Paris between 1924 and 1927, for storage of gold reserves and currency notes.[92]

The extension of services increased the number of Bank employees from 7,300 in 1913 to more than 13,000 in the years 1922 to 1927.[93] Salaries did not keep pace with inflation; when Moreau took over as governor, he raised salaries in order to retain staff and prevent moonlighting. Salaries were increased in October 1927 to try to catch up some of the ground lost since 1914,[94] and again in October 1928, retroactively to 1 July, to adjust salary scales to a coefficient graded from six times 1914 salaries at lower levels to five times at upper levels. Strohl's report on the need for the 1928 salary reform spoke eloquently of the 'obvious insufficiency of the salaries for our personnel', and the increasing number of resignations, often 'the youngest and the best elements', for better-paying positions in business, industry, and private banking.[95] Personnel costs increased by 29 per cent in 1928, while the number of personnel fell by about 700.[96]

[90] Netter, *Histoire de la Banque de France*, 289; Moreau, *Souvenirs*, 599 [25 June 1928].

[91] DCG, 17 Feb. 1927; Moreau, *Souvenirs*, 239–40 [16 Feb. 1927]. Moreau blamed Caillaux for the campaign against the Bank in the Senate, and sent him word that the Bank had abandoned Robineau's real estate policy and was regularizing the errors committed. But it was Henri Chéron, *rapporteur général* for the Senate finance committee, who had initiated the Senate questions; ibid. 225 and 230 [5 and 8 Feb. 1927].

[92] See Netter, *Histoire de la Banque de France*, 290–4.

[93] Ibid. 294; and Yasuo Gonjo, 'La Modernisation de la Banque de France (1930–1946)', *Études & documents*, 8 (1996), 309.

[94] See report by M. Davillier, Régent, Oct. 1927 and Strohl, 'Reforme des émoluments du personnel', 8 Oct. 1927; the increase, estimated to cost 62 million francs, was voted by the Conseil Général at its meeting of 13 Oct. 1927. BdF, 1500197201/6.

[95] Strohl report to the Governor, 15 Oct. 1928; also Director of Personnel to Governor, 10 Aug. 1928, and report by Davillier to Conseil Général, 18 Oct. 1928; BdF, 1500197201/7. Official notice of the reform was sent by Moreau to Bank directors and inspectors on 22 Oct. 1928; copy (no. 3.716) in BdF, 1069199013/9.

[96] Gonjo, 'La Modernisation', 308–9.

The expansion of services and modernization of facilities significantly increased Bank operating costs; uncertainty as to how these would be covered was at its height during the *de facto* stabilization because of dramatic changes in the Bank's earnings.

### *Repayment of advances to the state*

The state failed to meet its repayment schedule as set by the François-Marsal Convention of 1920 after its initial payment on 31 December 1921; in 1925, the ceiling on advances increased by 17,500 million francs. The Bank saw these advances as the fundamental cause of inflation, and worried that they immobilized most of its assets backing the note circulation and could be used neither to control the quantity of notes in circulation nor to reimburse currency notes when convertibility was restored. Figure 5.1(a) shows the proportions of Bank assets made up of advances to the state in the period 1920 to 1936; the reason for Bank concern in the period 1920–8, when advances made up more than 70 per cent of its assets, is clear. The Bank believed that restoration of convertibility required a purge of this 'immobilized' asset. Until the note issue was backed entirely by metallic reserves and commercial paper, the franc could not be stabilized.[97]

It was not just convertibility that concerned the Bank, but the need to mop up liquidity as the Bank issued francs to purchase foreign exchange and maintain the *de facto* stabilization. Strong had suggested the mobilization of the government debt to the Bank for this purpose,[98] and Charles Rist proposed that the Treasury issue *bons ordinaires*, repayable by either the Bank or the Treasury. The funds from the bonds issued would be used to reduce the state debt to the Bank without raising the official figure for the floating debt, and the Bank would reduce the note circulation proportionately. Rist stressed the measure 'will thus have a deflationary effect and at no time will it be inflationary'.[99]

Whether or not the Bank argued that this would be a deflationary measure depended on its target audience. In February 1927, the finance committee in the Chamber widened a debate on wartime advances to foreign governments to discuss reimbursement of Bank advances to the state. When it expressed concern that repaying advances would reduce the note circulation, producing deflation and an increase in the franc's exchange rate, the Bank claimed that repayments were not intended to reduce the note circulation, but simply 'to restore to the bank of issue its control of the circulation'. Currency turned in

[97] Banque de France, *Compte rendu 1926*, 21.

[98] Discussed in Strong's meetings with Moreau, 28 and 31 Aug. 1926; annexes VI and VII in AN 374 AP 5.

[99] 'Note sur la mobilisation des Bons du Trésor remis à la Banque en representation des avances à l'état', draft of Dec. 1926 in AN 374 AP 6; revised draft of 7 Feb. 1927 in BdF, 1397199403 / 155. This revised version was in response to a request from Moreau for a written note, although he was now opposed to the suggestion, fearing it would amount to an abandonment of Bank claims for reimbursement; the interest on the state debt was paid into the amortization account. Moreau, *Souvenirs*, 227 [7 Feb. 1927]. The idea had come up several times earlier, including in a 'Projet de compte-rendu' for 1926 drafted by Quesnay in December 1926 [AN 374 AP 6]. A further proposal to this end later in 1927 argued that mobilization of advances to the state would provide a more effective means of reducing liquidity in the Paris market than the exchange operations being used by the Bank—selling foreign exchange spot and repurchasing it forward—to deal with the large volume of francs being issued to purchase foreign exchange because of the large repatriation of French capital. 'Éléments d'une convention relative à la mobilisation des avances à l'État', dated 1927; AN 374 AP 6.

to the bank to repay advances would be returned to the market by Bank purchases of foreign exchange, with the reduction in Bank advances an essential measure to prepare the return to convertibility.[100] The previous October, Quesnay had foreseen that francs issued to purchase foreign exchange would be deposited with the Treasury (by commercial banks taking advantage of the Treasury having allowed interest-earning demand deposits), allowing repayment of Bank advances. In March 1927 he reversed the argument: the state could repay Bank advances without deflation if the Bank used the funds to purchase foreign exchange. Either way, 'If we want to stabilize our currency, we must persevere on this path. The cleaning up of the Bank's balance is the essential condition for our monetary recovery.'[101]

This monetary circuit owed more to hazard than design. The Treasury had created interest-bearing deposit accounts during the war and prolonged them by decree in December 1920; these were used mainly by commercial banks. When short-term Treasury bills and defence bonds were suppressed in 1927, these Treasury accounts became the most convenient placement for short-term deposits by commercial banks. Initially they paid $2\frac{1}{2}$ per cent interest; this was reduced to 2 per cent in April and to $1\frac{1}{2}$ per cent in July 1927 as domestic rates fell.[102] Francs issued to purchase foreign exchange were deposited in these accounts, where they were available to the Treasury for return to the Bank in repayment of advances. These accounts constituted an important element in the state's floating debt, but were not acknowledged as such. According to Rist, the committee of experts in 1926 forgot to mention these accounts when it made its recommendations for consolidation of the floating debt.[103]

Repayment via this circuit reduced the level of advances from 36.5 billion francs in January 1927 to 18 billion on the eve of stabilization. Poincaré repaid 2 billion francs at the end of 1926, the first full François-Marsal repayment since December 1921. The economic slowdown from the autumn of 1926 through the first half of 1927 facilitated additional Treasury repayment by increasing idle balances in Treasury accounts. The government also issued two loans specifically for repayment of advances. The first, in July 1927, garnered only 4 billion francs, 'which isn't much', Moreau commented;[104] the second in May 1928 attained its target of 10.5 billion francs in less than one week.[105] The remainder of the Bank's temporary advances to the state, 17,900 million francs, was repaid from the profit on revaluation of the Bank's gold and foreign exchange reserves in June.

[100] See 'La Diminution des avances à l'État et le contrôle de la Banque de France sur sa circulation', and 'A propos de la stabilisation du franc: pourquoi l'État doit rembourser la Banque de France', both notes undated but probably Feb. 1927; AN 374 AP 7. A further note arguing the case for reimbursement was composed in June to argue for the reimbursement loan issued in that month; again, it stressed that repayment would allow the conversion of Bank assets from immobilized state paper to foreign exchange redeemable in gold. 'La Signification monétaire du nouvel emprunt', 23 June 1927; ibid.

[101] Quesnay, 'A propos de la stabilisation du franc: pourquoi l'État doit rembourser la Banque de France', Mar. 1927; AN 374 AP 7.

[102] The issue of one-month BDNs ended in Dec. 1926, three- and six-month bonds in Jan. 1927, and one-year bonds in June.

[103] Rist, 'La Loi du 7 août 1926 et le mécanisme de la stabilisation française', published anonymously in *REP* (Jan. 1928); reprinted in Charles Rist, *Essais sur quelques problèmes économiques et monétaires* (Paris: Librairie du Recueil Sirey, 1933), 91–2.

[104] Moreau, *Souvenirs*, 378 [27 July 1927].

[105] Netter, *Histoire de la Banque de France*, 215.

Johnson contends that repayment of these advances 'paved the way' for an international deflation: preventing an increase in French prices during the *de facto* stabilization forced international prices down. He sees Moreau and Poincaré as the key advocates of an extreme position on the repayment of Bank advances.[106] The impact of French deflation after June 1928 on the international economy is discussed below (Chapter 7). But the logic and advocacy for the repayment of Bank of France advances requires elucidation here. Johnson is mistaken in seeing the views of Moreau and Poincaré as extreme. He cites two instances in which Clément Moret, then director of the Treasury, opposed Moreau on the issue. They date from September and November 1926, and reflect Moret's concern to safeguard uncertain Treasury resources before *de facto* stabilization, consistent with long-standing Treasury opposition to the François-Marsal Convention.[107] Johnson criticizes Moreau's rejection of the Rist proposal to mobilize Bank advances as based on the governor's mania for repayment. But Rist's proposal was intended to *facilitate* repayment. Moreau opposed it because interest on the bonds would be paid to the public rather than into the amortization account for Bank advances *and* directly to the Bank in a period of falling Bank profits.[108] The repayment of Bank advances was deemed essential by virtually everyone as a contractual obligation upon which it would be dishonourable to default; few advocated repudiation.

One exception was the economist Gaston Jèze, who characterized Poincaré's resumption of François-Marsal repayments as 'absurd and catastrophic'.[109] Jèze argued that repayment would return France to the policy of deflation and currency appreciation condemned by the committee of experts in July 1926 (on which he had served) and would produce an economic crisis. The Bank response would have been the same as their reply to the finance committee: the purchase of foreign exchange returned the francs to the market; Jèze's critique did not address the Bank's fundamental concern for its reserve position.

Robert Wolff's arguments were more telling: the redemption of this debt was simply unnecessary. The advances did not cause instability or threaten Bank credit policy. Most of the Bank's commercial portfolio was no more *réalisable* than the advances; the argument about liquidity of assets was irrelevant. The public would never spontaneously turn in all the notes in circulation at one time; the Bank needed highly liquid reserves in times of crisis. The problem was not the state borrowing from the Bank, but the fact that when demand for money increased, commercial banks obtained currency by reducing their

[106] Johnson, *Gold, France and the Great Depression*, 130.

[107] The first instance on 23 Sept. involved Moret opposition to repayment of advances; that on 3 Nov. was criticism of the Bank's refusal to purchase foreign exchange. The second citation has nothing to do with the repayment of advances. Johnson also cites a Quesnay statement that only Poincaré would have agreed to full repayment of the Bank. The context was not a discussion of repayment of the advances, it was Poincaré's dispensability once *de jure* stabilization had been achieved, and demonstrates Bank interest in Poincaré's financial orthodoxy.

[108] Moreau refusal of Rist proposal in *Souvenirs*, 227 [7 Feb. 1927]; for Moreau's logic though, see ibid. 238 [15 Feb. 1927]. Of the 3 per cent interest paid on the bonds to the Bank, 2.8 per cent went into an amortization account, and 0.2 per cent directly to the Bank.

[109] Gaston Jèze, 'Le Remboursement de 2 milliards à la Banque de France', *Le Progrès civique*, 22 Jan. 1927; summary in Herrick to Sec. of State, no. 7105, 28 Jan. 1927; RG 59, 851.51/983.

holdings of short-term debt. To repay this debt the Treasury had to rely on the Bank. An increase in Bank advances to the state was simply a change in the creditor providing the money needed in the market. The Bank's concerns for liquidity of assets were based on antiquated monetary ideas.[110] Wolff's analysis received some support when articulated at the Semaine de la Monnaie in May 1927, but most shared the views of Georges Valois, who repeatedly attacked Wolff's arguments. For Valois, as for the Bank, stabilization was impossible if one did not eliminate that part of the money supply that rendered it unstable: notes issued for Bank advances to the state.[111]

## *Control of the money market*

Other central banks used open market operations to manage credit conditions with considerable success. Such operations, the Bank claimed, violated its fundamental statutes, and the immobilization of its assets in advances to the government was without parallel elsewhere.[112] In October 1926, Pierre Quesnay spent a week in London acquainting himself with the Bank of England's methods of market control, and he was struck by the differences.[113] 'Its power, undisputable and undisputed ... surpasses anything imaginable in France', he recorded. If much of Britain's economy desperately needed reorganization, 'the financial market, on the contrary, is a marvel of precision of which any country would be proud'.[114] In comparison with the London market and the Bank of England's control, the Paris market was chaotic. The Bank of France had neither reliable information on interest rates and volume of transactions nor the *means* to control the market. Quesnay stressed the role of the discount houses in facilitating Bank control in London (he met Spring-Ryce, director of the Alexander Discount Company), and the trust of British private bankers in the Bank of England because they knew that '*the Bank of England would never compete with the private banks under any circumstances*, a principle so important that many Englishmen would like to have it written into the statutes of banks of issue'. There were neither discount houses nor trust in Paris, where commercial banks were unwilling to work with the Bank unless compelled to do so.[115]

Quesnay proposed three changes to improve control in France: pay closer attention to the current accounts of the Paris banks (including their accounts at the Treasury), improve the quality of commercial paper discounted at the Bank of France (which tended to be lower quality paper that would be discounted at higher rates in the market),

[110] Wolff explains this at several points during the second Semaine de la Monnaie; Octave Homberg et al., *La Stabilité monétaire: rapports, travaux et comptes rendus, vœux et résolutions de la Deuxième Semaine de la Monnaie* (Paris: Librarie Valois, 1927), 244–57, 262–71, 302–9; also Robert Wolff, *Note sur le système monétaire français* (Paris: Gauthier-Villars et Cie, 1927), 77–80.

[111] *La Stabilité monétaire*, 113–21, 147–50, 161–4, 258–9, and 273–6.

[112] P. L. Ricard, 'La Banque de France et le marché monétaire', Sept. 1926; AN 374 AP 6.

[113] His intentions in this regard are described in his letters to H. A. Siepmann of 4 Sept. and 9 Oct. 1926; AN 374 AP 9.

[114] These quotes and the following observations are drawn from Quesnay's report on his visit, 'Compte rendu de mission á Londres (lundi 11–samedi 16 octobre 1926)', AN 374 AP 6. Moreau paraphrases part of Quesnay's report in *Souvenirs*, 135–7 [19 Oct. 1926].

[115] Quesnay, 'Compte rendu', emphasis in original.

and create facilities for discounting BDNs. This last point touched on the 'fundamental defect in the French monetary regime at the present time': the state preferred to obtain money through advances from the Bank, current account deposits at the Treasury, and the issue of BDNs, all below market rates.[116] Given that budget constraints ruled out raising the interest rates on Treasury bonds, essential to the creation of an organized money market, Quesnay proposed the replacement of Bank advances to the state by ordinary Treasury bills, 'which, mobilized by the Bank in periods of monetary abundance, would furnish a means to act on the market'. This had in fact been proposed by none other than Benjamin Strong in August, as a measure to reduce the volume of notes in circulation.[117]

None of Quesnay's proposals were adopted. In the stabilization dossier put together by the Bank in June 1928, a memorandum on control of the credit market admitted that 'The Bank of France has never in the past had a direct means of action on the money market …' Elsewhere (in Germany, Britain, the United States, Holland, Switzerland), open market operations were used to manage credit conditions and make changes in the discount rate immediately effective. Since the war, this practice had become 'indispensable' to central banks. 'Without such a system, analogous to those working everywhere abroad', the Bank warned, 'the Paris market risks remaining disorganized and anarchic', and French deposit banks with surplus funds would invest them in London and Berlin.[118] The monetary reform law in 1928 granted the Bank power to sell and repurchase Treasury bonds held for the state loans to Russia (articles 2 and 3 in the convention between the Caisse Autonome and the Bank), a development Moreau lauded as giving the Bank a 'particularly effective instrument' to control the volume of francs in circulation. But opposition within the Conseil Général prevented its use by Moreau in 1930.[119] Creating an organized money market remained a task still to be accomplished in 1928, and Moreau ascribed his resignation in 1930 in part to the failure of his efforts.[120]

### *Assets and income*

The Bank's most persistent concern was its financial situation. The structure of Bank assets underwent violent fluctuations in the inter-war years, particularly at the time of stabilization. This was a matter of substantial concern to the Bank as a private corporation earning profit to satisfy shareholders. Yet the Bank was also a public institution, its governors appointed by the Minister of Finance, responsible for fulfilling the public functions of maintaining currency stability and providing stable conditions of credit throughout the country. The two roles could and did conflict.

[116] As noted above, this argument had been made repeatedly by American bankers advising the French government since 1924, particularly Russell Leffingwell and partners in J. P. Morgan and Co.

[117] Quesnay, handwritten note, 'Taux de stabilisation', 26 Aug. 1926; AN 374 AP 5. Strong also emphasized in August, with regard to rates on BDNs being one and a half points below the Bank discount rate, that the cost to the Treasury of paying higher rates were 'insignificant compared to the benefit which would result for the credit of the state'. 'Conversation avec M. Strong du mardi 24 août', AN 374 AP 5.

[118] 'Le Contrôle du marché du crédit', June 1928; AN 374 P 8; see also 'Moyens d'action de la Banque de France sur le marché' in the same file.

[119] See Mouré, *Managing the Franc Poincaré*, 136, 139–40.

[120] See Moreau, *Souvenirs*, 603 [28 June 1928], and Mouré, *Managing the Franc Poincaré*, 130–43.

The Bank's advances to the state were its main asset from 1918 to 1927. When they were repaid in 1927–8 they were replaced by an unusually high proportion of gold and foreign exchange reserves. Figure 5.1(a) shows the sharp change in assets in 1927–8. Figure 5.1(b) separates foreign exchange and gold holdings; foreign exchange was an

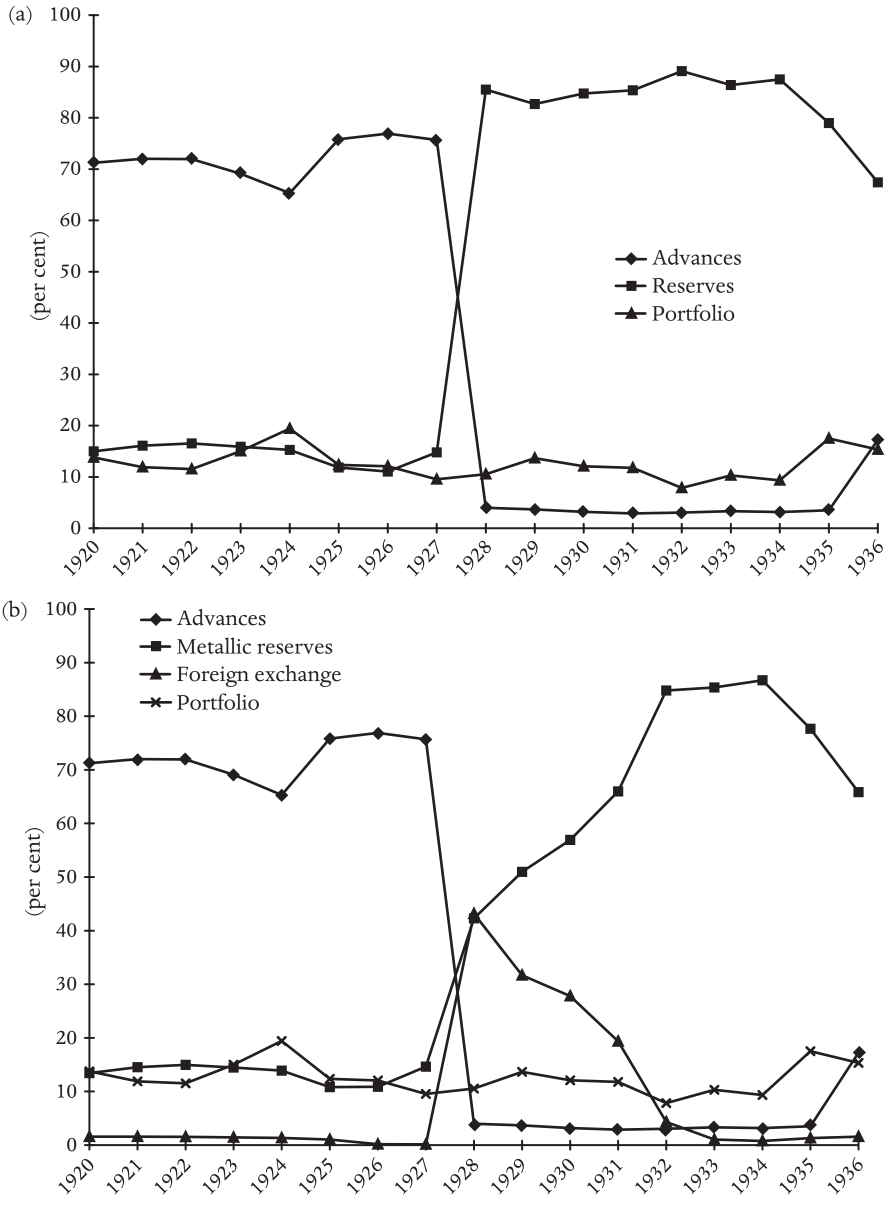


**Figure 5.1.** *(cont.)*

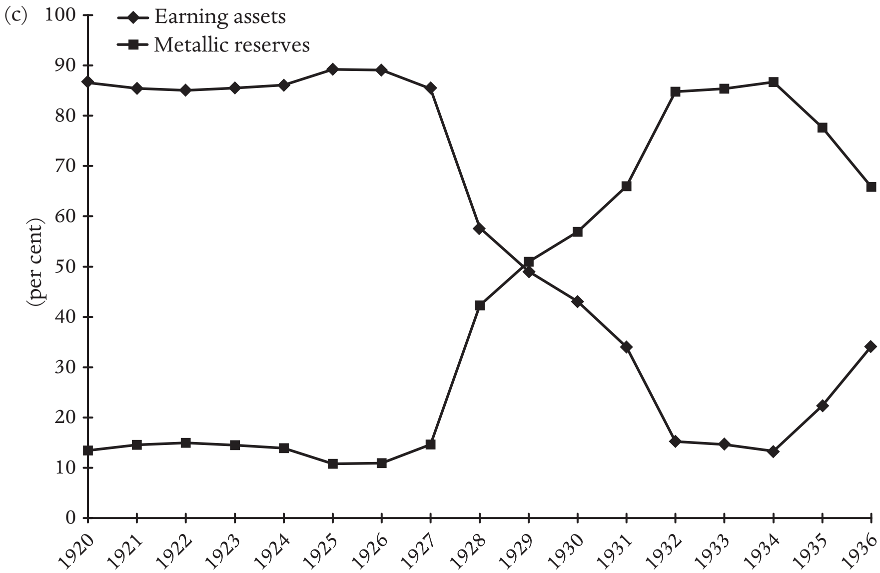


**Figure 5.1.** *Bank of France assets, 1920–1936*

*Source*: Bank of France annual reports, 1920–36.

earning asset on which the Bank earned a good deal in 1928–31. Figure 5.1(c) separates earning and non-earning assets in order to highlight the transitional nature of the period 1927–31, when foreign exchange holdings sustained Bank earnings. The steady increase in gold reserves after 1928, and particularly after sterling went off gold in 1931, reduced the proportion of earning assets to less than one-sixth of total assets, with a significant effect on earnings.

In 1913, credit granted to the economy through discounts, rediscounts, and advances against securities constituted 32.8 per cent of Bank assets; during the inter-war period its annual peak was 17.9 per cent in 1924.[121] From 1920 to 1927 the interest earnings on advances to the state made up 68 per cent of the Bank's revenue. This fell to nothing from 1929 to 1936 after a transitional level of 31 per cent in 1928.[122] This precipitous decline coincided with a sharp fall in revenue from discounting and advances. The Bank remained prosperous and paid its highest dividends of the inter-war period from 1929 to 1931 (Figure 5.2) thanks to earnings on its foreign exchange holdings. These rose from nothing in 1926 to a modest 5.4 per cent of revenue in 1927, and leapt to 44.8 per cent in 1928 and 68.6 per cent in 1929 (Figure 5.3). When the Bank converted foreign exchange

[121] Jean Bouvier, 'The French Banks, Inflation and the Economic Crisis, 1919–1939', *Journal of European Economic History*, 13, no. 2 (Fall 1984), 42–50, and Figure 5, 45.

[122] These figures are drawn from the statistics put together at the time of the nationalization of the Bank in 1945 and reproduced in Gonjo, 'La Modernisation de la Banque de France', 310.

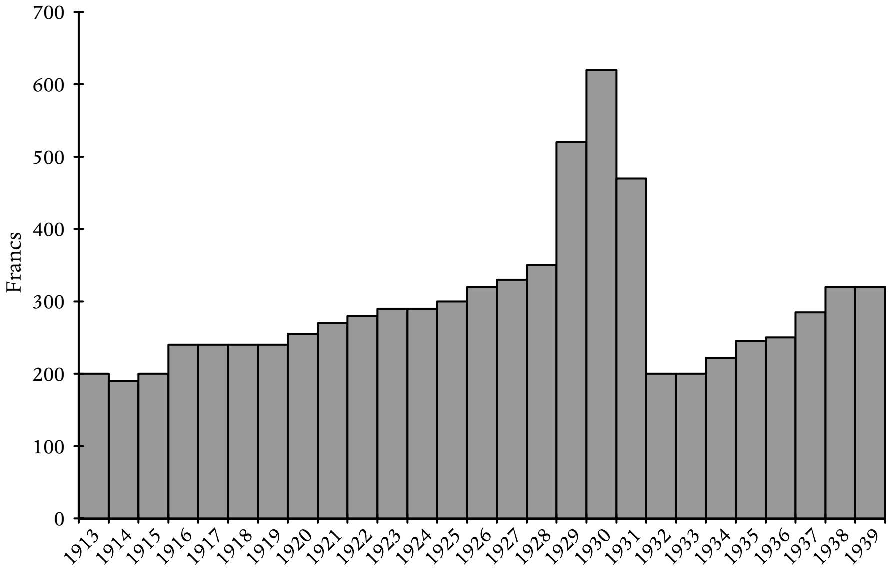


**Figure 5.2.** *Bank of France dividends, 1913–1939*

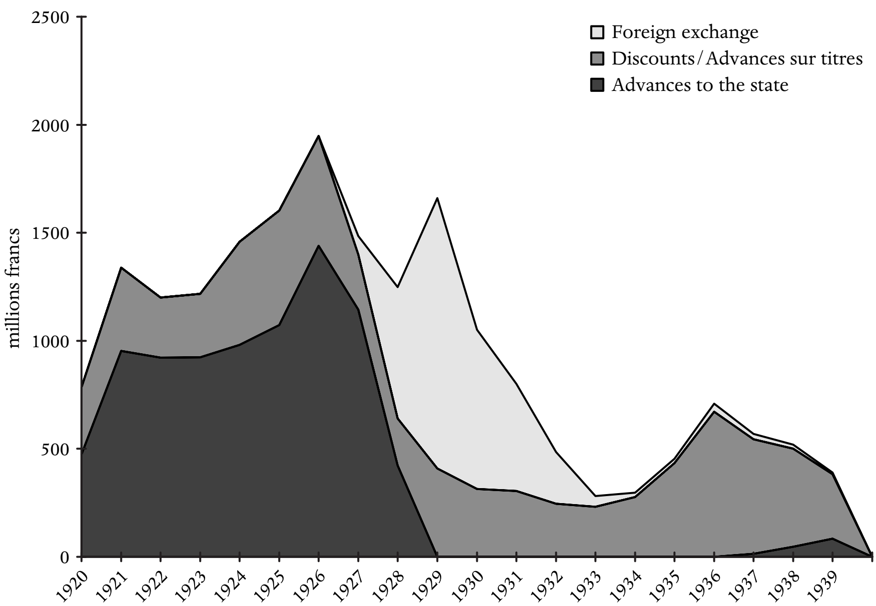


**Figure 5.3.** *Bank of France gross revenues, 1920–1936*

*Source*: Bank of France annual reports.

holdings to gold in 1932, it decided to maintain a balance of 7 billion francs because the yield from these deposits would maintain earnings to keep the biannual dividend at a minimum of 150 francs per share.[123]

As income from foreign exchange declined, the Bank relied increasingly on earnings from discounting and advances. The shift from advances to the state to foreign exchange in the Bank's asset structure was between two earning assets; the conversion of foreign currencies to gold was a shift into a non-earning asset. Annual revenue peaked at over 2 billion francs in 1926 (71.5 per cent from advances to the government); it had fallen more than 50 per cent in 1931, and fell by nearly half again to barely 500 million francs in 1934. The proportion of earnings derived from discounts and advances climbed from 16.3 per cent in 1927 to 30 per cent in 1931, and to over 60 per cent in the years 1935–7 (see Figure 5.3). In the early 1930s, the Bank tried to expand its direct discounting in competition with the commercial banks, a policy that severely strained relations with the large deposit banks and the smaller regional banks as all felt the impact of the economic slump.[124]

The period 1926 to 1932 was thus one of radical change for the Bank's financial situation, particularly during Moreau's first two years as governor. Revenue from advances to the state and discounting fell precipitously, while personnel expenditures and real estate costs increased sharply. The earnings on foreign exchange from 1928 to 1931 and the high dividends these made possible were distinctly temporary, and required increased tax payments to the state: the *charges fiscales* paid by the Bank peaked for the inter-war period in 1929–30, exceeding 20 million francs per year as the state's share of the high dividends.

The Bank's management of its assets and discount rate was inevitably influenced by concerns for its financial situation. In February 1927 Moreau rejected the replacement of Bank advances to the state with Treasury bonds because the Bank would receive no remuneration for the bonds issued, 'although its profits would be in constant decline'.[125] During the *de facto* stabilization, the Bank maintained a high discount rate in order to sustain earnings. In May 1927, Moreau refused to lower the Bank's discount rate to reduce the flow of capital to Paris; his refusal severely strained relations between the Bank of France and the Bank of England and altered the nature of inter-war central bank co-operation (see Chapter 6).

In December 1927 and January 1928, the Bank lowered its discount rate in steps from 5 to $3\frac{1}{2}$ per cent. The Bank's commercial portfolio had fallen from 3.5 billion one year earlier to 1.23 billion francs; Moreau admitted that the discount rate was completely out of touch with the market. The degree to which market rates had fallen far below the Bank's rate is readily apparent in Figure 5.4. The obstacle to reducing the Bank discount rate was 'that, in the end, it will further reduce our profits and unbalance our budget'.[126] The losses to the Bank's income could be made up, Moreau proposed in December 1927, by purchasing foreign exchange (1 billion francs) to be invested in ninety-day commercial paper in London for the Bank's own account (rather than the Treasury account, as with foreign exchange purchased under the convention of 16 September 1926). Wendel

[123] DCG, 10 and 17 Mar. 1932; see Mouré, *Managing the Franc Poincaré*, 77.

[124] Mouré, *Managing the Franc Poincaré*, 126–30; Gonjo, 'La Modernisation de la Banque de France', 310–13.

[125] Moreau, *Souvenirs*, 238 [15 Feb. 1927].

[126] Ibid. 457 [22 Dec. 1927], and DCG, 22 Dec. 1927.

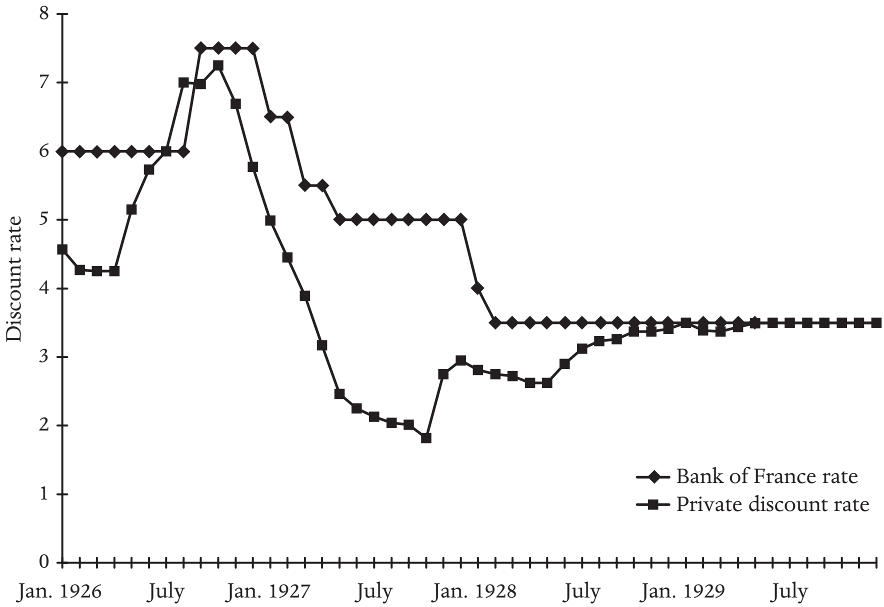


**Figure 5.4.** *Discount rates in France, 1926–1929*

*Source*: Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics*, 657.

objected: the action would require that the Bank be excepted from the 3 April 1918 law forbidding the export of capital—an exception duly authorized by Poincaré. But the key to Wendel's opposition was the Bank's investment in foreign exchange at the current exchange rate: 'Basically', Wendel recorded, '[the governor] is continuing his campaign for stabilization in the near future at close to the current rate.'[127] In the next six months, before taking over the foreign exchange owned by the Treasury in June 1928, the Bank earned 52 million francs on this foreign exchange. For three years thereafter, earnings on foreign exchange were the Bank's most significant source of revenue.

Foreign exchange holdings required management, and Moreau sought to gain on this front as well. In February 1927, he complained to Poincaré of falling profits and obtained the right to a commission of 2.5 centimes per pound sterling and 0.5 centimes per dollar on exchange operations conducted by the Bank under the convention of 16 September 1926. Moreau noted at the time that this would produce a commission of 7 million francs for a service that cost the Bank 2 millions.[128] But this tidy profit was small change compared to the foreign exchange earnings going to the Treasury. A few weeks later, Moreau threatened to denounce the 16 September convention and cease purchasing foreign exchange—not in a ploy to advance stabilization, but in order to obtain a greater share of

[127] Cited in Jeanneney, *François de Wendel*, 383; Moreau saw Wendel's opposition as evidence that Wendel remained a *revalorisateur*.

[128] Moreau, *Souvenirs*, 250 [24 Feb. 1927].

foreign exchange earnings. He requested a new clause be added to the convention of 16 September, awarding the Bank a share of the earnings on foreign exchange. If not, he threatened, the Conseil Général, despite its desire to continue its role in the *redressement monétaire*, 'would find itself forced, so as to safeguard the strictly indispensable equilibrium of our operating accounts, to denounce the Convention of last 16 September, in accordance with article 5 of this Convention'.[129] Poincaré denied that the Bank had any legal claim to compensation, but conceded that it was unfair to have the Bank support the costs of foreign exchange management. For the first quarter of 1927 he allowed the Bank 10 per cent of the interest earned (thus 4,677,000 francs) and to pay the net interest into the amortization account, a solution to which Moreau readily agreed.[130]

Moreau assumed the Bank would receive 10 per cent on the second quarter earnings as well, 10,789,000 francs. Poincaré, however, insisted that payment to the Bank be determined at the end of each quarter, and in view of reduced purchases and higher interest rates, proposed the Bank receive 5 per cent of interest earnings: 5,400,000 francs.[131] Moreau protested that a quarterly review of the Bank's profits and expenses in managing foreign exchange would violate the previous conventions between Bank and state and constitute state interference with the independence of the Bank. He also claimed that it was 'practically impossible' to determine the precise costs of the Bank's foreign exchange operations. He proposed instead that the Bank receive a commission from the banks in which it deposited the foreign exchange.[132] Poincaré accepted Moreau's arguments, and proposed that the Bank take a commission of 0.20 per cent on foreign exchange placed. Moreau agreed. The Bank received 5 per cent of the earned interest for the period April to August 1927, and the new regime took effect on 1 September.[133]

Given its budget concerns and the large earnings possible on foreign exchange holdings, the Bank had great interest in ensuring that foreign exchange held for the Treasury under the 'exceptional and transitory' regime created by the convention of 16 September 1926 and the interest earned on that foreign exchange should, after the monetary reform, belong to the Bank. This was argued on the basis of independence of the Bank: the reserves would guarantee the new franc 'an unshakeable foundation' and the Bank would 'recover and conserve' its control of the money market.[134] In fact, the measure would mainly serve the financial interests of the Bank. The Bank obtained what it desired in the monetary reform.

[129] Moreau to Poincaré, 10 May 1927; AN 374 AP 6; Moreau, *Souvenirs*, 306 [10 May 1927].

[130] Poincaré to Moreau, 13 May 1927, and Moreau to Poincaré, 18 May 1927; AN 374 AP 6.

[131] Moreau to Poincaré, 2 July 1927, and Poincaré to Moreau, 15 July 1927; AN 374 AP 6.

[132] Poincaré had told Moreau of the line he would adopt, seeking a negotiated agreement between them; Moreau, *Souvenirs*, 370 [15 July 1927]. Moreau to Poincaré, 28 July 1927; AN 374 AP 6; also in DCG, same date.

[133] Poincaré to Moreau, 29 July 1927; Moreau to Poincaré, 17 Aug. 1927; Poincaré to Moreau, 18 Aug. 1927; AN 374 AP 6; also in DCG, 18 Aug. 1927. Poincaré had tried to obtain an 'understanding' that the interest earnings on funds placed by the Bank would be similar to those earned by the Treasury on its foreign exchange. Moreau refused, on the grounds that Bank of France funds could not be invested for predictable periods, as could those of the Treasury with fixed dates for meeting external payments. The Bank, needing its foreign exchange for monetary purposes, could not earn comparable interest rates on its deposits, and the payment of the commission would further lower the interest rate earned.

[134] 'L'Intérêt des devises', 4 June 1928; AN 374 AP 8. This note evaluated the foreign exchange holdings, as of 31 May, as nearly $530 million, nearly £55 million, and nearly 42 million Swiss francs.

The legal stabilization in June 1928 completed the reordering undertaken by Moreau. The revaluation of the gold, silver, and foreign exchange held by the Bank produced a surplus of 16,640 million francs, of which 15,113 million was used to liquidate the advances owed to the Bank. The size of the permanent advance to the state was increased to 3,200 millions. A further 400 million was used to reduce the unamortized balance on Bank real estate to the 215 millions specified in the Bank's published balance.[135] Interest earnings on foreign exchange would go to the Bank, more than making up for the loss of income on advances to the state in the immediate future. Moreau reflected with satisfaction that 'our financial situation, terribly muddled two years ago, will now be perfectly sound'.[136]

## 3. THE GUILLOTINE'S CLEAN CUT

France restored gold convertibility of the franc on 25 June 1928 at close to the *de facto* rate, one-fifth of pre-war parity. The timing and the rate were determined in a renewed struggle for control of monetary policy between the Bank and the state that gave the Bank most of what it wanted. Even those who defend the French stabilization as 'tactical' without deliberate undervaluation agree that it undervalued the franc.[137] This cushioned the economic adjustment to monetary stability. France had run a trade deficit almost every year since 1876; war-related imports increased this deficit sharply from 1915 to 1920. The trade deficit fell to a very low level from 1921 to 1928; the economic slump in 1921 curtailed imports, and the decline of the franc raised import prices to 1927. The deficit increased thereafter, pushed initially by strong domestic demand, then by declining exports after the onset of the global economic slump and by the increasing overvaluation of the franc as other currencies depreciated (Figure 5.5).[138] Income from invisibles increased in the mid-1920s and peaked in 1929–30, providing the strong positive balance on current account; tourist receipts were particularly high in the mid-1920s (Table 5.1).[139] The capital flight that hurt French finance in the first half of the 1920s reversed sharply after 1926. Estimates of 'invisible' capital movements in the inter-war period showed an outflow of more than 50 billion francs in the years 1921 to 1926, and an inflow of roughly equal proportion in the period 1927 to 1931, reflecting repatriation of French capital and funds seeking refuge, especially in 1931 (28 billion francs inflow in that year).[140] The Bank's push for stabilization without further appreciation clearly paid off in reducing the adjustment crisis, promoting the return of capital, and insulating France against the initial onset of the slump.

[135] Moreau, *Souvenirs*, 599 and 603 [25 and 28 June 1928]. [136] Ibid. 599.

[137] See Sicsic, 'Was the Franc Poincaré Deliberately Undervalued?' For a contrary view, arguing deliberate undervaluation, see Mouré, 'Undervaluing the Franc Poincaré'.

[138] See Tables X and XIV in Maurice Lévy-Leboyer, 'La Balance des paiements et l'exportation des capitaux français', in Maurice Lévy-Leboyer, ed., *La Position internationale de la France: aspects économiques et financiers XIX$^e$–XX$^e$ siècles* (Paris: École des Hautes Études en Sciences Sociales, 1977), 121–2, 135; Villa, *Analyse macro-économique*, 170–1.

[139] Tourist receipts increased from 4 billion francs in 1923 to 13 billion in 1926, and remained at 7 to 8 billion francs in 1928–30. Sauvy, *Histoire économique*, iii. 406.

[140] See Martin Wolfe, *The French Franc between the Wars 1919–1939* (New York: Columbia University Press, 1951), 218, and Charles Rist and Gaëtan Pirou, eds., *De la France d'avant guerre à la France d'aujourd'hui: vingt-cinq ans d'évolution de la structure économique et sociale française* (Paris: Recueil Sirey, 1939), 548–9.

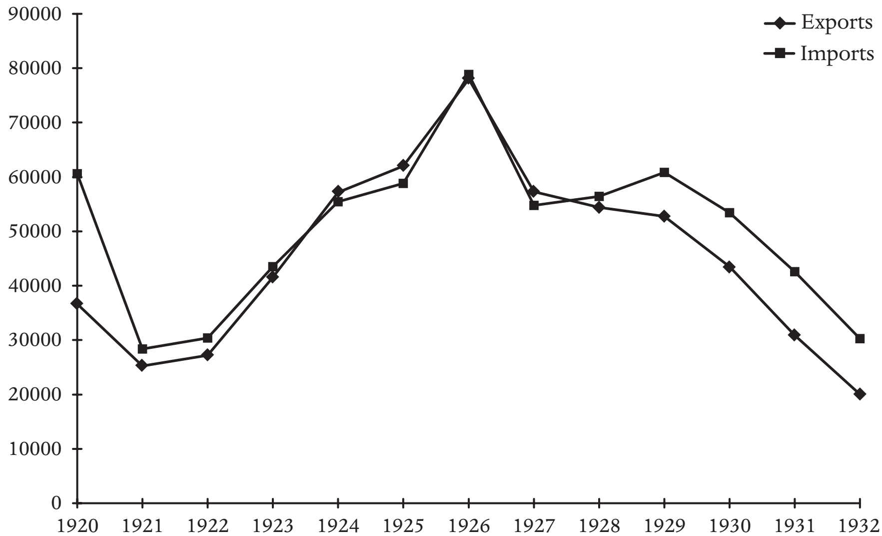


**Figure 5.5.** *Exports and imports, 1920–1932 (millions francs)*

*Source*: Sauvy, *Historie économique*, iii. 339.

**Table 5.1.** *French balance of payments, 1920–1932 (billions of 1928 francs)*

| Date | Trade balance | Invisibles | Foreign exchange | Current account | 'Invisible' capital movements |
|---|---|---|---|---|---|
| 1920 | −50.6 | 11.2 | 0.8 | −23.9 | 28.2 |
| 1921 | −0.4 | 10.0 | 0.4 | 10.0 | −7.3 |
| 1922 | −4.9 | 11.8 | −0.1 | 6.8 | −8.3 |
| 1923 | −4.7 | 9.4 | — | 4.7 | — |
| 1924 | 0.4 | 13.0 | 0.2 | 13.6 | −11.1 |
| 1925 | −1.5 | 12.9 | — | 11.4 | −11.3 |
| 1926 | −2.0 | 14.2 | 1.4 | 13.7 | −13.2 |
| 1927 | −0.3 | 12.2 | −15.1 | −3.2 | 10.6 |
| 1928 | −4.5 | 15.4 | −13.3 | −2.4 | 3.6 |
| 1929 | −10.0 | 21.2 | −3.2 | 8.0 | 2.5 |
| 1930 | −13.0 | 20.4 | −7.4 | — | 9.2 |
| 1931 | −13.3 | 12.8 | −12.5 | −12.6 | 28.4 |
| 1932 | −10.0 | 0.8 | 0.8 | −5.5 | 2.4 |

*Sources*: Figures calculated from Lévy-Leboyer, 'La Balance des paiements et l'exportation des capitaux français', 135, except the presumed 'invisible' capital movements, drawn from Wolfe, *The French Franc between the Wars*, 218.

This section deals with three aspects of the *de jure* stabilization. The first is the expectations and desires with regard to stabilization from December 1926 to June 1928 in the business and banking communities, the Bank of France, and the Treasury. The second aspect is the timing and the politics of legal stabilization, which Poincaré would have liked to postpone for as long as possible. Poincaré seriously threatened resignation over the issue in June 1928, and tried to provoke the defection of ardent *revalorisateurs* in order to justify giving up office. The third aspect is the monetary reform law itself, which, largely determined by the Bank, illuminates Bank conceptions of the gold standard and set the stage for subsequent problems in international gold standard management.

In early 1927, public opinion strongly favoured stabilization. Several journalists sought out representatives of industry, commerce, and finance for their views on the choice between exchange-rate stability and further appreciation. No one favoured instability after the violent fluctuations of the previous year. An overwhelming majority of respondents in *Le Petit Journal, L'Écho de Paris*, and the *Revue hebdomadaire* desired stabilization. Georges Maus, president of the Fédération des Commerçants Détaillants, claimed that in July 1926 consumers had rushed to buy goods at any price, 'they cleaned us out'; but with the recovery of the franc, 'The spendthrift son has become a penny-pinching father.'[141] Théophile Bader of Galeries Lafayette was one of the few retailers to deny there was any crisis.[142] Although André Citroën boasted that the recovery of the franc posed no problems for his automobile sales, since his production costs were low and any contraction of the domestic market would be compensated by sales abroad,[143] he sought assistance from the Bank of France and complained when Moreau would discount only statutory paper for his firm.[144] Cotton manufacturers complained that their industry was in crisis: the franc at 150/£ had made little difference, but as it rose their customers began to refuse to take delivery: 'at 120 there's a dead halt as if everyone had lost their operating funds'.[145] Raoul Lenoir, secretary of the CGT (which had been demanding the stabilization of the franc since February 1926) noted widespread production slowdowns in France, and opposed appreciation: 'Only stabilization can restore prosperity and economic order.'[146] Pierre Hamp concluded that all working France desired exchange-rate stability, from the CGT to the patronat.[147]

Few respondents stated a specific, preferred level for stabilization. François de Wendel thought stabilization at 120 to 125 frs./£ ill-advised in January 1927, wishing to see a higher value for the franc, but he was non-committal as to how much higher.[148] Octave Homberg believed stabilization urgent, and that a rate of 150 frs./£ would promote wage

[141] Pierre Hamp, *Une enquête sur le franc* (Paris: Éditions Rieder, 1927), 104–5, an inquiry originally published in *Le Petit Journal*. Hamp was refused an interview with Poincaré , who was irritated by the request. See Hamp to Poincaré, 20 Dec. 1926; Poincaré to Hamp, 21 Dec. 1926, and Loucheur to Poincaré, 23 Dec. 1926, in Loucheur Papers, Box 12, folder 20.

[142] Hamp, *Une enquête*, 44–8; Bader would again deny there was any crisis in a similar inquiry in 1930; see Mouré, *Managing the Franc Poincaré*, 27–8.

[143] Hamp, *Une enquête*, 38–9.

[144] Moreau, *Souvenirs*, 177, 178 [10 and 14 Dec. 1926]. Citroën complained that this was contrary to Robineau's practice. Moreau termed Citroën 'un administrateur discutable'. Ibid. 244 [18 Feb. 1927].

[145] Hamp, *Une enquête*, 63–4.

[146] Georges Suarez, 'Faut-il stabiliser our revaloriser?' *Revue hebdomadaire*, 1 Jan. 1927, 84–9 (quote from p. 88), and Hamp, *Une enquête*, 117–22.

[147] Hamp, *Une enquête*, 139.

[148] 'L'Opinion de M. François de Wendel sur la stabilisation et la revalorisation', *L'Information politique*, 13 Jan. 1927; see Jeanneney, *François de Wendel*, 348.

and price stability.[149] Charles Lallemand, a member of the Academy of Sciences, was the only respondent wishing to restore the franc to its 1914 parity, even if it would now take not twelve but twenty-two years. He argued that the effort required was no greater than that which had restored the British pound to parity: it would merely take four times as long.[150] Most preferred to leave the choice to the government, having faith in Poincaré's management. According to Ernest Mercier, Poincaré inspired 'absolute confidence'.[151]

Poincaré desired a higher franc—100 frs./£ he told Moreau. But bowing to public opinion, he announced at the end of January that the government would keep the exchange rate stable in order to allow industry time to adapt, and he admitted to the Chamber that his government had overvalued the franc in 1924 and then had to let it fall in order to avoid a crisis.[152] Moreau expressed satisfaction with Poincaré's statements, which eased pressure on the franc,[153] but his collaborators in the Bank were not happy with the *de facto* rate. Pierre Quesnay had adopted 162.5 frs./£ as his pet scheme the previous summer, and he held to it despite *de facto* stabilization at a higher rate.[154] Rist argued that the difference between stabilization at 125 or at 150 frs./£ was 'extremely important'. Stabilization at the lower rate would avoid pressures for domestic deflation, increase the Bank's gold cover for its note circulation (after revaluation), and reduce the burden of taxation. 'In my opinion', Rist wrote, 'the figure of 125 should not be considered under any circumstances, and we should do everything we can to retain the possibility of returning to a rate of about 150.'[155] He threatened to resign if the Bank obstructed stabilization.[156] Moreau accepted that Poincaré would not stabilize until after national elections in 1928; the *de facto* rate worked well, so there was no immediate need to change it.

*Revalorisateurs* took heart in April when the Bank of France repaid its loans from the Bank of England and received in return the £18 million in gold held as collateral,[157] and renegotiated the convention with the state by which the Bank held bonds discounted for pre-1917 advances to Russia. Journalists and politicians anticipated that these measures meant imminent stabilization.[158] Their anticipation was fuelled by an article in *Le Temps* suggesting that the increased note issue from Bank purchases of foreign exchange would eventually produce either inflation or irresistible pressure to allow the franc to rise.[159]

[149] Hamp, *Une enquête*, 58.

[150] Ibid. 123–38. Wendel warned against those seeking to discredit appreciating the franc by arguing for a return to par, impossible at present because it would render domestic debt servicing impossible (*L'Information politique*, 13 Jan. 1927). Homberg warned against Lallemand in particular in Hamp, *Une enquête*, 55.

[151] Suarez, *La Revue hebdomadaire*, 1 Jan. 1927, 101.

[152] See Marcel Hutin article, *Le Matin*, 1 Feb. 1927; also Alfred D. Cameron, 'Stabilization Postponed', 3 Feb. 1927; RG 59, 851.51/994.

[153] Moreau, *Souvenirs*, 211 [26 Jan. 1927].

[154] 'Monsieur Quesnay's opinion on the French franc', 7 Dec. 1926; BoE, OV45/1; J. A. C. Osborne to Siepmann, 6 Feb. 1927; BoE, OV45/78; and H. A. Siepmann note on conversation with Quesnay at the Bank of France, 18 Jan. 1928; BoE, OV45/79.

[155] Rist, 'Différences au point de vue des facilités techniques d'une stabilisation, du choix du cours de 125 ou de 150 à la livre', 15 Jan. 1927; AN 374 AP 7; there is a copy without attribution to Rist in BdF, 1397199404/76.

[156] Moreau, *Souvenirs*, 218 [31 Jan. 1927].

[157] See below, Chapter 6 section 2.

[158] 'Memorandum of a Conversation with M. de Mouy', 6 Apr. 1927, and Herrick to Sec. of State, no. 7363, 14 Apr. 1928; RG 59, 8151.51/1059 and 8151.51/1073.

[159] Frédéric Jenny in *Le Temps*, 10 Apr. 1927; Jenny argued for a lower interest rate and an end to the ban on the export of capital.

Even Socialist leader Léon Blum was caught up in the speculation on when legal stabilization would take place, and at what rate.[160] In late April Édouard de Rothschild, one of the most influential regents of the Bank, spoke publicly in favour of appreciation. Rumours circulated that Poincaré had informed directors of the chief Paris banks that the franc would be raised to 80 frs./£ in order to stabilize afterwards at 100.[161] Moreau was outraged by Rothschild's speech, as well as by a broadcast on state radio that claimed Poincaré intended to revalue the franc.[162]

In May 1927, a second Semaine de la Monnaie discussed exchange-rate stabilization. The Bank of France played a less prominent role than in the first Semaine de la Monnaie, but again provided financial support.[163] The conference examined three alternative policies: a return to pre-war parity, the creation of a *monnaie de compte* (a nominal gold franc to be used as a unit of account) to provide stable terms for contracts and prices, and stabilization at the current exchange rate. All agreed on the need to return to gold: '*Revalorisateurs* are just delayed-action stabilizers,' Jules Asquin commented.[164] The *monnaie de compte* was favoured by *revalorisateurs* and stabilizers alike as an interim measure to provide a stable unit of account for contracts.

The conference participants massively favoured stabilization. The main proposal for restoring convertibility at the current exchange rate passed with five dissenting votes, while the counter-proposal for a return to pre-war parity was rejected by all but three conferees. Charles Lallemand and A.-A. Rey regretted that *revalorisateurs* were 'a tiny minority' at the conference, which, they griped, should have been titled the 'Semaine de la Stabilisation'.[165] When they complained that they had not obtained a fair hearing, Louis Germain-Martin responded that the conference afforded an open hearing to all sides: if the *revalorisateurs* had not developed their case to their own satisfaction, they had only themselves to blame. The case *against* appreciation, presented by Louis Pommery, was much stronger. Pommery pointed out that *revalorisateurs* based their claims that their programme would require no contraction of the French economy on the unrealistic assumption of a 4 per cent annual rate of growth for twenty years. He posited that with realistic fluctuations in growth, restoring the 1914 franc would take seventy to eighty years. Lallemand termed the choice as one between twenty years of hard labour and the guillotine's clean cut of the *stabilisateurs*: he preferred twenty years' hard labour![166]

[160] *Le Populaire*, 14, 15, and 16 Apr. 1927.

[161] Jeanneney, *François de Wendel*, 349; *L'Avenir*, citing an article in *Sans Fil*, 26 Apr. 1927.

[162] Moreau, *Souvenirs*, 293 and 295 [28 and 29 Apr. 1927].

[163] Allen Douglas, *From Fascism to Libertarian Communism: Georges Valois against the Third Republic* (Berkeley and Los Angeles: University of California Press, 1992), 138–9, implies the Bank did not support the 1927 venture. Soliciting support for the third Semaine de la Monnaie in 1933, however, Valois stated that the Bank had supported both the first and second with a 'subscription' of 3000 francs to each, and received 30 copies of the published proceedings. Valois to Moret, 17 May 1933; BdF, 1397199403/29.

[164] Homberg et al., *La Stabilité monétaire*, 184. [165] Ibid. 105, 330–2.

[166] Ibid. 44–5 (Pommery), 100 (Lallemand). Lallemand complained that paper money was *very dangerous* because one couldn't distinguish *le vrai du faux billets*; 62. For further on Lallemand's extreme views, still advocating fulfilment of the François-Marsal Convention and integral revalorization in November 1926, see Charles Lallemand, 'Le Problème monétaire: stabilisation et revalorisation en France' (Comité National d'études Sociales et Politiques, 1926), 2–17.

Georges Valois presented the case for using a gold franc as a *monnaie de compte*, which he had advocated since 1919. He did so now in belief that convertibility could not be restored at the current exchange rate. In 1922 the gold franc had been a means to facilitate the return to pre-war parity; with the decline of the franc since then he favoured stabilization at a lower exchange rate, but argued that it was impossible so long as the Bank's advances to the state dominated its balance sheet. Robert Wolff, who dominated the discussion of stabilization, argued the contrary: the level of the note circulation reflected demand for currency. Exchange-rate stability would be accomplished by having sufficient reserves, which France had, and by following sound fiscal policy with convertibility restored. The obsession with Bank advances and ceilings on note circulation reflected outdated notions with no theoretical or practical value.[167] The committee of experts had called for foreign loans to assure exchange-rate stabilization, but the Bank now had sufficient foreign exchange to render such loans unnecessary. The remaining perils to successful stabilization were not technical at all, Wolff argued, but political.[168]

The tide of opinion running in favour of stabilization at the current exchange rate had been evident a few days earlier, in the unlikely forum of the Société d'Économie Politique. Reporting on 'Revalorisation ou stabilisation', Baron Mourre recalled Jules Décamps, who had died in an automobile accident in August 1926, and reflected on the evolution of Décamps's views, from outright opposition to restoring convertibility in 1921 to seeking the right conditions for doing so in May 1926. Reviewing the arguments for returning to pre-war parity, Mourre found they were not strong enough to carry complete conviction. Stabilization, on the other hand, had the real advantages of ending exchange-rate instability and avoiding deflation, which would inevitably discourage commerce and industry. He concluded that the arguments for stabilization were convincing, and declared himself in favour.[169] Mourre stopped short of stabilization at the current rate, however. Comparing various measures to determine the appropriate level for the franc, he had no doubt that the franc should be stronger against sterling, even recognizing that undervaluation in terms of price parity would increase the benefits from revaluation of the Bank's gold reserves and facilitate the adaptation of industry and commerce to the new exchange rate. Although he refused to state an explicit rate, he hinted at 100 frs./£.[170]

The discussion divided almost evenly between advocates of stabilization and further appreciation. Yves Guyot, chair of the meeting, reminded the group that *revalorisateurs* Senator Coignet and M. Artaud were the 'authorized representatives' of big industry and commerce. He compared the rush towards legal stabilization to 'men who, having lost their bearings, wish ... to hurry France into a catastrophe', and concluded by quoting Édouard de Rothschild's call for appreciation that had aroused Governor Moreau's ire two weeks previously.[171]

The constituency for revalorization was not only weak, but in decline. Against claims that the French public demanded revalorization, Germain-Martin stated during the Semaine de la Monnaie that he had just completed a lecture tour in the French provinces

[167] *La Stabilité monétaire*, esp. 296–8, 305–8.
[168] Wolff in *La Stabilité monétaire*, esp. 255–7.
[169] *Journal des économistes* (May 1927), 251–9.
[170] Ibid. 259–62.
[171] Ibid. 272–3.

in which he had encountered *no resistance* to the idea of stabilization.[172] In May and June 1927, Jacques Bainville continued to argue the *revalorisateur* case in *L'Action française*, but his was a forlorn voice in the wilderness. In August, Rist declared that the regents of the Bank of France definitely favoured stabilization: Rothschild had lost influence and was in a distinct minority on the Conseil Général. Public favour for an early stabilization strengthened as the advantages of *de facto* stabilization undermined the case for revalorization.[173] Discussing the state of public opinion, Valois insisted that one of the benefits of the first Semaine de la Monnaie had been to attract public attention to the inflationary danger of Bank advances to the state, and that it was necessary to maintain within France 'the deep horror of an evil that casts us into a monetary catastrophe as serious as the German one'.[174] The stabilizers recognized the importance of public opinion. Wolff campaigned tenaciously against the persistence of outdated monetary theories and the general confusion regarding Bank advances to the state, the volume of currency in circulation, and the reasons for inflation since the war. Of course public opinion played a role. But public opinion was guided by the leadership it received: 'If we admit that the public has been "brainwashed", I believe that our role is to "de-brainwash" and to distinguish, among the ideas which have held sway with the public, those that are correct from those that are not.'[175]

The Bank devoted considerable attention to public opinion. Quesnay considered it essential in his programme for stabilization, and Benjamin Strong had recommended that the Bank create an effective *service de presse* to direct opinion.[176] Moreau's journal records his consistent attention to the press and his use of particular journalists—notably Marcel Hutin of *L'Écho de Paris*, Abel Henry of *Le Petit Journal*, and Marcel Pays of *Excelsior*. Moreau fed articles supporting stabilization to the press and summoned sympathetic journalists to rebut articles the Bank considered ill-advised.[177] The Bank's

[172] *La Stabilité monétaire*, 316.

[173] H. A. Siepmann, 'Note on conversations with Monsieur Rist in Paris on August 5th and 6th, 1927', 8 Aug. 1927; BoE, OV45/2.

[174] *La Stabilité monétaire*, 171–2, 282.

[175] Ibid. quote from p. 297; see Wolff's interventions 258–69, 296–98, 306–9.

[176] Quesnay, 'Programme de stabilisation', and 'Conversation avec M. Strong, du samedi 28 août, 1926', AN 374 AP 5; and point 11 in Strong's 'Points essentiels d'un plan de stabilisation', reprinted in Moreau, *Souvenirs*, 102 (from letter, Strong to Moreau, 9 Sept. 1926).

[177] In June 1925, the Bank established a special fund for such purposes, the Fonds S (*allocations spéciales*), drawn from 'provisions pour dépenses exceptionnelles d'administration'. In December 1926, Moreau regularized funding for this account, which was maintained by replacing the funds used in each six-month budget period. There was a marked surge in such expenditures in the first half of 1928, when the Bank's campaign for stabilization was at its height. On origins and funding, see DCG, 23 Dec. 1926; this account differs from that given in Jeanneney, *L'Argent caché*, 228, which was based on Moreau's evidence to the Oustric investigation. The funds voted biannually to replenish the Fonds S from 1926 to 1930 were:

| | |
|---|---|
| Dec. 1926 | 900,000 |
| June 1927 | 1,000,000 |
| Dec. 1927 | 1,250,000 |
| June 1928 | 1,650,000 |
| Dec. 1928 | 1,200,000 |
| June 1929 | 1,400,000 |
| Dec. 1929 | 1,200,000 |
| June 1930 | 1,250,000 |
| Dec. 1930 | 1,450,000 |

Direction des Études worked diligently and effectively to this end. The results were noticed by outsiders; in December 1927 Dean Jay of Morgan, Harjes et Cie reported that 'the papers are constantly referring to the advantages of stabilization and articles are being written by important people, so that the public is gradually being educated up to what is meant by *de jure* stabilization'.[178]

Although he claimed that he would maintain 'all necessary reserve' with regard to his future monetary policy, Poincaré was known to favour appreciation for reasons of prestige and honour. Jacques Bainville, writing in *L'Action française*, had noted in early 1928 that 'There is but one school now, that of stabilization',[179] and was encouraged by Poincaré's warnings against premature stabilization: 'His preferred solution, beyond a shadow of a doubt', Bainville wrote, 'would be some revalorization'. But a week earlier, Bainville wrote that he had dreamt he was appointed Minister of Finance: when he suspended Bank pegging of the franc, stating 'If the franc wants to rise, let it rise', his policy was greeted with instant acclaim. But the rise of the franc—to 55 frs./£ in two days—provoked alarm and then outrage as trade and employment collapsed and tax receipts plummeted. Bainville telephoned the Bank for an advance to cover payments by the Treasury. Moreau replied, 'Inflation? Thank you. You take me for Robineau', and hung up. Amidst cries of 'Bankrupting swindler! Bandit! Prussian!' Bainville awoke to realize, happily, that it was only a dream.[180] A return to pre-war parity was clearly a dream that would prove disastrous in the waking world. The best *revalorisateurs* could hope for was partial revalorization, perhaps to 100 frs./£. Wendel accepted the impossibility of integral revalorization, but was convinced that if the franc were stabilized at its *de facto* level wages and salaries would have to rise, which would in turn raise prices: 'it's like stepping on a bar of wet soap …'[181] Press reaction to a critical comment by Wendel on the sustainability of the current rate of the franc in late January led Moreau to suspect a campaign for appreciation, with Wendel responsible. Moreau's imagination seems to have been overworked. Sympathetic coverage of resistance to devaluation in the financial debate under way in the Chamber of Deputies did not constitute a concerted campaign, and the debate clearly favoured stabilization.[182]

The stabilization of the Italian lira at 90/£ prompted hopes that France could do similarly, but the delusional quality of hopes for a return to pre-war parity was evident in reports sent back by the American embassy in early 1928. Roland de Marès, foreign editor of *Le Temps*, claimed Briand supported a plan for a full restoration of the franc: the plan would take 'three or four years' to accomplish, and appreciation of the franc would permit reduced interest rates and debt conversion. Georges Manchez, who had written on financial affairs for *Le Temps*, insisted that a return to pre-war parity was essential and that foreign powers—namely Germany—knew that devaluation would destroy the

178 Jay to Leffingwell, 10 Dec. 1927; JPM, 532H.

179 *L'Action française*, 29 Jan. 1928; although there was 'only one school', he went on to state it was divided between those favouring immediate and deferred stabilization.

180 Ibid. 22 Jan. 1928.

181 Cited in Jeanneney, *François de Wendel*, 381.

182 See ibid., 385–6; Moreau, *Souvenirs*, 481–4 [24–31 Jan. 1928]. The most significant article in *Le Temps* was the account of parliamentary debate, 'Le Grand Débat', on the front page, 28 Jan. 1928. Also Herrick to Sec. of State, no. 8261, 31 Jan. 1928; RG 59; 851.51/1307, and Herrick to Sec. of State, no. 8280, 6 Feb. 1928; RG, 851.51/1310.

credit of the state and render France helpless in the event of war. He claimed that Poincaré had believed in restoring the franc until very recently, and that despite a majority of bankers and industrialists favouring devaluation, Poincaré would not act against the wishes of *rentier* and peasant voters who opposed it as a measure by which 'all they own must lose four-fifths of its value'.[183] The *revalorisateurs* had no serious programme, and Bank influence in the press assured the predominance of stabilization views.

Winning the battle in the press advanced public education and heightened Poincaré's reluctance to increase the franc's exchange rate, but it did not remove the political impediment to stabilization. Poincaré led a coalition formed from the Chamber elected on 11 May 1924, harnessing Radicals and moderate rightists who would otherwise polarize in opposition. He would not undertake legal stabilization with this Chamber. The alternative to waiting for the May 1928 elections was to dissolve the Chamber early. When Moreau explained the difficulties of appreciation and continued *de facto* stabilization, Poincaré concluded that the arguments against both had equal force. Moreau corrected him, insisting that legal stabilization offered the best solution. Poincaré invoked the political difficulties he faced in managing the Senate, his cabinet ministers, and the president, and encouraged Moreau to meet with President Doumergue to explain the dangers of the domestic monetary situation. Doumergue, frankly in favour of appreciation, told Moreau there must be no discussion of dissolution, 'so as not to run the risk of reconstituting the Cartel which did so much harm and of which it took so much trouble to rid the Chamber'.[184] Not wishing to give any encouragement to speculation, Poincaré kept his intentions obscure. To offset speculation, the Bank manipulated its selling rate for the franc to keep the market guessing.

Poincaré avoided specifying his future monetary policy in major speeches in December 1927 and February 1928, concentrating on the difficulties involved in all three alternatives—legal stabilization at the current rate, appreciation, and continued *de facto* stability. His careful expositions of the difficulties convinced stabilizers that he would not raise the franc and *revalorisateurs* that he would not stabilize.[185] Rist told British colleagues that conservatives wished to postpone *de jure* stabilization beyond the coming elections, as it 'would do away with one of the most useful instruments for turning the Government out of power'.[186] The political utility of *de facto* stability and the threat of future chaos were clear. Poincaré had no qualms about using the fear of monetary instability for electoral purposes:

> Yes, gentlemen, I state it clearly … if, when parliament resumes, we do not have a cabinet assured of its future, capable of pursuing to its conclusion the programme we've talked so much about and

[183] Both reports were written by special assistant Warrington Dawson under the title 'Confidential Memorandum for the Ambassador'; 10 Feb. 1928, with Herrick to Sec. of State, no. 8329, 10 Feb. 1928, RG 59, 851.51/1317, and Herrick to Sec. of State, no. 8484, 30 Mar. 1928, RG 59, 851.51/1339.

[184] Moreau, *Souvenirs*, 313 [16 May 1927] and 321 [23 May 1927].

[185] See Kenneth Mouré, 'La Stabilisation Poincaré: situation politique et politique monétaire entre 1926 et 1928', *Études & documents*, 7 (1995), 254.

[186] H. A. Siepmann, 'Note of Conversation in Paris on Saturday, November 19, 1927', 21 Nov. 1927; BoE, OV45/2. 'Politics apart', the note continued, 'a great many people, Monsieur Rist said, like things well enough as they are'.

that we believe to have happily begun, if we do not follow unflinchingly the route we have marked out, if we start down side roads, if we let demagogic overstatements draw us down false trails, we will return again to the brink, and this time the disaster will be beyond repair.[187]

The election in April–May 1928, effectively a plebiscite on Poincaré's management since July 1926, rewarded his Union Nationale with 460 of the 610 seats in the Chamber of Deputies.[188] Having delayed stabilization because of the elections, Poincaré now sought new reasons for further delay. He had offered no clear programme during the election campaign, but stressed the gravity of the financial difficulties ahead and the time needed to complete the task he had begun. Fear of monetary instability bound the Radicals to his coalition. Many recognized that, with financial and monetary stability restored, legal stabilization was the next logical step for his government, and in all likelihood its last. Opposition within his cabinet—Louis Marin, Aristide Briand, and Édouard Herriot were all known to favour revalorization—encouraged conjecture that Poincaré would postpone legal stabilization until the autumn.[189]

Pressure from Moreau compelled Poincaré to take the final step in June 1928. According to Wendel, Poincaré was 'terrorized' by Moreau. When Moreau asked immediately after the elections about the timing of stabilization, Poincaré pleaded political difficulties and asked if he could delay until mid-July. Moreau said no.[190] Moreau found President Doumergue fiercely hostile, pledging he would oppose stabilization in the cabinet. Moreau attributed a sharp increase in demand for francs the next day to rumours of revalorization originating in the president's office.[191] The Treasury loan issued to repay Bank advances to the state in May was oversubscribed in a few days. The stage was set for either stabilization or revalorization: if Poincaré opposed stabilization, there seemed but one direction the franc could go.

The surge in demand for francs threatened to overwhelm the Bank's ability to peg the franc without substantial inflation. In the last two weeks of May, the Bank purchased £35.6 million, of which only £20 million could be resold through forward swaps. The Conseil Général contemplated refusing to renew the September 1926 convention, which gave the Bank authority to purchase foreign exchange, at its next renewal on 30 June. On 7 June they approved a letter asking how Poincaré proposed to deal with the deluge of foreign exchange, which, encouraged by uncertainty as to the timing and level of legal stabilization, could no longer be controlled by the Bank. The only durable solution, they insisted, was to restore gold convertibility.[192] Moreau threatened to resign if *de jure* stabilization was not completed by 15 July and leaked his threat to the press. When the government denied that there was any difference of views between Moreau and the

[187] Campaign speech at Carcassonne, reprinted in *Le Matin*, 2 Apr. 1928.

[188] Becker and Berstein, *Victoire et frustrations*, 303–7.

[189] Herrick to Sec. of State, no. 8624, 25 May 1928; RG 59, 851.51/1373.

[190] Moreau, *Souvenirs*, 547 [1 May 1928] and 563 [16 May 1928].

[191] Ibid. 565 [18 and 19 May 1928]; Quesnay's account of this meeting gave fuller explanation of Doumergue's views, fearing betrayal of the *rentiers* and political unrest; Poincaré-la-guerre, he commented, would become Poincaré-la-faillite. Siepmann, 'Note of Conversations held with Monsieur Quesnay in Paris on the 18th and 19th June, 1928', 20 June 1928; BoE, OV45/2.

[192] DCG, 31 May and 7 June 1928.

premier, Moreau pointedly refused to affirm the statement, claiming would resign if the government did not stabilize the franc.[193]

The *revalorisateurs* knew they were outnumbered. At a meeting of the Fédération Républicaine in late May, Wendel defended the 'violence and extremism' of revalorizationist views on the grounds that with the press nearly unanimous in promoting stabilization, the provincial papers publishing articles promoting a full restoration of the franc still had the independence to argue the opposite case.[194] Ten days earlier, Wendel had explained his opposition to *de jure* stabilization at the *de facto* rate on the grounds that it 'will fatally raise the cost of living and exchange rates, upset the current price stability, call into question many things that we thought to be settled, and in doing so, unleash a chorus of protest'.[195] He gave a copy of the speech to Poincaré on 26 May. Poincaré had already read it and according to Wendel he repeated several times that he agreed completely with Wendel's views. Wendel stressed that '*from the day we have stabilized, it will no longer be confidence in M. Poincaré, but in the gold reserves, that will assure the value of our bank notes. Politics will assume its proper place and he will be overturned.*' He described Poincaré as 'visibly terrorized by M. Moreau and the Treasury', a victim of the machinations of the governor of the Bank.[196]

Both the Bank and the Treasury played on Poincaré's fear of inflation, arguing that the Bank could not control speculation if he chose revalorization. Wendel disagreed. He suggested raising the franc from 124 to 118 frs./£ and purchasing gold rather than foreign exchange in New York and London to discourage American and British speculation—a replay of the Bank's policy in May 1927. If this worked, further revalorization could be undertaken; if not, stabilization could be decreed at 118.[197] But Wendel found little support; he recorded in early June that his statements favouring revalorization had earned him repute as 'the most unpopular man of the time at the stock exchange'.[198] As the monetary reform was on the verge of accomplishment, Wendel concluded: 'We are stabilizing because we cannot or do not wish to employ effective means to arrest speculation on the franc.'[199]

Poincaré used the pressure from the Bank of France and the threat of his own resignation to overcome opposition in his cabinet; his management of Louis Marin, Minister of Pensions and leader of the Fédération Républicaine, provides a striking example of how

[193] Moreau, *Souvenirs*, 573 [31 May 1928] and 578 [5 June 1928]; Philippe, *Le Drame financier*, 131; and Jeanneney, *François de Wendel*, 391. According to Quesnay, Moreau threatened Poincaré that he and both deputy governors, Leclerc and Rist, would resign. Siepmann, 'Note of Conversations', BoE, OV45/2.

[194] 'La Stabilisation de 1928 (notes personnelles) 1928–1937', note for 30 May 1928, Fonds François de Wendel, AN 190 AQ 21.

[195] Wendel speech in Conflans on 20 May, published in *L'Impartial de l'est*, 22 May 1928; AN 190 AQ 21.

[196] Wendel account of his meeting with Poincaré, 'La Stabilisation de 1928', 26 May 1928, Wendel's emphasis; AN 190 AQ 21.

[197] Ibid., Wendel views drawn from his notes for 26 and 31 May, 5 June.

[198] Ibid., 6 June.

[199] Ibid., 21 June; also Wendel's retrospective 'Observations', 15 June 1937. Wendel put these personal notes together with his 'observations' to counter the view of stabilization presented in the parts of Moreau's journal published in the *Revue des deux mondes* in the spring of 1937. With regard to Moreau's journal, Wendel wrote, 'It is always easy to arrange the story after the event and I thought that a simple account of the facts as they had been recorded at that time would provide a better response than a methodical discussion of M. Moreau's actions.' But Wendel's notes seem to have been 'arranged' to some extent in reproducing them in his 'La Stabilisation'. AN 190 AQ 21.

he did so. Marin wished to resign rather than support stabilization. Wendel dissuaded him with the argument that the stabilization was Poincaré's responsibility, Poincaré's decision, and that Marin's resignation would not be understood as anything other than seeking to obstruct Poincaré. Poincaré gave Marin every opportunity to resign. On 6 June, Wendel argued that rather than resign, Marin and the Fédération Républicaine should 'dissociate ourselves from the politically disastrous operation which the stabilization will prove to be for those who undertake it'. On 7 June, Wendel advised Marin to dissociate himself from the measure; surely Poincaré would not resign over an absence of unanimity. On 9 June, however, Poincaré insisted that if Marin opposed stabilization, the entire cabinet would have to resign. Wendel counselled retreat: he recommended Marin vote for the stabilization and then resign, noting 'there can be no question ... of toppling Poincaré in order to keep him from falling'.[200] Poincaré had not expected Marin to agree: according to Marin's account, Poincaré was 'crushed', and showed Marin the letter of resignation he had intended to use when Marin refused to support stabilization. Jeanneney argues that Poincaré risked little at this point, that his threats served only to appease the right-wing deputies and public opinion in order to retain their favour.[201] Nonetheless, Poincaré seems to have regretted Marin's agreement, which forestalled his dramatic use of the letter of resignation in cabinet.

Even after cabinet approval, Poincaré claimed he would resign once the monetary reform had been voted.[202] But as Wendel pointed out, what sense was there in having made Marin 'sing' if Poincaré did not remain in office? 'Stabilization with Poincaré, it's an argument—not my own—but it's an argument; without him, it appears a sure calamity.'[203] Quite apart from his theatrical tactics to prevent defection of the *revalorisateurs*, it is clear that Poincaré proceeded with stabilization only because forced to do so by Moreau and the Bank of France, supported by the Treasury. Quesnay reported that Poincaré was 'furious' at having his hand forced by the Bank and refused to speak to Moreau.[204]

The reciprocal threats of resignation by Moreau and Poincaré demonstrate the difficulty of the political decision for legal stabilization. *De facto* stabilization depended upon the support and prestige of both; the resignation of either Moreau or Poincaré would have revived uncertainty and compromised the success achieved. The threats were employed to push through a decision widely accepted as necessary and welcomed, but still politically unpalatable. The revalorization campaign was feeble, countered by a barrage of articles produced by the Bank to appear over the signatures of financial writers in a wide range of newspapers in Paris and the provinces. As Wendel explained, 'The leader of the *revalorisateurs*, M. Poincaré, having crossed to the other side of the barricade, there has not been serious resistance.'[205] He and Rothschild, the two intransigent *revalorisateurs* in the Conseil Général, pointedly avoided the meetings in June at which the Bank

[200] Ibid., 6, 7, 8, and 9 June 1928. This account parallels the information on cabinet debate received by the Bank of France and reported by Quesnay in Siepmann, 'Conversation with Monsieur Quesnay', 20 June 1928; BoE OV45/2.

[201] See Jeanneney, *François de Wendel*, 403–4.

[202] Moreau, *Souvenirs*, 588 [19 June 1928]; 'La Stabilisation de 1928', 17 and 20 June 1928, AN 190 AQ 21; and Jeanneney, *François de Wendel*, 403.

[203] 'La Stabilisation de 1928', 17 June 1928.

[204] 'La Stabilisation de 1928', AN 190 AQ 21; Siepmann, 'Conversation with Monsieur Quesnay', 20 June 1928, BoE, OV45/2.

[205] 'La Stabilisation de 1928', AN 190 AQ 21, note of 24 June 1928.

approved the new monetary law. To quote Wendel again, it was 'Pointless to dispute with a governor and colleagues whose decision has been taken. Equally pointless to share their responsibility ...'[206]

The Bank and Treasury papers in a stabilization dossier prepared for Poincaré demonstrated close agreement between Bank and Treasury. The two institutions worked together to imprint the stabilization with their views.[207] The Treasury recounted the history of the franc since 1926. The *de facto* stabilization in December 1926 having saved France from the distress of a severe adjustment crisis, further appreciation would be politically hazardous and economically perilous. The national economy having adjusted to the *de facto* rate, 'the rise of the franc would not fail to cause serious damage'. *At best*, the economy would suffer a slump like that of 1927, from which it had only just recovered. *De facto* stabilization could not be prolonged, because the monetary circuit by which francs issued to purchase foreign exchange were taken off the market (via deposit in Treasury accounts, and Treasury repayment of Bank advances) was being undermined by its own success: the abolition of short-term BDNs and the lowering of the interest rate on deposit accounts at the Treasury had broken the circuit. Bank purchases of foreign exchange at a rate of £5 million per day in late May, if continued, 'could bring on an inflation without precedent in our monetary history'. The government faced an urgent choice: if it spurned legal stabilization, the Bank would denounce the convention of 16 September and cease to stabilize the franc.[208]

The Bank stressed the impossibility of appreciation and argued legal stabilization was needed for both domestic and international stability. Gold convertibility was the only means to provide a 'durable and permanent' guarantee of the franc's stability. To continue the purchase of foreign exchange at the rate of late May would make France responsible for 'a world credit crisis, and perhaps a catastrophe without precedent'.[209] The catastrophe would result from inflation, not deflation.

To counter the case for raising the franc to 100 frs./£, the Treasury dismissed a restoration of the pre-war franc as completely lacking support. There would be inequities at any level of stabilization; the question of justice could not be resolved. Raising the franc to 100 frs./£ would return France to the slump conditions of 1927 by reducing prices, causing higher unemployment, deterioration of the trade balance, and lower tourist receipts. The Treasury would face reduced tax receipts and an increased budget deficit, lose

[206] Ibid., 14 June 1928.

[207] The Treasury memorandum was composed by Wilfrid Baumgartner and Jean-Jacques Bizot; details on authorship are provided in Jeanneney, *François de Wendel*, 401 n. 55, and Olivier Feiertag, 'Wilfrid Baumgartner, les finances de l'État et l'économie de la Nation (1902–1978): un grand commis à la croisée des pouvoirs', dissertation completed at Université de Paris—X—Nanterre under the direction of Alain Plessis, 1994, vol. i, 52–5, 59. The Treasury memorandum, 'Note sur l'urgence de la réforme monétaire', 3 June 1928, can be found in SAEF B 33201 and has been published in Pierre Sicsic, 'Sur la stabilisation du franc (1926–1928)', *Études & documents*, 6 (1994), 657–85. The Bank memorandum is 'La Monnaie française', n.d.; in AN 374 AP 8, and BdF, 1397199401/116 and 1397199404/76.

[208] 'Note sur l'urgence', 672–4 in particular. Bank purchases of foreign exchange were exaggerated; the Bank did not purchase foreign exchange at £5 million per day; from the surge in demand for francs on 15 May through to the end of the month, daily purchases exceeded £5 million once (nearly £6 million on 31 May), and averaged £2.12 million. The Bank lowered its price for the franc slightly, from 124.02 to 124.20 frs./£ on 4 June; the speculation ceased abruptly.

[209] 'La Monnaie française', AN 374 AP 8 and BdF, 1397199404/76.

800 million francs in the revaluation of its foreign exchange reserves, and have to reimburse the Bank of France for a loss of 10 billion francs on its foreign exchange. Revaluation of Bank gold reserves would yield 4 billion fewer francs than revaluation at the *de facto* rate, reducing the gold cover for the note circulation, and thus 'the very success of the monetary reform would be threatened'.[210]

The Bank of France prepared eight notes that determined the character and details of the monetary reform.[211] In the first, 'La Monnaie française', the Bank drew on foreign examples, Italy's *quota novanta* and Britain's return to gold in 1925, to demonstrate the folly of stabilization at a higher rate. Having improved the value of the paper franc from one-tenth to one-fifth of a gold franc, France 'has probably gone to the limits of the possible'. A higher franc would impose a severe economic cost in exchange for dubious benefits. *Rentiers* would obtain greater reward only through increased taxation, imposed during a new economic slump: better to compensate them from the profits of economic prosperity. The decline in budget receipts would imperil the repayment of Bank advances; 'The entire policy pursued so patiently by the state over the past two years in order to separate the credit of the Bank from its own would be destroyed.'[212] A note on the rate of stabilization discussed the merits of three rates close to the *de facto* rate but all slightly *lower*, in order to increase the benefits of revaluation and to punish speculators, 'who have never stopped hoping that one day the Bank would be overwhelmed by the volume of demand for francs'. Given the proximity of the alternatives discussed, the government could make its choice 'inspired by motives of opportunity only'.[213]

The Bank assessed the potential repercussions of stabilization on prices, wages, and capital movements. In greater detail than in 'L'Urgence de la réforme monétaire', it argued that legal stabilization would provide not only exchange-rate stability, but price stability as well. The argument was important in countering *revalorisateur* claims that at 124 frs./£ the stabilization would leave French prices and wages below world levels, *requiring* inflation to restore parity. The Bank claimed that French prices had always been lower than world price levels, and could remain so, as demonstrated by Belgian experience of price stability since 1926.[214] To the *revalorisateur* argument that the government

[210] 'Note sur l'urgence', 683.

[211] Feiertag mistakenly attributes the entire stabilization dossier discussed here to Baumgartner, and thus credits the Treasury rather than the Bank with having set the terms for the stabilization; Feiertag, 'Wilfrid Baumgartner', i. 55–9. A complete set of the notes sent to Rueff by Jean Bolgert in 1964 describes them as 'une série de notes Quesnay de 1928'; Bolgert to Rueff, 15 Feb. 1964; BdF, 1397199404/76. Siepmann read these notes in the Bank of France in mid-June 1928, where he was told they were the dossier given by the Bank to the Treasury for Poincaré in early June. Siepmann, 'Note of Conversations held with Monsieur Quesnay'; BoE, OV45/2. Quesnay supervised composition of the dossier and contributed to it; other contributors included Pierre Ricard, Pierre Strohl, Royot, Lagarde, and Lacout. Initial assignments for composition are given in 'Projet de dossier monetaire', n.d., BdF, 1397199401/116.

[212] 'La Monnaie française', AN 374 AP 8 and BdF, 1397199404/76.

[213] 'Note sur la stabilisation légale du franc', *c.* 15 June 1928, SAEF B 33201. The three rates considered were 124.20, 125.16, and 126.13 frs./£. The Bank's note on revaluation of its gold reserves likewise considered three similar rates; 'Réévaluation, dans l'hypothèse d'une stabilisation légale du franc, de l'encaisse et des devises de la Banque de France', 6 June 1928; AN 374 AP 8.

[214] 'Répercussions possibles de la réforme monétaire sur les prix, les salaires et les mouvements de capitaux', AN 374 AP 8, and 'L'Urgence de la réforme', 678.

faced a choice between exchange-rate stabilization, which would require French prices to rise, and appreciation of the franc in order to maintain stable prices, the Bank and the Treasury replied that the choice lay between stabilization to maintain prosperity and appreciation causing renewed hardship.

The remainder of the stabilization dossier covered practical details. Convertibility of the note circulation would be guaranteed by holding gold and silver reserves against sight liabilities (currency and demand deposits); a cover of 35 per cent was recommended. The legal ceiling on circulation was ended as a historical oversight: ceilings had been imposed in 1848 and 1870 to limit increase in the note circulation while convertibility was suspended. The 1848 ceiling had been removed in 1850, but the 1870 ceiling had been continued as 'an oversight of the legislator of 1875 rather than a scientific monetary concept'. Foreign exchange would not be included in the cover, as the gold exchange standard had already proved to be dangerously inflationary.[215] The Bank advocated minting gold and silver coin, suggesting gold pieces of 100 francs to correspond in value to the earlier 20 franc gold pieces; silver coin would discourage the hoarding of gold. The reason for issuing gold coin was psychological: 'to convince the public of the permanent stability of the French currency'.[216] Quesnay opposed the issue of gold coin, but was alone in doing so.[217] Late in the negotiations, Poincaré conceded the closing of all deposit accounts at the Treasury, ending its banking functions so that commercial banks would have to use the Bank of France.[218]

Lastly, the control of the foreign exchange bought by the Bank and the interest it earned were of great concern to the Bank. The 'exceptional and transitory' regime since September 1926 had made these funds the property of the Treasury, with the interest paid into an amortization account for Bank advances to the state. With *de jure* stabilization, the Bank insisted that these holdings and the income from them should become a Bank asset to be managed like any other. Any other solution, it claimed, would compromise its ability to manage the money market and its independence.[219] Regarding future reserve management, the Bank argued that its foreign exchange holdings would decline and that it would seek to reconstitute France's gold reserves by replacing foreign exchange with gold.[220] Moreau rejected a Treasury proposal that the state receive 50 per cent of the interest, insisting that foreign exchange holdings count as productive operations and not subject the Bank to a permanent tax on the basis of temporary earnings.[221]

[215] 'Limitations de la circulation à imposer à la Banque', AN 374 AP 8 and BdF, 1397199404/76.

[216] 'Frappe de monnaies métalliques', AN 374 AP 8 and BdF, 1397199404/76.

[217] Siepmann, 'Note of a conversation with Monsieur Quesnay, held on the 8th May 1928', 10 May 1928; OV45/2.

[218] Moreau, *Souvenirs*, 588 [19 June 1928], and for Bank wishes on this point, Siepmann, 'Note of a conversation with Monsieur Quesnay, held on the 8th May 1928'; BoE, OV45/2.

[219] 'L'Intérêt des devises', 4 June 1928; 'Note sur le partage des bénéfices du portefueille de devises étrangères entre la Banque et l'Etat', 16 June 1928; and 'Aide-mémoire sur la question des revenus provenant du placement des devises acquises par la Banque de France', 16 June 1928; BdF, 1397199404/76. The latter two notes were in response to state demands that the current regime be continued and that the proceeds from these holdings be shared between the state and the Bank.

[220] 'Note sur le partage', AN 374 AP 8 and BdF, 1397199404/76.

[221] 'Incorporation du portefeuille de devises de la Banque dans le chiffre des opérations productives qui sert de base au calcul de la redevance', note given to Poincaré on 19 June 1928; BdF, 1397199404/76; and on his worries over this issue, Moreau, *Souvenirs*, 586–8 [14–19 June 1928].

Poincaré presented the monetary reform law to the Chamber of Deputies on 21 June. Ambassador Myron Herrick termed his speech 'magnificent'. Admitting that he had always desired further appreciation of the franc, Poincaré gave a thorough presentation of the case for immediate stabilization. The Chamber passed the law by 448 to 18. The 133 abstentions were mainly Socialists; 78 of Marin's 102 Fédération Républicaine deputies voted for the law. In the Senate the law passed by 256 to 3.[222] Poincaré insisted that the Union Nationale which had made stabilization possible was now more than ever necessary, but pundits were already predicting the disintegration of his coalition, which had been bound together by fears of monetary instability. As Poincaré's *chef de cabinet*, Jean du Buît, noted, 'The vote of 24 June marked not only the endpoint of a monetary era, but also of a political one.'[223]

The new monetary law repealed the *cours forcé* and defined the franc as equal to 65.5 mg gold, 900/1000 fine. The Bank would maintain a minimum gold reserve of 35 per cent against its sight liabilities with no legal limit on notes in circulation. Currency notes could be exchanged for gold at the Bank's central office in Paris, in a minimum determined later by decree (215,000 francs). France was thus on a gold bullion standard. The Bank's foreign exchange was not to count as reserves: the Bank rejected the gold exchange standard categorically, although it intended to use foreign exchange to keep the franc between its gold points. 'There can be no question of adopting a monetary system condemned by the experience of the last few years, the Bank of France policy of *de facto* stability being none other than the integral application of the gold exchange standard'.[224] *The Economist* praised the French stabilization as a 'step which will mark the close of the epoch of Europe's post-war currency chaos'; for the *Federal Reserve Bulletin* it marked 'the practical completion of the world's monetary reconstruction'.[225]

[222] Herrick to Sec. of State, no. 8726, 26 June 1928; RG 59, 851.51/1393.

[223] Jean du Buît, 'La Fin du Ministère', FNSP, BU 2 Dr 1; see Mouré, 'La Stabilisation Poincaré', 256.

[224] 'Méthodes propres à assurer le maintien de la stabilité du franc', June 1928; AN 374 AP 8. The intention to use foreign exchange is stated in the Bank correspondence with the Treasury over these balances cited above; whether it would let gold go as well was less clear, with Moreau and Rist holding differing views; Siepmann, 'Note of Conversations held with Monsieur Quesnay', BoE, OV45/2.

[225] *The Economist*, 23 June 1928, 1278; *Federal Reserve Bulletin*, Aug. 1928, 541–4. See also *The Times* (London), 25 June 1928, and *New York Times*, 25 June 1928.

# 6

# 'Rather a faith than a theory': Central Bank Co-operation, 1916–1930

Central bank co-operation in the inter-war period has generally been either damned with faint praise or condemned as an outright failure with grave consequences. Stephen Clarke's path-breaking study of central bank co-operation concluded that central banks achieved considerable success in stabilizing currencies after the war, but that co-operation functioned as a 'fair weather instrument'. After 1928, central bankers were overwhelmed by economic problems beyond their competence and capacity to control: Clarke judged their co-operation from mid-1928 to 1931 a clear failure.[1] Kindleberger agreed. 'Central bank cooperation, never deeply rooted, wilted even before the hot sun of 1929, and the torrid blasts of 1931,'[2] and he doubted that co-operation could have done more to avert the Great Depression without strong leadership from one country.[3] Temin has cautioned that co-operation was 'not a good in and of itself'. Greater co-operation within the reigning gold standard orthodoxy in the early 1930s would have accomplished little: fidelity to the gold standard was the main problem, which greater central bank co-operation to stay on gold would have prolonged.[4]

In *Golden Fetters*, Eichengreen accorded central bank co-operation primary responsibility in the breakdown of the inter-war gold standard. Two pillars, he argued, sustained the classical gold standard—credibility and co-operation. By credibility, Eichengreen meant public confidence that governments would maintain the gold parity of their currencies and give priority to balance-of-payments equilibrium and a balanced budget. Capital flows tended to stabilize the system, moving to support a threatened exchange in the expectation that government action would promptly remedy any short-term adverse balance. Concerns for domestic activity and employment did not challenge this emphasis on the external balance; markets depended on monetary policy to be passive and predictable. The Bank of England set the course for interest-rate changes internationally, with less influential central banks and markets following London's lead. 'Ultimately, however', Eichengreen argued, 'the credibility of the pre-war gold standard rested on cooperation'.[5] In the event of major crises, the Bank of England depended upon the co-operation of other central banks, particularly the Bank of France,

1 Stephen V. O. Clarke, *Central Bank Cooperation 1924–31* (New York: Federal Reserve Bank of New York, 1967).

2 Charles P. Kindleberger, *A Financial History of Western Europe*, 2nd edn. (Oxford: Oxford University Press, 1993), 334.

3 Kindleberger, *World in Depression*, 297–8.

4 Temin, *Lessons from the Great Depression*, 87, also 36–7.

5 Eichengreen, *Golden Fetters*, 5–12, here p. 7.

to reinforce its gold reserves. It became the 'borrower of last resort' and 'a hostage to international cooperation'.[6] The system relied on a commitment to gold that was international, and was sustained by increasingly regularized co-operation in the decade before 1914. The First World War generated major political and economic changes that undermined the credibility of national commitments to gold; international co-operation failed to meet the new challenges of the altered system. Gold standard instability was the product of failed co-operation and diminished credibility.

This chapter examines the development of central bank co-operation from 1916 to 1930, arguing that co-operation was not an independent pillar of the gold standard capable of carrying additional weight to maintain the system when credibility weakened. Rather, inter-war co-operation was a new initiative, differing significantly from the ad hoc assistance that sustained the classical gold standard. Co-operation was a contingent, fallback mechanism for support rather than an independent pillar. As such, its efficacy weakened as credibility declined. Credibility was the key to gold standard stability. The increased communication between central banks and the efforts to regularize direct contacts and initiate systematic co-operation after 1918 were products of the war and the dislocation of the gold standard world. Concern to speed monetary stabilization and avoid undue competition for limited, maldistributed gold reserves fostered efforts at co-operation without pre-war precedent. The new co-operative efforts of the interwar period, initiated by Benjamin Strong during the war, were led in the early 1920s by Montagu Norman. Both governors hoped to separate economic and financial reconstruction from the deleterious influence of national politics. Central bankers, they hoped, could co-ordinate an international economic recovery guided by financial expertise rather than political partisanship, and thus restore the monetary and financial stability lost since 1914. France did not play a central role in the development of central bank co-operation after the war owing in part to disinterest in Paris, in part to hostility to the Bank of France in London, and mainly to French preoccupation with domestic difficulties.

The first section of this chapter briefly reviews the nature of the assistance offered by the Bank of France to the Bank of England under the classical gold standard, then discusses central bank efforts to establish systematic co-operation after 1916. The second section examines the entry of the Bank of France into central bank diplomacy in 1926–8, challenging the leadership of the Bank of England and its privileged relations with the Federal Reserve Bank of New York. It highlights the competitive nature of central bank relations, and the ways in which the strength of the franc enabled the Bank of France to insist upon status and influence equal to that of the Bank of England. The third section assesses co-operation after the franc's return to gold, demonstrating the extent of systematic contacts between the leading central banks and the limits to what central bankers could achieve through co-operation in managing the reconstructed gold standard at the end of the 1920s.

[6] Ibid.

## 1. PECULIAR AND PARTICULAR CIRCUMSTANCES

Central banks took responsibility for the reconstruction of the international monetary system after the First World War not through previous experience in building the international system, but through an assumed role as trustees for the stability of the pre-war era. Co-operation between central banks during the classical gold standard had been ad hoc, intermittent, and motivated by enlightened self-interest rather than concern for systemic stability. No formal machinery for contact between central banks existed. When the Bank of England borrowed 75 million francs in gold from the Bank of France during the Baring Crisis in 1890, the request for assistance came via the Chancellor of the Exchequer and the Rothschild Bank.[7] The approval of the loan within the Bank of France emphasized the benefit to the Paris market: the Bank could spare the gold, would earn better interest than current rates in Paris allowed, and would avoid a rate increase in Paris by containing the crisis in London.[8] Aid to the Bank of England in 1906 and 1907 was again justified on the grounds that it was a productive employment of reserves (at 4 per cent rather than the 3 per cent of 1890), made 'in order to protect the French market from a monetary panic, the intensity of which has been unprecedented'. If France had not provided assistance, the Bank explained, measures more prejudicial to French commerce and industry would have been required.[9] This evidence substantiates Flandreau's scepticism in his survey of pre-1914 co-operation: actions were determined, as he noted, by 'unilateral perception of the possible gains associated with unilateral support'.[10] Proposals to systematize central bank contacts and co-operation, made as early as 1867 by Michel Chevalier, clearly ahead of his time,[11] and more seriously in 1907 by Italian financial expert Luigi Luzzatti, were accorded little attention. The Bank of France did not want any obligation to provide co-operative assistance. Such aid was meant to be exceptional, and provided only when the bank giving assistance judged it opportune.[12]

The connections developed between central banks after 1916 differed in both frequency and quality, seeking to establish continuous contact for the exchange of information and the co-ordination of policy. H. A. Siepmann, a key Bank of England official in the development of inter-war co-operation, stressed the novelty of the new arrangements in the 1920s, for which he claimed British paternity: 'The gold standard had served for a century as a bulkhead against monetary disorder'; central bank co-operation

[7] Sir John Clapham, *The Bank of England*, vol. ii (Cambridge University Press, 1945), 328–9, 336; De Cecco, *Money and Empire*, 92–4.

[8] DCG, 13 Nov. 1890.

[9] See extracts from DCG, 1906 and 1907, and from the annual report for 1907 (quoted), in BdF, 1069199521/10. This file includes a retrospective note, probably written in the late 1920s, stating that gold was shipped to London in these cases 'with the goal of attenuating the consequences of monetary crises in foreign markets which might affect the French market'. 'Note sur l'utilisation de l'encaisse-or de la Banque de France', undated, in BdF, 1069199521/10.

[10] Marc Flandreau, 'Central Bank Cooperation in Historical Perspective: A Sceptical View', *Economic History Review*, 50, no. 4 (Nov. 1997), 735–63, here p. 763. Sayers was equally sceptical, stating that 'Even on the rare occasions of pre-1914 co-operation with the Bank of England, the Bank of France had been taking a short view of its own interest, and was not at all concerned with the smooth working of the international gold standard or ... the convenience of the Bank of England.' Sayers, *Bank of England*, i. 185.

[11] Kindleberger, *Financial History*, 277.

[12] Patron, *Bank of France*, 147.

sought to counter the 'forces of disorder' when the 'so-called automatism' of the gold standard no longer functioned after 1914.[13] An earlier memorandum reviewing the creation of the Central Banking Section to handle relations between central banks in 1926 dated systematic co-operation from 1916, linking it to Strong's initiative.[14] Strong himself, in a period of strained relations between Paris and London in 1928, reminded both the Bank of France and the Bank of England that it was his bank, not Norman's, which had initiated central bank co-operation.[15]

Contacts between the Bank of France and the Bank of England during the war to facilitate international borrowing and to stabilize exchange rates had produced a good deal of friction. In the initial turmoil, as French banks sought funds for purchases in England, the Bank of France had opened an account with the Bank of England to assist in the transfer of funds for French commerce in Britain.[16] Subsequent Treasury negotiations to finance French purchases in Britain and allied purchases in the United States led to closer contacts between the two central banks. Initially, the Bank of France sold gold to the Bank of England, considering this 'a patriotic duty'.[17] In 1916, the need for sterling loans to support the weakening franc exchange rate brought direct agreements between the two banks, with French gold shipped to London to guarantee credits. Governors Cunliffe and Pallain established a telegraphic connection to provide regular and rapid communication.[18] Misunderstandings regarding the gold agreements and differing attitudes towards the use of gold reserves created strains that increased at the end of the war, when allied support for the franc ended abruptly and new disputes over the French gold held in London exacerbated wartime suspicions.

Strong travelled to Paris and London in 1916 on a 'scouting expedition' to secure foreign correspondents who would assist in exchange management after the war. He was concerned that the flow of gold to the United States would prove inflationary after the war if arrangements were not in place to stabilize exchange markets and facilitate the return of gold to Europe.[19] Strong met with Pallain and French bankers in Paris, and with Cunliffe and most of the members of the Court of the Bank of England, notably with Montagu Norman—the beginning of a close, influential friendship. He drafted an agreement with the Bank of England for the opening of reciprocal accounts, purchasing of commercial bills, and the earmarking and shipment of gold.[20] He intended to conclude a

[13] H. A. Siepmann, 'Central Bank Co-operation', 19 July 1943; BoE, G14/33.

[14] 'Co-operation between Central Banks', 15 Aug. 1927; BoE, OV50/3.

[15] 'Memorandum re: Bank of England–Bank of France Relations', 24 May 1928, 'Memorandum of Conversation between Governor Strong and Sir Arthur Salter at Hotel George V, Paris—May 25, 1928 (written by O. Ernest Moore)', and 'Memorandum re: Discussions with the Bank of France', 27 May 1928; FRBNY, Strong Papers, 1000.9.

[16] DCG, 29 May 1915, which summarizes exchange operations in London since Aug. 1914.

[17] DCG, 4 May 1915.

[18] Pallain to Cunliffe, 6 May 1916; BdF, 1069199521/11.

[19] See Strong to R. H. Treman, 2 Jan. 1917, in FRBNY, Strong Papers, 320.22.2/1, and Lester V. Chandler, *Benjamin Strong, Central Banker* (Washington, DC: Brookings Institution, 1958), 93–8. Strong took great care to specify the plans were intended for the post-war period, the United States being a neutral country in 1916.

[20] 'Memorandum of Conversation between the Governor of the Bank of England and the Governor of the Federal Reserve Bank of New York Regarding Possible Relations between the two Institutions', 30 Mar. 1916; FRBNY, Strong Papers, 210.1/1.

similar agreement with the Bank of France to facilitate control of exchange rates and gold movements. Despite Strong's warm reception in Paris and Pallain's initial enthusiasm, attempts in 1917, 1918, and 1921 to arrange reciprocal services between the FRBNY and the Bank of France failed. Relations between the two banks were not secured on a regular basis until Moreau became governor in 1926.[21]

Co-operation developed from a New York–London axis, which was anchored by the close personal friendship and sympathy of views between Strong and Norman. Both governors realized that their friendship offered an exceptional opportunity to establish institutional co-operation and have their banks lead the way to an international network of central bankers who would separate financial and economic reconstruction from the partisan world of nationalist politics. Strong's poor health and the uncertainty as to who would succeed Norman as governor of the Bank of England in 1921 (Bank of England governors prior to Norman normally served for two years) prompted an exchange of their views revealing their concern for the novelty and the fragility of their personal efforts. 'Our success in accomplishing anything depends so much upon these personal relations that I look forward with dread to the day when you will be succeeded by some unknown person,' Strong lamented, while Norman admonished Strong to take care of himself, claiming, 'You are an international asset ... with you we hope to gain the whole world: without you we should not know where to turn for instructed support.'[22] Recurrent ill-health, distance from Europe, need to attend to the development of the Federal Reserve System, and American aversion to official involvement in European affairs all limited Strong's role in fostering central bank relations. But his friendship and his frequent correspondence with Norman and Europe's vital need for American resources to effect reconstruction and monetary stabilization anchored Norman's efforts to develop central banks and co-operation in Europe.

Norman developed a particular vision for central bank co-operation in his first years as governor. The necessities of war finance had subordinated currency and finance to national political interests. Returning monetary authority to central banks and creating central banks in countries where they did not already exist would create a network of institutions with the financial expertise and the political autonomy to direct monetary and economic relations on the basis of technical expertise rather than political rivalry. Strong worried at the end of the war about the potential for a return to 'economic

[21] For British criticism of the Bank of France and hopes to increase French gold shipments, see Strong Diary, entries for 28 and 30 Mar. 1916; FRBNY, Strong Papers, 1000.2. The diary shows a marked contrast between the enthusiastic British response to Strong's suggestions for post-war co-ordination and the reluctance on the part of the Bank of France. Strong's memorandum given to the Bank of France and his diary entries on Pallain's reaction are in FRBNY, Strong Papers, 1000.2.

[22] Quotes from Strong to Norman, 17 Nov. 1921; FRBNY, Strong Papers, 1116.2/1, and Norman to Strong, 15 Sept. 1921; Strong Papers, 1116.2/2. Until Norman's long tenure as governor, 1920–44, governors of the Bank of England were traditionally elected for two consecutive one-year terms. In 1921–2, the possibility that Norman would rotate out of office caused Strong considerable dismay; see Strong to Norman, 17 Feb. 1922; Strong Papers, 1116.3/1. Siepmann stated of central bank co-operation that 'The whole movement was bound up with the personality of the Governor of the Bank of England, who came to be recognized as its only begetter.' H. A. Siepmann, 'Central Bank Co-operation', 19 July 1943; BoE, G14/33.

barbarism' if politicians made peace in such a way as to encourage economic strife;[23] Norman shared his belief in the need for central bank co-operation 'against the time when politics may come to give way to economics and finance'.[24] 'Politics and politicians, like the poor, are always with us,' Strong mused during the war; he would repeatedly see the problems facing reconstruction as chiefly political.[25] But the politics proved inescapable.

The Brussels conference in 1920 and the Genoa conference in 1922 called for the establishment of central banks in countries where they did not yet exist, and for the independence of central banks from governments.[26] Norman, who had been formulating his own ideas on the organization of central banks and their role in monetary reconstruction, played a critical part in defining the institutional role for central banks at this time.[27] He first developed his ideas in correspondence with Henry Strakosch, who had a background in finance and gold mining,[28] with W. H. Clegg, chief accountant at the Bank of England, who became the first governor of the South African Reserve Bank in 1920, and with Benjamin Strong. Norman saw central banks as institutions that should not compete with commercial banks for business, should act as lender of last resort to their country's banking system, and should serve as banker to their own governments but remain autonomous in their determination of monetary policy. In mid-1921, Norman began preaching this gospel of central banking abroad through personal contacts and by correspondence, seeking to rally a professional caste of central bankers to co-ordinate international financial rehabilitation.[29]

Norman stressed four principles: co-operation, exclusiveness, balances, and autonomy. Co-operation meant a commitment to consult with other central banks on matters of mutual interest; exclusiveness meant central banks should deal exclusively with the

[23] Strong to Norman, 22 Nov. 1918; FRBNY, Strong Papers, 1116.1/1.

[24] Norman to Clegg, 2 Nov. 1921; BoE, G3/177, cited in P. L. Cottrell, 'Norman, Strakosch and the Development of Central Banking: From Conception to Practice, 1919–1924', in Philip L. Cottrell, ed., *Rebuilding the Financial System in Central and Eastern Europe, 1918–1994* (Aldershot: Scolar Press, 1997), 40. Earlier Norman had written to Clegg that 'finance and economics are at the present moment too much in the hands of politicians for us Central Bankers to take any overt action, but I think the time may come when the boot will be on the other leg and the Central Banks will openly have to assist one another and so the community at large, and it is with that future aim that we are now trying to make a beginning'. Norman to Clegg, 13 Oct. 1921; BoE, G3/177.

[25] Strong to Norman in response to a similar lament by Norman, 8 Aug. 1916; FRBNY, 1116.1/1. Later comments articulated his view that 'On the whole, I think the world is suffering more from politics and politicians than it is from economic disorders.' Strong to Norman, 2 Oct. 1922; FRBNY, 1116.3/1.

[26] Resolutions III and XIV of the Brussels conference, resolution 2 of the Genoa financial resolutions.

[27] See the discussions of Norman's views in Sayers, *Bank of England*, i. 153–63; Henry Clay, *Lord Norman* (London: Macmillan, 1957), 282–5; György Péteri, 'Central Bank Diplomacy: Montagu Norman and Central Europe's Monetary Reconstruction after World War I', *Contemporary European History*, 1, no. 3 (1992), 234–40, and Cottrell, 'Norman, Strakosch', 29–43.

[28] On Strakosch's background, see Cottrell, 'Norman, Strakosch', 30; Strakosch remained a close adviser to Norman through the 1920s.

[29] See ibid. 33–40, Cottrell reproduces Norman's 1921 central bank 'Epitome', 63, and Sayers, *Bank of England*, i. 157–60. The following description draws on Sayers and on H. A. Siepmann's retrospective survey, 'Central Bank Co-operation', 19 July 1943, in BoE, G14/33. Siepmann referred to central bank co-operation as a 'gospel' with 'apostles' and to central bankers as a separate 'caste' from other government officials, marked by their professional, international solidarity. On the importance of personal contacts, see Siepmann, 'Personal Contact with Central Banks', 15 Mar. 1928; BoE, OV50/3.

central bank in their financial transactions in foreign centres. Balances referred to the need for central banks to maintain minimal balances in their accounts with other central banks, and was linked to Norman's wish to extend the gold exchange standard. Autonomy was of course the need for central banks to be independent from governments and free from political pressures. Siepmann reduced these four principles to two. The autonomy of central banks from their governments would provide a 'mystique' to heighten solidarity and emphasize that central bankers were a caste apart, 'based on the idea of a professional and corporate responsibility, and of service to general interests which transcended those of national particularities'. Second, 'exclusiveness' implied that central banks would maintain minimum balances with each other; regular communications would foster a co-operative approach to the problems of financial and monetary instability and the policy co-ordination needed to re-establish and maintain a durable gold standard.[30]

At Genoa, the Bank of England had been given responsibility for convening a meeting of central bankers on the suggestion of the Bank of France, which considered this the best way to obtain American participation. Norman drafted resolutions for preliminary discussion by sympathetic central bank governors; he regarded Strong's participation as essential, and revised his agenda to accommodate Strong's criticisms.[31] But when circulated to other central bankers, the agenda aroused objections and differences, as well as resentment from those who learned of the agenda without having been consulted.[32] The conference, initially planned for June 1922, was postponed to the autumn and never convened. Sayers argued that the differences regarding the agenda were not insuperable, but Cottrell and Péteri found the points of dispute more substantial.[33] Norman did not wish to call a conference of central bankers without close agreement on their programme and principles.

The festering issues of reparations and intergovernmental war debts provided a good excuse for postponing a central bank conference; both Norman and Strong doubted that exchange-rate stability could be achieved without resolving these two problems. Significantly, Norman later told the Macmillan Committee that the conference had not occurred 'for the excellent reason that the people would not come'. They hadn't been invited. But his reasoning was clear in his explanation that even when governors later met less formally at the Bank for International Settlements, they were concerned primarily with their own domestic situations. 'No two or three countries can really regard an international question on its merits. There is no such thing as merits when you come to that'.[34] Strong, too, agreed that there was nothing to be gained in convening a formal meeting of central bankers as proposed at Genoa: '[I]t was expecting entirely too much of human

[30] Siepmann, 'Central Bank Co-operation'.

[31] Strong to Norman, 15 May, 14 and 27 July, and 14 Aug. 1922; BoE, OV50/19, also in FRBNY, Strong Papers, 1116.3/1. There are copies of the draft agenda in BoE, OV50/19, and FRBNY, Strong Papers, 1116.3/5.

[32] See in particular letters from Vissering (Netherlands), Moll (Sweden), and Burckhardt (Switzerland) criticizing the agenda, and O. Lepreux's complaint (Banque Nationale de Belgique) about not being consulted, in BoE, OV50/19.

[33] Sayers, *Bank of England*, i. 161, Cottrell, 'Norman, Strakosch', 41–3, and Péteri, 'Central Bank Diplomacy', 240.

[34] Norman reply to Q. 9188, Macmillan Committee Evidence, reprinted in Sayers, *Bank of England*, iii. 242–4.

nature to think that representatives of the central banks of a great many nations having differences of language, customs, beliefs and financial and political needs could sit down together and agree on anything at all.'[35] Both comments date from the late 1920s, when differences among central bankers and the difficulties of trying to obtain consensus on any significant subject had been increased and amply demonstrated by experience, but they apply nonetheless to the earlier period. Never enthusiastic about the conference proposal, Norman proceeded along his preferred track of bilateral discussions with central bankers of his choice.

Bilateral discussions assured a centralization of the effort in London. As de Cecco has noted, there was a clear hierarchy in the development of central bank co-operation. De Cecco posited a core group of central banks that included France and Germany,[36] but in the first half of the 1920s the core was distinctly Anglo-American. France was deliberately excluded from Norman's plans for co-operation. In 1921 he termed the Bank of France 'hopeless' with regard to co-operation, he did not include the Bank of France in his dispatch of agendas for discussion in June 1922, and he saw France, Italy, and Belgium as outliers in his hopes for a future conference in August 1922.[37] The Bank of France did not meet Norman's standards for central bank independence or behaviour as outlined in his 1921 'Epitome' and his draft conference agenda, and French scepticism with regard to the Genoa resolutions had been made clear in preliminary meetings and the Genoa conference itself (see Chapter 3). A Bank of England note surveying relations with other central banks on the eve of the Genoa Conference stated with regard to the Bank of France: 'Dominated by its own Government to such an extent that it has no independence or initiation and even no right to protest and is consequently not in a fair position and cannot play its part alongside other Central Banks.'[38] Norman began developing contacts with Governor Havenstein of the Reichsbank (1908–23) in 1921, via Gerard Vissering (president of the Nederlandsche Bank, 1912–31), and his sympathies for Germany were clearly engaged in proportion to his consternation at what seemed to him an excessively vindictive and politically determined French reparations policy.[39] The FRBNY was the one bank Norman viewed as an equal, although distant, partner.

Norman took an active interest in the financial and monetary rehabilitation of Central Europe, beginning with Austria and Hungary where stabilization plans were determined by the Financial Committee of the League of Nations.[40] He rallied to League direction

[35] O. Ernest Moore, 'Memorandum of Conversation between Governor Strong and Sir Arthur Salter at Hotel George V, Paris—May 25, 1928', FRBNY, Strong Papers, 1000.9.

[36] Marcello de Cecco, 'Central Bank Cooperation in the Inter-War Period: A View from the Periphery', in Jaime Reis, ed., *International Monetary Systems in Historical Perspective* (London: Macmillan, 1995), 113–34.

[37] See Cottrell, 'Norman, Strakosch', 35 and 41, and Norman to Strong, 9 Aug. 1922, FRBNY, Strong Papers, 1116.3/2.

[38] 'Central Banks and Their Relations with the Bank of England', 7 Apr. 1922; BoE, OV50/1.

[39] See his letters to Strong of 7 Nov. 1921, stating that British interests in Austria were economic whereas French interests there were political, and 18 Dec. 1921, in which he commented on a visit by Havenstein having obtained greater understanding for Germany's reparations plight at the Treasury, where 'in fact the Chancellor has become as much anti-French as he has pro-German!' FRBNY, Strong Papers, 1116.2/2.

[40] On British policy towards Hungary see György Péteri, *Revolutionary Twenties: Essays on International Monetary and Financial Relations after World War I* (Trondheim: University of Trondheim Department of History, 1995).

after having first objected that it was 'too political'. British predominance on the Financial Committee and Norman's role in the arrangement of stabilization loans sparked suspicions of British financial imperialism.[41] Austria and Hungary had been 'enemy' powers: allied and newly created states associated strict League financial programmes with treatment meted out to defeated enemies.[42] The German stabilization assisted by the Dawes loan in 1924 and the Belgian and Italian stabilizations in 1926 and 1927 (in which the Bank of England played the leading role in approving stabilization plans and arranging central bank credits, seconded by the FRBNY) offered a much more attractive template for currency stabilization.

Sterling's return to gold was the most important currency stabilization. Even before Genoa, the Scandinavian central banks had announced that 'the first step towards the successive re-establishment of the gold standard in Europe should be the re-establishing of the gold standard in England'.[43] They feared that Anglo-American rivalry could disrupt the international system, and Victor Moll, president of the Riksbank (1913–28), worried that returning to gold without London as a counterweight to New York would tie Swedish prices to those in the United States.[44] Strong reported that the German stabilization produced 'consternation' among London bankers when the mark returned to gold before sterling; in 1925 Sweden and South Africa announced their impending return to gold and action appeared imminent in Australia and Canada as well. Strong chided Norman in July 1924 that sterling was 'rather far behind in the procession'.[45] Prestige and concern that New York would replace London at the centre of the gold standard world influenced the timing of Britain's decision to return to gold in 1925. Hesitations and calls for caution within the Bank about rushing the return to gold without determining whether the pre-war parity could be maintained were overridden by the perceived need to exploit sterling's proximity to par in anticipation of a return.[46] British industrial opinion was given little weight and was poorly represented in the decision-making process.[47]

[41] See Orde, *British Policy and European Reconstruction*, 130–45, 266–74.

[42] See the analysis and the quote from Arthur Salter in Louis W. Pauly, *Who Elected the Bankers? Surveillance and Control in the World Economy* (Ithaca, NY: Cornell University Press, 1997), 55–6.

[43] Victor Moll to Norman, 27 Jan. 1922; FRBNY, 1116.3/4.

[44] The governors of the Swedish, Dutch, and Swiss central banks produced a declaration to this effect at a Nov. 1921 meeting; copy sent with Moll's letter to Norman, 27 Jan. 1922; FRBNY, 116.3/4. The declaration and Moll's policy regarding the Swedish return to gold are detailed in György Péteri, 'The Inflation-Proof Gold Standard: The Foreign Policy of *Riksbankschefen*. Victor Moll and the Origin of the Swedish Ban on Gold Imports in 1924', *Journal of European Economic History*, 13, no. 3 (1984), 635–63.

[45] Cited in Clarke, *Central Bank Cooperation*, 80.

[46] Sayers, *Bank of England*, i. 141–3; Robert W. D. Boyce, *British Capitalism at the Crossroads, 1919–1932* (Cambridge: Cambridge University Press, 1987), 66–8, 72.

[47] The Federation of British Industries called repeatedly for a reconsideration of post-war monetary policy as set by the Cunliffe Committee, to no avail, and did not realize what was at stake in the Chamberlain–Bradbury Committee's hearings in 1924, officially on amalgamation of the wartime Treasury note issue, but of key importance in considering the return to gold. See Boyce, *British Capitalism*, 37–8, 48–9, 62–8; also R. Boyce, 'Creating the Myth of Consensus: Public Opinion and Britain's Return to the Gold Standard in 1925', in P. L. Cottrell and D. E. Moggridge, eds., *Money and Power: Essays in Honour of L. S. Pressnell* (London: Macmillan, 1988), 173–97, and L. J. Hume, 'The Gold Standard and Deflation: Issues and Attitudes in the 1920s', reprinted in Sidney Pollard, ed., *The Gold Standard and Employment Policies between the Wars* (London: Methuen & Co., 1970), 122–45.

Britain returned to gold believing the system would work to make necessary adjustments, 'an act of faith in an incompletely understood adjustment mechanism undertaken largely for moral reasons'.[48]

Central bank co-operation played a role in Britain's return to gold. Norman and Strong discussed stabilization planning and co-ordinated monetary policies; Strong encouraged the return in 1925 and helped arrange an FRBNY credit to the Bank of England and an American loan to the British government. Sterling's proximity to pre-war parity in early 1925 was in part a product of their collaboration. Strong explained to Rist in 1927 that he had engaged in 'a true policy of inflation, maintaining the discount rate at a very low level precisely to force England to return as soon as possible to the gold standard'.[49] The credit arrangements, which would become the main form of central bank co-operation in subsequent stabilization efforts, were criticized in both the Bank of England and the Treasury, where there was concern that credits would delay or dilute the measures required by gold standard discipline. The Chamberlain–Bradbury Committee on the Currency and Bank of England Note Issues warned in its report that credits should only be used after significant gold exports, and should be treated as a loss of Bank reserves, lest the credits 'merely aggravate the mischief' they were intended to cure.[50]

Meanwhile, relations between the Bank of England and the Bank of France had been strained by political differences, with Norman indignant at French reparations policy, the influence of French politics on the Bank of France, the Bank's lack of autonomy, and the lack of progress in settling French war debts to Britain. The central banks came into direct conflict over the £24 million in gold deposited with the Bank of England as collateral for the 24 April 1916 agreement by which the Bank of France had obtained £72 million for exchange support.[51] The British Treasury had proposed purchasing this gold in March 1919, to provide the Bank of France with sterling for continued exchange support, and believed a deal to this effect had been concluded. As noted above (Chapter 3, section 3), the French Treasury would have gladly used the gold in this way, but the Conseil Général flatly refused. The Treasury had repaid £7 million to the British government in January 1919, and a further £10 million in three monthly instalments from September to November 1922, to avoid renewal of French Treasury bonds reaching maturity in the year before repayment would be required (on 1 September 1923, two years after the official end of the war for financial agreements). Gold equal to one-third of each repayment was returned to the Bank of France. In December 1922, the French Treasury stated that it could no longer cover the bills falling due and requested an extension; Norman offered to negotiate with the Bank of France.

48 D. E. Moggridge, *The Return to Gold 1925: The Formulation of Economic Policy and its Critics* (Cambridge: Cambridge University Press, 1969), 81.

49 Rist, 'Aide mémoire des conversations du 29 et 30 Juin entre M. Rist, M. Strong et M. Harrison', 1 July 1927; BdF, 1397199403 / 181; and see Clarke, *Central Bank Cooperation*, 85–96.

50 Clarke, *Central Bank Cooperation*, 77–8, and Sayers, *Bank of England*, i. 141–3.

51 The Bank of France emphasized that this was a commercial transaction, not to be confused with the gold transfer as collateral for French Treasury borrowing under the Calais accord of 24 Aug. 1916. The initial agreement involved a £20 m gold deposit in London for £60 m loan; this was increased by 20 per cent in 1917, and the date for repayment, initially 6 months after the end of the war, was extended to two years.

Deputy Governor Ernest-Picard and regent Georges Heine crossed to London in early March and found Norman intransigent in the terms for delayed repayment.[52] They requested a ten-year repayment schedule with gradually rising payments; Norman proposed five yearly payments of £11 million each. He refused to lower the interest rate on the discounted bonds and to return gold proportionally to repayment, initially demanding to retain it until the loan was repaid. He conceded a seven-year schedule of rising payments with return of the gold in the last two years of repayment. Discussions continued in Paris and agreement was reached on 27 March and signed on 12 April.[53] Norman stuck to the seven-year schedule, retreated slightly on the commencement date and the interest rate, and offered an interest rebate provided that it benefit only the Bank of France, not the Treasury.[54]

Moreau later claimed that these terms placed the Bank of France under the tutelage of the Bank of England.[55] But Norman's 'autonomy' on this question was in fact restricted: he had originally considered repayments of £5 million annually for eleven years acceptable and thought it neither 'wise' nor 'fair' to alter the terms by which Britain held French gold. The British Treasury insisted on a shorter repayment schedule and retention of the French gold 'in view of the very doubtful future of French finance', claiming thus to improve the security of the British taxpayer.[56] The French found the revision of the original agreement, according to which gold should have been returned proportionally to payments, particularly galling, a point they protested repeatedly to no avail.[57] For the time being, they were in no position to argue.

In the meantime, Norman's crusade for co-operation among central banks did not include the Bank of France. Norman's preferred circle of central bankers, when he contemplated inviting a limited group of like-minded bankers to discuss monetary affairs 'without publicity and without commitments—conversations but no resolutions' in 1925 included Strong, Victor Moll, Gerard Vissering, and Hjalmar Schacht.[58] He wished to work informally with those with whom he had established a rapport. When he sought to divide the 'sheep who were invited' from the 'goats', he suggested that he might invite countries with a free gold market, though he did not wish to exclude Germany.[59] After meeting with Strong, Vissering, and Schacht in September 1925, he proposed an informal meeting of a few central bank governors in 1926 'with no set agenda, to exchange ideas, to co-operate on matters of common interest and perhaps prepare the way for a

[52] 'Compte rendu de la visite de MM. Ernest-Picard et Georges Heine à la Banque d'Angleterre, 7 et 8 Mars 1923', BdF, 1069199521/5.

[53] Details in DCG, 29 Mar. 1923; copy of agreement in PRO, T 160/153/F.5904.

[54] Norman to Robineau, 21 Mar. 1923; BoE, G1/302.

[55] Moreau, *Souvenirs*, 2, 252–3 [24 June 1926, 26 Feb. 1927].

[56] Norman to Niemeyer, 3 Feb. 1923; Niemeyer to Norman, 12 Feb. 1923; PRO, T 160/153/F.5904. This was particularly true of the £53.5 million in French gold held against war loans to the French government, which the Treasury did not believe would ever be repaid; see Turner, *Cost of War*, 139.

[57] This had been one of the fundamental points they considered unalterable in preparing for the discussions; 'Note pour le Conseil', 1 Mar. 1923, and 'Aide-mémoire: or à Londres', 28 Feb. 1923; BdF, 1069199521/16; also 'Bank of France. Gold', 12 Mar. 1927; PRO T 160/153/F.5904.

[58] Norman to Strong, 15 Apr. and 11 May 1925; FRBNY, Strong Papers, 1116.5/2.

[59] Norman to Strong, 15 Apr. 1925; FRBNY, Strong Papers, 1116.5/2.

general understanding between the Presidents and Governors of Central Banks'.[60] Schacht and Vissering planned to meet with Norman in London during Strong's visit there in May 1926, but the British general strike caused them to cancel.[61] There was no question of including Robineau. Although Norman effusively claimed the basis for close co-operation with France had been laid in the March 1923 central bank agreement,[62] France was not on gold and the Bank of France did not meet Norman's criteria for admission to his unofficial club of central bankers. Before Norman decided against calling a conference of central bankers in 1925, the Committee of Treasury had agreed that only those from countries with their exchanges within 10 per cent of parity could be invited.[63] Exchange depreciation in France and the degree to which Robineau was believed to be dominated by the Treasury excluded the Bank of France from Norman's plans for central bank co-operation. Under Governor Moreau, the Bank of France would become a much more formidable adversary.

## 2. EQUALITY WITH THE BANK OF ENGLAND

When Émile Moreau replaced Robineau in June 1926, he immediately notified other central banks of his appointment and his desire to establish contact with them. He met with Norman briefly on 29 July, describing him in an oft-quoted diary entry as profoundly English, a dedicated imperialist seeking British advantage in all his actions and ardently anti-French.[64] Moreau's views were coloured by information from Pierre Quesnay, who had spent four years working for the Financial Committee of the League of Nations before being appointed Moreau's *chef de cabinet*, and who described Norman's imperialist 'secret intentions' to Moreau when he joined his staff.[65] Norman's obviously close sympathies with Reichsbank Governor Hjalmar Schacht (Norman once referred to himself and Schacht as 'twins') heightened Moreau's mistrust of Norman as an Englishman.[66] Norman's own impressions are not recorded,[67] but Siepmann, who oversaw Bank of England relations with the Bank of France from 1926 onward,[68] described Moreau as 'stupid, obstinate and formidable. Devoid of imagination and generally of understanding; but a magnificent fighter, for narrow and greedy ends. A pragmatist without a conscience, who could do endless harm with zest and conviction, but would be an asset to any side.'[69] The unflattering description indicates the combination of exasperation and respect Moreau earned in London.

[60] Extract from minutes of the Committee of Treasury, 9 Sept. 1925; BoE, G15/29.

[61] Extract from minutes of the Committee of Treasury, 5 May 1926; BoE G15/29; Norman diary, 3 and 5 May 1926; BoE, ADM20/15.

[62] Norman to Robineau, 19 Mar. 1923; BdF, 1069199521/5.

[63] Extracts from minutes of the Committee of Treasury, 25 Mar. and 22 Apr. 1925; BoE, G15/29.

[64] Moreau, *Souvenirs*, 48–9, 52–3 [29 and 30 July 1926].

[65] Ibid. 24 [12 July 1926]. Moreau appointed Quesnay his *chef de cabinet* in July; after Jules Décamps's death in an automobile accident in early August, Quesnay took Décamps's place as head of the Bank's Direction des Études Économiques.

[66] Harold James, *The Reichsbank and Public Finance in Germany 1924–1933: A Study of the Politics of Economics during the Great Depression* (Frankfurt am Main: Fritz Knapp Verlag, 1985), 21 n. 4.

[67] But see Schuker, *End of French Predominance*, 114, 291, and 305.

[68] See Sayers, *Bank of England*, i. 187 for French suspicions of Norman and Siepmann.

[69] Siepmann, 'Central Bank Co-operation', annex III, 19 July 1943; BoE, G14/33.

Bank of France relations with the Federal Reserve Bank of New York were closer and much more cordial. There was neither a legacy of national rivalry nor a history of institutional conflict to mar relations, and Moreau quickly established a positive relationship with Strong. The two governors met four times in late July 1926. Moreau found Strong well disposed toward France, noting 'It is very important for us to win the confidence and if possible the friendship of the governor of the Federal Reserve Bank of New York.'[70] Strong reported that Moreau and the new direction of the Bank lacked experience of central banking, but were otherwise 'intelligent and most earnest in their devotion to the task' of stabilization.[71] Moreau wished to establish relations with other central banks 'independently and without associating Governor Norman with his approach', distrusting Norman and the British, sceptical of other European central bankers. He considered Strong the only central banker with whom stabilization could be discussed 'frankly and without reserve, and still more important, without fear of my [Strong's] having some ulterior motive which would influence my attitude'.[72] When Strong returned to Paris on 23 August, he spent two weeks meeting with Rist, Quesnay, and sometimes Moreau, helping to hammer out the principles for the stabilization of the franc and to shape and reinforce their understanding of central bank independence. 'Gradually', he reported, 'they ... are beginning to think of the Bank of France in terms of independence of Treasury domination.'[73] Strong's influence reinforced Moreau and Rist's views and helped consolidate the stabilization plan to which Moreau adhered, resisting Poincaré's demands for exchange-market intervention, through the autumn of 1926. Moreau wrote sincerely to Strong in March 1927 that 'As you have seen, we have continuously been inspired by the principles established during our conversations in August, which I remember well. ... I ask you, my dear Governor, to consider yourself one of the authors of this *redressement* which, benefiting from a fortunate return of confidence, has allowed us to restore greater calm, greater hope, and also greater prestige and possibilities for action.'[74]

The American contribution to French stabilization planning illuminates two aspects of central bank co-operation as it changed in nature at this time. First, the degree of secrecy involved: Strong was plagued by concerns that his meetings at the Bank of France would become public knowledge and be misinterpreted. Erroneous press comment in May 1926, claiming Robineau's resignation was a condition for an American credit, made Strong extremely wary: 'The Federal Reserve Bank can have no dealings with a foreign Government,' he cabled to his deputy governor, George Harrison. 'It has no intention or desire to deal with political questions, nor can it be put in the position of appearing to

[70] Moreau, *Souvenirs*, 51 [29 July 1926].

[71] Strong to Harrison, 26 Aug. 1926; earlier impressions in Strong to Harrison, 21 July 1926 and Strong to Harrison, cable no. 46, 31 July 1926; FRBNY, French Situation files.

[72] Strong to Harrison, 17 Aug. 1926; FRBNY, French Situation files.

[73] Strong to Harrison, 26 Aug. 1926; FRBNY, French Situation files. Strong exaggerates Moreau's need to realize this; Moreau was aware of the need for central bank autonomy from the start. Norman similarly stressed the need for central bank autonomy when he met with Moreau in July, but his strained relations with Moreau reduced his influence and frequency of contact.

[74] Moreau to Strong, 1 Mar. 1927; FRBNY, Strong Papers, 1125.3.

dictate or even suggest conditions which have any color of politics in connection with a program of stabilisation and of monetary reorganization in France.'[75] Throughout their extensive conversations in August, Strong repeatedly emphasized the importance of their talks remaining secret, and he and Moreau exchanged letters afterwards specifying that no arrangements or commitments for an American credit had been made.[76] Strong had to be doubly concerned: first by suspicions in the United States and the Federal Reserve System as to his actions, second by care not to be linked to a French stabilization programme the results of which remained in doubt. Thus one of the most important instances of collaboration between central banks occurred in almost complete secrecy. It contributed significantly to the stabilization of the franc, for which more overt co-operation and the central bank 'seal of approval' of a joint stabilization credit would prove unnecessary.

The second aspect was the general distrust of Montagu Norman. Strong warned Pierre Jay in September 1926 that French, Italian, and Belgian bankers distrusted Norman, in part for his close association with Schacht. 'I have been strongly advised both from inside and from outside', Strong stated, 'that if we go ahead with participation in any stabilization plans in any of these three countries, we should not do it through Governor Norman as an intermediary. They seem to be afraid of him and somewhat distrust him ... I think they feel that he is at times too able for them and that he is not as disinterested as we are'. Because of what he had been told of Norman in Italy and France, Strong found that he was unable to inform Norman of the discussions he had held in those countries.[77] Strong's closer relations with European bankers in his extended visits in Europe in 1926–8 disrupted the web Norman had sought to weave with the key threads converging in London. In March 1927, Norman predicted to Strong that 1927 would be 'a barren and disappointing year for Europe. The plans we had vaguely made or thought about a couple of years ago are receding towards the horizon. Stabilization and reconstruction, which have been the vogue since the League first dealt with Austria, have for the time being passed out of fashion'.[78] A few days later he wondered whether the Financial Committee of the League 'could not turn itself around somehow and join hands with some of your people and from a changed or wider angle do more useful work'. Otherwise, competition threatened to squeeze out co-operation.[79]

Belgian stabilization, attempted initially at too high a level, was accomplished with central bank credits arranged by the Bank of England and the FRBNY in October 1926. The Bank of France was asked to participate only when the stabilization arrangements were nearly complete, after Strong and Norman had approved the programme and obtained participation from Norman's circle of central bankers. Moreau learned of the

[75] Strong to Harrison, cable no. 30, 28 June 1926, and Strong to Dean Jay, 30 June 1926; FRBNY, French Situation files. The story was published in the New York *Evening Post* on 17 May 1926.

[76] Note of this in Strong to Jay, 9 Sept. 1926; FRBNY, Strong Papers, 1007/2.

[77] Strong to Jay, quoted in Chandler, *Benjamin Strong*, 350.

[78] Norman to Strong, 12 Mar. 1927; FRBNY, Strong Papers, 1116.7/2. Norman continued, 'just as Paris sets the fashion for silk stockings and hats, so has she now set the fashion against stabilisation (and indeed ratification) and in favour of wait and see. This is the third time M. Poincaré has seemed to hold Europe at bay—Cannes, Rühr and now.'

[79] Norman to Strong, 25 Mar. 1927; FRBNY, Strong Papers, 1116.7/2.

plans from Louis Franck, governor of the Banque Nationale de Belgique (1926–37), in early October; his invitation to participate came almost as an afterthought one week later.[80]

Subsequent stabilization efforts sharpened rivalry between the central banks in London and Paris, with Moreau receiving a steady flow of material to feed his suspicions of Norman's central bank imperialism. Quesnay returned from London in mid-October 1926 with news of Norman's aspirations to develop central bank relations that Moreau found utopian, even Machiavellian.[81] When Siepmann visited the Bank of France a short time later, Moreau suspected he was being sounded for resistance to Italian stabilization, Norman hoping to use a French refusal to participate as a pretext to hide his own opposition.[82] Joseph Avenol reported in December that an attempt to stabilize the Polish zloty was being made independently of Norman, 'to put an end to the real tyranny exercised by the Bank of England over European banks of issue'.[83] Reports from Yugoslavia and Greece further confirmed Norman's financial imperialism, and the opportunity for France to assist central European nations unhappy under 'the English yoke'.[84] Moreau resolved to exploit opportunities to establish the Bank of France as a counterbalance to the Bank of England in European monetary affairs.

Direct contacts between the two central banks had been initiated with Quesnay's visit to London in October 1926. He spent six days there, familiarizing himself with Bank of England operations in the London market. His closest contact was H. A. Siepmann, an adviser to Norman who had been involved in the Hungarian stabilization under League auspices, and assigned to the newly created Central Bank Section with responsibility for contact with European central banks.[85] Quesnay gave Siepmann a detailed account of the stabilization programme put together in August, which he characterized as the Bank's 'ideas' for eventual stabilization.[86] Given the animosities between the bank governors, Quesnay and Siepmann provided the main linkage for the direct exchange of information between the two banks, with Norman relying on Siepmann to investigate difficulties that arose between the two banks before involving himself in conversations. Moreau on occasion blocked meetings between the advisers in order to force Norman to deal with him directly. Central bank contacts were highly personal, depending critically upon relations between governors. The development of junior-level contacts, still personal at this point, was a step towards institutionalizing central bank communication and co-operation.

[80] Richard Hemmig Meyer, *Bankers' Diplomacy: Monetary Stabilization in the Twenties* (New York: Columbia University Press, 1970), 30–41; Quesnay to Moreau, 12 Oct. 1926, in AN 374 AP 6.

[81] Moreau, *Souvenirs*, 135–7 [19 Oct. 1926]; Moreau's account of Norman's ambitions is drawn directly from Quesnay's 'Compte rendu de mission à Londres (Lundi 11–Samedi 16 octobre 1926)', copy in AN 374 AP 6.

[82] Moreau, *Souvenirs*, 169 [27 Nov. 1926]. [83] Ibid. 191 [30 Dec. 1926].

[84] Ibid. 192 (quote), 225, and 245–6 [3 Jan., 5 and 20 Feb. 1927].

[85] Siepmann had been appointed foreign adviser to Norman in Aug. 1926; when the Central Bank Section was created in 1926, countries were divided into three groups—German, Latin, and English banks. Siepmann was placed in charge of the German group initially, and quickly took charge of the Latin group as well; Sir Ernest Harvey, the Comptroller of the Bank, was responsible for the English group. On the Central Bank Section, see 'Cooperation between Central Banks', 15 Aug. 1927; BoE, OV50/3, and Elizabeth Hennessy, *A Domestic History of the Bank of England, 1930–1960* (Cambridge: Cambridge University Press, 1992), 293–5.

[86] Siepmann account of conversations in AN 374 AP 6.

The highly personal character of relations and Norman's efforts to avoid direct confrontation were evident in the first major conflict between Moreau and Norman in 1927. The Caillaux–Churchill war debt accord of 12 July 1926 had included a provision for alteration of the 1923 agreement between Norman and Robineau.[87] The war debt agreement had not been ratified by the French parliament, but when France agreed to pay its 1926–7 debt annuity, Poincaré claimed the right to modify the 1923 accord.[88] The French Treasury had looked into borrowing in Amsterdam to pay off France's $400 million debt to the United States for war *matériel* purchased in 1919. Moreau hoped this would oblige the US government to lift its embargo on loans to France, but repayment would require consent of the White House and would make public the Dutch loan.[89] Clément Moret suggested repayment of the Bank of England loan instead.[90] Poincaré encouraged Moreau to tackle the Bank of England on the issue, claiming that the British Treasury would press the Bank of England to relax the conditions imposed in 1923.[91] But Britain had not accepted revision of the accord as a condition for the French payment of the debt instalment, and the Treasury concluded that Poincaré's reservation of this issue provided 'no ground on which such a revision can be claimed in advance of the definite ratification of the Debt Agreement'.[92]

When Moreau cabled to arrange an interview with Norman without stating the reason, Norman claimed prior commitments including a trip to Berlin. Siepmann invited Quesnay to London, curious to determine what was up; Moreau instructed Quesnay to refuse the invitation and cabled to Norman insisting that they meet in Paris when Norman passed en route to Berlin.[93] They met on 26 and 27 February. Moreau requested an acceleration of the loan repayments and progressive return of the French gold deposit according to the 1916 agreement.[94] Moreau stressed two points. The first was the deposit of French gold: Moreau saw this gold as an earning asset and submitted a memorandum showing that the effective rate of interest on the credit outstanding, when the gold deposit was subtracted, rose to 128 per cent in the final year of the credit.[95] But the British Treasury had stated in 1916 that the gold was not an interest-bearing loan, promising to credit France with interest only if and when the gold was used.[96] The gold was being held

[87] Caillaux to Churchill, 12 July 1926, and Churchill to Caillaux, 12 July 1926; BoE, G1/302; reproduced in Moreau, *Souvenirs*, 26 [13 July 1926].

[88] Poincaré to Churchill, 15 Feb. 1927; BoE, G1/302.

[89] Moreau, *Souvenirs*, 219–20, 231–3 [1, 9, and 10 Feb. 1927].

[90] 'Note pour le Président du Conseil, Ministre des Finances', 15 Feb. 1927; BdF, 1069199521/17.

[91] Poincaré to Moreau, 16 Feb. 1927, in DCG, 17 Feb. 1927; also Moreau, *Souvenirs*, 241–2 [17 Feb. 1927].

[92] 'Bank of France. Gold', 12 Mar. 1927; PRO T 160/153/F.5904. The French failure to ratify the agreement promptly was but the latest aggravation for the British Treasury trying to obtain funding of the French war debts to Britain; see Turner, *Cost of War*.

[93] Moreau, *Souvenirs*, 243–4 [17 Feb. 1927]. These discussions are covered with greater detail from British archives in Turner, *Cost of War*, 243–6.

[94] Accounts of the meeting can be found in H. A. Siepmann, 'Note of the Conversation between the Governor and M. Moreau in Paris on Saturday, the 26th February, 1927', BoE, G1/302; Moreau, *Souvenirs*, 251–4 [26 Feb. 1927]; and Norman to Leith-Ross, 8 Mar. 1927, PRO T 160/153/F.5904.

[95] 'Dette de la Banque de France envers la Banque d'Angleterre', BoE, G1/302.

[96] 'French Gold', Mendel for Niemeyer, 6 Jan. 1923; PRO T 160/149/F.5742.

for the Bank of France and was not included in the British gold reserve. This surprised Moreau, who admitted this 'fundamentally altered the whole position';[97] he had believed the French gold to be included in British reserves. The second point was who would benefit from revision of the agreement. Norman was adamant that he would do nothing to help the French Treasury, and puzzled over how the Bank of France could benefit from early return of the gold, sacrificing the secret rebate of the 1923 agreement. Moreau stated there was no way for the Bank alone to benefit from the rebate to the exclusion of the Treasury. Nonetheless, the Bank of France would benefit in two ways. First, it would strengthen its holdings of foreign exchange reserves. Second and more significantly, it would prevent the French Treasury evading repayment when the balance owing on the credit fell to the amount of the gold collateral. Moreau feared the Treasury would then require the Bank to pay off the remainder with the gold.[98]

The two governors met again in London on 24 March. Moreau proposed full repayment of the £33 million outstanding, with return of the French gold as quickly as possible in order 'to dispose once and for all of a question which had an embittering effect on mutual relations'. Norman, taken aback, conceded in good grace.[99] They agreed to repayment of the loan on 22 April, making arrangements for the transaction in Calais on 3 April, but stalled on the rebate promised in 1923 on condition that it would not 'at any time be employed directly or indirectly otherwise than for the sole benefit of the Bank of France'.[100] The rebate now totalled £1,700,000. Moreau protested that no matter how the rebate might be used by the Bank, the Treasury would draw at least indirect benefit. He could not agree to an impossible condition, nor enter into a secret agreement with a foreign institution that was directed against the French Treasury and that interfered with his right to dispose of the Bank's resources, nor could he renounce the rebate and sacrifice the interests of the Bank. Norman finally ceded payment of the rebate without conditions, and Moreau paid it into Treasury accounts.[101]

Rather than reclaiming French gold, the operation transferred dollar balances from the Treasury to the Bank through Treasury repayment of the 1916 debt: France promptly converted the gold obtained in London into dollars. Moreau had stated the Bank's wish to do so earlier; Rist justified this conversion on three grounds: to educate public opinion that 'a mobile reserve held abroad is as good as gold at home', to have dollars available to

[97] Siepmann, 'Note of the Conversation', BoE G1/302; Siepmann found that all the French calculations with regard to the credit rested on the assumption 'that gold could be made to bear interest while still remaining gold'. H. A. Siepmann, 'Miscellaneous Points which Arose in Paris, 26th and 27th February, 1927', 2 Mar. 1927; BoE, G1/302.

[98] Siepmann, 'Note of the Conversation', BoE, G1/302.

[99] 'Note of a Conversation between the Governor and M. Moreau, together with Mr. Siepmann and M. Quesnay, on the 24th March, 1927', BoE, G1/302; Moreau, *Souvenirs*, 263–4 [24 Mar. 1927]; on British bafflement at the reasons for the French request, see Siepmann, 'Note of the Conversation', and 'Note for Verbal Communication', 12 Mar. 1927; BoE, G1/302.

[100] Phrasing from Norman to Moreau, 31 Mar. 1927; BoE, G1/302.

[101] 'Note of a Conversation of the Governor with M. Moreau and M. Rist in Calais on 3rd April 1927', BoE, G1/302; Moreau, *Souvenirs*, 274 and 281 [3 and 9 Apr. 1927]; Moreau to Poincaré, 27 Apr. 1927; BdF, 1069199521/17.

defend the franc without having to ship gold, and to provide the Bank with a badly needed earning asset.[102] The third reason probably weighed most heavily.

Yet less than four weeks later, Moreau asked to convert $100 million in New York and £20 million in London into gold. His request was prompted by renewed speculative demand for francs in conjunction with a domestic campaign to unpeg the franc, which Moreau feared could take it from 124 frs./£ to 80 with disastrous consequences for French industry and public finance.[103] The gold purchases were intended to drive up interest rates in London. Quesnay reasoned that easy money in London, where Norman had lowered the discount rate to $4\frac{1}{2}$ per cent on 21 April, facilitated Continental speculation. French foreign balances eased credit conditions where they were left on deposit, whereas repatriating gold would compel the markets affected to tighten credit. Using French foreign balances to purchase gold was thus seen as the 'gold standard solution'. By purchasing gold in London, Moreau hoped to tighten credit there in order to curb speculation originating in Berlin, Amsterdam, and Switzerland.[104]

The gold purchases caused no difficulty in New York, where the FRBNY used open market purchases to return the $100 million to the market. In London, however, Moreau's request caused alarm. Siepmann crossed to Paris and spoke with Quesnay and Moreau. He reported to Norman that there were no 'hostile motives' at work: speculation seemed in fact to be a secondary concern, the primary purpose being to restrain the inflow of foreign exchange in order to weaken pressure from politicians and regents (Wendel and Rothschild in particular) who favoured appreciation of the franc. On 16 May, the day Moreau cabled Strong and Norman asking to purchase gold, Wendel had requested an audience with Poincaré to warn him of the dangers of the Bank's large foreign exchange purchases. Moreau feared that pressure for revalorization within the Conseil Général would become irresistible. 'This is what makes it not only essential but urgent from the point of view of M. Moreau, to produce a visible diminution in the receipts.'[105] Central bank rivalry also played a part: Moreau told Siepmann that the move was intended to be 'a further step towards emancipation and self-assertion'. The Bank of England had to bear the consequences of its ambitions as an international monetary centre: the Bank of France wished to establish closer collaboration between the two central banks on the basis of equality, rather than British tutelage.[106]

Siepmann persuaded Moreau to suspend French gold purchases in order to allow direct action by the Bank of England, relying on 'a frank and direct collaboration'.[107] Norman and Siepmann discussed the problem and possible solutions at the Bank of

[102] 'Note of a Conversation between the Governor and M. Rist, Vice-Governor of the Bank of France, on 13th April, 1927', BoE, G1/302. For Bank concerns about its earnings at this time see chapter 5, section 2, and Moreau, *Souvenirs*, 287–92 [19–27 Apr. 1927].

[103] Moreau, *Souvenirs*, 290 [25 Apr. 1927].

[104] See J. A. M. de Sanchez, 'Memorandum for Mr. T. W. Lamont', sent with Sanchez to Lamont, 18 July 1927; JPM, 532H; also Moreau, *Souvenirs*, 310 and 312 [14 and 16 May 1927].

[105] Siepmann to Norman, 20 May 1927, and Siepmann, 'Note on Conversations in Paris, May 20/21, 1927', BoE, G1/34; Moreau, *Souvenirs*, 312–15 [16–19 May 1927].

[106] Siepmann, 'Note on Conversations in Paris', and Moreau, *Souvenirs*, 318 [21 May 1927].

[107] Moreau to Norman, 21 May 1927; AN 374 AP 6 and BoE, G1/34. In his reply Norman stated bluntly that he could not solve in London a problem originating in France: uncertainty about the future of the franc made any action in London uncertain of result. Norman to Moreau, 23 May 1927; BoE, G1/34.

France on 27 May. Their well-documented exchange of views made clear the differences dividing the two banks.[108] Moreau conceded that high interest rates and the prospect of revaluation attracted foreign funds to Paris, but he believed these funds had been borrowed and could be choked off by higher interest rates in London. He had no direct means to tighten credit where the speculation originated; he could only act on London and New York, pushing them to tighten credit to curb speculation. For Norman, the problem lay unmistakably in Paris. High interest rates, low security prices, and the prospect of currency revaluation made Paris 'irresistible'. Stabilization was the proper solution. Since this was not possible, he recommended that the Bank of France reduce its discount rate, end the ban on export of capital, and announce that further appreciation of the franc would not be permitted. Moreau rejected Norman's suggestions as politically impossible. Benjamin Strong proffered suggestions similar to Norman's in late May;[109] Moreau explained his concerns in greater detail, linking the surge in speculative demand for francs to the repayment of the debt to the Bank of England and to rumours of franc revaluation. He attributed the speculation mainly to Germany, acting through London, where bankers had not realized the extent to which French funds deposited there facilitated speculation. The Bank of France did not wish to damage the working of the gold standard, but it would damage the re-establishment of the gold standard in France if the Bank of France permitted London and Berlin to continue 'the illusion of a great monetary abundance' with artificially low interest rates.[110] Yet the rate in Paris was not immune to criticism: Rist had complained a few weeks earlier that they had 'completely lost control of the market' (see Figure 5.4), but rather than lower the discount rate, the Bank sought means to raise the market rate in Paris.[111]

Although they disagreed on the nature of the problem, Norman and Moreau sought a collaborative solution. Norman promised a higher market rate of discount; Moreau agreed to concentrate his gold purchases in New York. The Bank of France arranged to repurchase with sterling the $12 million in gold sold to the FRBNY in April, which had remained earmarked in London. The settlement between the central banks was amicable, but brought friction with the British Treasury, which threatened that if the Bank of France pressed the Bank of England, it would respond with demands that the French Treasury repay the £600 millions it still owed in unconsolidated war debts.[112] Quesnay protested at British press criticism of the French gold purchases, stating that French public opinion 'is getting tired of seeing people represented as conniving idiots when they are applying all their intelligence to finding a solution that will not harm their friends,

[108] Moreau, *Souvenirs*, 324–33 [27 May 1927], which draws heavily on 'Procès-verbal de l'entretien du vendredi 27 mai 1927: visite de M. Norman à Paris', a 25-page note by Quesnay; Siepmann commented that it 'includes more than was actually said, but it gives a substantially accurate account' (Siepmann to Niemeyer, 2 June 1927) in AN 374 AP 6 and BoE, G1/34. Also Siepmann, 'Note of a Conversation in Paris on Friday 27th May 1927, between the Governor and M. Moreau', 30 May 1927; BoE, G1/34.

[109] Strong to Moreau, cable no. 15, received 27 May 1927; AN 374 AP 6.

[110] Moreau to Strong, 2 June 1927; AN 374 AP 6.

[111] Harrison, 'Memorandum of Conversation with Dr. Rist' of 9 Apr. 1927; FRBNY, Harrison Papers, 3125.1.

[112] Moreau, *Souvenirs*, 334–5, 349 [30 May and 13 June 1927]; 'Conversation with Monsieur Quesnay (of the Banque de France) on French Monetary Policy', 8 June 1927; PRO, T 176/29.

and are granting another million pounds in credit every day in the London market'. The Treasury dismissed his complaint as an example of 'persecution mania'.[113]

In June Moreau began swap operations, selling spot sterling and repurchasing it forward, which relieved fears of inflation (and pressure for appreciation to forestall inflation) by reducing the volume of notes in circulation.[114] French difficulties with foreign exchange eased; on 22 July Moreau requested that the Bank of England cease purchasing gold on his behalf,[115] and in August Siepmann was told that the Bank of France had purchased sufficient gold to be a seller rather than a buyer in future.[116] The Bank of France had also reduced its balances sufficiently that it no longer wished to purchase dollars.[117] For the moment, with no new domestic pressure for stabilization, the French threat to sterling was lifted and central bankers could turn their attention elsewhere.

One of Moreau's intentions had been to restore parity between the two central banks. 'Taking advantage of the current strength and superiority of the Bank of France, I am proposing to M. Norman a general understanding between the two banks of issue,' he had noted.[118] One consequence was an invitation to join Norman, Schacht, and Strong for an informal meeting of central bankers on Long Island, New York, in July 1927, ending French exclusion from Norman's club of central bankers. The three governors had met in Germany in 1925 and in the Netherlands in August 1926; they hoped to make such meetings an annual affair for an informal exchange of views and information without undue press attention. Strong warned Moreau of the possible meeting on 19 May, and cabled Norman in early June to suggest that Moreau or Rist be invited.[119] Norman agreed. The Long Island meetings merit close attention for their demonstration of the nature of central bank concerns and co-operation, and the narrow constraints on what could be achieved.

Rist attended in place of Moreau, who did not speak English. He arrived in New York ahead of Norman and Schacht, who crossed the Atlantic together, and his notes shed new light on the conversations.[120] Discussing French policy with Strong and Harrison on 29 and 30 June; Rist explained French gold policy as 'an *appropriate policy* [*une politique de circonstance*], due solely to our current need to slow the inflow of foreign exchange', which accorded well with Quesnay's earlier claim that French policy was tactical rather than strategic. Strong observed that much of the current difficulty originated in France,

[113] See Quesnay to Leith-Ross, 12 June 1927, and Leith-Ross to Quesnay, 13 June 1927, in AN 374 AP 6; also Siepmann, 'Conversations with Quesnay in London, June 10th and 11th', 13 June 1927; BoE, G1/34.

[114] Moreau, *Souvenirs*, 357–8, 371, 373, 389, and 394 [24 June; 15 and 18 July; 20–1 Sept.; 1 and 3 Oct.].

[115] Moreau to Cecil Lubbock, 22 July 1927; AN 374 AP 6.

[116] H. A. Siepmann, 'Note on Conversations with Monsieur Rist in Paris on August 5th and 6th, 1927'; BoE, OV45/2.

[117] See exchange of letters between Norman and Rist in August on further purchases of dollars in AN 374 AP 6; also Norman to Strong, 11 Aug. 1927; FRBNY, Strong Papers, 1116.7/2.

[118] Moreau, *Souvenirs*, 318 [21 May 1927].

[119] Strong to Moreau, 19 May 1927; AN 374 AP 6; Strong to Norman, 6 June 1927; BoE, G1/34; Strong referred later to 'the necessity for inviting the Bank of France simply because of possible suspicions' when Norman and Schacht were invited to New York in 1927, Strong to Harrison, 27 July 1928; FRBNY, Strong Papers, 1000.9.

[120] For coverage from British and American sources, see Sayers, *Bank of England*, i. 336–46, Clarke, *Central Bank Cooperation*, 123–4, and Chandler, *Benjamin Strong*, 376–8.

where prolonged financial and monetary instability had caused flight from the franc. Rist disagreed: the problem was not French policy, but the redistribution of gold effected by the war. The Federal Reserve System had wisely prevented this gold from causing inflation in the United States, but this ruled out a 'spontaneous' return of gold to Europe. To fulfil its role as 'trustee' the Fed would need to cover part of the shipping costs for returning gold to Europe. Otherwise, Continental demands for gold would fall on London, imperilling the gold standard, while New York would be protected by its distance from Europe. Strong agreed that the Fed would have to help England bolster its gold reserves and would seek ways to subsidize transport costs for gold from New York.[121]

Strong also emphasized the importance of maintaining a low discount rate in the United States, telling Rist that in the event of gold losses he would *lower* his discount rate in order to replace gold with discounted commercial paper. Russell Leffingwell worried that French and European reconstitution of pre-war gold reserves would lower world prices and produce an economic depression particularly dangerous for industrialized countries. Rist, recognizing the American arguments as implicit criticism of French policy, replied that declining prices in the United States had not prevented two years of unprecedented prosperity. Higher discount rates were necessary to protect gold when central banks did not have considerable gold reserves; the Bank of France had only maintained a low discount rate before the war because of its large reserves.[122] Leffingwell reported with dismay that Rist saw no alternative to falling prices and 'the classically operated gold standard'.[123]

Once Norman and Schacht arrived on 1 July, the four bankers met for several days at the Long Island home of Ogden Mills. The serious discussions took place on a bilateral basis, and Rist and Schacht spent no time together.[124] Strong fulfilled the role Rist had foreseen as arbiter: Strong later noted 'the need for each of the three visitors to express views to me privately which they were unwilling to express in the presence of all of the others'.[125] The development of central bank relations with Norman serving as a hub for European contacts closely linked to Strong in New York was no longer viable when the Bank of France demanded equal status with the Bank of England and established its own relationship with Strong. Norman would have to compete with Moreau for Strong's support, and support from New York would be crucial to maintaining the gold standard in Europe.

The key subjects discussed were central bank discount rates and the technical means to protect European gold reserves. Although Rist insisted France wished to return to normal conditions and 'to the automatic play of interest rates and gold movements', the discussions constituted a general recognition that the gold standard required management if it was to survive. Strong stated he would lower his discount rate for domestic reasons as well as to ease pressure on London; this pleased Norman and Schacht as it would reduce pressure for them to raise their discount rates, but Rist opposed artificial credit

[121] Rist, 'Aide mémoire des conversations du 29 et 30 Juin entre M. Rist, M. Strong et M. Harrison', 1 July 1927; AN 374 AP 6 and BdF, 1397199403 / 181.

[122] Rist, 'Aide mémoire'.

[123] Leffingwell to Lamont, 12 July 1927; RCL, Box 4, folder no. 83.

[124] Sayers, *Bank of England*, i. 340.

[125] Strong to Jay, 10 Nov. 1927; FRBNY, Strong Papers, 1012.3 / 1.

creation. On transatlantic gold movements, Norman and Schacht agreed the fundamental problem was the US balance of payments surplus, behind which lay inter-allied war debts and reparations. But Strong and Rist refused to discuss debts and the Dawes Plan, for they were issues beyond the bounds of central bank competence. Instead they discussed measures to reduce the cost to European markets of taking gold from New York.[126] Rist insisted that Strong's discount rate policy increased the difficulty of obtaining gold in New York, and that New York should pay the cost of equalizing gold points between New York and London. Strong proposed Fed earmarking of gold in Europe to be lent at low interest rates to central banks rather than brought back to the United States; neither Norman nor Schacht liked the idea.[127]

The main result was Federal Reserve action to ease pressure on sterling, notably reductions in Federal Reserve discount rates in August and September. Eichengreen termed the experience 'an admirable instance of international cooperation' though admitting that it relied almost entirely on American accommodation.[128] Norman departed dissatisfied, recording that Strong 'wd do anything to help B.F. entirely overlooking misdeeds of Poincaré'. Although the talks improved personal understanding between the four bankers, the shift in central bank relations to accommodate the Bank of France had weakened Norman's influence. Despite their sympathies, Norman recorded, 'all are tethered till general settle$^{t}$ of Rep$^{ns}$ + debts plus stabilisation: CBk cooperation meanwhile rather a pretence! than deep reality.'[129] Rist and Moreau worried that low interest rates abroad would discourage capital movement from Paris to other centres if and when the French government lifted its ban on capital exports, and Rist suspected collusion between Norman and Schacht on the festering reparations issue.[130] Real progress had been made to ease pressure on London, but the political problems with reparations and war debts continued to limit the potential for co-operation, and governors carefully guarded their national interests.

The realignment of central bank relations to accommodate the Bank of France and the evolution of central bankers' understandings of the problems they faced limited the potential for future co-operation. Clarke attributed a new rigidity in central bank relations after Long Island to the declining health of Norman and Strong, to 'intense rivalry' between the Bank of France and the Bank of England, and to disillusion with recent monetary experience that led to a rejection of the Genoa principles.[131] The problem can be specified with greater precision. The control of central bank relations was no longer centred in London. The gold exchange standard had fallen into disfavour, necessitating

[126] As well as the geographic distance for gold transport, transport costs between London and New York were higher to London than to New York, and the United States did not subtract minting charges in its payment for gold delivered, thus raising its gold purchase price relative to London.

[127] Rist, 'Conversations du 1er au 7 Juillet 1927 à New York et Washington', in AN 374 AP 6 and BdF, 1397199403/181.

[128] Clarke, *Central Bank Cooperation*, 124–34; Eichengreen, *Golden Fetters*, 213; Clay agrees that 1927 'provided the best example' of central bank co-operation; Clay, *Lord Norman*, 234–7.

[129] Norman manuscript notes reproduced in Sayers, *Bank of England*, iii. 96–100.

[130] Rist, 'Conversations du 1er au 7 juillet 1927'; James, *The Reichsbank and Public Finance*, 61–2.

[131] Clarke, *Central Bank Cooperation*, 134–8.

further discussion of monetary co-ordination, but competition for control of the remaining currency stabilizations soured the last stages of monetary reconstruction. Traditional gold standard ideas would prevail over co-operation and innovation in the running of the revived gold standard system.

The stabilization of currencies off gold had been the key focus for central bank co-operation. As this process neared completion, authorities needed to shift their attention to co-operative management of the restored system. The Long Island conference demonstrated the difficulty of this next step: the Genoa principles were regarded with disfavour by all except Norman, and co-operative will to protect sterling depended upon American support. The final stabilization efforts in 1927–8 aggravated relations between the key central banks because leadership in providing central bank credits carried both political influence and prestige. The Bank of France insisted on its right to play a similar role to that of the Bank of England. Belgian and Italian stabilization credits had been arranged mainly by Norman; in the latter case, the FRBNY and the Bank of France had taken shares in the credit equal to the Bank of England's, but had no part in evaluating the stabilization programme.[132] This set a precedent Moreau was determined to follow, reversing the roles of Paris and London.

Moreau therefore supported an American-directed programme for the stabilization of the Polish *zloty*. With the effort on the brink of collapse in May 1927 owing to American hesitations, Moreau believed Norman was trying to demonstrate the indispensability of his own support for planning currency stabilization with central bank support in Europe.[133] The *zloty* was stabilized in October, with a programme and credits put together under the nominal direction of the FRBNY, and with reluctant acquiescence from Norman regarding British participation in order to maintain a façade of co-operation.[134]

Stabilization in the Balkans posed greater difficulties, as central bank action there interfered with diplomatic influence in a region where France had long-standing interests. The stabilization of the Romanian *leu* became a crucial test case for Moreau, important for the maintenance of French political interests and as a demonstration of Bank of France competence to direct a currency stabilization and its parity with the Bank of England in doing so. Moreau, learning of Yugoslav loan negotiations in London early in 1928, was angered not only by London encroaching on a region of French interest, but by the French Treasury's failure to see that French political influence was at stake.[135] When Romania sought funds to improve its railroad system in 1927, French and British opinion agreed that currency stabilization should precede foreign borrowing. Vintila Bratiano, leader of the Liberal Party in Romania, told Rist in October that he wished to avoid the 'draconian' terms imposed by the League of Nations, with which Salter, Niemeyer, and Strakosch

[132] Meyer, *Bankers' Diplomacy*, 53–7.

[133] Moreau, *Souvenirs*, 255, 269, 298–9 [28 Feb., 30 Mar., and 2–3 May 1927], and Meyer, *Bankers' Diplomacy*, 77–86.

[134] Meyer, *Bankers' Diplomacy*, 86–99; Clay, *Lord Norman*, 258–60; and Sayers, *Bank of England*, i. 190–1.

[135] Moreau, *Souvenirs*, 483–4 [27 and 30 Jan. 1928]; Moreau threatened to purchase gold in London to demonstrate his discontent.

had encouraged him to work. Rist, though agreeing that currency stabilization should precede borrowing, sympathized with Bratiano's desire to avoid the 'authoritarian' League. He explained the route taken in the Polish stabilization, outside the League's Financial Committee.[136] The Romanian authorities accepted the importance of currency stabilization and claimed to be willing to work through the League.[137] The French government offered to arrange a loan of up to $60 million for the Romanian railroads if Romania did *not* go through the League of Nations.[138] The French were willing to delay stabilization, but expected a Romanian commitment to spend at least $10 million in France ($20 million of the total would be provided by French banks). French advisers on finance and railroads invited to visit Romania were accompanied by Pierre Quesnay to discuss stabilization of the *leu*.[139]

In Romania, Quesnay stressed that in requesting Moreau's assistance, the National Bank of Romania would have to trust to Moreau's judgement, and that Moreau's work in conjunction with Strong to arrange a stabilization credit could be jeopardized by interference from Norman. When Norman wrote to Dmitri Burilleano, governor of the Bank of Romania, asking to keep him posted on Romanian plans, the Romanian reply, vetted by the Bank of France, stated merely that France had sent experts at their request.[140] The stabilization programme and the plans for a central bank credit were modelled on earlier stabilization plans, with the Bank of France seeking to direct the operation as Norman had in Italy. In order to succeed, however, Benjamin Strong's support was essential.[141]

Moreau persuaded Poincaré that British domination of the League's Financial Committee, the placing of British controllers in European central banks, and stabilization programmes in regions of French political interest were dividing the world into a two-tiered currency system. First-class currencies based on gold would dominate second-class currencies based on the dollar and sterling, whose countries would be deprived of financial and political independence. French sterling holdings gave the Bank of France power over the Bank of England to obtain a division of Europe into zones of French and British financial influence.[142] Poincaré approved Moreau's intention to confront Norman over the Romanian stabilization, noting that French sterling balances in London and the sterling

[136] Rist to Quesnay, 13 Sept. 1927; BdF, 1370200006/9. Rist noted that Bratianu very much wished to avoid alienating Montagu Norman. For Niemeyer's recommendations to Bratianu, see Niemeyer to Norman, 15 Oct. 1927; BoE, OV114/2.

[137] See 'Conversation de Monsieur Rist avec M. Louis D[reyfus] du 21 novembre 1927', 21 Nov. 1927, and Moret (on behalf of Poincaré) to Briand, 22 Nov. 1927; BdF, 1370200006/9.

[138] Moreau, *Souvenirs*, 432 [23 Nov. 1927]; Rist to Monnet, telegram, 24 Nov. 1927 in BdF, 1370200006/9.

[139] Poincaré to Briand, 28 Dec. 1927, BdF, 1370200006/9 and Rist to Burilleanu, 29 Dec. 1927; BdF, 1370200006/11. The financial adviser was Gaston Jèze, the railroad expert Raoul Dautry.

[140] Norman to Burilleanu, 25 Jan. 1928; BoE, OV114/2; Quesnay to Rist, letter of 28 Jan. continued 5 Feb. 1928, Poincaré to Briand, 24 Feb. 1928, and National Bank of Romania letter to Norman, 8 Feb. 1928; BdF, 1370200006/9.

[141] Quesnay to Rist, 28 Jan. and 5 Feb. 1928, and Rist telegram to Quesnay, 14 Feb. 1928; BdF, 1370200006/9.

[142] Moreau, *Souvenirs*, 488–9 [6 Feb. 1928], and the repetition of these ideas in Poincaré to Briand, 24 Feb. 1928; BdF, 1370200006/9.

reserves of the Bank could be used to demand gold and threaten massive withdrawals from London. Although France did not intend to engage in such withdrawals, making Norman aware of this power was a means to restore balance to relations between the central banks: 'Awareness of our strength will very likely lead him to accept the close and friendly collaboration proposed by the Bank of France.'[143] Moreau left for London noting that he would offer Norman a choice between peace and war: 'All our influence in Central Europe is at stake.'[144]

Norman was ill when Moreau tried to see him in London.[145] Moreau suspected a ruse; he met instead with Deputy Governor Cecil Lubbock and obtained a sympathetic hearing for his grievances and a commitment that the Bank of England would treat the Bank of France as its equal, and be prepared to endorse a stabilization scheme for Romania recommended by the Bank of France with Federal Reserve support.[146] Norman objected, writing the next day to the governor of the National Bank of Romania, and Siepmann wrote to Quesnay that the Bank of England would *not* follow the Italian precedent and would endorse a stabilization plan only if recommended jointly by the Bank of France and the FRBNY.[147] Quesnay was understandably piqued and vented his anger in a subsequent meeting with Siepmann in Paris.[148]

In New York Strong and Harrison were caught between the British demands that the Romanian case be handled by the League of Nations and the French insistence that they were following the precedent set by the Bank of England in the Italian stabilization.[149] Harrison, having worked on the Polish stabilization, was sensitive to European suspicions of Norman. The FRBNY wished neither to pronounce on French plans for the benefit of other central banks, nor to be enlisted to push Romania to a League solution.[150] When Rist and Quesnay travelled to New York in March, they reported to Moreau that Strong approved the French plan and would support it regardless of Norman's view, but nonetheless wished to persuade Norman to join. They commended Strong's efforts to persuade Norman: bringing him on side would oblige him to recognize the Bank of

[143] Poincaré to Briand, 24 Feb. 1928.

[144] Moreau, *Souvenirs*, 505 [21 Feb. 1928]; also Rist to Quesnay, 14 Feb. 1928, Avenol to Quesnay, 17 Feb. 1928, and Rist, 'Aide-mémoire pour la visite à Londres du 21 Février 1928', 17 Feb. 1928; BdF, 1370200006/9. The memorandum by Rist stated that co-operation between the two banks could only be based on a relationship of complete equality not yet achieved.

[145] Clay, *Lord Norman*, 260, and 'Memorandum re: Bank of England–Bank of France Relations', 24 May 1928; FRBNY, Strong Papers, 1000.9.

[146] Moreau, *Souvenirs*, 502, 504–7 [19, 20, and 22 Feb. 1928]; Poincaré to Briand, 24 Feb. 1928; and Siepmann, 'Note of a Conversation held at the Bank of England on the 22nd February, 1928', 23 Feb. 1928; BoE, OV45/79.

[147] Siepmann to Quesnay, 24 Feb. 1928, enclosing copy of Norman to Burilleanu of same date; BoE, ADM25/1.

[148] Quesnay to Siepmann, 27 Feb. 1928, and 1 Mar. 1928 enclosing a compte-rendu of their meeting on that date; BdF, 1370200006/9.

[149] Niemeyer, in New York in Feb. argued that Romania was a League case, irritating Moreau who saw this as British interference, Niemeyer knowing considerably less about the situation in Romania than Quesnay, who had just returned from Bucharest. Strong to Moreau, no. 44, 16 Feb. 1928 and Moreau to Strong, telegram, 18 Feb. 1928; BdF, 1370200006/9.

[150] See 'Memorandum re: Bank of England–Bank of France Relations', 24 May 1928; FRBNY, Strong Papers, 1000.9.

France's right of initiative in stabilization planning.[151] The resulting exchanges between the FRBNY and the Bank of England failed to allay Norman's reservations and demonstrated the superficial nature of the co-operative effort. Some telegrams between London and New York were passed on to the Bank of France, but these were supplemented by explanatory notes not for French eyes and very different in tone, which made the statements of principle passed on to the Bank of France appear misleading.[152] Strong and Harrison sought to make it clear that their participation did not constitute an endorsement of the French-directed plan,[153] although the French clearly wished it to be seen as such in seeking support from other central banks.

Norman and Moreau confronted each other directly in April. The two meetings generated considerable heat but resulted in closer understanding.[154] Moreau vented his anger at what seemed to him Bank of England machinations to obstruct French direction of the Romanian stabilization; Norman invoked procedural questions. Neither governor took the other's concerns seriously.[155] Norman promised to abide by Lubbock's February commitment to Moreau, however, and explained that the fundamental British difficulty was that a Romanian loan in 1913 had been removed from the official list of the British Stock Exchange Committee in 1924 because Romania had not been making its payments. Moreau promised to assist in negotiating payment to British—but not German—debt holders.[156] A week later Norman accepted participation in principle in a central bank credit to Romania, subject to the government of Romania arranging for its 1913 loan to be relisted on the London exchange.[157] The plans for stabilization lurched forward, to be completed finally in February 1929.

Meyer summed up his account of the operation by concluding that central bankers joined 'in an effort in which they really had no confidence and, in the process, went a long way toward destroying any realistic basis for meaningful cooperation'.[158] Certainly there were strong reservations in both London and New York. The Bank of France archival record indicates that the French initiative was chiefly political: to establish the Bank of France's equality with the Bank of England was the primary concern, and the French

[151] See the cables, Rist and Quesnay to Moreau, received 19 and 21 Mar. 1928; BdF, BdF, 1370200006/9.

[152] See Meyer, *Bankers' Diplomacy*, 114–17.

[153] Strong explained to Dr W.W. Stewart that they did not wish to play the role of expert adviser to the Bank of England on stabilization plans in Europe, nor to be seen as endorsing the plans made by the Bank of France. 'Memorandum re: Bank of England–Bank of France Relations', 24 May 1928; FRBNY, Strong Papers, 1000.9. The Bank of England avoided endorsing the plan in discussions with other central banks; Siepmann, 'Roumania', 28 Mar. 1928, and Norman to Bachman, 11 June 1928; BoE, OV114/2.

[154] Separate accounts of the meetings can be seen in Moreau, *Souvenirs*, 544–7 [27 and 28 Apr. 1928] and Siepmann's 'Note of Conversations held in Paris on the 27th and 28th April, 1928', 2 May 1928, reproduced in Sayers, *Bank of England*, iii. 101–7.

[155] Moreau charged that the Bank of England was circulating rumours that he, Rist, and Quesnay were going to resign; Norman dismissed such rumours as 'tittle-tattle'. Yet Strong stated Niemeyer had told him 'exactly that' in New York. Sayers, *Bank of England*, iii. 105, and 'Memorandum re: Bank of England–Bank of France', 24 May 1928; FRBNY, Strong Papers, 1000.9.

[156] Moreau, Rist, and Quesnay had been convinced that this was a sticking point only because Norman wished to assure payment to German debt holders.

[157] Moreau, *Souvenirs*, 553 [5 May 1928].

[158] Meyer, *Bankers' Diplomacy*, 137.

planning understated the domestic difficulties in Romania in order to smooth the process of central bank co-operation. The operation severely strained central bank relations, testing the degree to which the principle of co-operation could be invoked to override practical considerations.

The handling of the Romanian stabilization disconcerted Strong. When he returned to Europe in May and met Norman at Cherbourg, he was exasperated by Norman's tortuous evasions over his differences with the Bank of France. At the end of their conversations, he recorded he was going to Paris 'with absolutely nothing from Norman but generalities and disclaimers of knowledge and the reassertion of a lot of vague principles, some of which we had never heard before'.[159] In Paris, he found he could discuss the Romanian stabilization and difficulties between the two banks 'in every detail and aspect and with the utmost candor and frankness and with an astonishing display of good intentions and good will on the part of Governor Moreau'.[160] The difference owed a great deal to the personalities of the two governors. Strong's annoyance with Norman was based on a misunderstanding, for which Strong would later apologize,[161] but the combination of personalities and misunderstandings clearly complicated efforts to improve co-operation.

Strong discussed relations between the Bank of England and the Bank of France in greater detail with Dr Walter W. Stewart, an American economist in the Division of Research and Statistics at the FRBNY, who had been seconded as an adviser to the Bank of England 1928–30. Stewart confessed to dismay regarding Norman's practice, which included substantial unofficial correspondence and meetings with European banks of issue by Niemeyer and Siepmann that Norman could repudiate at any time—a situation 'dangerous in the extreme'—and the exercise of substantial influence in Central Europe through London private banks and through Peter Bark, chairman of the Anglo-Austrian Bank in Vienna.[162] Strong thought Norman's treatment of the Bank of France 'stupid beyond understanding', allowing a minor issue of stabilization credits to strain relations between them 'at a time when London was absolutely dependent on the good will of the Bank of France for protection against a raid on its gold'.[163]

Siepmann told Strong of his own reservations about Norman's methods and of a 'fundamental hostility and mistrust' between the Bank of England and the Bank of France. He admitted the Bank of France 'on the whole had had a more correct policy in their relations than had the Bank of England' in the Romanian stabilization. He and Quesnay agreed that deep mistrust between their two institutions hampered co-operation: they were ready to do all they could to improve relations but 'because of the overshadowing influence of political considerations in Europe as a whole, they were almost helpless'.[164]

159 'Memorandum re: Bank of England–Bank of France', 24 May 1928; FRBNY, Strong Papers, 1000.9.

160 'Memorandum re: Discussions with the Bank of France', 27 May 1928; FRBNY, Strong Papers, 1000.9.

161 See Chandler, *Benjamin Strong*, 418–19.

162 The Bank had been taken over by the Bank of England, and Bark was understood to represent Bank of England views in European currency discussions.

163 'Memorandum re: Bank of England–Bank of France', 24 May 1928; FRBNY, Strong Papers, 1000.9.

164 Strong to Harrison, 27 July 1928; FRBNY, Strong Papers, 1000.9.

## 3. MANAGING THE INTER-WAR GOLD STANDARD

The stabilization of the franc marked a turning point in inter-war gold standard history. Norman speculated in May 1928 that French stabilization plans might be 'the most dangerous development in the near future'. Gustav Cassel, the inter-war economist prominent in advocating stabilization according to purchasing power parity, believed that undervaluation of the franc in 1928 was the key decision that led to the breakdown of the inter-war gold standard, although he attributed the breakdown to the gold standard's 'inherent faults' rather than to French policy. British critics blamed French and US gold policy for declining world prices and the pressure on sterling from 1929 to 1931; later analysts have echoed these concerns.[165]

In April 1928, a central bank conference convened in Paris to discuss statistical and informational issues. The idea had originated with the League of Nations, which may have had larger aspirations, but the conference provided an opportunity to extend personal contacts among those working for central bank statistical services, and was praised in London as 'an impressive tribute to the grandeur and efficiency of the Bank of France'.[166] Feliks Mlynarski of the Bank of Poland suggested there would be 'great advantage' in summoning a further conference to discuss central bank policy. The Bank of England discouraged the idea. Siepmann doubted that central bank policy could be discussed productively at a conference: a small, self-appointed preparatory group would be better. If a conference were eventually to take place, it would then 'have little else to do but ratify conclusions already reached', and in the meantime, 'the less said and written about these subjects in public the better'.[167] Strong viewed the problem of managing the international gold standard and resolving the difficulties in the gold exchange standard as the next task to be addressed by central bankers. But he hoped to work through informal meetings of like-minded colleagues rather than formal conferences.[168]

Sir Henry Strakosch proposed the Financial Committee of the League put together a small committee to study the relationship between the gold standard and monetary stability.[169] Central bank participation would be important since central bank policy would provide the means to effect changes in the current system. Sir Arthur Salter, director of the League of Nations Economic and Financial Organization, saw a League initiative on this

[165] See 'Memorandum re: Bank of England–Bank of France', 24 May 1928; FRBNY, Strong Papers, 1000.9; Cassel, *The Downfall of the Gold Standard*, 47; Eichengreen, *Golden Fetters*, and Johnson, *Gold, France and the Great Depression*.

[166] A. Loveday proposed such a conference in August 1927; Siepmann, 'Memorandum', 8 Aug. 1927 and 'Proposed Meeting of Statistical and Information Officers of Central Banks', 26 Oct. 1927; BoE, OV1/1. The quote is from the Central Bank Section's 'Report on Six Months' Work (1st February, 1928 to August 1st, 1928)'; BoE, OV50/24.

[167] See extracts from Mlynarski to Siepmann, 2 Mar. 1928, Siepmann to Mlynarski, 6 Mar. 1928, and Mlynarski to Siepmann, 12 Mar. 1928, in BoE, OV50/3; also in OV48/1.

[168] Strong to Norman, 13 Mar. 1927, 9 Aug. 1927, 31 Aug. 1927, 21 Sept. 1927, 19 Oct. 1927; FRBNY, Strong Papers, 1116.7/1.

[169] Strakosch to Salter, 9 May 1928, and Strakosch, 'Monetary Stability and the Gold Standard', Apr. 1928, in BoE, OV9/262. Norman stated in a letter to Strong that he did not pretend to understand the purchasing power of gold question, but relied on Strakosch's advice; Norman to Strong, 28 Nov. 1927, FRBNY, Strong Papers, 1116.7/2. On origins of the idea for the inquiry in late 1927, see Sayers, *Bank of England*, i. 347–9.

question as the next stage in monetary reconstruction, but when he sounded central bankers on their willingness to participate, the opposition he encountered took him by surprise. Strong reiterated his opposition to the Genoa resolutions, his disbelief in any current or future shortage of gold, his objection to any formal conference of central banks, and his opposition to the gold exchange standard as anything more than a transitional measure. He conceded there might be some utility in a purely fact-finding inquiry on the world's gold resources and production, central bank gold reserves, and the needs of the international system, and suggested that 'practical-minded central banking men' such as Stewart, Rist, and Burgess might serve on such a commission.[170] Moreau promised to study the idea, but made it clear that he did not think central banks could ever turn questions of their monetary policy over to 'a committee with neither responsibility nor experience'. Moreau met with Strong shortly afterwards, and the two governors agreed 'to reject absolutely any such proposal for meddling in our affairs'.[171]

When Salter met again with Moreau, Strong, Harrison, and Walter Stewart in late June 1928, their opposition to a League inquiry had hardened. Moreau saw no reason for the Financial Committee to meddle in questions concerning gold and central bank policy. Salter found Rist and Quesnay's attitudes to be 'less rigidly and entirely negative' than Moreau's, but scarcely encouraging. Strong opposed even the 'fact-finding' element he had accepted in May, seeing a League inquiry as an opportunity for the opponents of current central bank policy to obtain a wider public hearing. The gold issue concerned central banks, not the League of Nations.[172] After a further meeting with Salter and several members of the League's Financial Committee in July, Strong was even more convinced that the proposal was inspired by Strakosch and reflected primarily British interests. He dismissed the League men as 'a lot of rather youthful amateurs',[173] and opposed even a limited inquiry. Salter realized he would have to proceed more cautiously.[174] In further discussions during his summer stay in France, Strong found that the central bankers all, Schacht included, opposed League interference in central bank conduct concerning the gold standard.[175]

170 O. Ernest Moore, 'Memorandum of Conversation between Governor Strong and Sir Arthur Salter at Hotel George V, Paris—May 25, 1928', FRBNY, Strong Papers, 1000.9; Salter, 'Note of Conversation between Governor Strong and Sir Arthur Salter', 25 May 1928, in BoE, OV9/262. Strong later objected to Salter having recorded Strong's 'wish' to have a study of gold problems; see Strong to Harrison, 6 July 1928; George L. Harrison Papers (GLH), Butler Library, Columbia University, Box 15. Sayers relies on Salter's account in claiming Strong 'repudiated' his earlier view in opposing the inquiry in July; *Bank of England*, i. 349.

171 Moreau, *Souvenirs*, 600–1 [26 June 1928].

172 A. Salter, 'Notes of Conversations on Monday June 25th, 1928, a) with M. Moreau, b) with Mr. Strong, Mr. Harrison & Mr. Stewart', BoE, OV4/262.

173 Strong to Harrison, 8 July 1928; FRBNY, Strong Papers, 1000.9; in a handwritten letter to Harrison, Strong was harsher in his judgement: 'They are a bunch of schoolboy amateurs and need to be sat on a bit.' Strong to Harrison, 8 July 1928; GLH, Box 15.

174 Service Français de la SDN, 'Note pour la sous-direction des relations commerciales', 26 June 1928, and the critique of Strakosch's views in Chalendar note of 6 June 1928; MAE, Société des Nations, secrétariat général (SDN) 1330.

175 See letters, Strong to Harrison, of 11 July (discussions with Vissering and Bachman), 13 July (Schacht), and 20–2 July (Franck and Stringher) 1928; GLH, Box 15.

By this time Salter had presented a memorandum to the Financial Committee, using a strained metaphor to compare the gold standard system to small ships—plus one 'huge ocean-going ship', the United States—moored to a buoy (gold), 'anchored to nothing, free to drift wherever the currents and the winds or the manoeuvring of the other ships made fast to it might take it'. Co-operation and co-ordination by the 'captains' could keep the buoy in a 'pre-determined, safe position, [no longer] at the mercy of the elements'. Concerted action by gold standard countries was vital to reduce the economic jolts and political friction and to preserve economic progress.[176] The French representative on the gold committee, Comte André de Chalendar, did not find the conclusion irresistible, but the Financial Committee recommended the appointment of a committee of inquiry into 'the causes of fluctuations in the purchasing power of gold and their effect upon the economic life of the nations', and the Council of the League gave its approval in December 1928.[177]

Meanwhile, central bank opposition to the inquiry took shape in a more concerted fashion. Strong and Moreau rallied central bank critics in Continental Europe, disquieting Norman.[178] Even within his own bank, there was no unanimity that a League inquiry would be advisable. Siepmann told Strong in July that he had no sympathy for the idea, which came from Strakosch, 'given to fanciful ideas'. After a visit to Paris in November, in a note termed 'a personal opinion' (on which Niemeyer minuted 'I disagree with nearly every word of it'), Siepmann lambasted the idea. The demand obviously came from England, and critics abroad would charge that the Financial Committee was being used 'in the characteristic English way, to pull the chestnuts out of the fire for England'. There was no prospect of any agreement on the fundamental questions; the inquiry could not achieve anything positive in terms of analysis or policy, and risked exposing and accentuating differences with regard to monetary policy, alienating American willingness to collaborate with European central banks, and subjecting central banks to greater interference from political pressure and public opinion.[179] The Bank of England's position was particularly delicate, he argued, because 'it is thought that the whole occasion for the proposed enquiry is really domestic and English'.[180]

Undeterred, Salter sought Rist's participation in the gold inquiry in November. At the Bank of France, he found Quesnay the least hostile to the idea, although he thought it ill-timed, as it would seem in France to be 'an English move in view of an English need rather than a problem of general interest'. Rist doubted central banks could do much to mitigate price fluctuations and thought the timing inopportune. Moreau opposed Rist's participation as well as the inquiry itself, stating he would ignore any work produced by the Financial Committee 'meddling' in central bank policy.[181] He instructed Quesnay to

[176] Sir Henry Strakosch, 'Monetary Stability and the Gold Standard', written Apr. 1928; copies in MAE, SDN 1330, and in BoE, OV48/2.

[177] Chalendar report of 9 Jan. 1929; MAE, SDN 1330.

[178] Sayers, *The Bank of England*, i. 349–50.

[179] Siepmann, 'Note on the Proposed Enquiry into the Stabilisation of the Value of Gold', 19 Nov. 1928; BoE, OV48/2.

[180] Siepmann, 'League Enquiry into the Stabilisation of Gold', 26 Nov. 1928; BoE, OV48/2 and OV9/263.

[181] Salter to Strakosch and Salter to Chalendar, 23 Nov. 1928; BoE, OV9/262; Moreau to Salter, 28 Dec. 1928; BdF, 1397199402/48.

draft a letter to Harrison, now governor of the FRBNY (Strong died in October 1928), suggesting that central banks co-operate to resist the League inquiry. He attributed initiative for the inquiry to Strakosch and restated his concern, shared by Strong, that the inquiry could have 'formidable consequences' for central banks. Gold problems should be treated through individual study by central banks of their own markets and national habits, and proceed from there to confidential discussion between the central banks.[182]

The Bank of France did not share Strakosch's concern for falling prices. His hypothetical example of the effect of a 20 per cent price decline was dismissed as absurd. Under a properly functioning gold standard, prices adapted automatically 'thanks to the play of compensating factors infinitely more effective, more durable and more rational in their action than a policy determined by central banks could ever be'. During the period from 1925 to 1928, rather than competition for scarce gold resources as countries returned to gold, the Bank of France noted the increase in world gold reserves of more than $1 billion. 'In reality, Sir Strakosch is pleading Great Britain's case', the Bank concluded, Britain having returned to gold after 'a pronounced revaluation' and now seeking to protect its industry and commerce.[183] There was no evident shortage of gold, nor need one be feared. An insufficiency of gold was *impossible* because prices and velocity of circulation would adapt to maintain equilibrium. British agitation regarding the purchasing power of gold was the product of 'a too-rapid revalorization of the pound sterling effected without considering costs of production in Great Britain, that is, without a sufficient deflation of consumer prices, wages, and fixed debt payments'.[184]

When the Financial Committee voted to proceed with the gold inquiry, Moreau wrote to central bank governors in terms similar to his letter to Harrison, the key to his opposition being the risk that the League inquiry would lead to public demands for greater political control over central bank credit policy.[185] Harrison continued Strong's opposition, telling Salter that the League as a political body should confine itself to political questions. Recommendations from the League with regard to monetary policy could jeopardize co-operation between central banks by giving a political cast to policies that might otherwise be adopted for monetary and financial reasons.[186] Even Norman came to oppose the inquiry.[187]

[182] Moreau to Harrison, 24 Nov. 1928; BdF, 1397199402/48, and Siepmann, 'League Enquiry into the Stabilisation of Gold', 26 Nov. 1928.

[183] 'Note sur le Projet de Stabilisation du pouvoir d'achat de l'or', Nov. 1928; BdF, 1397199402/49.

[184] 'La Stabilisation du pouvoir d'achat de l'or', undated note; BdF, 1397199402/49.

[185] On Moreau's continued opposition, see Salter to Moreau, 19 Dec. 1928 and Moreau to Salter, 28 Dec. 1928; for Moreau's letters to central bank governors on 28 and 29 Dec. 1928 and the ensuing correspondence, see BdF, 1397199402/48. His correspondents included Bachmann, Franck, Karpinski, Popovich, Pospisil, Reisch, Schacht, Stringher, and Vissering. With the exception of Norman, who thought the central banks should adopt a wait-and-see attitude, European central bankers all supported Moreau's desire for concerted central bank opposition to the inquiry. Moreau had written to Norman on 28 Dec.; Norman replied with evident embarrassment that it was difficult to oppose a League inquiry that clearly had strong support behind it, but agreed that central banks should 'observe complete independence regarding any future action they may take after the publication of a Report by the Committee'. Norman to Moreau, 8 Jan. 1929; BdF, 1397199402/48.

[186] Harrison, 'Conversation with Mr. Joseph Avenol, French Member of the Finance Committee of the League of Nations', 26 Apr. 1929; FRBNY, Harrison Papers, 3121.0.

[187] Sayers, *Bank of England*, i. 349–51, and Boyce, *British Capitalism*, 171–2, and 415 n. 159.

The Gold Delegation, proceeding without participation or encouragement from the central banks, met for the first time in August 1929. It produced solid documentation of the supply of gold and central bank practice in its interim reports, but issued its final report only in June 1932, its work having been overtaken by the collapse of world prices and world trade. The majority report set out a list of factors contributing to economic maladjustment since the war without offering solutions. The minority report argued that maldistribution of gold was the fundamental cause of the depression, forcing deflation on the world and destroying the gold standard. A note of dissent from Cassel disagreed with both.[188] Strakosch thought the delegation had done useful work but been crippled by French obstruction 'to avoid being shown up as the culprits in the matter of Gold hoarding'.[189] R. V. N. Hopkins, Controller of Finance in the British Treasury, judged the majority report to convey 'the well known views of French bankers, watered down to suit international consumption', and to reflect a division of opinion on national lines, with most countries still at least nominally on the gold standard, leaving Britain and the Scandinavian countries in the minority.[190]

The crippling of the League inquiry demonstrates the problematic state of central bank co-operation on the eve of the Depression. Co-operation depended on shared understanding of the purpose of central banks and the nature of the monetary system within which they acted. Central bankers opposed the gold inquiry for four reasons which reveal a good deal about the state of their knowledge and the possibilities for co-operative management of the gold standard as a system. First of all, apart from the Bank of England where Norman was influenced by Strakosch and Niemeyer, there was little concern for a shortage of gold and its impact on prices. Strong considered gold production to be at record volume in 1928, and expected that the release of gold from US reserves to replenish European central bank coffers would cover any shortfall in South African production for 'a good many years to come'.[191] Moreau and French officials did not believe there was any shortage of gold at present or in prospect: with a properly regulated gold standard, falling prices would increase the value of gold, encouraging production, and the international monetary system would automatically accommodate any shortage linked to gold reserves by an increase in the velocity of circulation.[192]

Secondly, there was the delicate question of central bank autonomy and vulnerability to political pressure. Both Moreau and Strong had opposed the Genoa resolution calling for a conference of central bankers, stating that they would not attend were such a conference to be called. Norman, too, was convinced by his experience in the mid-1920s that such a conference would produce more harm than good. That they should fix on this aspect of the Genoa principles when the League had no intention of calling a conference is revealing. The gold inquiry did not threaten to convene a conference, but it would

[188] See Sayers, *Bank of England*, i. 350–1, and Boyce, *British Capitalism*, 288–90.

[189] Quote with regard to the Second Interim Report, from a Strakosch letter to J. C. Smuts, cited in Drummond, *The Floating Pound*, 133.

[190] R. V. N. Hopkins comment, undated; PRO, T 175/70.

[191] See Strong to Owen D. Young, 11 June 1928, and Strong's comments to Salter in 'Memorandum of Conversation', FRBNY, Strong Papers, 1000.9.

[192] See 'La Stabilisation du pouvoir d'achat de l'or', undated, and a longer note of the same title dated 15 Jan. 1931, in BdF, 1397199402/49.

provide greater attention to the views of economists advocating price stability—Cassel, Keynes, Fisher, etc., whom the central bankers dismissed as impractical theorists. Salter, clearly inspired by Strakosch, seemed intent on producing recommendations that would draw public attention to central bank policy, with the likelihood of political pressure for policies central bankers thought unwise. As Strong put it, the British instigators sought to find a way 'to induce the central banks to accept the responsibility for stabilizing the purchasing power of gold. This is a most hazardous proposition to lay before the public.'[193]

A third reason followed directly from this: central bank governors believed they had no business trying to regulate prices. Price adjustments were the necessary mechanism by which the gold standard kept international accounts in balance. Sharing the conventional gold standard wisdom regarding monetary and exchange-rate stability, the governors did not believe central banks could stabilize prices, and thought an attempt to do so would inevitably work against the natural equilibrating tendencies of the unfettered gold standard. In the Bank of England, the Central Banking Section annual report noted Strong's increased opposition to the League inquiry in May–June 1928, and European central bankers' agreement with his views. The report explained, 'The chief risk which all the Central Banks foresaw was that they would, implicitly or expressly, be saddled with the responsibility for maintaining a certain level of commodity prices—a responsibility which they could not fulfil, even if they would.'[194] Although Rist's perception that prices should and would inevitably fall was not widely shared, the degree to which central banks could and should intervene to stabilize price levels was a matter of great sensitivity. Admitting the central bank role in price stabilization would open the door to excessive political and popular pressures on central bank policy. Strong believed the general public had been grievously misled by Cassel, Keynes, and Fisher, who gave 'an altogether exaggerated view of what central bankers could and should do'.[195]

Within the confines of gold standard belief, the scope for action by monetary authorities was limited. Central bank conceptions of the gold standard at the end of the 1920s provide the fourth reason for central bank opposition to the League's gold inquiry. Although there were variations in conceptual understanding,[196] there was significant agreement on the nature of the gold standard and the role for central bank action. The extensive historical work on the views of the Bank of England and the Treasury in Britain and the concentration on rich British archival resources have highlighted differences between British views and those elsewhere. This has tended to obscure the degree of consensus outside Britain at this time.[197] The Bank of France was not alone in repudiating the gold exchange

[193] Strong to Young, 11 June 1928, postscript of 18 July 1928; FRBNY, Strong Papers, 1000.9.

[194] Central Banking Section, 'Report on Six Months' Work (1st February, 1928 to 1st August, 1928)', in BoE, OV50/24.

[195] Salter's 'Note of Conversation between Governor Strong and Sir Arthur Salter, May 25th, 1928', BoE, OV50/3.

[196] Eichengreen, *Golden Fetters*, 10–11; Clarke, *Central Bank Cooperation*, 43–4.

[197] It was no accident that André Siegfried used gold policy to exemplify what he saw as an essential element in British psychology: to look abroad for the causes of their difficulties and preach sermons to the rest of the world to chastise 'the scallywags whose egotism blinds them to their international duties'. André Siegfried, *England's Crisis*, trans. H. H. Hemming and Doris Hemming (New York: Harcourt, Brace and Co., 1931), 55.

standard after 1927;[198] there was a general drift of European central banks away from the gold exchange standard and the Genoa principles at this time. The biannual reports by the Central Banking Office in the Bank of England in 1928 and 1929 repeatedly noted steady movement away from the gold exchange standard, which came to be seen as a transitional measure that provided a dangerous pyramiding of credits on the gold centres.[199]

Strong's views are crucial in understanding this trend, as one of the motivations for his initiative for central bank co-operation in 1916 had been to build New York as an international financial market, and in one of the two original 'gold centres'—New York and London—he might have had the most to gain from extension and durability of the gold exchange standard. In addition, the strength of the New York market made it the key centre that might have exercised strong leadership in managing the gold exchange standard. But by 1928 Strong had turned decisively against it. The pyramiding of credit abroad based on gold held in New York could encourage inflation in countries 'not practiced in central bank management' and constitute 'a real menace to London and New York markets in cases where panic conditions arise'. By his calculations, the National Bank of Belgium could issue the domestic equivalent of $100 in currency on the basis of a mere $1.53 in gold at the FRBNY.[200] The gold exchange standard facilitated inflation abroad and weakened central bank control of money markets in the gold centres, creating the potential for unreasonable and potentially unmanageable demands on the gold centres. Strong's solution was to return to the traditional gold standard:

> every one of the nations should reestablish the gold standard, restore its gold reserve or create a new one where needed, making special arrangements for doing so where necessary, and reestablish its own domestic autonomy in monetary matters without any such dependence upon other markets as implied by the gold exchange standard. Important balances in London and New York of course may be highly desirable, but the most desirable thing is autonomy and self-reliance and good conduct on sound monetary principles at home.

Strong found agreement in Paris, Brussels, Zurich, and Rome, and noted that London's sympathy for the Genoa resolutions reflected its traditional role as a world exchange market.[201]

The gold standard itself limited the scope for central bank co-operation as a system of belief based on faith in market efficiency with minimal interference. Even co-operation to provide central bank credits for currency stabilization had become a point of contention and doubt by the end of the 1920s. The discipline of the gold standard was needed in order to encourage the 'sound domestic measures' that were the foundation of the system. The British Treasury and several directors of the Bank of England had opposed the acceptance of stabilization credits to help sterling back to gold in 1925 on the grounds that such credits might delay necessary domestic action to maintain confidence in the currency.[202] Originally thought essential in order to demonstrate confidence and

[198] See above, Chapter 5, section 3.

[199] These reports are collected in BoE, OV50/24.

[200] Strong to Young, 11 June 1928; FRBNY, Strong Papers, 1000.9; the previous summer his calculations had been that the gold basis required for this example was $1.82; Strong to Norman, 30 Aug. 1927; FRBNY, Strong Papers, 1116.7/1.

[201] Strong to Young, 11 June 1928; FRBNY, Strong Papers, 1000.9.

[202] Sayers, *Bank of England*, i. 141–3.

discourage speculation in Continental stabilizations, such credits came to be perceived and sought as a seal of central bank approval for stabilization measures in order to facilitate international borrowing.[203]

The Bank of England's leadership in central bank co-operation since the early 1920s had been challenged and checked by the Bank of France; other central banks regarded British initiatives with suspicion.[204] France, having returned to gold in 1928 without recourse to central bank credits, and extremely conscious of the political dimension to central bank diplomacy, saw central bank co-operation as useful for the exchange of information and for co-operative action in times of crisis, but not for routine management of the international system. The gold exchange standard had proved unreliable and the traditional gold standard—in theory an automatic, self-correcting system—should not need co-ordinated international 'management'. Only in times of crisis would closer co-operation be appropriate, at which time it could reinforce, but could not replace, sound policy in the country in crisis. The ultimate test for the gold standard was not war, which was the classic case of an exceptional circumstance permitting suspension, but economic recession, which would confront policy makers with a choice between conflicting objectives: stability of the exchange rate and the currency's gold value, or seeking to maintain domestic prices and economic activity.

[203] By 1928 a number of Bank of England officials were reluctant to sanction participation in new credits or to renew existing credits (to Poland in particular). Niemeyer denounced central bank credits as 'vicious *ab initio*' with the dangers of abuse increasing as one moved eastward. Siepmann, 'Renewal of Central Bank Credits', 11 July 1927, and Niemeyer comment on note, same date; BoE, OV50/3.

[204] This fostered doubts within the Bank of England itself. In 1928, Siepmann questioned the form and substance of the routine 'contact letters' sent to other central banks: the banks receiving such letters assumed the Bank of England either wanted something or was calling them to order; 'the instinctive attitude towards us', he noted, 'is one of suspicion and distrust'. Siepmann, 'Confidential', 25 Sept. 1928; BoE, OV50/3.

# 7

# The Gold Standard Illusion, 1928–1936

The franc's return to gold did not end inter-war currency instability and secure the foundations for a new era of global economic prosperity. Beginning in the summer of 1928, policy decisions by individual central banks set in train restrictive monetary policies in the United States and in capital-importing nations. The gold standard transmitted this contractionary turn system-wide, amplifying national monetary policy decisions to produce a worldwide contraction, setting off the Great Depression. The key monetary decisions were taken in the United States. One recent analyst contends that American policy was in part 'hostage to the dynamics of French gold absorption', and that while American policy errors were unrecognized by contemporaries, French policy was immediately seen as harmful and criticized as such. Thus Clark Johnson argues that 'French errors were avoidable', and blames French policy for the Great Depression.[1]

This chapter covers particular aspects of French policy on gold from 1928 to 1936, reassessing the role of France, the Bank of France, and French belief in the gold standard in the onset and development of the Great Depression. That French gold policy aggravated the international monetary contraction from 1928 to 1932 is beyond dispute. The magnitude and timing of French gold absorption from mid-1928 to 1930 imposed a greater constraint on systemic monetary expansion than the gold accumulation in the United States during the same period. But the nature of French policy, its motivations and its influence, require closer examination in order to determine how and why French policy caused the gold drain to France and worsened the depression. Was there a distinctly French fixation with amassing inordinate gold reserves, for which French monetary authorities should be held responsible? Or were there more general problems with the gold standard itself, conceptually and in practice, that created systemic problems of which French policy was one manifestation, rather than their origin? Did the results of French gold policy prompt cries of 'foul play' from those unable to play the gold standard game with the same success?

Having treated French monetary policy during this period in detail elsewhere,[2] this chapter focuses on four aspects of French gold policy that complement and extend my earlier analysis. The first section of the chapter reviews current understanding of the origins of the Great Depression and the part played by the gold standard and French policy, particularly contemporary discussion of the reasons for the gold flow to France and the reaction of French authorities to the problem this posed. The second section argues that

[1] Johnson, *Gold, France, and the Great Depression*, 180–6.

[2] Mouré, *Managing the Franc Poincaré*.

gold standard belief induced fundamental misperceptions of the nature of the crisis. The fall of sterling and the disintegration of the inter-war gold standard resulted not from a failure of central bank co-operation, which could have achieved little more given the fundamental policy problems underlying the financial crisis, but from a systemic failure owing to 'the gold standard illusion' that there was a coherent, 'automatic' system in place. As the gold standard crumbled abroad, gold standard belief was sustained in France and the gold bloc through the conscious fostering of an *illusion* that the gold standard still worked and that the gold bloc offered the prospect of monetary stability and economic improvement for its member countries. Section 3 covers the fabrication of this illusion through central bank co-operation between the gold bloc countries. The Bank of France believed that gold bloc solidarity and efficacious propaganda would sustain the gold standard and prevent France following the sterling and dollar currency blocs into monetary adventurism and then to chaos. The fourth section focuses on the struggle to maintain gold standard faith in France, an effort that included a powerful campaign against devaluation led by the Bank of France, and that provoked a backlash urging reform of the Bank.

## 1. FRENCH GOLD AND THE GREAT DEPRESSION

Eichengreen's *Golden Fetters* has established a new orthodoxy to explain the Great Depression in which the gold standard plays a fundamental role. Eichengreen identifies a critical shift in central bank policy in 1927, when the return of the Bank of France to central bank discussions disrupted the amity and accord in effect until that time between the Bank of England and the Federal Reserve Bank of New York. International considerations played a reduced role in central bank policies thereafter, most importantly in the Federal Reserve tightening of domestic credit in 1928. Benjamin Strong's death in October 1928 further impaired the Anglo-American foundation for central bank co-operation.[3] American policy in 1928 set off a system-wide contractionary impulse by reducing American lending abroad and high call money rates attracting foreign capital to New York. French gold hoarding aggravated the resulting contraction. Downturns in activity and employment took place throughout the international economy thanks to the efficiency of the gold standard as a transmission mechanism; gold losses forced contraction on the gold standard world. Co-operation failed to provide the international support that might have reinforced credibility, and the gold standard was abandoned by countries unwilling or unable to sustain severe contraction.

Eichengreen and Temin place American monetary policy in 1928–9 at centre stage in their explanations of the Great Depression. France imported 'massive amounts of gold', but the role of French policy ranked as a secondary factor, aggravating difficulties whose

[3] Eichengreen, *Golden Fetters*, 207–21; Temin, too, focuses on the contractionary turn in American (and German) monetary policy in 1928; 'Transmission of the Great Depression', 88–9. Friedman and Schwartz stress that Strong's death deprived the Federal Reserve System of wise and effective leadership; Friedman and Schwartz, *Monetary History of the United States*, 413–44, 692–3.

origins lay elsewhere.[4] Friedman and Schwartz, focused on Federal Reserve policy in their account of 'the great contraction', barely mention the French gold accumulation, which they attribute to the undervaluation of the franc.[5] Reading Moreau's *Souvenirs* later in English translation, Friedman reflected that he would have assessed responsibility for the crisis differently had the translation been available earlier, and given France a share in responsibility for the global scale of the Great Contraction.[6] Kindleberger's account of the Depression noted the coincidence of gold losses with falling prices for producers of primary products, and included French gold conversions as a contributing factor to the credit squeeze in New York and pressure on sterling in London. Although the gold standard was not central to his argument, he stated that the gold standard 'basically broke down ... when the United States and France, accumulating gold, sterilized it'.[7] In *Globalizing Capital*, Eichengreen stressed the gold accumulation by France and Germany in the late 1920s, adding that the United States as the largest holder of monetary gold reserves, was 'no help'.[8] There is general agreement that French gold accumulation resulted from undervaluation of the franc, and that it was a secondary factor in the origins of the Great Depression.

Clark Johnson has disagreed, blaming France, particularly Governor Émile Moreau, for the world deflation that produced the Great Depression, finding French monetary policy to have been 'almost deliberately disequilibrating for world prices'.[9] Johnson's explanation is based on the undervaluation of gold after the First World War, the United States having maintained the dollar price for gold at $20.67 / oz. despite American inflation. This undervaluation set a premium on efforts to prevent a shortage of monetary gold reserves causing a systemic deflation. Johnson writes in sympathy with a number of economists from the 1920s—notably Cassel, Fisher, Hawtrey, Keynes, and Strakosch—although he knows that their hopes for central bank reserve management would not be realized. With hindsight, Johnson finds policy errors on the part of all central banks concerned, but he singles out France for particular blame. French monetary misdeeds began with the repayment of Bank advances to the state in 1927–8; the liquidation of these advances 'paved the way' for a systemic contraction of world prices. Moreau and Poincaré undervalued the franc deliberately, and sterilized the resulting influx of gold and foreign exchange in order to maintain French prices. The French return to gold in 1928 was the first 'beggar thy neighbour' devaluation typical of the 1930s. The drain of gold to France thereafter reduced monetary reserves elsewhere, playing a primary role in the global contraction.[10] But recent comparative analysis by Ben Bernanke argues that

[4] Eichengreen, *Golden Fetters*, 216; Temin, *Lessons*, esp. 19–20; Temin argues that more inflationary policies in France and the United States would have helped, with emphasis on the United States as its gold reserves were much larger (21–3).

[5] Freidman and Schwartz, *Monetary History*, 362.

[6] Milton Friedman, 'Forward', to Émile Moreau, *The Golden Franc. Memoirs of a Governor of the Bank of France: The Stabilization of the Franc (1926–1928)*, trans. Stephen D. Stoller and Trevor C. Roberts (Boulder, Colo.: Westview Press, 1991), p. xii.

[7] Kindleberger, *The World in Depression*, 2nd edn., 87–90, 101, 105, and 294.

[8] Eichengreen, *Globalizing Capital*, 64–8.

[9] Johnson, *Gold, France, and the Great Depression*, 178–89.

[10] Ibid. 130–1, 141–5, 149–51.

France followed gold standard 'rules of the game' more closely and more consistently than Britain, Germany, and the United States: 'This is not to claim that French monetary policies were not bad, even disastrous, for the world as a whole ... However, the damage done by French policies lay to a much greater degree in the government's choice of monetary regime—its commitment to the gold standard, with minimal use of foreign exchange reserves—than in the Bank of France's implementation of that regime.'[11]

At the time, British monetary authorities were the most immediately concerned by the French gold accumulation, as the gold was drawn mainly from London. The Bank of England's narrow margin of gold reserves and its desire to avoid an increase in Bank Rate, given slower growth and higher unemployment than abroad in the 1920s, raised British alarm at French gold policy, particularly when French gold reserves climbed by 11 billion francs from May to December 1930. Financial writer Paul Einzig found French policy deliberately aggressive. He blamed vindictive French reparations policy for disrupting European financial relations of the 1920s, and French gold hoarding for the onset and severity of the depression. Less hostile British critics believed inept French gold policy was responsible for the slump in world prices and monetary contraction. The Bank of England monitored the French gold accumulation closely and thought that little could be done to avoid it: the nature of the French money market made London the 'real money market for France' for the deposit of short-term funds. French demand for currency could be met only by importing gold; the Bank of England predicted a strong flow of gold from London to Paris in the second half of 1930. The British position received careful formulation in a Treasury note by Frederick Leith-Ross; the Bank of England agreed, but thought little could be done: 'Very little hope can be entertained that the gold movements will cease as a result of any action by the French Authorities.'[12]

The Bank of France accepted the flow of gold as the proper working of the gold standard and just homage to the stability and security of the franc, but was concerned by the negative press it inspired abroad. In July 1930, Robert Lacour-Gayet, the director of economic studies at the Bank of France, gathered criticism of French gold policy from newspapers in New York, Berlin, and London and wrote a brief response for the governor. The Bank of France had done nothing to provoke the gold imports, he claimed. Its holdings of foreign exchange remained the same as a year earlier. The imports 'are simply the result of the free play of economic laws and the normal functioning of the gold standard'. France's balance of payments surplus, the decline in opportunities for foreign investment abroad because of the slump, and confidence in the franc—'the result of sound management of public finance for which the French government has no need to apologize'—drew gold to France. England, on the other hand, was 'the principal party responsible for

[11] Ben S. Bernanke with Ilian Mihov, 'Deflation and Monetary Contraction in the Great Depression: An Analysis by Simple Ratios', in Bernanke, *Essays on the Great Depression*, 135–50, quote from 148–50.

[12] Quotes from Grafftey Smith, 'The Gold Flow from London to Paris', 4 July 1930; BoE, OV45/3, and F. G. Conolly, 'Bank of France and Gold—Enclosure to Sir Frederick Leith-Ross', letter of 17 Nov. 1930', BoE, OV45/81. Similar explanations were given by R. G. Hawtrey, *The Art of Central Banking* (London: Longmans, Green and Co., 1932), 16–40, and Thomas Balogh, 'The Import of Gold into France', *Economic Journal*, 40 (Sept. 1930), 442–60. The British critiques and Treasury discussions are treated at greater length in Mouré, *Managing the Franc Poincaré*, 50–65.

the troubles it is suffering'. The Bank of France had encouraged the development of the Paris market which, Lacour-Gayet argued, was 'the most effective aid for London's current difficulties, for which [the Paris market] bears no responsibility'. By maintaining its large portfolio of sterling holdings, the Bank had 'opened permanent credits to England, without which it is very likely that the gold movements would have been still greater'.[13]

Lacour-Gayet refined and elaborated this view when the Ministry of Foreign Affairs asked the Bank for material to assist its diplomats in defending French gold policy abroad. The pamphlet 'L'Afflux de l'or en France' reworked the explanation for the scale of French gold imports and added a new section to dissociate the world economic crisis from French gold policy. The decline in world prices had begun in 1926, long before French gold imports, it argued, and the crisis began in the United States where there was no shortage of gold.[14] Copies of the note were sent by the Ministry of Finance to financial attachés in early November, and by the Quai d'Orsay to ambassadors and consular officials in late November. When *The Times* of London obtained a copy, it published a detailed summary.[15]

The *Times* summary on 14 November provoked a refutation of the French arguments by Sir Frederick Leith-Ross and a heated attack by R. G. Hawtrey.[16] The Leith-Ross memorandum became the basis for gold talks between the French and British Treasuries at the turn of the year. Robert Boyce attributes the initiative for these talks to the French premier, André Tardieu, working through the *Times's* Paris correspondent, V. Poliakoff, who could conceivably have passed the Bank's pamphlet on to London.[17] But the approach to the British Treasury came from Henri Pouyanne, director of the Anglo-French Banking Corporation and former financial attaché in the French embassy in London. Lacour-Gayet talked to Pouyanne at the end of November and asked him to sound British interest in joint discussions of current issues, the most important of which was the gold situation. Working through Pouyanne had distinct advantages. As a private banker, he would not commit either the Treasury or the Bank, yet his approach would demonstrate French desire for collaboration. 'It is indispensable that we give international public opinion the impression that we wish to act,' Lacour-Gayet explained to the governor. 'We will be in an infinitely stronger position if the English refuse once again to arrive at *concrete proposals*'.[18] Moret had just met with Norman and found him unresponsive when asked

[13] Robert Lacour-Gayet, 'Note sur les importations d'or', 28 July 1930; BdF, 1397199403/2; this carton contains a large selection of press articles from abroad criticizing French gold policy at this time.

[14] 'L'Afflux de l'or en France', SAEF B 21848; BdF, 1397199403/2; MAE, SDN 1331.

[15] Both ministries specified that the document was not for distribution and that its origins were to be kept secret. Lacour-Gayet sent a copy to H. A. Siepmann on 14 Nov., the same day the account appeared in *The Times*. Of the 1,800 copies printed, 150 were sent to the Ministry of Foreign Affairs; 500 to the Ministry of Finance; 500 were distributed within the Bank (including copies to all branches), and 200 to French journalists. Details in BdF, 1397199403/2.

[16] Mouré, *Managing the Franc Poincaré*, 53–7.

[17] Boyce, *British Capitalism*, 295; Jean-Jacques Bizot, 'Conversation avec M. Poliakoff', 20 Dec. 1930, SAEF B 31851.

[18] Lacour-Gayet, 'Note pour M. le Gouverneur', 9 Dec. 1930; Pouyanne attributed his approach to the British and French Treasuries to suggestion from Lacour-Gayet in Pouyanne to Lacour-Gayet, 23 Dec. 1930; BdF, 1397199403/2.

how the French money market could assist the Bank of England. Norman complained of his own personal difficulties at the Bank of England and worried that American and French gold policy would 'kill the gold standard'. Neither governor wished central banks to join in Treasury discussions of the gold problem.[19]

The British Treasury attributed the flow of gold to France to two factors: first, to a chronic shortage of currency in France since the *de facto* stabilization of the franc in December 1926, with demand for new currency met mainly through commercial banks drawing in gold from abroad, and second, to the immobilization of large balances in government accounts, particularly in the autumn when direct taxes were paid, aggravating the domestic shortage of currency.[20] Treasury representatives discussed the gold problem in Paris and London.[21] Little was resolved, but the reaction of the Bank of France reveals the Bank's view of the operation of the gold standard and how it could be improved. In 'L'Afflux de l'or en France' the criticism of British policy in Lacour-Gayet's July 1930 note had been excised. Leith-Ross's memorandum, however, pushed the Bank to review the gold situation with less charity towards Britain, as the control and efficiency of the Paris market had been called into question.

British authorities claimed to believe in the correct functioning of the gold standard, noted Pierre Ricard of the Bank's Direction des Études, and insisted on strict adherence to 'established principles' by other countries. But the policies of the Bank of England were 'too often outside the normal functioning of the gold standard'. Open market operations, in particular, had been elevated into a system that 'completely obstructs the defensive reflexes of the economic organism'. An excessive level of floating debt, poor control of credit expansion, an artificially low interest rate, an insufficient gold reserve, and excessive foreign lending were the reasons for London's vulnerability to gold losses. If deficiencies in the Paris money market were in part responsible for the flow of gold to Paris, monetary policy in Britain deserved the lion's share of the blame. 'For many reasons, the Bank of England practices ... a policy in contradiction with the discipline of the gold standard, and all things considered, there is less that's arbitrary here than on the other side of the Channel.'[22]

As for open market operations in France, the Bank considered open market sales as a contractionary measure in January 1930, when the influx of gold in late 1929 caused a surge in the note circulation from 64 billion the previous July to 70 billion francs. The Bank approved the open market sales, then changed its mind, finding the measure too *dirigiste*.[23] Its view was stated bluntly by Ricard: 'The Bank of France favours intervention in the free market using Bons de Caisse to *reduce* excess market liquidity represented by a balance of inflation that can be burdensome. But the Bank has *never* envisaged extending

[19] Moret explanation of meeting with Norman in DCG, 11 Dec. 1930; Lacour-Gayet left an exasperated account of the meeting in 'Compte-rendu d'une conversation entre Mr. Montagu Norman et M. Moret le 5 Décembre 1930 en présence de M. R. Lacour-Gayet', 8 Dec. 1930; SAEF B 31851.

[20] Memorandum by Leith-Ross, 3 Dec. 1930, PRO, T 188/22.

[21] See Mouré, *Managing the Franc Poincaré*, 60–5; Boyce, *British Capitalism*, 294–9.

[22] Pierre Ricard, 'Note sur la position relative du problème de l'or entre l'Angleterre et la France', 8 Jan. 1931; BdF, 1397199403/2.

[23] Mouré, *Managing the Franc Poincaré*, 139–40.

credit other than by discounts and advances at its *official rate.*'[24] For Lacour-Gayet, Leith-Ross had missed the fundamental problem: without a sufficient difference between interest rates in London and Paris, French banks would repatriate the sterling holdings they acquired through the French balance of payments surplus. The demand for francs and the balance of payments situation were two sides of the same coin, and the only way to keep French capital in London was to increase interest rates there.[25] Bank of France analysts saw the British problems as the product of their interference with the natural, self-equilibrating operation of the gold standard. Fundamental to their view was the belief that gold losses indicated where corrective action was needed, and were indeed the signal for such action. British policy obstructed the natural correction of imbalances; the passivity of the Bank of France was the natural and legitimate response to gold acquisitions that indicated the soundness of French policy.

The most significant product of the Franco-British talks was indirect: the Bank of France decided to accept standard gold ingots of 0.916 2/3 fine in order to facilitate gold movements from London to Paris and to adjust the gold points between the two centres. Since June 1930, London had been unable to deliver bars of 0.995 fine as required by the Bank of France; bar from London had to be refined before delivery to Paris, delaying gold shipments and lowering the sterling–franc gold export point. An article by a 'distinguished French economist' (Charles Rist, writing anonymously) in *The Economist* suggested that the Bank of France accept bars of 0.916 2/3 and levy a charge for refining them to 0.995. Lacour-Gayet called the governor's attention to the idea, suggesting the reform be considered for several reasons. It would clarify the gold point and conform to the gold requirements of the other central banks, and it would win plaudits from those abroad who reproached the Bank for its lack of collaboration. In addition, it would shift the refining of the gold to Paris workshops, and 'The massive gold exports which would be the likely consequence of our decision would also have the advantage of making the Bank of England aware of the gravity of its situation, and might then lead it to practice a more reasonable policy than at present.'[26]

Sicsic and Villeneuve have challenged the accuracy of the British analysis, arguing that Bank of France discounting more than made up for changes in Treasury balances, and that holdings of government debt by *agents non bancaire* after the stabilization of the franc reduced demand for currency. They claim the repatriation of French capital exported in

[24] Ricard note of 5 Jan. 1931; BdF, 1397199403/2, emphasis in original.

[25] Lacour-Gayet to Rueff, 9 Jan. 1931, and Lacour-Gayet, 'Observations sur la note de Sir Frederic Leith Ross [*sic*]', sent to Rueff with letter; BdF, 1397199403/2. Moret gave a similar explanation to the Conseil Général in explaining the progress of Treasury talks, DCG, 8 Jan. 931. Hawtrey, after reading the 'Escallier Memorandum' (written by Rueff), was exasperated by the French analysis: 'We complain of the drain of gold because it tends to cause a monetary contraction ... and Monsieur Escallier's reply is that we can prevent the drain of gold if we choose to effect a monetary contraction!' See Mouré, *Managing the Franc Poincaré*, 63.

[26] *The Economist*, 20 Dec. 1930, 1157–9. Lacour-Gayet, 'Note', 30 Dec. 1930; BdF, 1397199403/4. Governor Harrison had suggested the Bank of France relax its gold requirements when he met with Moret in November; Lacour-Gayet, 'Compte-rendu des conversations entre Mr. Harrison et M. Moret', SAEF, B 31851.

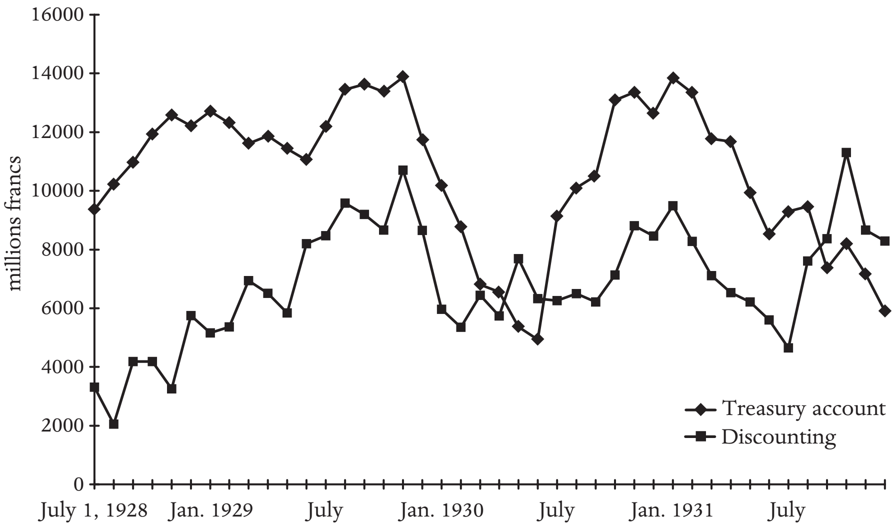


**Figure 7.1.** *Treasury balances and Bank of France discounting, July 1928–December 1931*
*Source*: Bank of France annual reports, 1929–1932.

the period 1920–6 explains almost all of the inflow of gold after 1928.[27] Their dismissal of the French Treasury balances uses only the Treasury account at the Bank of France, however, whereas the British analysis was concerned with the often greater immobilization of funds in the Caisse Autonome d'Amortissement as well. If CAA balances are included, central bank discounting compensated for the rise in government balances in 1929 when 5 billion in gold was imported in the second half of the year, but it fell far short of the much greater rise in government balances in 1930, when nearly 10 billion was imported (see Figure 7.1). Sicsic and Villeneuve credit discounting of paper by the Caisse des Dépôts et Consignations as a further source of funds, but commercial banks went to the CDC only *after* they had drawn funds from London (and prior to going to the Bank of France).[28]

Sicsic and Villeneuve refute the separate parts of the British arguments without regard for the synchronization of influences that gave the real force to the British argument; they disassemble its pieces, as did contemporary French critics, missing the point. Even if *all* the gold coming back represented repatriated French flight capital, the capital had left France 1920–6 with no decline in French gold reserves, whereas its return created demand for French currency that was met by delivering gold from abroad to the Bank of France. The capital flight during the years of unbalanced budgets, inflation and confiscatory

[27] Pierre Sicsic and Bertrand Villeneuve, 'L'Afflux d'or en France de 1928 à 1934', in *Du franc Poincaré à l'écu*, 21–55. They also find that open market operations would have made no difference to the French draw of gold, contrary to Barry Eichengreen, 'The Bank of France and the Sterilization of Gold, 1926–1932', *Explorations in Economic History* 23 (1986), 56–84.

[28] See Johnson, *Gold, France, and the Great Depression*, 156, citing Conolly note on CDC from BoE, OV45/4.

taxation was bound to return when French finances were stabilized. The undervaluation of the franc and the prolonged *de facto* stabilization encouraged repatriation and a speculative capital inflow. With *de jure* stabilization, the reflux changed from an inflow of foreign exchange to an inflow of gold.

The origins of the demand for francs are less important than the means employed to deal with the flow of funds to France. The flow came in the form of gold, exerting pressure on the closest gold market, London. Sicsic and Villeneuve claimed that the Bank of France need not, and in fact could not, have done anything. Eichengreen argued more optimistically that open market operations could have made a difference.[29] They would have made a difference only as open market purchases to increase currency in circulation. The Bank of France would consider open market operations only as sales to contract currency in circulation.[30] This opposition and the desire to maintain price stability were part and parcel of French gold standard belief: the gold standard was intended to guard against the danger of inflation.

Before restoring gold convertibility in June 1928, foreign exchange purchased by the Bank was deposited in its country of origin to earn interest, leaving these funds available for speculative use rather than bringing monetary contraction in their markets of origin. Rist and Philippe believed this inflation of credit to be an important causal factor in the world depression, forestalling needed monetary contraction in New York and London.[31] Restoring convertibility meant Paris could draw gold rather than foreign exchange, forcing monetary contraction in New York and London. But monetary policy in New York and London offset the French pressure for contraction. The Bank of France wanted the gold inflow (even if they had done nothing to 'provoke' it), and made consistent efforts to limit increase in the note circulation, substantially sterilizing the inflow. Although the monetary reform law set 35 per cent as the minimum reserve ratio for the franc on gold, the Bank regarded 40 per cent as its minimum in practice and watched with pride as the reserve ratio rose over 50 per cent during the gold inflow in 1930. In January 1931, the Bank contemplated suspending gold purchases when the cover ratio reached 55 per cent. The idea was rejected: to do so would require legislative approval and open the possibility of unlimited appreciation of the franc, which would in turn produce exchange instability, disrupt trade and payments, and foster international speculation.[32] Better to accumulate gold.

The attitude of the Bank of France exemplified the asymmetry and the deflationary bias of the gold standard. The Bank rejected the gold exchange standard as a dilution of the gold standard that promoted an over-expansion of credit; yet the Bank continued to hold a large quantity of foreign exchange because it was a profitable earning asset, which gold certainly was not. '[Central banks] take gold when they cannot or do not wish to

[29] Eichengreen, 'The Bank of France and the Sterilization of Gold, 1926–1932'.

[30] Ricard, 'Note', 5 Jan. 1931; BdF, 1397199403/2.

[31] Philippe, *Le Drame financier*, 132–4; Rist, 'The Present Distribution of Gold Holdings', 201–2; Rist later absolved France of any responsibility for the use made of sterling left on deposit in London (Rist, 'L'Expérience de 1926', 71).

[32] 'Note sur une suggestion tendant à suspendre les achats d'or au-delà d'un certain pourcentage d'encaisse', 19 Jan. 1931; BdF, 1397199403/2.

take anything else', Ricard explained. 'Decidedly, from an economic perspective, it is an *onerous* payment.'[33] However onerous it was, the Bank was not willing to do much to avoid it, particularly if avoidance involved domestic monetary expansion. Thus the Bank of France set itself resolutely against measures to increase domestic monetary circulation and prices. Adjustments were needed abroad, not in France, and rising prices were to be avoided at all cost. In this sense, France sought to reduce world prices to French levels as Johnson claims, but as an effect of their immediate concern to prevent domestic inflation by gold standard methods. As discussed in the next section, declining prices were believed to be characteristic of economic progress.

> If gold flows to France, it is because the franc has greater purchasing power than the pound or the dollar. The gold standard is fulfilling its function as leveller of prices. Gold becomes scarce in the country where it is valued least, and goes to the country where its value is greatest. If the central banks of affected countries adopt an appropriate discount policy, equilibrium will be quickly restored.[34]

'The affected countries' were those losing gold. The needs of the domestic market could prevail in determining discount rate policy because France ran a healthy balance of payments surplus, thus lifting the external constraint. It was Britain's responsibility to check the gold flow to France: 'All they need do is increase the purchasing power of their currency by a policy of deflation and raise the interest rate in London instead of systematically lowering it through the Bank of England's policy of intervening in the open market,' the Bank explained.[35]

Current understanding of the Great Depression stresses that it was an international phenomenon in which a monetary contraction transmitted by the international gold standard produced sharp contractions in output, employment, and trade, particularly in deficit countries. The large flow of gold into France after June 1928 ratcheted up the contractionary pressure exerted by the gold standard. Imposed on an underlying gold shortage that the Genoa resolutions had been intended to ameliorate, French actions significantly reduced the monetary gold reserves available in the international system. Figures 7.2(*a*) and 7.2(*b*) show the increase in US and French gold reserves and their share of total world reserves. From June 1928 to April 1931, France took 77 per cent and the United States 47 per cent of the total increase in monetary gold reserves.[36] The smaller US take was, of course, added to a much larger reserve. French and American gold accumulation prevented any increase in monetary gold reserves elsewhere and caused some contraction during this critical period leading into the Great Depression. The low ratio of credit to reserves in France accentuated the contractionary force of French policy in the international system, and the fact that French demand for gold acted mainly on London focused pressure on the most vulnerable link in the gold standard system. But French policy gave priority to domestic stability, and reflected their determination to avoid inflation; this was the chief purpose and benefit of the gold standard in their view.

[33] Ricard, 'Note', 7 Jan. 1931, BdF, 1397199403/2.
[34] 'La Stabilisation du pouvoir d'achat de l'or', probably autumn 1930; BdF, 1397199402/49.
[35] 'Causes de l'afflux d'or en France', annex E to note cited above.
[36] Johnson, *Gold, France, and the Great Depression*, 142.

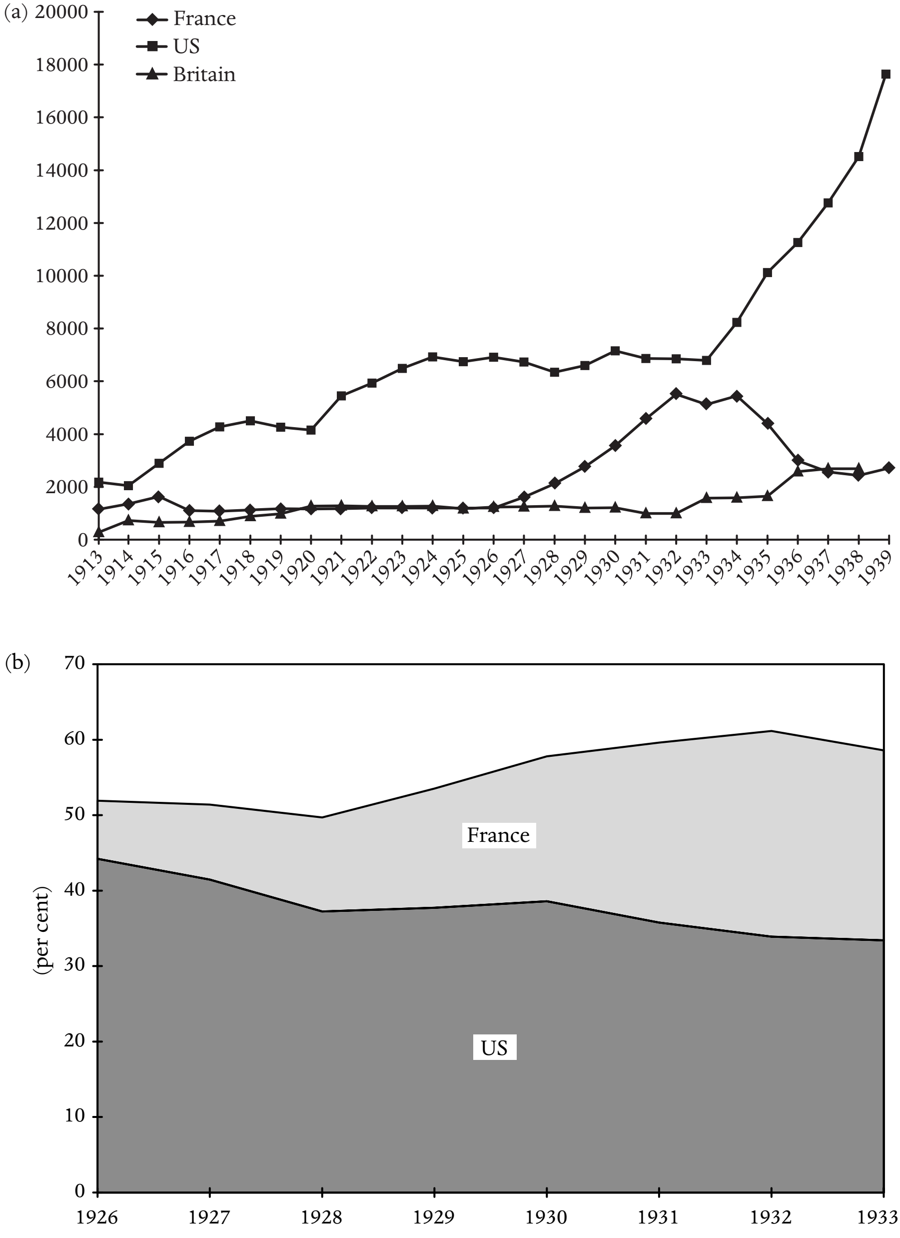


**Figure 7.2.** *(a) Gold reserves, 1914–1939 (millions of dollars, $35/oz)*
*(b) US and French gold 1926–1933 (% of world monetary gold reserves)*

*Source*: (a) Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics*, 544–5. (b) Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics*, 544–7.

Before rushing to blame France for the Great Depression, closer attention is needed to French policy and understanding of the gold standard system in an international context. The breakdown of the gold standard, triggered by sterling's departure from gold in September 1931, was the result of a confluence of events in Germany, Britain, and the world at large. Paul Einzig attributed French gold accumulation to political motives in this period, conceding that the claim was virtually impossible to substantiate, particularly when it was often 'sufficient if the authorities refrain from counteracting certain tendencies in order to give rise to a gold movement which serves political ends'.[37] Bank of France records reveal no direct political motives at work; such motives seemed obvious, however, to critics seeking to explain the gold flow to France in 1930, and would be evident in central bank efforts to deal with the financial crises of 1931. But French gold policy was decided within the Bank of France, and should be examined in the light of understanding of the international gold standard system as it evolved 1928–31. Within the Bank, the gold standard was understood to be automatic, and the discretionary management exercised by the Bank of England seemed to violate the logic and damage the efficacy of the gold standard as an adjustment mechanism. The fact that most contemporary critics were British weakened the force of their arguments, for British policy seemed to have departed most clearly from what the French understood to be conventional gold standard practice. It followed naturally that British difficulties were the most immediate and the most serious, and that Britain had the greatest interest in finding fault elsewhere.

## 2. THE BREAKDOWN OF THE GOLD STANDARD, 1928–1931

Central bank co-operation earned mixed grades for its performance in restoring currencies to gold up to 1928; thereafter the main field for co-operation was in managing the gold standard as an international system. Differences over what the system was and how it should function, rooted in differing domestic experiences and expectations, rendered co-operation more difficult. Remarkably, one of the most notable 'co-operative' initiatives between 1928 and 1931 was the effort to obstruct a League of Nations inquiry into whether or not there was a shortage of gold for use as monetary reserves, and what could be done about it, covered in the previous chapter.

The proceedings of the Gold Delegation prompted the best-known defence of French gold policy, Charles Rist's 'La Question de l'or'. Rist wrote the essay in haste in the autumn of 1930 to explain 'the French argument' regarding gold distribution, anticipating that the Gold Delegation's interim report would advocate the stabilization of the purchasing power of gold and a redistribution of gold reserves.[38] Published in the *Revue d'économie politique* at the end of 1930, the article responded to recent British criticism and to the Gold Delegation's *Interim Report* and published memoranda, particularly the essay

[37] Paul Einzig, *International Gold Movements*, 2nd edn. (London: Macmillan, 1931), 32–4.

[38] Letter to Rist, probably from Lacour-Gayet, 8 Aug. 1930, BdF, 1397199402/49; Rist to Moreau, 8 Aug. 1930; BdF, 1397199402/48. For the article to have its full effect, Moreau wished it to carry the signature of 'a great authority on monetary matters'.

by Strakosch on the economic consequences of changes in the value of gold.[39] Rist contended that their arguments confused two different phenomena: the current economic crisis, 'necessarily transient, like all crises', and the gradual decline of world prices, which he expected to continue so long as the circumstances causing it prevailed, and which was normal, having taken place for long periods in the nineteenth century. Rist argued that there was no such thing as a 'maldistribution of gold' and that gold supplies did not determine world prices. Supply and demand for goods determined prices, and gold distribution was the result, rather than the cause, of price changes. Central bank policies reflected market needs and practices, so comparisons of levels of reserves did not demonstrate 'sterilization' or anything useful, and could be manipulated to demonstrate almost any point the author wished, including a sterilization of gold by Britain.[40] The current crisis brought a flow of gold from London that was in part a result of conjunctural circumstances, in part a result of a low Bank rate in London. Rist compared current recommendations for credit expansion to arguments for bimetallism in the period 1873–95, against which English economists had provided the strongest resistance: now 'credits' replaced silver and the English economists had changed sides. He dismissed the idea of lowering official reserve ratios. The main central banks, he claimed, followed policies 'completely independent of the figure set by law'.[41] His essay was distributed to French embassies by the Quai d'Orsay to assist representatives in justifying French policy, and his arguments were echoed in subsequent French reports on the gold problem.[42]

In February 1931, Rist presented his views to a British audience. Addressing the Royal Institute of International Affairs study group on 'The International Functions of Gold', Rist admitted a maldistribution of gold and a link between gold supplies and the trend in world prices. In particular, the unchanged US price of gold despite 60 per cent inflation (1914–22) meant that the purchasing power of gold had been reduced by 60 per cent, and the rush of countries rejoining the gold standard in the mid-1920s then produced downward pressure on prices which, under the circumstances, Rist found 'perfectly normal'.[43] But he reversed the causal link between the alleged maldistribution of gold reserves and declining world prices: the distribution of gold reserves was the result of the decline in world prices and its impact on different countries' balance of payments.[44] In the discussion

[39] League of Nations, *Interim Report of the Gold Delegation of the Financial Committee* (Geneva: League of Nations Publications II. Economic and Financial 1930. II. 26, 1930); and Sir Henry Strakosch, 'The Economic Consequences of Changes in the Value of Gold', in League of Nations, *Selected Documents Submitted to the Gold Delegation of the Financial Committee* (Geneva: League of Nations Publications, II.Economic and Financial 1930. II. 34, 1930).

[40] Charles Rist, 'La Question de l'or', *REP* 44 (1930), reprinted in Rist, *Essais sur quelques problèmes économiques et monétaires* (Paris: Sirey, 1933), 103–35.

[41] 'La Question de l'or', 128–33.

[42] For distribution of the pamphlet, MAE, SDN 1331.

[43] Charles Rist, 'The International Consequences of the Present Distribution of Gold Holdings', in Royal Institute for International Affairs (RIIA), *The International Gold Problem* (Oxford: Oxford University Press, 1932), 195–6; the phrase 'parfaitement normal' comes from the French text, 'La 'Mauvaise' Répartition de l'or dans le monde', in *Essais sur quelques problèmes*, 138. In the RIIA text it reads 'there is, in my opinion, nothing very extraordinary if the fall of prices in the United States has brought about a similar fall in other gold standard countries.'

[44] RIIA, *International Gold Problem*, 202; in the French version he attributes the view he is refuting explicitly to Strakosch.

that followed, H. D. Henderson made the most trenchant comment, pointing out that Rist accepted that the price decline was a result of an insufficient quantity of gold, but did not admit that the use of gold by central banks influenced the price level.[45] Rist insisted that recent British policy contradicted British concepts of central banking of the past hundred years, to which Hawtrey retorted that Rist was citing a British point of view from a hundred years earlier. When Rist claimed that he was citing British theory as hammered home to European central banks seeking to restore order in the 1920s, Hawtrey responded that Rist was 'not allowing adequately for British hypocrisy'.[46]

Here and in a subsequent essay on the origins and nature of the economic crisis, Rist blamed American and British credit policy. In seeking to maintain prices by credit expansion and open market operations from 1927 to 1929, they delayed the onset of an inevitable cyclical downturn, temporarily frustrating the natural working of the gold standard.[47] This became the French official view of the origins and nature of the depression.[48] The price decline that worried Strakosch and the Gold Delegation was a natural phenomenon. Prices tended to decline through improved productivity and mechanization: this was economic progress. The undervaluation of gold and competition among central banks for gold reserves aggravated the problem. Britain, having overvalued sterling in relation to gold in 1925, suffered more than countries like France that had returned to gold with their currencies undervalued, not because of gold hoarded elsewhere, but because of Britain's balance of payments deficit.[49]

With this understanding that the origins of the depression lay in an *abuse of credit* by the United States and Britain, and that British difficulties were a product of their refusal to follow sound gold standard policy, French authorities confronted the financial crises of 1931 believing that sound domestic policy, not co-operation, was the vital issue. The rapid succession of crises began in Austria, with the announcement on 11 May that the Credit-Anstalt had lost more than half its capital. When the Austrian government tried to rescue the bank, a run on the Austrian schilling threatened the national currency. The government sought foreign credits; these could provide resources to maintain the Austrian central bank's commitment to gold while the national government dealt with the financial origins of the crisis, but they could not solve underlying problems in domestic finance and politics. The Austrian National Bank gave mixed signals to the market after the failure of the Credit-Anstalt, and was unable to arrest foreign exchange losses that were predominantly the flight of Austrian capital. International credits negotiated through the BIS provided too little, too late, and required that the Austrian government guarantee foreign credits extended to the Credit-Anstalt (a result obtained by threats that

[45] Ibid. 215–17. [46] Ibid. 220.

[47] Rist acknowledged that the prolonged *de facto* stabilization of the franc had been a part of the problem; in holding foreign exchange as reserves left on deposit in their market of origin, rather than withdrawing gold, the Bank of France had facilitated an overextension of credit.

[48] See Mouré, *Managing the Franc Poincaré*, 30–40, and Rist, 'Caractère et origine de la crise de 1929', in *Essais sur quelques problèmes*, 325–43.

[49] Though he did not use precisely this language, Rist stated this clearly in 'Retrouvera-t-on le niveau des prix de 1928?', *Essais sur quelques problèmes*, 158.

'came very close to blackmail').[50] The run on the Austrian schilling was based on economic fundamentals rather than temporary doubts about convertibility. The first foreign credit of 100 million schillings took three weeks to arrange and was exhausted in five days. Attempts to secure a second credit faced the dual problems of insufficient credit and special conditions; an emergency loan by the Bank of England attempted to prevent Austrian banks closing, again on condition that the government guarantee foreign liabilities. The Austrian government resigned over this issue and it took months thereafter to sort out the political and institutional problems that had produced the Austrian crisis.[51]

The German crisis that followed on its heels was fundamentally political with complex domestic financial complications—a tangle of politics, finance, and national security so complex that no central bank solution was conceivable.[52] The Bank of France had agreed promptly to credits to Austria, but delayed the arrangement of credits to Germany by checking with the French government at each stage in the negotiating process.[53] Norman, urging credits to Austria and Germany, stated that central banks were grappling to deal financially with problems that were fundamentally political, for which their efforts could be no more than temporary and palliative.[54] In July Norman arranged a credit of $100 million through the BIS, but having expressed willingness to arrange a larger credit of up to $1,000 million, a talk with Reichsbank president Hans Luther convinced him that further central bank credits would be worse than futile: they would increase German liabilities without resolving the political problem.[55] Bankers in Paris, including Governor Moret and former Governor Moreau, told Luther that 'French financial circles are unanimous in thinking that as in the case of France in year 1926 the restoration of confidence in the Reichsmark depends less on an external monetary help than on a comprehensive action of which the German Government must take the initiative.'[56] Central European finances were so thoroughly entangled with government budgets and reparations that central bank assistance could provide no practicable resolution.[57]

When the crisis spread to London in mid-July, the freezing of foreign credits in Germany immobilized British funds and pushed smaller European banks to sell sterling

[50] Aurel Schubert, *The Credit-Anstalt Crisis of 1931* (Cambridge: Cambridge University Press, 1991), 144–54; the bank discounted liberally, violating its statutes in rediscounting financial bills from the Credit-Anstalt, but was slow to raise its discount rate and did not clearly state its willingness to act as lender of last resort in order to restore confidence.

[51] Fritz Weber, 'The Austrian Banking System', in Charles H. Feinstein, ed., *Banking, Currency, and Finance in Europe between the Wars* (Oxford: Clarendon Press, 1995), 354–6; Schubert, *Credit-Anstalt Crisis*, 157–67.

[52] For the domestic problems and the importance of German rather than foreign capital flight, see Harold James, 'The Causes of the German Banking Crisis in 1931', *Economic History Review*, 37, no. 1 (Feb. 1984), 68–87.

[53] DCG, 15 and 21 May 1931; 24 June 1931.

[54] Harrison records of telephone conversations with Norman in June 1931, particularly that of 13 June, in FRBNY, Harrison Collection, 3117.2.

[55] Harrison conversations with Norman on 8, 13, 18, 23, and 24 June, and 9 July 1931, in FRBNY, 3115.2; also Boyce, *British Capitalism*, 336–7.

[56] Moret to Harrison, 11 July 1931; George L. Harrison Papers (GLH), Butler Library, Columbia University, binder 29.

[57] See Stephen A. Schuker, 'American 'Reparations' to Germany, 1919–1933: Implications for the Third-World Debt Crisis' *Princeton Studies in International Finance*, 61 (1988), 54–64.

in order to increase their reserves.[58] The immediate crisis in Britain was one of illiquidity: chronic weakness in the balance of trade and balance of payments, widespread acknowledgement of sterling's overvaluation, and ongoing budget difficulties were magnified by concern for Britain's short-term debtor position as reported by the Macmillan Committee on 13 July. British discount policy had been weak since the return to gold in 1925, Norman seeking to avoid discount rate increases; this practice raised doubts about the credibility and the durability of Britain's commitment to maintain sterling in a crisis. Greater central bank co-operation could have helped save sterling by bolstering confidence to allow more time for government action to decide and implement policy changes, sacrificing domestic industry and commerce to the exigencies of the gold standard. After several weeks of struggle, the British government preferred to go off gold.[59]

Eichengreen acknowledged that the credibility of the gold standard was 'increasingly questioned', and that beyond the $1 billion lent to Germany, 'staggering amounts' would have been required to save the pound sterling. Lending on the scale required exceeded the abilities of the Federal Reserve System, and France was a reluctant lender to Germany and Austria. 'Adequate cooperation was not forthcoming,' Eichengreen concluded; 'in the absence of international cooperation' the gold standard could not be maintained.[60] But co-operation could not replace credibility. The key issue in Britain was the credibility of the government's commitment to gold, and the British monetary authorities stressed that action on the budget deficit was the one factor above all else critical to market confidence in sterling. The survival of the gold standard depended on the actions taken by the British government to restore confidence in its fiscal policy and to improve Britain's balance of payments position. Central bank credits could do neither, merely provide the government time in which to work.

Co-operation in the form of central bank credits was not lacking. When Robert Kindersley requested assistance from the Bank of France on 25 July, Governor Moret offered the Bank of England 'all the support it might require'; negotiations in Paris and New York produced credits of £25 million from each market opened on 1 August. What evidence there is of delay, reluctance, or hostility is not on the French side but on the British, reluctance to borrow from France and reluctance to use the credits obtained.[61] The Bank of England believed these credits sufficient, and hoped that their mere announcement would provide a 'striking demonstration of central bank co-operation' and render their use unnecessary.[62] Britain chose in September not to avail itself of

[58] Kindleberger, *World in Depression*, 154, drawing on Willard Hurst, 'Holland, Switzerland and Belgium in the English Gold Crisis of 1931', *Journal of Political Economy*, 40, no. 5 (Oct. 1932), 638–60. Hurst points out that almost all of the gold withdrawn from Britain in September went to Holland.

[59] Diane B. Kunz, *The Battle for Britain's Gold Standard in 1931* (London: Croom Helm, 1987), 133–9; Theo Balderston, 'German and British Monetary Policy, 1919–1932', in Charles H. Feinstein, ed., *Banking, Currency, and Finance in Europe between the Wars* (Oxford: Clarendon Press, 1995), 151–86.

[60] Eichengreen, *Golden Fetters*, 285–6; on central bank cooperation, see also 207–10.

[61] See Kunz, *Battle for Britain's Gold Standard,* 81–90; Boyce, *British Capitalism*, 345–7; Sayers, *Bank of England*, ii. 392–3; Mouré, *Managing the Franc Poincaré*, 66–7.

[62] Philip Williamson, *National Crisis and National Government: British Politics, the Economy and Empire, 1926–1932* (Cambridge: Cambridge University Press, 1992), 282; Kunz, *Battle for Britain's Gold Standard*, 91; Sayers, *Bank of England*, ii. 394–5, 414.

further credits except to protect its situation in going off gold. Co-operation could also fail if other central banks withdrew their sterling deposits during the crisis. The Bank of England having assured central bankers there was no danger to sterling, there was no withdrawal of central bank funds from the Bank of England—a cause of considerable animosity after sterling went off gold.[63]

The outcome of the British crisis was conditioned by the domestic difficulties besetting the British government and economy. Britain's long-running balance of payments difficulties, attributable in part to the overvaluation of sterling, were well known. D. E. Moggridge notes that the underlying trend of Britain's balance of payments 'would probably have forced sterling off gold at some stage during 1931–32' and that the political events in the summer of 1931 merely sharpened and hurried the crisis.[64] The heavy British bank commitments in Germany, £70 million frozen by the standstill agreement in July, were widely known. Other European banks with credits frozen in Germany sought to increase their liquidity by drawing funds from London; many had invested in Central Europe via London.[65] Banking and money market troubles in Switzerland, Holland, and to a lesser extent in New York and Paris limited the foreign assistance available.

Bank rate was increased to 3½ per cent on 23 July and to 4½ per cent on 30 July; there was concern in Britain and abroad that a further increase would do no more than increase alarm. For the Bank of England, the key to the crisis was government budget policy. Credits obtained through international co-operation would be used once the Labour government had balanced its budget, and the level of benefit payments to the unemployed was seen abroad as critical to the budget deficit and as an obstacle to the wage reductions needed to cut British costs.[66] The Bank of England believed gold losses necessary 'to make the British government understand the seriousness of their position'.[67] Having negotiated credits in New York and Paris, the Bank suspended support of sterling on 5 August and lost £4.5 million that day in gold and foreign exchange. The losses had greater effect on bankers and markets abroad than on British politicians; according to one knowledgeable observer in the Bank, they 'completely confused the market, created chaos in the continental exchanges, and administered an irreparable blow to confidence in the pound'.[68] Moret in Paris and Harrison in New York expressed profound alarm, and the Bank resumed support operations the next day, drawing on the foreign credits, but

[63] Sayers, *Bank of England*, ii. 414; he states it is not known whether central banks left all their funds in London, but that they 'certainly' did not draw down their deposits at the Bank of England. Hurst concluded that central banks, in not participating in flight from the pound, 'rendered about all the aid possible' to the Bank of England; Hurst, 'Holland, Switzerland, Belgium', 659.

[64] D. E. Moggridge, 'The 1931 Financial Crisis: A New View', *The Banker*, 120 (1970), 832–9; reprinted in Barry Eichengreen, ed., *Monetary Regime Transformations* (Aldershot: Edward Elgar, 1992), 315–20, quote from 315.

[65] Harold James, 'Financial Flows across Frontiers during the Interwar Depression', *Economic History Review*, 45, no. 3 (1992), 602.

[66] Pierre Fournier, deputy governor of the Bank of France, told Siepmann that a direct cut in the dole was critical to reassure foreign opinion. Siepmann, 'Note of a conversation with Monsieur Moret at the Bank of France on Tuesday, 25th August 1931', 26 Aug. 1931; BoE, G1/457.

[67] Cited in Boyce, *British Capitalism*, 345; from FRBNY, Harrison Collection , 3125.2 (8 Aug. 1931).

[68] Cited in Sayers, *Bank of England*, ii. 395.

these were depleted rapidly. French Treasury officials told Leith-Ross that French investors, alarmed for some time at British monetary policy, had learned from German bankers that British banks were imperilled by their lending in Germany. When British ministers appeared in their statements to confirm these reports, 'Their remarks had been taken very seriously in French Banking circles, and had undoubtedly occasioned large withdrawals.' The positive effect of the central bank credit had been shattered by gold losses on 5 August.[69]

The Bank's advice to the government stressed that only action by the government on the budget issue could remedy the crisis: 'the reports which reach us all shew that the sign which foreigners expect from this country is the readjustment of the budgetary position, and this attitude on their part has again been forcibly expressed to-day in messages both from Paris and New York.'[70] The Bank pegged sterling rigidly, 'at such odds with market reality' that confidence was further undermined.[71] Further international support in the form of loans to the government hinged on implementing a stricter programme of government economies.

Ramsay MacDonald's Labour government divided over the issue of cuts to unemployment insurance and a new 'National Government', consisting mostly of Conservatives (MacDonald remained as Prime Minister and Philip Snowden as Chancellor), was formed to deal with the crisis. The announcement of the National Government met with increased foreign exchange losses when *The Times* revealed the same day that the central bank credits were 'approaching exhaustion'.[72] Loans were negotiated in Paris and New York to prolong the defence of sterling, £40 million in each centre.[73] The Bank of England contacts with the Federal Reserve Bank of New York and J. P. Morgan and Co. stressed the importance of having *their* approval of the British government's economy programme. Harrison and the Morgan bankers were dismayed, as they were in no position to judge the adequacy of the government's programme from New York. Harrison discussed the problem with Norman, who was recovering from illness and exhaustion in Canada. Norman judged the new government's economy programme inadequate, stating that it 'must be sufficiently drastic to place the cost of output and wages on a competitive basis with the rest of the world'—an unwitting admission of the failure of his own policy in the previous six years. If the programme were adequate, the government 'would not need a credit at all'.[74] The loans from Paris and New York bankers were concluded despite problems making arrangements in Paris, where French banks had difficulty raising such a large loan, particularly in view of the French market's lack of confidence in British management of the crisis.[75] A Rothschild representative

[69] Leith-Ross, 'Note of a Discussion with French Treasury Experts, 11th August, 1931', 13 Aug. 1931; PRO, T 188/21.

[70] Harvey to Snowden, 6 Aug. 1931; BoE, G14/316.

[71] D. E. Moggridge, *British Monetary Policy, 1924–1931: The Norman Conquest of $4.86* (Cambridge: Cambridge University Press, 1972), 194.

[72] Sayers, *Bank of England*, ii. 399.

[73] Kunz, *Battle for Britain's Gold Standard*, 113–21.

[74] This is Harrison's paraphrasing of their conversation; 'Telephone Conversation with Governor Norman', 24 Aug. 1931; FRBNY, Harrison Collection, 3115.2.

[75] The records of the Rothschild Bank in Paris contain reports on the meetings between French private bankers, the Bank of France, the French Treasury, and Frederick Leith-Ross. The French bankers disliked the

summed up the view of Paris bankers: 'In short, no enthusiasm, but the impression that we will be forced to go along.'[76] They feared the worst. 'When a state has never, in peacetime, borrowed one sou abroad, and when today it hastily borrows such amounts at incredibly high rates, we must be ready for anything, even the impossible.'[77]

Snowden pressed for further cuts in expenditure, predicting that if sterling went off gold the result would be chaos, ruin, ten million unemployed, and 'complete industrial collapse'; ministers invoked the danger of a German-style hyperinflation if the government did not balance its budget, seeking to generate support for retrenchment.[78] The Bank of England did its best to deal with unrelenting pressure on sterling, going beyond its normal purview in the advice it gave to the government, and preparing for the increasing likelihood of going off gold. The National Government quickly showed itself to be divided; uncertainty as to its budget policy was heightened by rumours that there would be a general election. As foreign exchange reserves dwindled in September, the Bank remained convinced that the immediate crisis was political. The underlying financial and economic problems were not receiving governmental attention to restore confidence; increases in Bank Rate and gold losses, the traditional remedies for a monetary crisis, could prove not merely powerless, but perverse, further weakening confidence.[79]

The willingness of the Conservative leadership to plot new elections in the midst of the crisis,[80] the cabinet's retreat on naval pay cuts after the 'mutiny' of 15 September at Invergordon,[81] and a banking crisis in Amsterdam all increased foreign exchange losses in mid-September. On 19 September the Bank asked to be relieved of its responsibility to deliver gold, and the suspension of the gold standard was announced on the evening of 20 September. The official announcement stated the measure was taken with the government securing a balanced budget: 'It is one thing to go off the gold standard with an unbalanced Budget and uncontrolled inflation; it is quite another thing to take this measure, not because of internal financial difficulties, but because of excessive withdrawals of borrowed capital.'[82]

Foreign observers were not impressed. Moret believed Britain had adopted the easiest solution, and that depreciation of sterling would reduce British wage costs and

insistence from New York that the sums raised in New York and Paris be equal, as the $200 million (5 billion francs) in question could easily be raised in New York but was 'an enormous amount, much too large to be taken up here by the public'. 'Réunion à la Banque de France', 27 Aug. 1931; Centre des Archives du Monde du Travail (CAMT), 132 AQ 122. Even American bankers were alarmed; J. P. Morgan & Co. asked whether the initial figure of $250 million from each had any real basis or was a figure pulled from thin air: 'it is a stupendous sum to contemplate'. JPM&C to Morgan Grenfell & Co., no. 31/2382, received 22 Aug. 1931; copy in BoE, G14/316.

[76] Goute to Edmond, Edouard, and Robert Rothschild, 27 Aug. 1931; CAMT, 132 AQ 122.

[77] Goute to Rothschild, 31 Aug. 1931; CAMT, 132 AQ 122.

[78] Boyce, *British Capitalism*, 351, 359–60.

[79] Sayers, *Bank of England*, ii. 400–10.

[80] Williamson, *National Crisis*, 421; for foreign dismay on this point, see N. M. Rothschild & Sons to their 'cousins' in Paris, 1 Sept. 1931; CAMT, 132 AQ 122.

[81] Francis Rodd, writing to Norman on 19 Sept., stressed the impact on foreign opinion not of the 'mutiny' but of the government retreat on cuts in naval pay, which would set an example for other government services and thus would 'make the balancing of the budget difficult or impossible'. Cited in Thompson-McCausland, 'The Crisis of July–September 1931', May 1943, 42; BoE, G15/29.

[82] Sayers, *Bank of England*, iii. 265.

unemployment indemnities at a stroke.[83] To Georges Lacout in the Direction des Études, it seemed that the Bank of England had persistently obstructed the natural correction process of the gold standard by open market purchases to counteract the monetary contraction that should have followed gold losses. 'In not taking the measures required to defend the pound sterling, in brutally suspending the gold standard and in thus plunging numerous countries into monetary disorder, the English central bank has failed in its task.'[84] Leith-Ross, after discussions with French Treasury and central bank officials, summarized their views: 'we are now suffering the inevitable penalty for the over-liberal credit policy which the Bank of England has pursued during the past few years, and they hope that we will now be brought to see the errors of our ways.'[85] In New York, Russell Leffingwell would have agreed. 'All she has to do is to stop the futile effort to peg prices and wages above the world level', he had commented in early September. After sterling went off gold, he reflected that for six years Britain had hesitated between 'the high road of the gold standard and accompanying adjustments of prices and wages, or the low road of [inflation] with its automatic and more subtle ... cut in wages'.[86] In the end, Britain had taken the low road.

Jacques Rueff, *attaché financier* at the French Embassy in London (nicknamed the *détaché financier* for his frequent absences)[87] and a devout believer in the gold standard, concluded that Britain had been forced off gold not by the overvaluation of sterling in 1925, nor by 'the malice of certain states greedy for gold', but by faulty British policy. In an era of falling world prices, Britain tried to maintain high domestic prices: unemployment insurance benefits, in particular, had kept wages from adjusting as necessary, and thus reduced British earnings from exports and invisibles. The trade deficit was aggravated by overlending abroad; both should have been corrected by gold losses and higher interest rates. But 'under the sign of managed currency', the Bank of England had maintained a low discount rate and used open market operations to prevent monetary contraction, paralysing the correction that should have taken place automatically under a normally functioning gold standard regime. The first act of any serious international monetary conference should be to outlaw the gold exchange standard for its inflationary impact on credit. Central bank co-operation had proved itself 'an extreme danger for the world economy', granting credits that delayed the application of measures necessary to restore equilibrium in domestic markets.[88]

[83] DCG, 22 Sept. 1931.

[84] Georges Lacout, 'La Banque d'Angleterre et la défense de la livre sterling', 30 Sept. 1931; BdF, 1397199403/163.

[85] Leith-Ross to Keynes, 15 Oct. 1931; PRO, T 188/28; and Leith-Ross to Vansittart, 2 Oct. 1931; PRO, T 188/21.

[86] Leffingwell to J. A. M. de Sanchez, 7 Sept. 1931 and 2 Oct. 1931; RCL, Box 1. The bracketed word is 'deflation' in the original, which does not make sense; Leffingwell refers again in a subsequent paragraph to the 'low road of inflation', which is surely what he meant here.

[87] By Mme. De la Panouse, wife of the French military attaché in London; Rueff, *De l'aube au crépuscule*, 110.

[88] Rueff, 'Sur les causes et les enseignements de la crise financière anglaise', 1 Oct. 1931, reprinted as annex III in *De l'aube au crépuscule*, see 299–304.

Could greater central bank co-operation have saved the international gold standard in 1931? Such co-operation had been superficial before 1914; in the inter-war years central bank contacts developed on a systematic basis, but the opportunities for co-operation were narrowly conceived, seeking to restore and smooth the running of a purportedly 'automatic' system. The most obvious manifestation of co-operation had been the provision of central bank credits to assist currency stabilization, granted to strengthen confidence and solidify the final step in the restoration of financial and monetary order by returning to gold.

Central bank co-operation to deal with the financial crises in 1931 differed from the provision of stabilization credits in two ways. First, the provision of credits to assist currency stabilization constituted the capstone or seal of approval for restored stability. Any delay in providing credits simply extended the stabilizing country's opportunity to demonstrate its financial and monetary control before returning to gold. Central banks had time to pry into details of domestic fiscal and monetary policy in the country concerned, propose solutions, and agree to participate on the basis of a measured judgement that conditions necessary for stabilization had been completed. For credits to bolster currencies in crisis, speed was vital in deciding upon and providing the assistance needed. The credits themselves could not solve the underlying problems producing the crisis, they simply increased reserves to give the threatened country more time to take the domestic measures necessary to resolve the crisis. Central banks had to make quick decisions in response to financial crises in 1931.

The second difference was the role of politics. Strong and Norman had hoped that monetary policy after the war could be decided on technical grounds outside the realm of partisan politics. Central bankers insistent upon their need for autonomy from political pressures were expected to abstain, in their turn, from interfering in political questions. But issues of reparation and war debt repayment remained predominantly political, frustrating Strong and Norman's hopes for a financial and monetary reconstruction directed by politically independent central banks. The financial crises in 1931 and the measures needed to bring them under control were not purely technical problems to be solved by central banks. They required rapid and effective political decisions, on questions ranging from foreign policy and reparation issues to national fiscal and economic policies. The role for central bank advice and co-operation was distinctly secondary.

## 3. MAINTAINING THE ILLUSION: CENTRAL BANK CO-OPERATION, 1931–1936

When asked about the prospects for an international conference on gold and credit in October 1931, Frederick Leith-Ross advised against, predicting that any such conference would be 'foredoomed to failure' and suggesting that regular, day-to-day contacts between central banks was a more likely avenue for progress in international policy co-ordination.[89] Grounds for Franco-American co-operation to defend their currencies on gold were stronger than those for more general central bank efforts. The French

[89] Leith-Ross, 'International Conference on Gold etc.', Oct. 1931; PRO, T 188/21.

sought closer contact with New York to co-ordinate defence, but it was to be constructed on a distinctly national basis, in keeping with French views of the gold standard. The Bank of France converted dollar balances to gold in order to bolster its reserves; in the six weeks following sterling's departure from gold the Federal Reserve System lost $755 million in gold, mainly to Europe, roughly half of it to France (which was losing gold to other European central banks, particularly to Switzerland).[90] The Bank of France increased its discount rate to 2½ per cent on 9 October, waiting to follow the FRBNY, which raised its rate to 2½ per cent on 8 October and 3½ per cent a week later. Although Moret attributed the New York increase to the 'enormity of gold losses' there, Charles Farnier and Robert Lacour-Gayet had been in New York urging a rate increase. Moret noted that the Bank of France had wished to raise its rate for domestic reasons the previous January, but had been unable to do so because it would have increased gold imports.[91] To the British Treasury, the French discount rate hike in conjunction with 'an overwhelming flow of gold inward' seemed to offer the best possible illustration of French failure to follow the 'rules of the game'.[92]

Premier Pierre Laval travelled to Washington in October to discuss reparations and the economic crisis; the Hoover Moratorium, proposed on 20 June 1931 without prior consultation, had strained Franco-American financial relations. 'Maintenance of the gold standard' headed the Treasury's list of 'fundamental questions to examine'; examination suggested little progress would be possible. Any action by the Bank of France in concert with the Federal Reserve System would have to deal with the twin problems of the German mark and the pound sterling. Sterling posed the greater problem since the extent of its eventual depreciation was uncertain. The French thought of proposing a secret agreement between the Bank of England, the Bank of France, and the FRBNY, whereby the three banks would assure the stability of sterling between fixed limits that could be narrowed to effect *de facto* stabilization. But the plan required British agreement and initiation in London, and assumed that Britain wished to stabilize.[93] Joseph Avenol argued against 'artificial and grandiose schemes'; if the British government demonstrated that it desired stabilization and adopted a policy similar to that of France in 1926, the crisis would end and capital would flow back to London.[94] The best that could be hoped from Laval's visit to Washington would be a formal declaration favouring maintenance of the gold standard.[95] Charles Rist, asked to accompany the mission, predicted the mission 'would have no result'. Although the American Secretary of State had a keen interest in the gold standard, Laval did not. When Rist pressed for an official statement on gold standard policy in Washington, Laval replied, 'You know, I don't give a damn about the gold standard. Put whatever you want in the press release.'[96]

[90] Kindleberger, *World in Depression*, 165; US Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics*, 386.

[91] DCG, 9 Oct. 1931. Moret had stated that the Bank could not raise its discount rate if the New York rate remained at 1½ per cent.

[92] Phillips note, 20 Oct. 1931; PRO, T 188/28.

[93] 'Note en prévision du voyage de M. le Président du Conseil à Washington', 30 Sept. 1931; also 'Voyage à Washington', 3 Oct. 1931; SAEF, B 31716.

[94] Avenol note, Oct. 1931; SAEF, B 31716.

[95] 'Schema', 9 Oct. 1931; SAEF, B 31716.

[96] Rist, 'Notice biographique', *REP*, 65 (1955), 1026–7.

The joint declaration released at the end of their talks affirmed French and American fidelity to the gold standard. The central banks, meanwhile, remained in close contact in order to manage the Bank of France liquidation of its dollar holdings from September 1931 to June 1932. This was 'co-operative' only to the extent that the Bank of France tried to minimize the real inconvenience it caused the Federal Reserve System. Moret's initial inquiry in September 1931, asking whether Harrison had any objection to the conversion of dollar balances into gold, had been answered with the assurance that he did not object to the conversion of 'any or all of your balances . . . into gold whenever you want it'.[97] The gold losses affected American policy; when Moret and Lacour-Gayet asked whether a reduction in Fed interest rates in January 1932 was not inflationary, Harrison replied with restrained exasperation. The United States had just suffered 'the most drastic deflation of bank credit in the history of our country', and there was unanimous agreement that deflation had proceeded beyond the point of any conceivable benefit. Federal Reserve policy sought to check 'a drastic deflation which has already exerted a severe pressure on our whole business and price structure'.[98] When the Bank of France accelerated its dollar conversions in May 1932 as its foreign exchange earnings declined, the FRBNY requested that the Bank convert all its dollar holdings in one go in order to minimize market disturbance.[99] When Moret asked later whether Germain-Martin, the Minister of Finance, could read a letter in the Chamber of Deputies from Harrison agreeing to the French repatriation of dollar holdings, Harrison replied that he would deplore such a statement.[100]

Relations with the Bank of England were distant. Pierre Quesnay left the Bank of France in 1930 to become general manager of the newly created Bank for International Settlements. His successor as director of economic studies, Robert Lacour-Gayet, recognized the importance of developing personal contacts but did not establish close relations with Siepmann at the Bank of England. Britain's departure from gold shifted monetary authority from the Bank of England to the Treasury, reducing the scope for co-operative relations between the two central banks. In addition, creation of the Exchange Equalization Account (EEA) in 1932 (officially it began operating on 1 July) formally under Treasury control to manage sterling's exchange rate,[101] and British unwillingness (particularly evident in the Treasury) to return to gold without changes to the international gold standard, narrowed the field for co-operative endeavour. Co-operation to manage and preserve the gold standard depended on having a working gold standard in place, and French and American authorities were not interested in revising the existing gold standard to meet British objections. The Bank of France remained adamant that it would maintain strict orthodoxy and eschew currency experiments, as these were responsible for the depression.[102]

[97] Moret to Harrison, no. 154, and Harrison to Moret, no. 130, 21 Sept. 1931; GLH, binder 29.

[98] Harrison to Moret, no. 18, 15 Jan. 1932; GLH, binder 30. French concerns had been provoked by an article by American economist H. Parker Willis in *L'Agence économique;* see Kindleberger, *World in Depression*, 182.

[99] See Mouré, *Managing the Franc Poincaré*, 74–7.

[100] Moret to Harrison, no. 494, and Harrison to Moret, no. 339, 8 Dec. 1932; GLH, binder 30.

[101] See Susan Howson, 'Sterling's Managed Float: The Operation of the Exchange Equalisation Account, 1932–39', *Princeton Studies in International Finance*, 46 (Nov. 1980).

[102] Banque de France, *Compte rendu 1931*, 17–18; *Compte rendu 1932*, 13; *Compte rendu 1933*, 22–3.

Discussion of the potential for improved central bank co-operation revived in late 1932, during preparations for a World Economic Conference to convene in London with the aim of ending exchange controls and currency instability and reviving world trade. The Bank for International Settlements, established in Basle in May 1930 to facilitate the transfer of German reparation payments and to promote financial co-operation, drafted a central bank convention taken up by the Bank of England. In a mid-February 1933 version, the draft convention sought central bank accord on the exchange of economic information, a commitment to consultation and co-ordination with regard to credit policy, and agreement on counter-cyclical credit policies to correct inflationary and deflationary trends.[103] The project met with opposition from the French and American central banks, as well as from the British Treasury.[104] Hawtrey, annoyed at the dilution of a draft he had written in January 1933, remarked acidly that central banks might as usefully pledge to 'promote the greatest happiness of the greatest number so far as obtainable through the activities of central banks'.[105]

Central bank governors discussed a revised draft at the BIS in April 1933. Their 'General Principles of the Working of the Gold Standard' stressed at the outset that 'the restoration and proper functioning of the gold standard depend to a large extent upon forces and influences which lie outside the field of monetary policy', including the settlement of intergovernmental debts, a return to free trade and free capital movements, and the balancing of government budgets. Their working principles for central banks recommended they 'should not disregard gold movements', should use open market operations (where permitted) to reinforce gold flows, and observe rules for the holding and sale of foreign exchange to prevent undue disturbances in the market in which they are held. The first obligation of central banks was to maintain balance of payments equilibrium. Subject to this condition, they should co-ordinate their credit policy with other central banks in order to strengthen and maintain the international gold standard system, and seek to prevent undue fluctuations in the level of domestic business activity.[106] This marked a new effort to introduce systemic concerns into central bank policy, clearly secondary to maintaining domestic stability.

In preliminary meetings for the World Economic Conference, Britain had been isolated and under pressure to restore monetary (i.e. sterling) stability. No co-operative effort by gold standard nations to pressure Britain could be mounted because of the diversity of national interests at stake: as well as monetary stabilization, war debts, raising world prices and lowering tariff barriers created different lines of fracture among gold standard countries.[107] British delegates proved adept at turning or resisting pressure.

[103] Siepmann, 'Central Bank Convention', 16 Feb. 1933; BoE, OV4/73.

[104] Patricia Clavin, '"The Fetishes of So-Called International Bankers": Central Bank Co-operation for the World Economic Conference, 1932–3', *Contemporary European History*, 1 (1992), 293–4.

[105] Hawtrey, 'Proposed Central Bank Convention', 17 Feb. 1933; PRO, T 177/15; Hawtrey's objections are explained in greater detail in Osborne, 'Central Bank Declaration', 1 Mar. 1933; BoE, OV4/74.

[106] 'General Principles of the Working of the Gold Standard', revised text, 21 Mar. 1933, and further revised text after BIS governors' meeting of 9 Apr. 1933; BoE, OV4/74.

[107] See Patricia Clavin, *The Failure of Economic Diplomacy: Britain, Germany, France and the United States, 1931–36* (London: Macmillan, 1996), 45–7, 61–5; also Mouré, *Managing the Franc Poincaré*, 82–94; Drummond, *The Floating Pound*, 133–61.

After the first preparatory meeting of experts, F. R. Rodd of the Bank of England reported, 'At obstruction and cynical criticism I am a past-master in these meetings; and Phillips, if he wishes to be, is a large lump of cement.'[108] The suspension of dollar convertibility, announced on 19 April as British and French representatives were en route to Washington to meet with Roosevelt in preparation for the World Economic Conference, threw monetary planning into chaos. The meetings in Washington clarified only the extent of the confusion in the Roosevelt administration.[109]

French officials believed nothing could be achieved at the conference without at least temporary exchange-rate stability. They warned British and American authorities that the conference faced 'certain failure' and that they could offer 'only nominal participation' if immediate efforts were not made to restore stability of the pound and the dollar.[110] Lacour-Gayet contacted the Bank of England on 16 May to suggest they discuss the possibilities for co-operation in Paris.[111] Within the Bank of England, advisers expected that co-operation with America would be impossible so long as monetary policy was in the hands of politicians rather than bankers.[112] The two banks signed a secret accord on the need for tripartite monetary talks involving themselves and the Fed, with the restoration of the gold standard as the ultimate goal.[113] But a tripartite meeting proved impossible prior to gathering in London for the conference. Harrison emphasized that he had no authority to conclude agreements on monetary stabilization, though authorized to discuss stabilization at approximately the current levels. Moret suggested that central bankers and government representatives meet together, so that central banks could advise on technical questions that might arise.[114]

Tripartite talks between the central bankers began on 10 June amid pessimism on all sides. The shift of monetary authority from central banks to governments once gold convertibility had been suspended rendered all central bankers sceptical, and the unpredictability of American policy promised greater instability to come. Norman claimed that there was 'one man with a loaded gun' who could 'decide upon and maintain any [exchange] rate that he wished to alone', meaning Harrison, but Harrison carefully maintained that he could not speak for the American government.[115] Nonetheless, the central banks agreed to limit currency fluctuations 'as far as may be feasible' and compatible with national monetary policies for the duration of the conference on 15 June. Roosevelt

[108] He did add that a persistent policy of obstruction would be 'internationally bad mannered'. F. R. Rodd to Siepmann, 3 Nov. 1932; BoE, OV4/72.

[109] Clavin, *Failure of Economic Diplomacy*, 90–116, and Mouré, *Managing the Franc Poincaré*, 94–6.

[110] Mouré, *Managing the Franc Poincaré*, 96–7.

[111] 'Note of a telephone conversation with Monsieur Lacour-Gayet, 11 a.m., Tuesday 16th May 1933', BoE, G1/50.

[112] C. J. Hambro, 'America's Present Aim', 11 May 1933, and E. Holland Martin, 'Currency Stabilisation', 11 May 1933, as well as memoranda by J. A. C. Osborne and Henry Clay, in BoE, G1/53.

[113] C. F. Cobbold, 'Meeting at the Banque de France, 19th May 1933', 'Meeting held at the Banque de France, 20th May 1933', and draft accord; BoE, G1/53; copy of accord in SAEF, B 32318.

[114] J. E. Crane record of Harrison conversations with Lacour-Gayet, 18 and 26 May 1933; FRBNY, Harrison Collection, 3125.3.

[115] 'Diary of a Trip to London, June 1933', p. 6; FRBNY, Harrison Collection, 3010.2.

rejected the agreement: he declared that he opposed any stabilization of the dollar and the pound at their current levels (precisely what he had authorized Harrison to negotiate a few days before). The gold standard countries, alarmed at increasing dollar instability and the pressure on their currencies, drafted a short statement on the utility of monetary stability when this became possible, the desirability of an eventual return to the gold standard, and the need for action to limit exchange speculation. Raymond Moley, a personal adviser to Roosevelt, approved the declaration after revisions to weaken what was in his words already a 'limp document', which he sent to Roosevelt for approval on 1 July. The president replied with his 'bombshell' message condemning tripartite stabilization and denouncing 'the old fetishes of so-called international bankers'.[116] The conference, which had stalled awaiting resolution of the monetary problem, disintegrated.

The remaining gold standard countries—France, Belgium, Holland, Switzerland, Italy, and Poland—declared themselves a 'gold bloc' committed to the defence of their currencies' existing parities on gold. Their declaration in London on 3 July was intended to provide a formal statement of gold bloc government resistance to speculation, particularly against the Dutch florin, the most vulnerable of the gold standard currencies. Technical measures were to be the work of their central banks. The governments would support the measures determined by the banks and would oppose domestic initiatives that might weaken confidence in their currencies.[117] The first technical measure had already been taken: an arrangement with the Nederlandsche Bank whereby the Bank of France would support the florin in the Paris market and be reimbursed by the earmarking of gold in Amsterdam.[118] Gold bloc central bank governors met in Paris on 8 July and adopted three technical measures. The most important, based on the agreement between the Bank of France and the Nederlandsche Bank, arranged for mutual support of their currencies, with earmarking of gold to compensate purchases, and the regularization of gold points (affected by availability of transport for gold in periods of pressure). The second encouraged communication between the banks with regard to exchange pressure, gold movements, and advance warning of changes in interest rates (as already practised between the Bank of France, the Bank of England, and the FRBNY). The third was to encourage contacts with private banks in national markets in order to limit speculation and the movement of capital and gold.[119]

The measures were unspectacular. The most interesting aspect of the 8 July meeting was its aspiration to produce a favourable psychological effect in order to discourage speculation. Moret insisted upon this in his opening remarks. It was essential that their reunion receive attention in the press, but that no precise details of their discussions be made public: 'Thanks to the secrecy that will be observed, speculators will assume that

[116] Clavin, *Failure of Economic Diplomacy*, 123–38; also Mouré, *Managing the Franc Poincaré*, 102–9; Drummond, *The Floating Pound*, 162–80.

[117] Explained in 'Questions devant être posées à la réunion des gouverneurs des banques d'émission'; BdF, 1397199403/10.

[118] DCG, 29 June 1933.

[119] 'Projet d'ordre du jour pour la réunion du 8 Juillet 1933' and 'Compte-rendu de la réunion des gouverneurs des banques d'émission des pays à l'étalon-or, tenue, à la Banque de France, le 8 Juillet 1933'; BdF, 1397199403/10.

effective measures of technical solidarity were taken. The efficacy of central bank action will be that much greater if it is shrouded in mystery.'[120] Charles Farnier discouraged the admission of the central banks of Czechoslovakia and Danzig on the grounds that they would endanger the secrecy of the meeting, noting, 'this secrecy is ... indispensable if the meeting is to produce its full effect on public opinion'.[121] In their afternoon session they discussed the agreement they would sign and the wording of their press release.[122]

The Bank of England claimed a common interest in the defence of gold standard currencies, but stated that the attitude of the British Dominions made it impossible to associate publicly with the gold bloc meeting in Paris. They would, however, give technical assistance in gold bloc defence measures, and gold bloc cohesion, Farnier noted, would be more effective with the support of the Bank of England.[123] But when Lacour-Gayet apprised them of the results of the meeting in Paris, Norman and Charles Hambro were evasive: any co-operation would have to remain secret, 'to avoid "governmental sensitivity" ', and they did not wish a formal accord.[124] This made the British interest seem disingenuous; the gold bloc regarded Britain's Exchange Equalization Account with considerable hostility. On 1 December 1933, the Bank of France ended the Bank of England's exemption from paying minting charges on earmarked gold. All central banks had been exempted from this charge by the monetary law of June 1928, for financial reasons and to conform to central bank practice elsewhere. The change in December 1933 left gold bloc central banks exempt; its main impact was on Britain. French authorities argued that the exemption benefited the EEA rather than the Bank of England, and that the Bank of France 'has no interest in facilitating the operations of the Exchange Equalisation Account, given that these operations work more to the detriment of the French market'.[125]

Even within the Bank of France, the inadequacies of the gold bloc were soon evident. The technical measures agreed by the central banks did not deal with the problem of balance of payments deficits caused by declining exports. Economic co-operation was needed, and the gold bloc did not wish to form a trading bloc in competition with the sterling and dollar blocs. The liberalization of trade seemed a more practical avenue of escape from gold bloc economic isolation.[126] The gold bloc nations made little progress in co-operation; their bilateral negotiations were frustrated by most-favoured-nation

[120] 'Compte-rendu de la réunion'.

[121] Charles Farnier, 'Suggestions en vue de la réunion des Banques Centrales', 6 July 1933; BdF, 1397199403/10. Moret had noted at the outset of the meeting that 'several' central banks had been refused participation because their governments had not signed the gold bloc declaration of 3 July. The only subsequent request to join the gold bloc came from Lithuania in Dec. 1934, and was refused. Netter, *Histoire de la Banque de France*, 390.

[122] 'Compte-rendu de la réunion'.

[123] Farnier, 'Suggestions'. On the influence of Dominion monetary concerns, see Drummond, *The Floating Pound*, 173–80.

[124] Lacour-Gayet, 'Compte-rendu de ma visite à la Banque d'Angleterre le 11 Juillet 1933', 12 July 1933; BdF, 1397199403/10.

[125] Lacour-Gayet, 'Note sur les conditions d'achat de l'or à la Banque de France', 13 Oct. 1933; BdF, 1069198810/19. Pierre Ricard had originally proposed exempting the Bank of England; Ricard, 'Note sur les conditions d'achat de l'or à la Banque de France', 9 Oct. 1933; BdF, 1397199403/5.

[126] 'Le bloc or', 27 Nov. 1934; BdF, 1397199403/10.

clauses and by a distinct unwillingness to open domestic markets.[127] Poland was excluded from the gold bloc trade negotiations in 1934; Italy, only nominally a member, withdrew in 1935; Belgium adopted exchange controls and devalued in March 1935. The gold bloc may have fulfilled its initial purpose—defending gold standard currencies against speculation in the summer of 1933—but it proved unable to develop any economic cohesion to protect overvalued currencies.

French fears of sterling instability and of domestic monetary crises prompted closer co-operation with both the Bank of England and the FRBNY. British officials remained highly suspicious of American policy, regarding the suspension of dollar convertibility as a manipulative choice from the start. Gold purchases by the Reconstruction Finance Corporation in an effort to raise commodity prices—when Norman referred to both London and the Continent as being 'thoroughly frightened'—increased exchange-rate instability and led to discussions between Harrison and Norman on the practicality of attempting a *de facto* stabilization of the dollar–sterling rate on an experimental basis. On 21 November Harrison was authorized to negotiate *de facto* stabilization for ten days that would keep the pound between $5.25 and 5.35. But uncertainty as to the future of the franc, unwillingness in London to undertake more permanent stabilization measures, and the mercurial character of American policy made agreement impossible.[128]

As a result, the FRBNY and the Bank of England had closer relations with the Bank of France than with each other. The Bank of France was in the weakest bargaining position. When sterling depreciation increased pressure on the gold bloc, particularly on Belgium in early 1935, Jay Crane asked Cariguel (still in charge of exchange management at the Bank of France and in regular contact with the FRBNY) if he had suggestions for improving the exchange situation. Cariguel replied 'in strict confidence' that Governor Tannery (who replaced Moret as governor of the Bank of France in January 1935) wished to offer the Bank of England a credit to support sterling. In Cariguel's view, such an offer should be a joint Franco-American initiative. Morgenthau offered sympathy but no support.[129] When Governor Tannery made a formal proposal through the American financial secretary at their Paris embassy, Merle Cochran, Morgenthau claimed to sympathize with the French proposal, but stated that such an offer would be 'futile and embarrassing' when the British showed no interest in such support.[130] Tannery persisted, suggesting an informal approach to the Bank of England to test their interest in 'technical co-operation' based on French and American gold reserves; this, too, was discouraged, and the idea dropped.[131]

[127] Mouré, *Managing the Franc Poincaré*, 111–16; Eric Bussière, 'Les Relations monétaires franco-belges de la stabilisation des années vingt à la dévaluation du franc belge de mars 1935: histoire d'une rupture', in CHEFF, *Du franc Poincaré à l'écu*, 192–6; Herman Van der Wee and K. Tavernier, *La Banque Nationale de Belgique et l'histoire monétaire entre les deux guerres mondiales* (Brussels: Imprimeur du Roi, 1975), 258–9.

[128] Sayers, *Bank of England*, ii. 464, and Clay, *Lord Norman*, 407; J. E. Crane notes on Harrison conversations with Norman on 2, 6, and particularly 18 Nov. 1933; J. E. Crane records of Harrison conversations with Norman, 21 and 22 Nov. 1933; Harrison note, 2 Dec. 1933; FRBNY, Harrison Collection, 3115.4.

[129] J. E. Crane memorandum, 6 Mar. 1935; FRBNY, France, Bank of France.

[130] Morgenthau reply to Tannery, 12 Mar. 1935; FDRL, MD iv. 68.

[131] Tannery to Harrison, 15 Mar. 1935, no. 82; FRBNY, France, Bank of France.

Defence of the franc in 1935 demanded further co-operative measures. In May, the Bank of France purchased American dollars from the US Treasury against gold earmarked for the FRBNY to defend the franc and had an offer, renewed on a daily basis from 30 May to 3 June, by which the US Treasury would purchase up to $150 million in gold as dollars were needed. Cariguel credited this with breaking speculative demand for dollars after the fall of the Flandin government on 31 May. Cariguel, having slept for the first time in three nights after receiving the Treasury offer on 30 May, went down to the exchange market

> feeling like he had just won the grand lottery, told stories, joked with the traders, especially the well known big speculators, loafed around throughout the session, and successfully put over the impression of a man who did not have a worry in the world.... He insisted that it was only by his bold intervention, offering dollars promptly and fully to every customer, that the mad rush was broken.[132]

The American support was contingent upon a verbal guarantee from Cariguel that the gold would be free for export.[133] The request for this guarantee impressed Tannery: he called an unscheduled meeting of the Conseil Général to raise the Bank's discount rate on 25 May.[134] The British, too, sought reassurance that gold earmarked in Paris would remain free for export under all circumstances.[135] Cariguel kept in daily contact with Kay and Bolton at the Bank of England, and the Bank of France provided a verbal guarantee to the Bank of England via Jacques Rueff. A formal, written guarantee was negotiated when flight from the franc resumed in November.[136] The bilateral nature of the agreements was made clear when Morgenthau wanted to make them a 'three-cornered affair', which would demonstrate a British commitment to defence of the franc. The Bank of France refused to put this to the Bank of England: the EEA was co-operating fully and they could not ask more of a country not on the gold standard.[137] A similar American credit to purchase up to $25 million in gold was offered in November 1935 when pressure on the franc resumed, and was accepted by the Bank of France on a day-to-day basis.[138] The Bank of France requested renewal of the arrangement when Blum's Popular Front took power in June 1936. Morgenthau initially authorized the credit, but suspended the offer when Tannery was removed as governor of the Bank of France and replaced by Émile Labeyrie.[139]

[132] Cochran to Morgenthau, 19 June 1935; FDRL, MD vii. 88–9.

[133] L. W. Knoke records of conversations with Cariguel, 23 and 24 May 1935; FRBNY, France, Bank of France; also Morgan to Harrison, 24 May 1935; FDRL, MD v. 139. When pressed about what to tell Washington—whether the guarantee was in writing—Cariguel responded, 'We have only one word and when we give our word we stick to it.'

[134] Netter, *Histoire de la Banque de France*, 432; DCG, 25 May 1935.

[135] DCG, 31 May 1935.

[136] The guarantee obtained from Rueff applied only to gold held for the EEA at that time; see Rowe-Dutton to Waley, 3 Oct. 1935 and subsequent discussion about a formal guarantee in BoE, OV45/95.

[137] See Cochran telephone conversations with Morgenthau of 29 and 30 May 1935; FDRL, MD v. 164–75, and Cochran retrospective account in Cochran to Morgenthau, 19 June 1935; FDRL, MD vii. 82.

[138] Knoke-Cariguel conversations, 15 Nov. to 10 Dec. 1935; FRBNY, Bank of France.

[139] Morgenthau telephone conversations with Cochran, 5 and 12 June 1936; FDRL, MD xxvi. 118D, 178.

The Bank of France's regular contacts with the Bank of England and the FRBNY contributed significantly to its ability to preserve the overvalued franc. Central bank co-operation had not ended in 1931. Nonetheless, its field of action, limited during the gold standard era by political concerns in national and international finance, was further reduced by the transfer of monetary authority in countries off gold from central banks to treasuries. At the same time, the most serious demands on the Bank of France and the French gold standard were made by domestic politics and the prolonged depression produced by the French determination to cling to gold. As the contrast between economic recovery abroad and continuing depression in France strengthened calls for devaluation, the Bank of France devoted increasing effort to maintaining public belief that the link to gold was indispensable to a secure economic future.

## 4. DEFENDING THE GOLD STANDARD IN FRANCE, 1933–1936

The Bank of France saw the British suspension of convertibility in 1931 as a retreat that could not last rather than a disintegration of the gold standard. In its annual reports, it vowed fidelity to the gold standard as 'a necessary discipline' and 'the most effective means to prepare the return of durable prosperity'.[140] When Paul Reynaud defended French gold policy in the United States in 1932 with the help of Bank memoranda on French gold policy, discount rate policy, opposition to open market operations, and central bank co-operation, he reiterated the usual Bank themes: French gold policy remained passive, and the real problems were in the countries losing gold.[141] His conversion to devaluationist views in 1934 was heretical.

The isolation of the gold bloc, unable to meet the challenge of balancing trade and payments while defending overvalued currencies, was the external face of a two-sided coin. More immediately preoccupying were the domestic economic and political pressures that could easily undermine the credibility of Bank policy and public belief in the gold standard. Currency depreciation abroad increased pressure on the franc, and the prolonged deflationary effort in France alienated those on whom its impact fell most directly: businesses and banks suffering financial loss, export industries and the tourist trade, civil servants threatened with salary reductions. There was growing discontent with deflation in France, prompting doubt as to whether the franc Poincaré could and should be maintained.

As other currencies suspended convertibility in order to ease domestic crises, the Bank remained convinced that there were sound monetary, financial, and economic reasons for renouncing devaluation.[142] Defence of the franc required confidence in the commitment to the franc Poincaré; to maintain confidence, the Bank was willing to propose

[140] Banque de France, *Compte rendu 1931*, 18, and *Compte rendu 1933*, 23.

[141] These notes, and the request from Emmanuel Mönick in New York for information, are in BdF, 1397199403/2; he published his explanations in the *New York Times*, 23 Oct. 1932, and 'France and Gold', *Foreign Affairs*, 11 (Jan. 1933), 253–67.

[142] One of the clearest expressions of Bank views on this point, perhaps intended for use in guiding opposition to devaluation in the press, can be found in 'Les Inconvénients de la dévaluation', 8 Nov. 1935; BdF, 1397199403/2.

returning gold coin to circulation. Provision for doing so had been included in the monetary reform law of 1928, without any intention to use it. In October 1934, the Bank was granted a credit to mint 100-franc gold coins to a value of 1 billion francs in 1935, but Governor Moret doubted there was any use in putting gold coin in circulation, as the coins would be either hoarded in France or exported, diminishing the Bank's gold reserves with no practical benefit.[143] On 2 April 1935, after the Belgian devaluation, with parliament beginning a two month recess, Premier Flandin announced the government would mint gold coin as a measure to guarantee the stability of the franc. Governor Tannery attached more importance to the measure than had Moret: under current circumstances, 'the rapid minting of gold coin would demonstrate in the most tangible way the clear will of the government to allow no undermining of the national currency under any circumstances'.[144] Tannery and the government believed the measure would bolster confidence in the franc and mop up some of the hoarded 500 and 1,000 franc notes, estimated at 25 to 30 billion francs. But the schedule for minting coins was not accelerated, and it was estimated 20 billion francs in coin would be needed before they could be circulated.[145]

The Bank took challenges to gold standard orthodoxy within France very seriously. Robert Lacour-Gayet thought Jules Décamps's public interventions in debate in the 1920s counter-productive; he advocated that the Bank play a strong role behind the scenes, particularly in providing articles to appear anonymously in the press.[146] When Socialist Barthélemy Montagnon, the first to attack deflation in the Chamber of Deputies in May 1933, advocated a 'devaluation without inflation, as done in England',[147] Lacour-Gayet explained the Bank's views to Minister of Finance Flandin in a refutation that ran to eighteen pages. The logic was tortuous: Montagnon's argument that declining prices would reduce tax revenues was valid 'only if the state made no effort at preliminary deflation', and Britain's 'devaluation without inflation' was discounted by noting that if British wholesale prices had been stable from October 1931 to April 1933 while world prices were falling, this represented a rise of British domestic prices against world prices.[148] When Walter Lippmann suggested in the *New York Herald* that France should devalue the franc after the dollar was restabilized in 1934, the Bank protested to the Minister of Finance. Minister of Foreign Affairs Louis Barthou asked the French ambassador in

[143] 'La Mise en circulation de la monnaie d'or', undated but probably early November 1934; BdF, 1064199002/186.

[144] Tannery to Régnier, 1 July 1935, and Tannery to Germain-Martin, 15 Apr. 1935, cited in Netter, *Histoire de la Banque de France*, 427. The reintroduction of gold coin in Switzerland in the 1920s had prompted dishoarding, with the public returning more gold coins to banks than had been issued; see J. W. Beyen, *Money in a Maelstrom* (New York: Macmillan, 1949), 30.

[145] See Netter, *Histoire de la Banque de France*, 425–8.

[146] Lacour-Gayet, 'Note sur l'organisation de la Direction des Études Économiques', 27 Mar. 1931, and 'Note', 11 Feb. 1931, asking all members of the service to list journals to which they had contributed articles; BdF, 1397199403/202. Lacour-Gayet had been bored at his post initially, but found new energy and enthusiasm for his job in campaigning against devaluation; Robert Lacour-Gayet, 'D'une guerre à l'autre: souvenirs d'un jeune inspecteur des Finances', *Études & documents*, 3 (1991), 455–7.

[147] Mouré, *Managing the Franc Poincaré*, 194.

[148] Lacour-Gayet to Flandin, 1 June 1933, and 'Note sur le discours de M. le Député Barthelemy-Montagnon prononcé à la Chambre le 29 Mai 1933', 6 June 1933, summarized in a shorter 'Note', probably of the same date; BdF, 1069199312/5.

Washington to point out to Lippmann the 'regrettable repercussions his article could have and the fact that the situation he describes bears no resemblance to the current situation in France'.[149] He also requested a Bank memorandum explaining why France would not adopt the 'Anglo-Saxon' solution of devaluation. Distributed to French embassies abroad, this argued that public opinion in France, the strong technical position of the franc, and the profound differences between conditions in France and in the United States all militated against devaluation.[150]

The political Left, quick to oppose deflation, did not necessarily advocate devaluation. The Radical deputy Henri Clerc objected to deflation, but insisted he was not a partisan of devaluation, which was 'an operation of which, like you, I dread the psychological consequences'.[151] The Bank patiently explained the reasons to oppose adding monetary instability to the troubles already afflicting France, providing backbone to Clerc's subsequent opposition to devaluation.[152] Bank suasion was less successful with the most notorious proponent of devaluation, Paul Reynaud. A former Minister of Finance and defender of French gold policy, Reynaud presented devaluation as a rational alternative to deflation, to which the government would be forced if it did not succeed in balancing its budget and lowering French prices.[153] Lacour-Gayet protested Reynaud's presentation of devaluation as a legitimate means to escape the economic crisis: if so, would one not be led to devalue each time one encountered economic difficulties? One had to choose between two systems, either price stability through monetary manipulation or exchange stability. The Bank defended the latter.[154] Reynaud was unconvinced, and having failed to persuade key politicians in private, began to argue publicly for devaluation in the summer of 1934.

Regent René Duchemin was the standard-bearer for the Bank's case against devaluation. In his annual address as president of the Confédération Générale de la Production Française (CGPF) in March 1934, he argued for a balanced budget, a tax on exchange transactions, and import quotas to protect France against imports from countries that had adopted the easy course of devaluation. Governor Moret distributed the speech to directors of Bank branches and auxiliary offices, stressing its utility at a time when 'the difficulties encountered by French production sometimes lead a certain segment of public opinion to look for facile solutions in the form of monetary manipulations'. He called particular attention to Duchemin's rejection of devaluation and suggested that directors draw on his arguments in their discussions with local industrialists and merchants.[155]

[149] Moret to Germain-Martin, 17 Feb. 1934, and Barthou to Germain-Martin, 3 Mar. 1934; BdF, 1069199312/5.

[150] 'Note sur les inconvénients d'une dévaluation du franc', 23 Mar. 1934; BdF, 1069199312/5.

[151] Clerc to Moret, 28 Feb. 1934; BdF, 1069199312/6. On Clerc's changing views, see Julian Jackson, *The Politics of Depression in France, 1932–1936* (Cambridge: Cambridge University Press, 1985), 183–4.

[152] Draft letter, Moret to Clerc, 8 Mar. 1934, probably drafted by Lacour-Gayet, which clearly influenced Henri Clerc's 'Moyens d'éviter la dévaluation du Franc, d'enrayer la crise économique et le déficit budgétaire', *L'Information sociale*, 12 Apr. 1934; BdF, 1069199312/6.

[153] On the evolution of Reynaud's views from deflationist to devaluationist, see Mouré, *Managing the Franc Poincaré*, 197–204.

[154] Lacour-Gayet to Reynaud, 19 Mar. 1934; BdF, 1069199312/7.

[155] Moret to directors of Bank of France branches and bureaux auxilaires, 18 Apr. 1934; BdF, 1069199312/5.

Reynaud's championing of devaluation in the summer of 1934 posed a much more serious threat to the franc than had devaluationist views by politicians and writers on the Left such as Montagnon, Raymond Patenôtre, Georges Boris, Bertrand de Jouvenel, and Léon Blum. In response to this new threat, Duchemin refined and augmented his case against devaluation, in an early draft titled 'Pas de nouvelle faillite monétaire: le franc doit rester le franc' ('No new monetary bankruptcy: the franc must remain the franc'). The paper, revised in the Bank and retitled *Y aurait-il intérêt à dévaluer le franc?*, was printed for distribution in October 1934 at Bank expense. Fifty-two thousand copies went to the Ministry of Finance, which forwarded them to all senators, deputies, journalists in Paris and the provinces, to *conseillers généraux*, mayors, and chambers of commerce.[156] Ten thousand copies went to the Bank's branches, whose directors were encouraged to have their personnel familiarize themselves with its arguments. 'It is indispensable', Governor Moret informed them, 'that each one of us in our House must be ready to respond with solid and convincing arguments to questions or objections that can arise in their dealings with clients, even outside of work'. Directors were advised to deliver copies personally to all those whose opinions needed to be 'reinforced and enlightened': industrialists, commerçants, bankers, professors of political economy and finance in universities and at Écoles Supérieures de Commerce.[157] Initially, 200 copies were sent to foreign banks. Louis Franck of the Banque Nationale de Belgique found the arguments against devaluation 'developed so brilliantly' that he requested a further 100 copies for distribution in Belgium.[158] Demand soon exhausted the 75,000 copies; the last ten were sent to the Bank branch at Le Havre in February 1935.[159]

The fact that it was revised, printed, and distributed by the Bank gave the brochure significance as the single strongest statement of Bank views. Duchemin promised to treat the issue of devaluation as a 'practical problem', assessing whether it offered a reasonable solution to France's problems. His account of the devaluationist programme gave a feeble presentation of the case, laced with scepticism and paternalistic indulgence for devaluationists' naivety. His own case against devaluation rested on the assertion that devaluation was not possible without inflation. Foreign examples demonstrated its irrelevance to the French case. He claimed, for instance, that British recovery had not begun until two years after sterling went off gold, and attributed the recovery to a budget balanced by the 'classic means' of deflation and to British protectionism. He dismissed American experience because it sought to raise prices and involved a degree of state direction of the economy unacceptable in France. The gold bloc was announced to be in better economic health than countries off gold. Experience demonstrated 'not the

[156] Note on conversation with Leroy-Beaulieu of *inspection des finances*, 11 Oct. 1934; 'Tirage et répartition de la brochure de M. Duchemin', 23 Oct. 1934; and 'Tirage et répartition de la brochure de M. Duchemin', 13 Dec. 1934; BdF, 1069198810/no carton number. The Bank's costs for printing and shipping brochure, as of mid-December 1934, was 159,046 francs.

[157] Draft letter, Moret to directors of branches and bureaux auxiliaires, sent 25 Oct. 1934; BdF, 1069198810/no carton number.

[158] Franck to Moret, 22 and 29 Oct. 1934, and Moret to Franck, 24 Oct. 1934; BdF, 1069198810/no carton number.

[159] DGE to Le Havre, 20 Feb. 1935; BdF, 1069198810/no carton number.

decline but the necessity of the gold standard'.[160] Devaluation, Duchemin concluded, was immoral, dangerous, 'the source of incalculable economic and social disorders'. It would benefit speculators and debtors, and impoverish the majority of honest French citizens.[161]

The devaluation debate advanced through press attention to Reynaud, who claimed with some justification that he was not campaigning against the franc but defending his views against a campaign in *la grande presse* against devaluation, and through the mobilization of the political and press worlds to resist the spread of devaluationist views. The Bank played a fundamental role in this mobilization. Duchemin's pamphlet was the most prominent example, but the Bank also provided arguments, evidence, and even complete articles to the press.[162] In August 1934, the Bank blocked the publication of a series of articles by Reynaud on the devaluation question in *L'Agence économique et financière*. Deputy Governor Pierre Fournier called the paper's director to the Bank to admonish him for publishing material contrary to the Bank's monetary policy, and recommended that the Minister of Finance intervene to discourage both *L'Agence* and Reynaud.[163] When *Les Assemblées générales* published an article favouring devaluation in November 1934, Moret suggested that the Bank discontinue its subscription, letting its editors know that this was because of their support for devaluation. However, three services at the Bank relied on the weekly review for statistical information, which they claimed could only be partially replaced, at greater cost, from other publications.[164]

In 1935, Bank activity to combat devaluationist ideas accelerated under the new governor, Jean Tannery, as the Belgian defection from the gold bloc increased the danger that France, too, would be forced to devalue.[165] Alarmed by the developments in Belgium, Tannery sent letters to all directors of Bank of France branches asking them to revive their use of Duchemin's *Y aurait-il intérêt à dévaluer le franc?* He asked that they identify local notables to whom the Bank could send information to inspire a campaign of public lectures promoting defence of the franc. The resulting lecture campaign, which ran through the late spring and early summer of 1935, was resumed in early 1936 in order to influence the impending national elections.[166] The Bank inspired and financed this

160 René-Paul Duchemin, *Y aurait-il intérêt à dévaluer le franc?* (Oct. 1934); the case for devaluation, 3–15; inflation as inevitable result, 17–30; foreign examples, 31–52; quote from p. 52.

161 Duchemin, *Y aurait-il?*, 63–6. For counter-arguments directed at Duchemin see Bertrand Nogaro, 'Le Problème de la dévaluation en France', *Revue économique internationale*, 27, no. 1 (1935), 54–75, and Roland Barbier, 'Réponse à M. René-Paul Duchemin', *Les Assemblées générales,* no. 26, 3–10 Nov. 1934.

162 Netter, *Histoire de la Banque de France*, 423–4.

163 Fournier to Duchemin, 11 Aug. 1934; BdF, 1069199312/5.

164 The issue in question contained the Barbier article, 'Réponse à M. René-Paul Duchemin', *Les Assemblées générales,* no. 26, 3–10 Nov. 1934; this issue, Moret's query and the replies are in BdF, 1069199708/22.

165 See Kenneth Mouré, '*Le chef d'orchestre invisible et le son de la cloche officiel*: The Bank of France and the Campaign against Devaluation, 1935–1936', *French History*, 9, no. 3 (1995), 350–1. On the evening of Reynaud's 28 June 1934 speech in the Chamber of Deputies Tannery, then director of the Caisse de Dépôts et Consignations, is reported to have declared, 'If there was a government, M. Paul Reynaud would be arrested this evening'. Paul Reynaud, *Mémoires*, vol. i, *Venu de ma montagne* (Paris: Flammarion, 1960), 373.

166 Draft of letter, Moret to Bank of France branch directors, 27 Mar. 1935; BdF, 1069199312/7; copy of letter sent 1 Apr. 1935 in BdF, 1069198810/no carton number. This lecture campaign's history is told in greater detail in Mouré, '*Le chef d'orchestre invisible*'.

campaign in 1935, and supported its more systematic and regimented version in 1936 run by the Fédération des Porteurs de Valeurs Mobilières (FPVM), which called for a 'crusade' against devaluation.[167]

The Bank stressed the need to conceal its part in organizing and financing the lecture campaign, public knowledge of which would be counter-productive. Directors were encouraged to work through local organizations, chambers of commerce in particular, to rent facilities, advertise the lectures, and introduce speakers. When branch directors proved unable to recommend local notables able to speak well enough on the reasons for opposing devaluation and rise above local rivalries, early lectures were given by speakers sent from Paris—eight of the first thirteen by Édmond Giscard d'Estaing, former *inspecteur des finances* and a founder of the FPVM.[168] The lectures aimed not simply to persuade the wavering, but to generate publicity intended to impress the politicians who would decide monetary policy after the general election. When the campaign resumed in 1936, the FPVM took over its management and orchestrated an impressive concert of publicity. Its representatives toured regions in advance of the talks in order to organize local arrangements. Talks were preceded by a blitz of posters, printed invitations to businesses and economic interest groups, a barrage of newspaper articles, and door-to-door distribution of tracts. The lectures followed a precise format with delivery of a prepared text, an *aide-mémoire* of answers to devaluationist questions and arguments, and the voting of a prepared order of the day. The FPVM conducted ninety-six such lectures in the three weeks before the election campaign opened in March; ninety sessions voted their order of the day unanimously. The FPVM declared the campaign a complete success, stressing its political impact: 'All political parties—and we'll just mention here how hesitant they were in the past—have made defence of the franc a part of their programmes.'[169]

One revealing feature of the lectures, and of the campaign in the press as it developed in a world with fewer and fewer countries on gold, was the emphasis on France as a special case. When devaluation was acknowledged to have obtained some success abroad, this was attributed to special circumstances, and the French case was particularized as inhospitable to devaluation. Devaluation had worked in England thanks to a balanced budget and falling world prices; it had worked in the United States because of high levels of private debt, so that individuals benefited from having their real debt diminished by depreciation of the dollar and rising prices. In France, the state was the main creditor, and there was stronger belief in the sanctity of contracts. Above all, the 80 per cent devaluation of the franc in 1928 made further devaluation unnecessary: countries devaluing by

[167] An indication of the Bank's spending on the anti-devaluation campaign can be gained from the allocations to the Bank's 'Fonds S' from which most of the costs would have been paid. The Fonds S allocation was made on a biannual basis to reimburse expenditures in the previous six months. Fonds S spending averaged 2,700,000 francs per year while Moreau was governor, 1927–30; this dropped to 1,595,000 francs in 1934. In 1935 the fund spent 5,475,000 francs; by May 1936 it had nearly exhausted its 5 million francs and had to be voted new funds before the biannual budget in June; 4,786,000 francs were approved to replenish the fund on 22 May 1936.

[168] 'Notes sur les conférences faites par Mr. Giscard d'Estaing', 4 July 1935; BdF, 1069198810/no carton number ('Campagne contre la dévaluation du franc (conférences) 1935–1936').

[169] For a more detailed survey see Mouré, '*Le chef d'orchestre invisible*', 355–6.

40 per cent in the 1930s had nothing to teach France.[170] The argument of French exceptionalism stood in unremarked contradiction to belief that French perseverance on gold would provide an anchor to which the other currencies would one day return, and to faith in the gold standard as a universally applicable, self-regulating system. Universal applicability and self-regulation had come in conflict with reality and lost.

Correspondence from the Bank's branches revealed a need for mobilization to counter the spread of support for devaluation and the difficulty in making such a campaign effective. Duchemin's pamphlet had been the inspiration for resolutions against devaluation by local chambers of commerce, faithfully communicated to the Bank in Paris beginning in November 1934. The Bordeaux branch director noted that while no one openly advocated devaluation, exporters hurting from the fact that Bordeaux had lost most of its export markets unconsciously hoped for the supposed 'stimulant' devaluation would provide for trade, and the local chamber of commerce had not raised the question of devaluation for this reason.[171] The director in Lyon reported that the monetary problem there was too often viewed according to local interests, which had been hurt by the loss of foreign markets, and thus were 'in solid opposition, deaf to the greater needs of the country'. The 'mirage of devaluation' was such that local businessmen intended to boycott a speech by Minister of Finance Germain-Martin in October 1934.[172]

By June 1935, when the first lecture campaign got under way, more Bank directors reported local interest in devaluation. The director in Châlons-sur-Marne stated that industrialists remained unconvinced by a lecture on the dangers of devaluation, as they wished 'to escape at any price from a situation in which they have suffered for many years and to which they see no end'.[173] Audiences were 'too homogeneous', drawn mainly from wealthier strata of businessmen and rentiers who were already 'in complete support of the argument set forth', too little attention was paid to *agriculteurs*, and the lack of opportunity for listeners to pose questions prevented a direct confrontation of devaluationist views.[174] The FPVM campaign in 1936 was better organized, but the blatantly propagandist nature of the FPVM makes it unlikely that it actually countered the spread of devaluationist ideas in a sympathetic audience of farmers, exporters, and the tourist trades. Rather, the regimentation suggests that the campaign provided a noisy and highly organized demonstration of faith in the franc Poincaré and the gold standard by those whose fidelity was never in doubt.

The campaign generated widespread attention to the purported dangers of, and the seemingly massive opposition to, a new devaluation of the franc. On the Left, where devaluationist views had been more widespread, fears of a new devaluation's impact on working-class living standards and middle-class savings and commerce kept the Popular Front from advocating devaluation. Léon Blum favoured it briefly in 1934, until opposition

[170] See for example the Frédéric Jenny article in *Le Temps*, 3 Sept. 1934.

[171] Aublant, BdF director at Bordeaux, to Paris, 27 Oct. 1934; BdF, 1069198810/no carton number.

[172] Lyon to Paris, 18 Oct. 1934; BdF, 1069198810/no carton number.

[173] Director of the Bank of France at Châlons-sur-Marne to Lacour-Gayet, 29 June 1935; BdF, 1069198810/no carton number.

[174] Untitled note summarizing comments forwarded to Lacour-Gayet, probably July 1935; BdF, 1069198810/no carton number.

within his own party (the Section Française de l'Internationale Ouvrière, or SFIO) forced him to back-pedal.[175] The Popular Front campaigned on the impossible slogan 'Ni déflation, ni dévaluation', and owed its election in part to public repudiation of deflation. For Blum, whose grasp of the issue was uncertain, and his Minister of Finance Vincent Auriol, who clearly misunderstood what was at issue, devaluation in June 1936 was 'politically impossible'.[176] The campaign against devaluation, orchestrated by the Bank, was in part responsible for this conclusion.

Deflation and the anti-devaluation propaganda helped make the Bank itself a target for political criticism from three angles. The earliest came from the commercial banks. When Bank revenues declined as interest rates fell after the stock market crash, the Bank embarked on a campaign to increase its direct discounting in competition with French commercial banks.[177] When Baron Brincard, president of the Crédit Lyonnais, complained directly to Moret in January 1934, he was told that 'The banks are no longer bringing us rediscount business, so we must go directly to the clients to replace this co-operation that you had once provided us.'[178] The Bank alienated smaller regional bankers with its direct competition and the limited aid it provided when they ran into troubles, clearly not functioning as a reliable lender of last resort.[179] But the need for co-operation from commercial banks to counter speculation and staunch gold losses in 1935 brought a reorientation of Bank policy; in exchange for closer co-operation, the Bank promised to abstain from 'inappropriate competition'.[180]

The other two sources of criticism, in politics and in the press, overlapped and interacted. The monetary and cabinet crises in May 1935 brought the charge from Marcel Déat in the Chamber of Deputies that the Bank of France was responsible for the fall of Flandin; in the words of socialist deputy Léo Lagrange, through the influence of the Bank of France, 'two hundred families' ruled France: 'Because there is a Bastille in our country which puts up powerful resistance to popular sovereignty and the will of the state: the Bank of France and its Council of Regents.'[181] This language and the rhetoric of the campaign that followed were employed in a leaflet distributed by the Ligue des Droits de l'Homme (LDH) in early July. 'Une Bastille à Prendre' claimed that the Bank was a 'state within a state' and urged that it was time to take control of the currency in France, which a handful of financiers used to control not only the economic, but the political life of France. The Bank had destroyed the Cartel des Gauches ten years earlier, obliged French taxpayers to cover its losses on sterling holdings in 1931, blackmailed the Flandin government in May 1935, and now imposed its preferred policy of deflation on the

[175] Mouré, *Managing the Franc Poincaré*, 214–15.

[176] Mouré, '*Le chef d'orchestre*', 358–9; on Popular Front views of devaluation, particularly those of the SFIO, see Margairaz, *L'État, les finances et l'économie*, i. 189–99.

[177] See Pierre-Cyrille Hautcoeur, 'La Banque de France et la crise bancaire de 1930–1932', *Études & documents*, 2 (1990), 295–315, and Gonjo, 'La Modernisation', 304–15.

[178] Cited by Gonjo, 'La Modernisation', 312.

[179] Mouré, *Managing the Franc Poincaré*, 128; Guy Charpenay, *Les Banques régionalistes* (Paris: Nouvelle Revue Critique, 1939); Alfred Pose, *La Monnaie et ses institutions* (Paris: Presses universitaires de France, 1942), ii. 698–702.

[180] Gonjo, 'La Modernisation', 314–20, quote p. 315; Mouré, *Managing the Franc Poincaré*, 150.

[181] From *Journal officiel*, 7 June 1935, cited in Jeanneney, *François de Wendel*, 508.

government led by Pierre Laval: 'Once again the Bank of France had made popular sovereignty bow to its will.'[182] The linkage seemed particularly clear in that François de Wendel, industrialist and regent of the Bank as well as an elected senator, had publicly criticized the Flandin government's policies as 'l'inflation à la petite semaine', and called for a programme of effective deflation.[183] The LDH's campaign against the anti-democratic nature of Bank influence in politics and finance provoked complaint from the Bank that sanctions should be imposed on the LDH, and on André Texier, who taught at a state secondary school in Bordeaux and had authored a series of articles for the LDH published in booklet form under the title 'Une Bastille à Prendre'.[184] The Bank likewise complained when the bulletin of the national union for civil servants, *Le Bulletin de la perception*, criticized the Bank for having forced the policy of deflation on the government.[185]

The explicitly deflationary policies of Pierre Laval and Tannery's statements of support provoked the Left in the press and in parliament. Radical newspapers criticized the 'close political accord' between the regents and Laval in August; in September the Socialist daily *Le Populaire* claimed that the regents were the new feudal masters of France: 'they block the popular will; they subjugate Parliament; they dominate governments, topple those they do not like, and use their secret and evil power to aid those who are faithful to them.'[186] The Communist daily *L'Humanité* argued a similar case, quoting liberally from Francis Delaisi.[187] Edouard Daladier attacked the '200 families' in October 1934 as part of a campaign for the reform of credit to facilitate recovery. In October 1935, the Radical Party adopted a resolution advocating reform of the Bank of France to provide a more democratic distribution of credit, including altering the appointment and composition of the Council of Regents, measures adopted in the subsequent reform of the Bank.[188]

The '200 families' became a focus for attacks on the Bank during the election campaign in 1936. The phrase designated the 200 largest shareholders who had the right to attend the Bank's annual general meeting. It proved an effective slogan for attacking the Bank as an elitist, anti-democratic institution guilty of toppling left-wing governments and working in the interests of private capital rather than the public interest and the national economy. 'The stupidity of this campaign is equalled only by its success', the *Journal des finances* lamented.[189] The '200 families' were elided with the 200 largest shareholders of the Bank of France, a body that included such interests as the Académie des Sciences de l'Institut de France, the Assistance Publique, the Caisse des Dépôts et Consignations, the

[182] Ligue des droits de l'Homme, *La Ligue—Informations*, 10 July 1935; copy in a file titled 'Attaques contre la Banque (1935)'; SAEF, B 54596.

[183] For the attacks on Wendel and the speech in question, on 12 Apr. 1935 in Nice, see Jeanneney, *François de Wendel*, 507–10, 524–31.

[184] See Tannery's letters of complaint to Marcel Régnier, 10 Oct. and 27 Nov. 1935; SAEF, B 54596. Texier was the president of the Fédération Girondine of the LDH; Tannery's letter of 10 Oct. requesting that he be disciplined was marked, 'the Minister recommends that this file be closed'.

[185] Banque de France to Minister of Finance (Régnier), 9 Aug. 1935; BdF, 1069199121/3.

[186] *Le Populaire*, 19 Sept. 1935; for earlier attacks see *La République*, 2 Aug. 1935, and *Le Quotidien*, 6 and 15 Aug. 1935; many of the press attacks against the Bank are collected in BdF, 1069199708/21.

[187] *L'Humanité*, 19 and 20 Sept. 1935. [188] *La République*, 27 Oct. 1935.

[189] *Journal des finances*, 24 July 1936. There is a rich collection of press commentary in BdF, 1397199403/149.

Fondation Nationale pour le Développement de la Cité Universitaire, the City of Paris, the Société du Louvre, nearly two dozen insurance companies, and the Société de Secours aux Familles des Marins Français Naufragés. Also included were seven regents, the governor (Tannery), and many bankers.[190]

Francis Delaisi's *La Banque de France aux mains des 200 familles* provided the most detailed exposition of the argument on the eve of the 1936 election.[191] Published by the Comité de Vigilance des Intellectuels Antifascistes (CVIA), his tract argued that the Bank was the command post for a *fascisme économique* in France. The twelve regents, a hereditary oligarchy, controlled national credit in the interests of high finance, insurance companies, and trusts. The governors and deputy governors, although appointed by the state, were required to own shares in the Bank; the governors often borrowed the funds and shares necessary from the regents, placing themselves under direct obligation to the regents, whose interests they dared not oppose. Thus, in Delaisi's account, 'the governors are no more than the authorized representatives of the regents, not of the state. Government control of the central bank is just a fiction.'[192] The regents' power had been increased by six years of economic crisis, in which they had used the Bank's powers to eliminate competition, obtain subsidies and concessions from the state, and impose deflation on the state, toppling governments that departed from the deflationary programme they demanded in the interests of creditors and wealthy producers. Delaisi's 'minimum programme' of six immediate measures of reform traced the main lines the Popular Front would follow: establish the governors' independence from the regents, grant all shareholders the right to attend the annual general meeting, and provide representation for 'the productive forces of the country' on the Conseil Général, democratizing the Bank's direction.[193]

Delaisi argued that the economic crisis, having strengthened the Bank and *weakened* the financial and industrial oligarchy through their increased dependence on the Bank and the state, offered a unique opportunity to seize control of the Bank. His case was overdrawn, but there was truth in this observation: the weakened condition of the French economy, dissatisfaction with Bank credit policy on the part of French business and banking, and the Bank's engagement in political manoeuvres to promote deflation had alienated support for the Bank in the worlds of business, finance, and politics. The Popular Front electoral programme promised to suppress the Council of Regents, increase the powers of the governor, and provide him with an advisory council representing the legislative power, executive power, and 'the great organized forces of labour and of industrial, commercial and agricultural activity'.[194]

[190] The 200 actionnaires authorized to attend the last assemblée générale in January 1936 are listed in Brunet Report, Chamber des Députés, annexe au procés-verbal, 16 July 1936, doc. no. 664, 42–6.

[191] Delaisi had long been on the case of the alleged financial oligarchy ruling France; his *La Démocratie et les financiers* (1911) was republished in *Le Crapouillot* in November 1936. See Malcolm Anderson, 'The Myth of the Two Hundred Families', *Political Studies*, 13, no. 2 (1965), 166 and 170 n. 1.

[192] Francis Delaisi, *La Banque de France aux mains des 200 familles* (Paris: Comité de Vigilance des Intellectuels Antifascistes, 1936), 56; see also Dauphin-Meunier, *Banque de France*, 201–3.

[193] Delaisi, *La Banque de France*, 84–6.

[194] 'Programme du Rassemblement populaire', annex no. 10 in Georges Lefranc, *Histoire du front populaire (1934–1938)* (Paris: Payot, 1974), 479.

Georges Boris, the editor of the Radical weekly *La Lumière,* accused the Bank and Lacour-Gayet, director of 'a so-called Service des Études Financières', of having orchestrated massive press campaigns in defence of the Laval government, distributing 'tendentious and deceitful news about countries whose financial or monetary policy did not please' Wendel, Rothschild, and Tannery. Lacour-Gayet, Boris charged, sent out notes, information, outlines for articles, and corrections intended to determine 'political attitudes, shifts in opinion, beliefs, fears and passions'. For his anonymous articles signed with three stars, Boris awarded him the sobriquet 'M. Lacour-Gayet-Trois-Étoiles'. It was intolerable, Boris declared, that the Bank of France should interfere in politics, spread misinformation about neighbouring countries, and lead a campaign of lies and threats to 'bend popular sovereignty to its will'.[195] Boris compared Tannery and Lacour-Gayet to Robineau and Aupetit, and urged that both be dismissed from the Bank. When Lacour-Gayet was dismissed in June 1936, he blamed Boris's press campaign.[196]

Boris attacked along the same lines when the campaign against the Bank resumed in 1936: 'M. Lacour-Gayet directs supposed economic studies at the Bank of France. In reality ... his work is political propaganda and corruption. He writes and publishes articles, he sends notes to the newspapers, he prompts journalists and he hands out subsidies.'[197] *Je suis partout* defended Lacour-Gayet,[198] and the Bank found defenders in the press of the Right: *Candide, La Journée industrielle, L'Action française*, and *Le Jour*.[199] Reform of the Bank became a political issue, increasing the likelihood of reform after the next election.

The campaign against the Bank in 1936 followed the lines established by 'Une Bastille à prendre' in June 1935, stressing the Bank's interference in politics. Reform of the Bank to remove the 'feudal masters', who presided over an all-powerful, anti-democratic institution, blended with the Left's campaign against the threat of fascism in France. Although the governors were appointed by the state, the regents imposed their will on governors whose personal views did not accord with their own and the financial oligarchy they represented. Between the first and second ballots of the 1936 elections, new anti-Bank tracts making the same arguments were distributed by *Vigilance* (a publication of the CVIA), arguing the Bank had strangled the First Republic (18 Brumaire), the Second Republic (coup d'état of 2 December 1851), and tried to kill the Third (6 February 1934). Francis Delaisi laid out a programme for reform of the Bank's Conseil Général; tracts called not just for reform, but nationalization of the Bank.[200] In *La Banque de France aux mains des 200 familles*, Delaisi charged that 'Economic fascism exists now. Its leaders

[195] Boris, 'La Banque de France prépare un nouveau coup', *La Lumière*, 2 Nov. 1935. Boris attacked the Bank as a citadel of financial power responsible for the *mur d'argent* in articles in *La Lumière*, 3 and 10 Mar. 1928.

[196] Lacour-Gayet, 'D'une guerre à l'autre', 456–7.

[197] 'La Banque de France et M. Lacour-Gayet pris sur le fait', *La Lumière*, 22 Feb. 1936.

[198] 'L'Offensive contre la Banque de France', *Je suis partout*, 27 Feb. 1936.

[199] This campaign is discussed in Lucile Dromer, 'La Réforme de la Banque de France du 24 Juillet 1936', Mémoire de maîtrise, Université de Paris-I, 1978, 81–93.

[200] Several of these tracts and a summary of their arguments titled 'Note du 1er Mai 1936' are collected in BdF, 1069199121/3; Francis Delaisi made a more detailed case for the Bank of France as a 'banque de coups d'État' in *La Banque de France aux mains des 200 familles*, 61–94.

have set up their "command post" in the Bank of France. So long as they occupy it, there will be neither freedom nor prosperity in this country.'[201]

The campaign contained exaggeration, supposition, and prevarication, but it stirred public attention, increased political pressure for reform, and eroded the political will to defend the Bank. The attacks related directly to the gold standard and defence of the franc. The Bank's belief in the gold standard as the only system for a sound currency required that it seek to reduce prices in France when currency depreciation abroad rendered French prices uncompetitive. Initially, belief that France need only balance its budget and maintain its currency in order to provide stable conditions for recovery was widespread. But dissatisfaction increased on economic and political grounds as the Bank encouraged successive French governments to apply deflationary policies that failed to correct the overvaluation of the franc or to bring economic recovery. Growing interest in devaluation, the difficulties encountered by the Bank's anti-devaluation campaign, and increasing criticism of the Bank all showed that prices did not adjust naturally and equitably, and signalled that the Bank's commitment to deflation and its engagement in political debate carried a political price.

[201] Delaisi, *La Banque de France aux mains des 200 familles*, 5.

# 8

# Towards Modern Central Banking, 1936–1939

The Popular Front election victory in May 1936 increased pressure on the franc. Uncertainty regarding the new Socialist-led government, the obviously inflationary thrust of its programme, the strikes that greeted its victory, the wage increases granted in the Matignon Accords of 7 June, and fears that the new government would impose exchange controls all provoked flight from the franc and central bank gold losses that eased briefly during the summer, then resumed with greater force in August and September. The franc could not be maintained at its 1928 parity, and it was devalued on 1 October.[1] A French exchange stabilization fund was established to maintain the franc at its new parity linked to the pound sterling. Holland and Switzerland, the remnants of the gold bloc, also devalued. It was the belated, inauspicious end of the inter-war gold standard.

Devaluation did not bring the stability and recovery its partisans had promised. In many ways it fulfilled its opponents' fears, accompanied as it was by inflation, a deteriorating international balance, and renewed downward pressure on the franc bringing new devaluations, from 105 to 179 frs./£ in the next two years (see Figure 8.1). But the period from 1936 to 1939 marked an important transition for the Bank of France, French monetary policy, and French gold standard belief. The first section of this chapter examines the reform of the Bank of France in July 1936, a *de facto* nationalization that restructured the Conseil Général to represent national economic interests. The second section covers the devaluation in 1936; the third examines French difficulties with exchange-rate management during the decline of the franc from 1936 to the summer of 1938. The problems of a poorly conceived monetary reform in 1936 were compounded by chronic financial difficulties that undermined the credibility of French monetary policy and by poor management of the stabilization fund created to defend the franc. The stabilization fund was closely controlled initially by a minister and a central bank governor who did not understand exchange-rate management, and it did not have sufficient resources to work effectively against sustained pressure for or against the franc. The fourth section covers the Munich crisis, the restoration of monetary stability under Paul Reynaud, and the Bank's preparation for war from September 1938 to September 1939. The fifth and final section examines the Bank's domestic management, which made notable advance during this period towards modern

[1] Mouré, *Managing the Franc Poincaré*, 237–42; Robert Frankenstein, *Le Prix du réarmement français (1935–1939)* (Paris: Publications de la Sorbonne, 1982), 129–40; Margairaz, *L'État, les finances et l'économie*, i. 250–83.

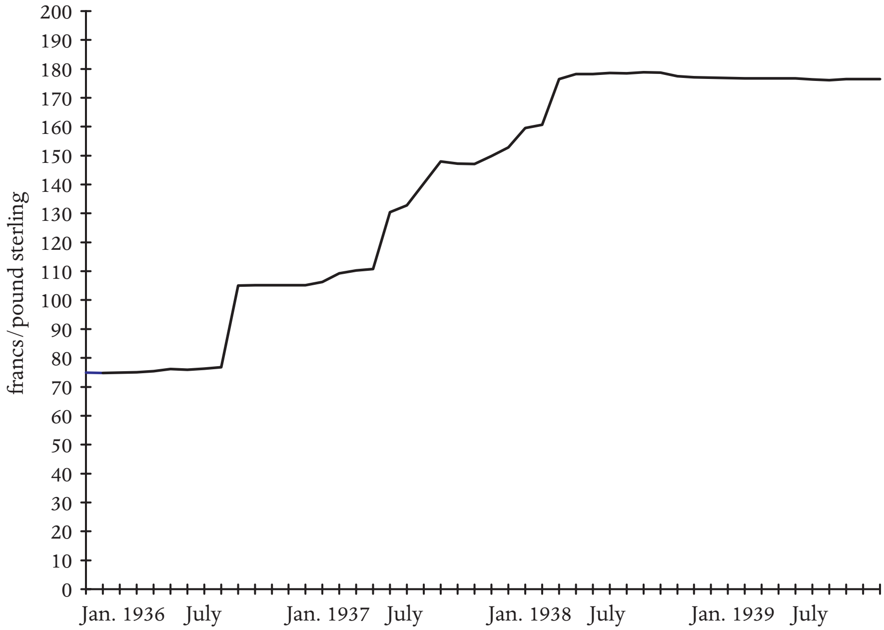


**Figure 8.1.** *Franc/sterling exchange rate, 1936–1939*

*Source*: *The Bank of England Statistical Summary* (1936–1939).

central banking.[2] The reasons for this development were partly financial, partly seeking more effective means for defence of the franc, partly concern for the parlous state of the French economy, and the need to increase production and rearmament. The changes accompanied a transfer of monetary authority from the Bank, concern for the implications of the approach of war for monetary policy and exchange stability, and a decline in belief in the gold standard.

## 1. JULY 1936 REFORM OF THE BANK OF FRANCE

The reform of the Bank of France in July 1936 was a *de facto* nationalization, which reconstructed the internal management of the Bank to provide a stronger representation of 'national interests' in the Conseil Général and to eliminate the over-representation of *haute finance*. The reform culminated the long campaign by the Left, described in the previous chapter, against the 'feudal' powers of finance vested in the Bank. The Popular Front promised to 'faire de la Banque de France, aujourd'hui banque privée, la Banque de

[2] For a recent analysis along similar lines, see Olivier Feiertag and Pablo Martin Aceña, 'The Delayed Modernization of the Central Banks of France and Spain in the Twentieth Century', in Carl-Ludwig Holtfrerich, Jaime Reis, and Gianni Toniolo, eds., *The Emergence of Modern Central Banking from 1918 to the Present* (Aldershot: Ashgate, 1999), 39–51.

la France' (evoking the change from Charles X, king of France, to Louis-Philippe, king of the French in 1830), characterizing the Bank as 'une Bastille à prendre'. Although some wished to reform the Bank to direct a national policy of controlled credit for the benefit of French industry and commerce, the campaign against the Bank concentrated on its undemocratic control, its domination by private interests, and its power to sabotage the policies of democratically elected government—the *mur d'argent* that had reputedly defeated the Cartel des Gauches in 1925–6 and unseated the Flandin government in 1935. The CGT called for outright nationalization and the development of a national credit policy to be directed by the Bank. An interministerial committee appointed by the Socialist Minister of Finance, Vincent Auriol, adapted the CGT plan and agreed unanimously on a nationalization plan for the Bank. Blum rejected nationalization, realizing it would be opposed by the newly moderate Parti Communiste Français (PCF), now bourgeois in its desire to placate the middle classes, and by the Radical party, particularly in the Senate.[3] Radical senators quashed the initial plan to reform the Bank by decree. A new *projet* was presented on 15 July as an annex to a letter revising the government's intentions. The bill was then rushed through the finance committees and the parliament, and adopted as 'an opportune democratization' in the Chamber by a vote of 444 to 77 on 16 July. The Senate passed it with revisions by 190 to 74, and the Chamber accepted the revised bill on 24 July.

The reform opened the annual general meeting to all 41,000 shareholders (who must be French citizens), each of whom would have one vote (article 1).[4] The regents complained shareholders were 'dispossessed' by the measure, but the shareholders had never held real power. They retained the right to 'hear' the annual report; the votes of the 200 had been on the basis of one vote per shareholder. Shareholders lost the power to elect regents (although they still elected three *censeurs* (auditors) ), but their votes had previously ratified the nominations of the Conseil Général, rather than nominating and electing regents of their own choosing. The measure removed a privilege rather than affecting real power. The Conseil Général would now consist of the governor and two deputy governors, the three *censeurs* elected by the shareholders (*voix consultative*, not *délibérative*), and twenty counsellors. Two counsellors would be elected to represent the shareholders (and could not be associated with any banking establishment), nine would represent economic and social interests, and nine would represent the collective interests of the nation (article 9).[5]

[3] See Dauphin-Meunier, *La Banque de France*, 197–200; Netter, *Histoire de la Banque de France*, 453; Joel Colton, *Léon Blum, Humanist in Politics* (Durham, NC: Duke University Press, 1987; 1st pub. Alfred A. Knopf, 1966), 182–4.

[4] One critic feigned surprise that they had not given votes to non-shareholders as well, a measure that would have been 'très Front Populaire'; *Journal des débats*, 18 July 1936.

[5] Of the nine representing social and economic interests, the Conseil National Économique and the Commission Supérieure des Caisses d'Épargne each nominated a delegate, the personnel of the Bank elected a representative, and the Minister of Finance chose six representatives from lists of three names proposed by the Fédération Nationale des Coopératives de Consommation, the Confédération Générale de l'Artisanat Français, the Assemblée des Présidents des Chambres de Commerce de France, the Confédération Générale du Travail, the Assemblée Permanente des Présidents de Chambres d'Agriculture, and the Sections Professionelles Commerciales du Conseil National Économique. Representing the collective interests of the nation were the directors of the Treasury, the Caisse des Dépôts et Consignations, the Crédit National, and the Caisse Nationale du Crédit, the governor of the Crédit Foncier, the president of the Section des Finances du Conseil d'état, and representatives of the ministries of Finance, National Economy, and Colonies.

The enlarged Conseil Général delegated power to a smaller Comité Permanent consisting of the governor, deputy governors, and four counsellors, of whom one would be designated by the Minister of Finance (article 11). The Comité Permanent met each Thursday that the Conseil Général did not from November 1936 until it was suppressed in November 1940.

The governor and deputy governors, relieved of the obligation to own shares in the Bank, were awarded higher salaries (articles 3, 5, and 6). They could no longer participate in the management of any private enterprise while in office, and for three years after leaving office they would receive their salary so long as they held no public office, but were forbidden to advise, counsel, or serve any private enterprise (articles 7 and 8).[6] The only innovation of practical import for monetary policy was to oblige the Bank to admit for discounting all floating debt issued by the Treasury with less than three months to maturity (article 13). Changes in interest-rate policy provided a safeguard against the massive discounting of Treasury paper. From October 1936, the rates on Treasury short-term paper were kept below the Bank's discount rate, a policy confirmed by an exchange of letters between Auriol and Labeyrie.[7]

After the bill's passage, in a letter released to the press the regents defended their record against critics and criticized the reform, which they claimed would dispossess shareholders of their rights, particularly 'minors, the interdicted (those unable to manage their own affairs), and women whose property is tied to marriage'.[8] Auriol vigorously protested that while the regents had the right to present their views in reply to criticism in parliament and in the press, their misrepresentation of the reform seemed calculated to alarm shareholders and the public.[9] There was little the regents could do. It was clearly within the government's power to reform the Bank; opposition to reform had to come within the parliamentary process. Aside from broadcasting their misgivings about the future, and thus their own dispensability, the regents were concerned to defend their record. Remarkably little effort was made either to resist the reform or to defend the regents in parliament itself. Edgard Allix lamented, 'it is to be regretted that not one member of the opposition raised his voice to praise the eminent services our bank of issue has rendered to the country for more than one hundred years ... They have cravenly let it fall'.[10] Politically, the lack of resistance demonstrated the erosion of support for the Bank through the prolonged economic crisis, the high interest rates imposed to defend the franc, poor relations with the financial community (including its competition with private banks for a shrinking volume of direct discounting business), and the Bank's interventions in politics.

Press criticism concentrated on the reform of the Conseil Général and its possible impact on future credit policy. It made of the Bank of France a Bank of the State, critics

[6] Netter, *Histoire de la Banque de France*, 472–3.

[7] Auriol undertook that 'henceforth the rate on three-month Treasury bills will be fixed slightly below the rate of discount'. Auriol to Labeyrie, 15 Dec. 1936, cited in Netter, *Histoire de la Banque de France*, 511.

[8] Copies in DCG, 30 July 1936; Netter, *Histoire de la Banque de France*, 485–7; Dauphin-Meunier, *Banque de France*, 222–4.

[9] Cited in Netter, *Histoire de la Banque de France*, 487–9; Dauphin-Meunier, *Banque de France*, 224–6.

[10] *Sans fil*, 22 July 1936.

claimed, packing the Conseil Général with the representatives of borrowers whose demands the Bank was supposed to resist: the certain result would be inflation and, 'inevitably, the fall of the franc'.[11] Gaston Jèze, in *L'Ère nouvelle*, characterized it as 'a deplorable measure'; many commented that it would open 'an era of adventurism'. Frédéric Jenny of *Le Temps* was more temperate, seeing the reform as imposing state control, but conceding that 'No one fears that they [civil servants on the Conseil Général] will heedlessly advocate a credit policy that endangers the currency.' But as *fonctionnaires*, they would be subject to greater pressure, weakening Bank resistance to the demands of the state.[12] Further to the Left, the reform was lauded for two reasons. First, it modernized the representation of interests within the Conseil Général, taking account of the changes in the economy, the state, and monetary policy since 1808, and it 'democratized' representation at the annual shareholders' meeting. Second, it made it all but impossible for the Bank to act politically in opposition to the government, a point stressed by René Brunet in his report to the Chamber of Deputies, and praised by Georges Boris. Henceforth, Boris claimed, 'the transformed Bank is unlikely to become a centre of opposition against a strong, active government supported by public opinion. Nor will the Bank be able in the future to launch a political offensive under the guise of financial threats through a subsidised press.'[13]

The Bank reform achieved little in actual reform of credit. Socialist René Brunet, in his report to the Chamber, claimed that discounting had 'always been more or less reserved for a restricted circle of privileged clients', and that small regional and local banks had suffered from 'the indifference and, more often, the routine opposition of the Bank of France'.[14] But direct discounting was declining and would all but disappear. The Popular Front had little idea as to how it wished to revise credit policy. The committee chaired by Brunet from November 1936 to June 1937 sought to reorganize commercial credit, but issued no report, merely a *communiqué* summarizing its proposals.[15] On the important issue of open market operations, which the Bank itself had long opposed, the Senate curbed government powers to reform the Bank by decree in order to prevent their implementation (see section 5 below).[16] The reform was more political than economic, providing a *de facto* nationalization without significant alteration of Bank functions or credit policy.

As Roger Auboin noted in *L'Europe nouvelle*, relations between state and central bank became problematic in times of crisis, when the monetary mission of the Bank conflicted

[11] See articles in *L'Echo de Paris*, 17 July 1936; *L'Intransigeant* and *Je suis partout* of 18 July 1936; *Journal des débats*, 18 and 20 July 1936; *La Vie financière*, 20 and 22 July 1936; *Sans fil, L'Ère nouvelle*, and *La Revue économique et financière*, 22 July 1936.

[12] *Le Temps*, 27 July 1936; the paper had criticized state domination of the Conseil Général in its issue of 17 July 1936.

[13] 'La Réforme de la Banque de France est une victoire de la démocratie sur l'argent', *La Lumière*, 25 July 1936, and Georges Boris, 'Reforming the Bank of France', *Foreign Affairs*, 15 (1936), here p. 164. For Brunet's criticism of the Bank's political action, including its support for deflation in 1935 and its financial support for the parties of the Right in the 1936 elections, see Brunet report, 57–60.

[14] Brunet report, 52 and 56.

[15] See Claire Andrieu, *La Banque sous l'occupation: paradoxes de l'histoire d'une profession* (Paris: Presses de la Fondation Nationale des Sciences Politiques, 1990), 41–9, and Bouvier, 'The French Banks', 73–4. The review *Banque et Bourse* published the main submissions to the subcommittee.

[16] Netter, *Histoire de la Banque de France*, 493–4.

with the policies of governments forced to deal with economic realities, and this was not a problem that reform of the Bank could solve. For five years, French monetary policy maintained the franc *à tout prix* while governments sought to sustain high prices and to cut expenditure. It was the government's responsibility, not the Bank's, to resolve this contradiction.[17]

## 2. DEVALUATION IN 1936

All three Popular Front parties—Radical, Socialist, and Communist—rejected devaluation as official policy, although a few Socialists and CGT activists sympathized with the idea.[18] But despite the Bank-inspired campaign against devaluation and its success in excluding devaluation from the election campaign, financial opinion shifted steadily in favour of devaluation after the failure of the Laval deflation. The prospect of exchange controls, adopted by the Popular Front in their common programme, convinced many of the undecided in the financial community that they preferred devaluation after the Popular Front's election victory. The Popular Front's social programme and the wage and benefits increases granted by the Matignon Accords of 7 June meant prices would rise. Public assurances from Blum and Auriol that they would not devalue brought temporary relief from gold losses, but Auriol 'baby bonds' issued in July to sustain the Treasury yielded disappointing results, and on 19 August gold losses resumed. Cariguel told the American embassy's financial secretary, Merle Cochran, that most French people believed devaluation was coming.[19]

Blum sent Emmanuel Mönick, financial attaché at the French embassy in London and a persuasive advocate of devaluation, to Washington in mid-June to thank Treasury Secretary Henry Morgenthau for his offer of 'safe ground to jump to' if France needed to devalue, and to sound American opinion on a future realignment of the franc. No decision had been taken in France, and Minister of Finance Vincent Auriol declared himself opposed to 'unilateral devaluation' and 'monetary alignment', seeking a chimerical 'monetary and economic peace' on a scale completely detached from practical possibility. The decision to devalue was not taken until the first days of September as gold losses mounted and government financial needs increased. The rearmament programme announced on 7 September would cost 21 billion francs over the next four years; the borrowing this would require made devaluation essential.[20]

The Bank played no significant part in the negotiation of the Tripartite Agreement. Blum had removed Tannery as governor in early June; Tannery's support for the Laval deflation condemned him in the eyes of Socialist leaders and the press attacking the Bank. The new governor, Émile Labeyrie, favoured controls on gold sales to the public. France had lost 30 billions in gold in the past year, Labeyrie observed, much of it through

[17] Roger Auboin, 'La Banque et la monnaie de la France', *L'Europe nouvelle*, 25 July 1936, 749–53.

[18] Margairaz, *L'État, les finances et l'économie,* i. 189–98.

[19] Mouré, *Managing the Franc Poincaré*, 222–7, 238–41; Margairaz, *L'État, les finances et l'économie*, i. 267–8, and Cochran to Morgenthau, 19 Aug. 1936; FDRL, MD xxx. 81–81E.

[20] Mouré, *Managing the Franc Poincaré*, 242–63 and Drummond, *The Floating Pound*, 203–18. On the rearmament programme, see Frankenstein, *Le Prix du réarmement français*, 135–40.

massive exports of French capital speculating on an eventual depreciation of the franc. The issue of gold coin had not been implemented for fear of domestic hoarding; the delivery of gold ingots without requiring commercial or industrial justification amounted to allowing the wealthy to hoard gold. Labeyrie recommended the Bank be authorized to require justifications for gold transactions.[21] The Bank knew nothing at this time of the preparatory talks for devaluation initiated by Blum.[22] Labeyrie was informed of the plans for devaluation at the beginning of September. Cariguel was told in mid-September; Georges Lacout in the Bank's Direction des Études was aware of plans for devaluation, though not the Treasury's negotiations with Britain and the United States, one week before the devaluation.[23]

In mid-September, the Direction des Études produced a series of notes explaining Bank opposition to devaluation and arguing the case for exchange controls. The needs of the Treasury in the months ahead could only be met by advances from the Bank: this would mean domestic inflation, gold losses, and increased capital flight. Devaluation would bestow a windfall profit on speculators that was both morally and technically unacceptable, and it could not be accomplished with prospects of durable restabilization until French prices had adjusted to accommodate the Popular Front's social reforms. Exchange controls, on the other hand, could be implemented quickly (without recalling parliament to reform the monetary law of 1928) by raising the minimum amount of gold that could be claimed at the Bank from 215,000 francs to 500 million francs. The Bank would take control of gold and foreign exchange transactions, and supply foreign exchange only to those with legitimate commercial or industrial needs.[24] Further reflection, however, brought realization that Bank control would be easily evaded, and that legislative action would be necessary to create a system with tight control to prevent substantial capital flight and gold losses.[25]

As knowledge of government plans for devaluation spread in the Bank, a final effort was made to argue the case against. Ignorant of the tripartite negotiations under way, the Bank protested that the benefits of devaluation could be lost in short order by further depreciation of the pound and the dollar. A devaluation setting a range for the new parity would provoke uncertainty as to 'the ultimate fate of the franc', and continued Bank advances to the state and the budget deficit would undermine confidence in the new parity. In addition, French prices were rising from the Popular Front social measures introduced in June. Apart from the many objections 'of a political, moral and social character', the Bank argued that these technical considerations meant that devaluation would run the risk that any restoration of confidence and return of capital, essential to its success, would prove short-lived.[26] These concerns were well founded, as events would show.

[21] Labeyrie to Auriol, 10 Aug. 1936; SAEF, B 33201.

[22] Waley to Cobbold, 5 Aug. 1936; H. A. Siepmann, 'Note of a telephone conversation with Mr. Cobbold held at 12.45 p.m. on Friday, 7th August 1936', 7 Aug. 1936; BoE, C43/343.

[23] G. Lacout, 'Note sur les dangers de la dévaluation', 19 Sept. 1936; BdF, 1397199403/36.

[24] 'Note sur la nécessité de prévoir l'établissement d'un contrôle des changes en France', 10 Sept. 1936; BdF, 1397199403/36.

[25] 'Note sur les modalités du contrôle des changes en France', 16 Sept. 1936; BdF, 1397199403/36.

[26] G. Lacout, 'Note sur les dangers de la dévaluation', 19 Sept. 1936; BdF, 1397199403/36.

Mönick exceeded the bounds of his missions to sound opinion in Washington and London in June and July: believing the need urgent, he prepared the ground for devaluation. But it took three weeks in September, during which France lost another 3 billion francs in gold, to negotiate a satisfactory agreement in which Washington and London agreed not to take reprisals against a *moderate* devaluation. They had promised this in June, but Blum and Auriol wished a formal declaration in order to present their devaluation as an international currency alignment. With the Tripartite Agreement, announced in Paris on 26 September, Auriol claimed that agreement with monetary authorities in Britain and the United States allowed a currency stabilization through realignment of the franc on 1 October. No one was fooled. Jacques Duclos pointed out that since neither the United States nor Britain had devalued, it was a unilateral devaluation; Paul Reynaud commented that Blum and Auriol had spent a great deal of effort 'to make it look as if America and England had finally realised that their currencies were wrongly valued'.[27] The Tripartite Agreement was believed to be a political necessity: the campaign against devaluation had distorted the government's perceptions of public opposition to the measure and exaggerated fears of its economic and political consequences. The Popular Front parties had all opposed devaluation; the government paid greater attention to the wording of the tripartite declarations than to the technical details of the devaluation.

The technical details were determined by the French Treasury. Cariguel, the Bank's foreign exchange expert, accepted devaluation as inevitable but thought it would improve France's economic situation 'provided only that the Government did not accompany it with a series of stupid measures'. By mid-September he was an 'ardent devaluationist', but he feared the government would damage the operation with restrictions and controls to prevent speculators drawing profit.[28] Such measures were attempted; they proved counter-productive and were abandoned.[29]

The monetary reform on 1 October did not re-establish a specific gold value for the franc. It authorized a 25 to 33 per cent devaluation from 65.5 mg gold to a level to be determined later between 49 and 43 mg gold. The franc would drop against sterling from 76 to between 100 and 112 francs, and would be managed against sterling rather than gold. The Bank's gold reserves were revalued at 49 mg gold, yielding a profit of 17 billion francs, and the exchange rate was fixed at 105 frs./£. The monetary reform encouraged speculation by allowing further depreciation. It also left the franc overvalued with French prices rising. In his earlier negotiations Mönick had envisaged a devaluation of about

[27] Duclos cited in Mouré, *Managing the Franc Poincaré*, 267; Reynaud paraphrased by Ambassador Bullitt in FDRL, MD xxxii. 294.

[28] Rowe-Dutton, 'Note of a Conversation with M. Cariguel, September 10th, 1936', 10 Sept. 1936, and G. F. Bolton, 'Conversation with M. Cariguel', 15 Sept. 1936; BoE, C43/343. Rowe-Dutton noted in mid-September that the cabinet was in great disarray and underestimated its own strength, 'so that, even if they do screw themselves up to devaluation, they may even then make a mess of it by accompanying it with a heresy hunt about exported capital', preventing the repatriation of capital essential to successful devaluation. Rowe-Dutton to Waley, 16 Sept. 1936; BoE, C43/343.

[29] Francis Rodd warned of the need to 'get the French so to relax their punitive attitude as to induce Frenchmen to begin repatriating their funds instead of continuing their expatriation'. Rodd to Siepmann, 30 Oct. 1936; also Rowe-Dutton to Waley, 17 Nov. 1936; BoE, C43/343.

25 per cent, to 100 frs./£; the rate question came up in tripartite negotiations only in the final stages of discussion. The British recognized a lower rate was advisable: Treasury officials thought 110 francs reasonable, although Governor Norman wanted them to insist on 100.[30] Labeyrie, who believed the rate should be between 110 and 120 frs./£, had not discussed the matter with the government.[31] A detailed study of French prices by the Direction des Études found that, with French prices still rising from the social reforms introduced in June, the devaluation needed to be at least 30 per cent. The return of emigré capital required free capital movements, low interest rates, and rising prices, which suggested a rate between 110 and 124 frs./£.[32] The decision to reopen at 105 was taken in the French Treasury, on the grounds that a lower exchange value would be unacceptable to the British.

Ten billion francs of the Bank's 17 billion profit were used to establish an Exchange Stabilization Fund (Fonds de Stabilisation des Changes, FSC). The Bank had been puzzled and irritated by the British EEA for some time; the devaluation was seen as an opportunity to escape British control of the sterling–franc exchange rate. A devaluation fixing the franc to a new gold parity was the solution desired by the British, Fournier noted, since it would facilitate their management of sterling without any parallel British commitment.[33] One benefit of exchange controls was that the Bank of England 'will no longer be able to use our money to control its currency's market value'. The British would have to reach an understanding with the US Treasury or the Bank of France. In either case, '*it will free the Bank of France from the pressure it has been under for the last four years*', and end the current system which allowed 'the British central bank total freedom of manoeuvre while depriving the Bank of France of any means of action'.[34] Even if the franc returned to gold, Fournier wanted to create an exchange stabilization fund and restrict gold deliveries to central banks on gold. He wished to end the pattern of French passivity in the franc's relations with non-gold currencies, stating that the government was determined 'not to continue in a position in which they have no say in the relation of the franc to sterling'.[35] Realizing that French passivity worked to their disadvantage was one step forward, but engaging in active exchange-rate management would require a painful learning process.

The British Treasury was rightly concerned that the French unwillingness to return definitely to gold would encourage speculation.[36] Negotiations between the central banks produced a plan for reciprocal delivery of gold at rates to be agreed on a day-to-day basis, adding that 'Continuous co-operation between the Central Banks will be necessary to ensure smooth working.' In Fournier's phrase, the arrangements were 'neither accord

30 Hopkins to Fisher, 21 Sept. 1936; PRO, T 160/840/F.13427/5.

31 C. F. Cobbold, 'Note of Meetings at the Bank of France, 12 p.m. and 3.30 p.m., 14th Sept. 1936', 14 Sept. 1936; BoE, C43/343.

32 'Note sur la disparité de pouvoir d'achat du franc', 12 Sept. 1936; BdF, 1397199403/36.

33 'Conversation avec M. Fournier, le 16 septembre', BdF, 1397199403/36.

34 'Note sur la nécessité', 10 Sept. 1936; emphasis in original.

35 Cobbold, 'Secret', 17 Sept. 1936; BoE, C43/343. Cobbold claimed Fournier's 'personal' reason for desiring an exchange equalization account was to prevent the profits of revaluation being taken entirely by the Treasury.

36 See Drummond, *The Floating Pound*, 210–12, 219–20.

nor understanding, simply day-to-day co-operation'.[37] A direct phone line was installed to speed the exchange of information.[38] The arrangements, which became known as the 'twenty-four hour gold standard', were extended to include the United States in mid-October.[39]

Although Governor Labeyrie told the Bank's Comité Permanent that the new FSC would follow the example set by the successful management of the EEA in England,[40] the French Fund more closely resembled the American Exchange Stabilization Fund. The EEA held its funds mainly in Treasury bills, rendering its operations difficult to discern in the market, and it regularly adjusted its buying and selling rates for the pound in order to confuse and penalize speculators.[41] Like the American Exchange Stabilization Fund, the French fund was established in part based on suspicions of the EEA, and held significant reserves in gold.[42] Its initial endowment of 10 billion francs proved insufficient, rendering its activities obvious to the market when it had to buy or sell gold to the Bank of France to replenish its resources.[43] One of the reasons for having the FSC nominally independent of the Bank was to avoid publishing its balances on a weekly basis, but, according to Siepmann, 'any observer' in Paris could make a reliable estimate of the magnitude of FSC intervention: the Bank's dealers were well known and the exchange rate was pegged at 105.15 frs./£.[44]

More significantly, the fund was allowed little autonomy. Any significant intervention by the fund required the prior approval of both the Minister of Finance and the governor of the Bank. Defence of the franc was conducted in isolation from the Bank's main administrative councils, with the governor in the key position to connect the Bank, the government, and the FSC.[45] Cariguel, the Bank's foreign exchange expert, managed the FSC on a day-to-day basis: he was told to keep the franc at a fixed rate rather than vary his purchase price to disorient speculators.[46] Cariguel recognized the impracticality of this strategy, but the government did not wish variations in the franc rate. Fournier claimed that the French public was unprepared for a fluctuating rate, and that the Bank feared criticism in the press and in parliament.[47] This crippled the FSC: if the franc was

[37] Draft agreement titled 'Secret', 23 Sept. 1936, revised as 'Memorandum of Technical Working Arrangements between Bank of France and Bank of England in connection with the declarations published by the Government of the French Republic and His Majesty's Government in the UK on 26th September 1936'; BoE, C43/343; Sayers, *Bank of England*, ii. 480.

[38] Notes of 28 and 30 Sept. 1936, docs. 49 and 58; BoE, C43/343.

[39] Stephen V. O. Clarke, 'Exchange-Rate Stabilization in the Mid-1930s: Negotiating the Tripartite Agreement', *Princeton Studies in International Finance*, 41 (1977), 51–4.

[40] DCP, 25 Sept. 1936.

[41] See Howson, 'Sterling's Managed Float', 9–14.

[42] On the founding of the ESF see Anna J. Schwartz, 'From Obscurity to Notoriety: A Biography of the Exchange Stabilization Fund', *Journal of Money, Credit, and Banking*, 29, no. 2 (May 1997), 136–40.

[43] The EEA had been granted £150 million when created in 1932 (nearly 16 billion Auriol francs), and this had been increased to £350 million in 1933 (37 billion Auriol francs).

[44] Untitled note, Siepmann, 13 Jan. 1937; BoE, C43/343.

[45] See discussion of this problem in DCP, 22 Apr. 1937.

[46] Fournier opposed rigid pegging in Sept. 1936; Auriol disagreed, and he and Labeyrie were responsible for the pegged rate; see Cobbold notes of 28 Sept. 1936 in BoE, C43/343.

[47] Cobbold, 'French Stabilisation Fund', 4 Dec. 1936; BoE, C43/343.

**Table 8.1.** *Balance of payments and budget, 1932–1938 (figures in billions francs)*

| | Trade balance | Invisibles | Foreign exchange | Current account | 'Invisible' capital movements | Budget balance | Bank of France advances |
|---|---|---|---|---|---|---|---|
| 1932 | −10.0 | 3.7 | 0.8 | −5.5 | 2.4 | −6.169 | |
| 1933 | −9.1 | 6.0 | 4.7 | 1.7 | −1.7 | −11.509 | |
| 1934 | −6.8 | 5.6 | −1.3 | 2.6 | 2.3 | −8.813 | |
| 1935 | −6.0 | 5.6 | 14.9 | 14.6 | −15.9 | −10.383 | 5.834 |
| 1936 | −7.7 | 5.0 | 19.1 | 16.5 | −18.0 | −16.896 | 33.099 |
| 1937 | −6.1 | 3.6 | 4.0 | −4.9 | −4.7 | −21.194 | 14.398 |
| 1938 | −2.6 | 2.6 | −1.3 | −1.4 | 2.5 | −26.792 | 16.680 |

*Sources*: Trade balance, invisibles, foreign exchange, and current account calculated from Lévy-Leboyer, 'La Balance des paiements et l'exportation des capitaux français', 135; invisible capital movements from Wolfe, *The French Franc*, 218; budget balance from Sauvy, *Histoire économique*, iii., 379, with the figure for 1932 the deficit from the 9-month budget annualized; Bank advances from Frankenstein, *Le Prix du réarmement*, 315.

pegged while the balance of payments and the budget were in deficit and the government could legally depreciate the franc, speculation would naturally run against the franc. The initial impact of the devaluation was to increase imports, owing to the fear their prices would rise, and to weaken earnings on invisibles. The greater part of the capital that had fled France anticipating devaluation in 1935–6 remained abroad or returned for brief periods only, as increasing government expenditure, rising deficits and borrowing, and renewed advances from the Bank of France portended rising prices and further decline of the franc (see Table 8.1).[48]

## 3. THE FALL OF THE FRANC, 1936–1938

The devaluation did not ease exchange pressure on the franc for long. An initial repatriation of capital allowed the FSC to sell 7 billion francs in gold to the Bank in October. The market turned in the third week of October; Francis Rodd reported from Zurich that business communities in France and Switzerland were unanimous in predicting further devaluation: 'disaster looms before us'.[49] The FSC bought back gold from the Bank, 4 billions in December, 3 billions in February. Rumours of a new devaluation were widespread. On 16 December Auriol lifted restrictions on capital flows and foreign exchange purchases, hoping to revive confidence and prompt a return of capital.

Siepmann found the FSC management woefully inadequate. In late January 1937, after a public statement by Auriol that the government would not devalue the franc, even to its lower legal limit of 112, he proposed a co-ordinated Franco-British effort to counter increased speculation. 'Nothing could be worse', he complained, 'than to maintain a cast-iron peg at any rate whatever. We now have an active speculative market developing

[48] Wholesale prices rose more than 60 per cent, Sept. 1936 to Nov. 1938; retail prices rose 50 per cent. Sauvy, *Histoire économique*, iii. 347, 355.

[49] Rodd to Siepmann, 30 Oct. 1936; BoE, C43/343.

in defiance, or at the expense, of a paralysed control.'[50] Cariguel welcomed the idea, but Fournier was ill and Labeyrie refused to act without approval from the Treasury and the Ministry of Finance. When given authority to do as he thought best, Labeyrie worried that active intervention would 'amount to speculation with public funds'. He finally allowed Cariguel 'a little discretion' to depart from the rate of 105.15, but too little and too late to take advantage of the opportunity Siepmann had seen for a co-ordinated intervention by both exchange funds.[51] The governor preferred to rely on a sharp increase in the discount rate, from 2 to 4 per cent.[52] Fournier and Auriol attributed the increasing speculation in late January to speculative purchases of raw materials.[53] When the discount was raised to 4 per cent, Rueff explained to Auriol that Paris interest rates were unusually low and that an increase was essential if the Treasury was to renew outstanding bonds. The FSC, in Rueff's view, could act to correct violent swings or to break speculative trends, but 'its role is not and cannot be to create a movement or a continuous trend in favour of the exchange market, or in the money market or financial market, or to counteract unfavourable trends that might arise in these markets'.[54]

February 1937 was a month of crises. Attempts to borrow abroad in January yielded a British loan of £40 million that sufficed only to stall the exhaustion of FSC reserves.[55] Auriol tried to obtain either a new tripartite declaration of Anglo-American solidarity in defence of the franc, in exchange for which he claimed he would stabilize the franc on gold, or a borrowing arrangement with the British EEA and the American stabilization fund. Both were flatly rejected.[56] Rueff insisted that the monetary situation was untenable: without either a 'vigorous effort' to reduce government spending or the imposition of exchange and capital controls, maintaining the franc at its current level would exhaust FSC reserves. The root of the problem, he told Blum, was the 'enormous' Treasury deficit. He did not believe exchange and capital controls would work and Blum opposed them.[57] Labeyrie, who argued controls were essential, was ignored.[58] Rueff, unable to come up with cuts to close the yawning budget deficit, suggested that smaller public works programmes be closed, hoping that symbolic cuts would produce a psychological

[50] Siepmann, 'Secret', 28 Jan. 1937; BoE, C43/343.

[51] Ibid., 28 and 28/29 Jan. 1937; BoE, C43/343.

[52] DCP, 28 Jan. 1937. Both British and American observers commented that France would be wise to let the franc fall, probably to 125/£; see Ian M. Drummond, 'London, Washington, and the Management of the Franc, 1936–39', *Princeton Studies in International Finance*, 45 (1979), 11.

[53] For Auriol's views see Bullitt to Sec. of State, 23 Jan. 1937; RG 59, 851.5151/1222.

[54] Rueff, 'L'Élévation du taux d'escompte en dépit de l'existence du Fonds d'Égalisation des Changes', 1 Feb. 1937; SAEF, B 33195, no. 13.

[55] Rowe-Dutton, 'Financial Situation in France', 20 Feb. 1937; PRO, FO 371/20689, and Wilson (from Cochran) to Sec. of State, 26 Feb. 1937; RG 59, 851.5151/1270.

[56] Bullitt (from Cochran) to Sec. of State, 15 Feb. 1937; RG 59, 851.5151/1253; Bullitt (from Cochran) to Sec. of State, 20 Feb. 1937; RG 59, 851.5151/1263; Blum and Auriol to Chamberlain, communicated by Le Norcy on 17 Feb. 1937, with notes for reply to Le Norcy; PRO, FO 371/20688.

[57] Rueff, 'Conversation avec Léon Blum', 6 Feb. 1937; AN 579 AP 65; Rueff, 'Note pour le Ministre', 387CD, 23 Feb. 1937, and 389CD, 27 Feb. 1937; AN 579 AP 65. Rueff cites from these notes in *De l'aube au crépuscule*, 131–3.

[58] Labeyrie 'Note' for Auriol, 22 Feb. 1937, Auriol to Labeyrie, 23 Feb. 1937, and Labeyrie to Auriol, 25 Feb. 1937 with enclosed 'Note sur la nécessité de modifier la politique de défense monétaire', Auriol Papers, AN, 2 AU 5 Dr 1. Labeyrie's views were discussed in an interview with Rist detailed in Cochran to Sec. of State, 2 Mar. 1937; RG 59, 851.5151/1277.

effect to bolster confidence.[59] In Britain, both the Bank and the Treasury were alarmed by the relentless drain of gold from Paris, fearing France would adopt exchange controls and abandon the Tripartite Agreement.[60] British and American observers thought the franc, still pegged at 105, should be allowed to fall to about 125,[61] but in Paris financial opinion favoured dropping the franc only to its lower legal limit, 112 frs./£. When Auriol suggested he and Chamberlain issue a new tripartite declaration of solidarity, the British replied emphatically: French gold losses, the result of domestic capital flight, could only be corrected by actions taken by the government of France.[62] Rowe-Dutton summed up the problem as a general lack of confidence in Popular Front financial management, particularly in Auriol as Minister of Finance.[63]

On 5 March 1937, the government announced it would tighten fiscal and monetary policy and remove controls on gold movements; on 10 March it rescinded the requirement of an authorization for the import or export of gold and restrictions on commerce in gold. The gold measures had alienated support without choking off export; an official at the Comptoir National reported that 20 per cent of those requesting gold for export had been giving their name as 'Blum'.[64] A committee of experts was appointed to oversee the FSC: Labeyrie as governor, Rist, Rueff (director of the Treasury), and Paul Baudouin (director of the Banque de l'Indo-Chine, rumoured as the probable successor to Labeyrie). At their first meeting, the committee favoured letting the franc fall to its lower limit, but Cariguel insisted the FSC should be given time to restore its foreign exchange reserve at the current rate before letting the franc fall.[65] The government declarations of 5 March and demand for francs to subscribe to a new government loan brought respite on the exchange front. The experts cautioned the respite would be brief; only a return of exported capital could fund Treasury loans and allow a reduction in interest rates.[66] In early April the franc was allowed to slip to 110 frs./£, temporarily easing speculative pressure.[67]

[59] See the analysis of Rueff's recommendations in Margairaz, *L'État, les finances*, i. 298–306.

[60] Padmore to Gwatkin, 10 Feb. 1937 and Gwatkin minute, 10 Feb. 1937; PRO, FO 371/20688.

[61] Gwatkin minute, 10 Feb. 1937; PRO, FO 371/20688; Cochran to Morgenthau, 26 Feb. 1937; FDRL, MD lvi. 333; and coverage of American and British views in Drummond, 'London, Washington', 10–13.

[62] Cobbold note, 12 Feb. 1937; BoE, OV45/86. For repeated expression of British views, see draft telegram for communication to Blum, approved by Chamberlain on 11 Feb. 1937; Chamberlain to Auriol, 15 Feb. 1937; Phillips to Strang sending draft copy of letter Chamberlain proposed sending to Blum, 16 Feb. 1937; and Gladwyn Jebb written statement for communication to Le Norcy, 17 Feb. 1937; PRO, FO 371/20688.

[63] Rowe-Dutton, 'Financial Situation in France', 20 Feb. 1937; PRO, FO 371/20689; and see Rist's confidential comments as well in Wilson (from Cochran) to Sec. of State, 2 Mar. 1937; RG 59, 851.5151/1277. On opinions of Labeyrie and Auriol, see Bullitt to Sec. of State for Treasury, 12 Feb. 1937; RG 59, 851.5151/1250 and Cochran to Sec. of State, 15 Feb. 1937; RG 59, 851.5151/1253, and Rist comments on both Labeyrie ('entirely incompetent in monetary matters') and Auriol in Wilson (from Cochran) to Sec. of State, 2 Mar. 1937; RG 59, 851.5151/1277. Cariguel complained that Labeyrie was 'found entirely incompetent by colleagues in other central banks as well as by his personnel'. Related in Bullitt (from Cochran) to Sec. of State, 10 Apr. 1937; RG 59, 851.5151/1330.

[64] C. F. Cobbold, 'France', 15 Apr. 1937; BoE, OV45/11. A Cook's agent had claimed earlier that anyone wanting to take gold out of the country merely needed to get a politician to carry it through customs; Rowe-Dutton to Waley, 17 Nov. 1936; BoE, C43/343.

[65] Cariguel information related in Bullitt (from Cochran) to Sec. of State, 10 Apr. 1937; RG 59, 851.5151/1330.

[66] See letters from Rist, Baudouin, and Rueff to Auriol, 19 Mar. and 12 Apr. 1937; AN 579 AP 65. The Treasury estimated capital export in 1936 to have been 20 billion francs; 'Évolution sur le cours des changes', 27 Apr. 1937; AN 579 AP 65.

[67] DCP, 15 Apr. 1937.

The experts complained repeatedly of the need to reduce the budget deficit and the Treasury's borrowing requirement, arguing that management of the exchange rate was powerless against the universal scepticism regarding French finance. The current state of French finances justified serious anxiety and the committee's task of overseeing the capital market was impossible. In mid-May, Rist and Baudouin protested government inaction regarding deficit reduction, warning that the financial situation justified 'the gravest anxieties', and that further delay would weaken the franc and render FSC operations vain. They called for increased indirect taxes (to obtain an immediate return) and greater exchange-rate freedom.[68] Blum acknowledged the accuracy of their views, but claimed it was politically impossible to follow their recommendations.[69] Officials within the Bank, including Labeyrie, remained convinced of the need for exchange controls: declarations of fidelity to liberal principles and free capital movement had not prevented a steady drain of capital abroad since 1935.[70]

On 11 June, Rueff reported that the Treasury was at the end of its resources; he recommended it obtain the 15 to 19 billions it needed through direct advances from the Bank. Although inconvenient politically, he rejected alternative sources, stating: 'I think that bringing the inevitable consequences of deficits into the full light of day will do more than any argument to make parliament face its responsibilities, and understand the necessity and the significance of the reforms submitted to it'.[71] On 14 June, Rist and Baudouin resigned from the supervisory committee, protesting government inaction in the face of financial difficulties that threatened to require a suspension of Treasury payments. 'Our daily meetings no longer serve any purpose,' they claimed.[72] As director of the Treasury, Rueff could not resign, but he supported their protest, writing to Auriol that 'only a policy subordinating all government action to the rehabilitation of our Treasury' could maintain state payments without capital and exchange controls.[73] His support for Rist and Baudouin provoked an angry rebuke from Auriol. Rueff had no right to protest government inaction when, as director of the Treasury, he had repeatedly failed to provide plans for the government action required, responding to Auriol's requests with 'reports that are indeed copious and well-written, but depressing and negative'.[74]

Blum requested decree powers to deal with the combined financial and monetary crisis; when the Senate refused, he resigned on 21 June rather than insist on a battle between Chamber and Senate. FSC reserves were exhausted, Treasury accounts empty.

[68] They also warned that they would not continue to serve in a role where their task was rendered impossible by government inaction. Rist and Baudouin to Auriol, 14 May 1937; AN 579 AP 65.

[69] Bullitt (from Cochran) to Sec. of State, 21 May 1937; RG 59, 851.5151/1368. Cochran predicted Rist and Baudouin would resign and make public their reason for doing so.

[70] 'Note sur les mesures à prendre pour enrayer l'exportation des capitaux', 9 June 1937; BdF, 1397199403/36.

[71] Rueff, 'Note sur l'alimentation de la Trésorerie', 11 June 1937; SAEF, B 33195, no. 54.

[72] Rist and Baudouin to Auriol, 14 June 1937; AN 579 AP 65.

[73] Rueff to Auriol, 14 June 1937; reprinted in *De l'aube au crépuscule*, 138; Rueff presents himself as a loyal technical adviser, but according to Cariguel the meeting between Rueff and Auriol was dramatic, Rueff threatening to punch Auriol in the eye. Rowe-Dutton, 'Note on a Conversation with M. Cariguel on 24th June 1937', PRO, T 160/689/F.15000/01/1. Rist and Baudouin were reported unhappy with Rueff, whom they found overly optimistic with regard to the Treasury, and prone to understate the seriousness of the situation to Auriol. See Bullitt (from Cochran) to Sec. of State, 21 May 1937; RG 59, 851.5151/1368.

[74] Auriol to Rueff, 18 June 1937; AN 579 AP 65.

Rueff detailed the crisis in a note to the new minister, Georges Bonnet, who had to return from Washington where he had been French ambassador. The Treasury had no alternative but to take new advances from the Bank. Its needs could only be met in the longer term by a repatriation of capital. To this end, Rueff recommended increasing taxes and curtailing all but rearmament expenditure in order to restore confidence in state finance. In addition, either a forced consolidation of state debt or a substantial depreciation of the franc would be necessary. Rueff favoured the latter, suggesting the franc be allowed to float and 'find its own level'.[75] Bonnet notified the British Treasury on 28 June that he would remove the legal limits on the value of the franc and allow it to float. Speculation on a new devaluation had been rife, with rumours that France would return to the franc Poincaré at 125 / £.[76] Fournier telephoned the Bank of England at 11.30 p.m. on 28 June to tell them of Bonnet's plans. Cobbold rushed to Paris, where he found the Bank unsure of how technical details would be managed, particularly with regard to the future exchange rate of the franc. Labeyrie thought the franc would open at 127–9 / £, and that they would try to keep it below 130.[77]

Bonnet adopted Rueff's advice, letting the franc float, irritating the British Treasury with his assumption that notification of his decision fulfilled the Tripartite Agreement stipulation for prior consultation.[78] A decree issued on 30 June removed the legal limits on the Auriol franc and changed the FSC's mission to regulating the value of the franc without being obliged to hold it at any specific level. With its gold and foreign exchange reserves exhausted by the close of trading on 17 June, the FSC had used a further 2.5 billion in gold from the Bank during the crisis.[79] Its gold supply was replenished with no mention of a new committee of experts to oversee management of the franc; the decree powers refused to Blum were granted to Chautemps to defend French gold reserves.

The franc dropped from 112 to 129 without FSC intervention. Siepmann claimed the franc was 'rotten at the core' and that no rate would command confidence without the FSC providing direction. When French authorities claimed they were imitating EEA policy, he countered that there was 'no single respect' in which the situations were similar, comparing the reeling of the franc to that of a drunken sailor:

> When there were fixed legal limits, they chose as a rule to peg; now that there are none, they apparently intend to reduce control to vanishing point. Both policies are exasperatingly mistaken. Between fixed limits they should have used their liberty of movement; now that they have no anchor, they cannot afford to drift.

The underlying problem was the absence of a 'clear and convincing' financial programme that could be applied successfully. Until this was the case, market confidence

[75] Rueff, 'Note pour le Ministre', 22 June 1937; SAEF, B 33195.

[76] For example, Rowe-Dutton to S. D. Waley, 24 June 1937; PRO, T 160 / 689 / F.15000 / 01 / 1.

[77] Cobbold, 'Confidential', 29 June 1937 and 'Note of Conversations at Bank of France (M. Fournier, M. Cariguel and for a few minutes, M. Labeyrie), 30th June 1937', 1 July 1937; BoE, C43 / 343, and 'Communication orale', 29 June 1937; SAEF, B 32325.

[78] Drummond, 'London, Washington', 16–18. Chancellor of the Exchequer John Simon complained, when notified 'in accord with paragraph 3' of the Tripartite Agreement, that notification of a decision taken was not consultation, and regretted the content as well as the form of the French decision.

[79] R.B., 'French Exchange Fund', 3 Aug. 1937; BoE, C43 / 343.

was impossible. In the interim, Siepmann worried that French exchange mismanagement would throw the world into 'another spiral of exchange depreciation'.[80]

French observers were not dismayed, explaining the problem as fundamentally political. Bonnet adopted Rueff's views, although he encountered resistance within the Chautemps cabinet from Socialist ministers, and within his own Radical party from those opposed to increased taxation. Reporting on these political strains, Rowe-Dutton found Rueff 'very much more calm and cheerful' than he had expected: Bonnet accepted all Rueff's proposals including cutting public works and preventing increases in defence spending, and was determined to push them through cabinet. Rueff attributed the weakness of the franc to anticipation of a political crisis. The scale of flight from the franc had been such that it would have been 'enormously expensive' to resist; the FSC let the franc fall and would not intervene until the political situation had stabilized.[81] Rist termed this 'a return to comparative sanity' and thought that with a sound programme of economies and the return of some French capital, the franc might come back to 125 or 130. For now, it should be allowed to find its own level.[82]

The situation improved when Pierre Fournier replaced Labeyrie as governor on 20 July. Fournier had served as deputy governor since 1929, and possessed practical experience and liberal views welcomed by financial circles.[83] He agreed with the British criticism of FSC management, explaining to Cobbold that its control had been further weakened in mid-July by lack of Bank leadership and by division within the Treasury where Rueff advocated letting the franc fall. Fournier hoped to deal directly with Bonnet and bypass Rueff. But the franc remained vulnerable to political instability and to market disbelief that Bonnet would effect the serious financial reforms needed.[84]

Siepmann pondered whether France could be helped by assistance from the EEA. Paris was the source of weakness, with the French preferring to send savings abroad, expecting further depreciation. Asked in October who was sending money abroad, Rueff replied, 'Everybody.'[85] Siepmann predicted that Bonnet letting the franc 'find its own level' would result in slippage 'spasmodically from one arbitrary level to the next'. There was no telling how far the franc might fall.[86]

[80] Siepmann notes titled 'Secret', 19 and 20 July 1937; BoE, C43/343.

[81] Rowe-Dutton to Waley, 19 July 1937; PRO, T 160/689/F.15000/01/2, and Rueff, 'Note pour le Ministre', 15 July 1937; SAEF, B 33195. Margairaz sees this period as one of tremendous influence for Rueff, and a return to deflationist policies combined with increased reliance on advances from the Bank of France; *L'État, les finances*, i. 369–77.

[82] Rowe-Dutton, 'Note of a Conversation with M. Rist, 20 July, 1937'; PRO, T 160/689/F.15000/01/2.

[83] See Bullitt (from Cochran) to Sec. of State, no. 1053, 27 July 1937 and no. 1139, 11 Aug. 1937; RG 59, 851.5151/1478 and 1495 (the latter noting that Bank personnel regretted Labeyrie's removal). Baudouin had been rumoured to be the probable next governor, but Blum opposed this vigorously, as he considered Baudouin and Rist's letter of resignation a major factor in the fall of his government. Eric Phipps, no. 143, 19 July 1937, and Perowne to Strang, 21 July 1937; PRO, T 160/689/F.15000/01/2.

[84] Cobbold, 'Note of Conversation with M. Fournier at Bank of France, 23rd July 1937', 26 July 1937; BoE, OV48/11.

[85] Rowe-Dutton to Waley, 6 Oct. 1937; PRO, T 160/766/F.15000/02/2.

[86] Siepmann, 'The French from the Point of View of the Exchange Equalisation Account', 27 Aug. 1938; BoE, C43/463.

As if to demonstrate the point, the franc dropped from 133 to 146 in a matter of days in September. The FSC lost sterling, trying to hold the franc first at 140, then 145, and finally in early October at 150. Henry Clay of the Bank of England reported French officials 'in despair, having tried every technical device and feeling that they have lost control of the market'.[87] By 1 October, the market expected the franc to fall to 175.[88] The reasons for the weakness of the franc were no mystery: the large French trade deficit, the Treasury's need for advances from the Bank of France, and the pervasive sense of political insecurity.[89] The Bank decided against raising its discount rate: it would have no effect on speculation. Pressure on the franc, in the Bank's view, was a result of political factors beyond its control.[90]

British estimates of an appropriate level for the franc varied widely. *The Economist* suggested it should be somewhere between 100 and 170.[91] French commentators insisted the problem was political: Bonnet's financial reforms had marked significant progress, but disruption from application of the forty-hour week, concern at the extent of Treasury borrowing, and fears of the Left gaining greater power in government all took their toll on confidence. There was 'a growing realisation that Bonnet, although he had done a great deal, was not in fact going to be the Poincaré of to-day'.[92] Bonnet told Simon that France would defend the franc at a level where resistance was possible without exhausting the gold reserves needed for defence purposes, insisting that depreciation was not being used to obtain economic advantage. He wished the Tripartite Agreement to be maintained in public statements, even if French practice made its provisions for consultation seem irrelevant; a public admonition of French conduct would further damage the franc. British and American support remained essential if France was to avoid the imposition of exchange controls.[93]

A reflux of French capital began on 11 October, after cantonal elections took place without Communist or Socialist gains.[94] The franc improved slightly and stabilized until the Treasury took new advances from the Bank at the end of the year.[95] In November the

[87] Henry Clay, note of 15 Sept. 1937; BoE, C43/343.

[88] Wilson (from Cochran) to Sec. of State, no. 1364, 30 Sept. 1937; RG 59, 851.51/1553, and Henry Clay, note of 1 Oct. 1937; BoE, C43/343.

[89] Jenny, 'Le Problème monétaire', *Le Temps*, 20 Sept. 1937. Governor Fournier gave a similar explanation to the Conseil Général at the beginning of October; DCG, 7 Oct. 1937, specifying that the role of the FSC was 'only to correct abnormal fluctuations'.

[90] DCP, 23 Sept. 1937; Bullitt (from Cochran) to Sec. of State, 23 Sept. 1937; RG 59, 851.5151/1543.

[91] *The Economist*, 18 Sept. 1937, 568; see British Treasury mulling of the subject in Rowe-Dutton, 'Movement in French Prices', 17 Sept. 1937, Waley to Shackle, 20 Sept. 1937, and Shackle to Waley, 22 Sept. 1937 with accompanying note, 'The French Franc'; PRO, T 160/689/F.15000/03.

[92] Quote from Rowe-Dutton to Waley, 17 Sept. 1937; Fournier, Baumgartner, and Baudouin all saw crisis as political, Rowe-Dutton to Waley, 15 Sept. 1937, 'Note of a Conversation with M. Baumgartner, 16th September 1937', and 'Note of a Conversation with M. Baudouin, 22nd September 1937', as well as analysis in Rowe-Dutton to Waley, 28 Sept. 1937; PRO, T 160/766/F.15000/02/1; Rowe-Dutton to Waley, 30 Sept. 1937, and FO to Mallet, no. 418, 5 Oct. 1937; PRO, T 160/766/F.15000/02/2.

[93] Bonnet to Sir John Simon, 16 Sept. 1937, and Waley to Hopkins, 23 Sept. 1937, reporting on a visit from Mönick; PRO, T 160/766/F.15000/02/1.

[94] Rowe-Dutton, 'Note of a Conversation with M. Cariguel, 11th October 1937', 12 Oct. 1937; PRO, T 160/766/F.15000/02/1.

[95] 'Bilan du jeudi 30 décembre', 28 Dec. 1937; SAEF, B 33195, no. 74.

FSC sold gold back to the Bank for the first time since October 1936. Bolton at the Bank of England attributed the recovery to three factors: greater political stability as the Chautemps cabinet settled into office and fears of Communist disruption declined, instability in the United States, and the repatriation of French capital, largely speculative.[96]

When the Treasury drew 5 billion francs in direct advances from the Bank at the end of December, the rush to sell francs resumed and took on 'dimensions not far removed from panic'. Rowe-Dutton reported French officials gloomy, attributing the renewed pressure to French politics and Treasury borrowing.[97] The situation was aggravated by threats of increased labour conflict and a political crisis in mid-January, which after a week's delay resulted in a new Chautemps government without Socialist ministers. Fournier ascribed the FSC's inability to staunch the outflow of capital in mid-January to the breadth of the capital flight, with ordinary citizens taking funds across French borders to obtain foreign currency: 'even if the Stabilization Fund is stronger than the speculation, it is weaker than the country'.[98]

By mid-February, FSC funds were believed to be exhausted and the Treasury to be 'rapidly approaching bankruptcy'.[99] The franc slipped to 155 frs./£ and was expected to fall further.[100] Chautemps's new Minister of Finance, Paul Marchandeau, was at a loss as to how to deal with the falling franc. He contemplated returning to gold if he could find some way to restore confidence, but recognized it would be catastrophic to return only to be driven off again.[101] He sought British assistance, suggesting France return to gold in exchange for a greater commitment from the Tripartite powers, and return responsibility for defence of the franc to the Bank, defending the exchange with its gold.[102] A renewal of Tripartite conversations, he claimed, would deflect increasing pressure for exchange controls in France. His ideas were vague, and the British and American treasuries were sceptical.[103] Mönick insisted French policy could only be improved with help from the United States and Britain,[104] and Marchandeau clearly hoped a new statement of international accord would save the Bank having to use gold to defend the franc. But the problems needing solution lay in France, and when Marchandeau requested decree powers with no clear plan as to how he would use them, he was refused;

[96] Bolton, 'Paris Visit, 2nd and 3rd December 1937', 8 Dec. 1937; BoE, C43/343.

[97] Rowe-Dutton to Waley, 12 Jan. 1937, and Rowe-Dutton, 'Note of a Conversation with M. Baumgartner, 12th January, 1938'; PRO, T 160/766/F.15000/02/2. The Treasury had chosen to draw a lump sum of 5 billion francs so as not to have to take further advances in early Jan.; Bullitt (from Cochran) to Sec. of State, 6 Jan. 1938; RG 59, 851.5151/1660.

[98] DCG, 13 Jan. 1938, with further detail on French citizens exchanging currency abroad in DCG, 20 Jan. 1938.

[99] Phillips, 'Monsieur Marchandeau's Approach to the Chancellor', 19 Feb. 1938; PRO, T 160/766/F.15000/02/3.

[100] Rowe-Dutton, 'Note of a Conversation with Monsieur Baudouin, 26th January, 1938', and 'Note of a Conversation with M. Paul Reynaud, 29th January, 1938', in PRO, T 160/766/F.15000/02/2.

[101] Waley to Strang, 17 Feb. 1938; PRO, T 160/766/F.15000/02/3.

[102] Phillips, 'Monsieur Marchandeau's Approach to the Chancellor'; PRO, T 160/766/F.15000/02/3.

[103] Bullitt (from Cochran) to Sec. of State, 18 Feb. 1938 and 21 Feb. 1938; RG 59, 851.5151/1727 and 851.5151/1730.

[104] Drummond, 'London, Washington', 26–9; Waley memorandum on Mönick visit of 9 Mar. 1938; PRO, T 160/766/F.15000/02/3.

widespread expectations that his government would fall renewed the decline of the franc.

Léon Blum had tried to form a government of National Union in January; his efforts met with no greater success in March. He followed Chautemps with a Popular Front government in which he took the Ministry of Finance. Blum was increasingly inclined toward controls, wishing to concentrate exchange operations at the Bank of France in order to facilitate supervision, without being clear on whether supervision would mean formal exchange controls. The Americans, fearing autarky, were sympathetic;[105] the British were alarmed. The franc weakened to 160 and the financial community expected Blum to be defeated in the Senate, with his government one of transition to prove the Popular Front moribund and clear the way for a government of Union Nationale.[106] Blum relied on Georges Boris in developing his programme, avoiding Rueff, who remained as director of the Treasury, and was distracted by directing his cabinet and dealing with new strikes, particularly by metalworkers.[107] Rowe-Dutton's assessment was grudgingly favourable: Blum's programme sought to implement many necessary measures. Under a leader in whom industry and finance had confidence, it might have stood some chance of success.[108] Blum's request for decree powers to implement his programme was denied by the Senate on 10 April.[109]

The new government led by Edouard Daladier presented a financial programme that passed the Senate unanimously, 290 : 0. Rowe-Dutton was surprised; the programme consisted of more inflation and higher customs duties, and its 'extraordinarily favourable' reception seemed to have more to do with Daladier not being Blum than with the programme itself. Marchandeau returned as Minister of Finance; Reynaud, a much-rumoured candidate for the post on the grounds that he could rally Socialist support and would be a dangerous critic in opposition, was made Minister of Justice. Wilfrid Baumgartner, who had served as Reynaud's *chef de cabinet* in 1930, thought serious financial reform would have to wait for Reynaud's appointment as minister.[110] After a few days of respite, rumours of dissension in the cabinet about the rate for the franc and a public statement by Reynaud that it should be lowered to 175 brought renewed selling, requiring heavy intervention to hold the franc at 160. Siepmann reported with irritation, 'This whole question need not and should not have arisen.' He proposed 'a vigorous diplomatic protest' at French abuse of the Tripartite Agreement.[111] But Daladier stated on 23 April that his government was 'unanimous as regards monetary

[105] 'Memorandum by the Adviser on International Economic Affairs (Feis) to the Sec. of State', 14 Mar. 1938; *FRUS 1938*, ii. 270–2, and Wilson (from Cochran) to Sec. of Treasury, 14 Mar. 1938; RG 59, 851.5151 / 1760.

[106] Rowe-Dutton for Sir Frederick Phillips, 4 Apr. 1938; PRO, T 160 / 766 / F.15000 / 02 / 3.

[107] Wilson (from Cochran) to Sec. of State, 28 and 30 Mar. 1938; RG 59, 851.5151 / 1779 and 851.5151 / 1782; Rowe-Dutton to Waley, 30 Mar. 1938; PRO, T 160 / 766 / F.15000 / 02 / 3. For labour relations in the French aircraft industry see Herrick Chapman, *State Capitalism and Working-Class Radicalism in the French Aircraft Industry* (Berkeley and Los Angeles: University of California Press, 1991), here 175–91.

[108] Rowe-Dutton to the Ambassador, 5 Apr. 1938; also Phillips to Hopkins and Woods, 6 Apr. 1938; PRO, T 160 / 766 / F.15000 / 02 / 3.

[109] The legislation passed in the Chamber, 311:250, but was defeated in the Senate 214:47.

[110] Rowe-Dutton to Waley, 9, 13, and 19 Apr. 1938; PRO, T 160 / 766 / F.15000 / 02 / 3.

[111] Siepmann for Cobbold, 22 Apr. 1938; BoE, C43 / 343.

matters and unanimous in affirming its fidelity to the tripartite agreement', obviating the need to protest.[112]

Rueff proposed a loan from the EEA to bolster FSC reserves, noting that while reserves at the Bank of France totalled 55 billions (77 billions at the current value of the franc), transfers of gold were 'inconvenient' for public credit.[113] Bonnet, Daladier's Minister of Foreign Affairs, approached Simon in London on 29 April, extolling his own efforts as Minister of Finance in 1937 and deploring the deterioration of French finances since then. He did not think the government could hold the franc at its current level and sounded Simon on three alternatives: a consolidation of exchange account funds, which Simon bluntly rejected; a credit in London, which Simon doubted would be possible; and a depreciation of the franc to 190 or 200, which Simon observed 'would be entirely contrary to the Tripartite Monetary Agreement'.[114] If the first two were impossible, and the French government refused the unstated fourth possibility of drawing further gold from the Bank, the only alternative was depreciation. The French asked on 3 May if Morgenthau could approve a devaluation to 175 immediately. Morgenthau objected to the rate and demanded a 24-hour delay; he then agreed to a rate no lower than 175.[115] Daladier announced a devaluation to 179 frs./£ on 5 May.

Morgenthau was furious, demanding that the franc be brought back 'immediately' to 175.[116] The British were irritated, but thought the 2 per cent difference not worth serious complaint. But holding the rate at an artificially low level thereafter was a different matter: 'So far from being "allowed to fall", as M. Bonnet put it, the franc was deliberately battered down beyond the market level and then held there, instead of being brought back proportionately to the influx of capital. This was the exact contrary of what had been promised and agreed.'[117] The decision had been made without the prior consent of

[112] Text of message in Sir E. Phipps to FO, no. 277 Saving, 23 Apr. 1938; comment on market reaction in Rowe-Dutton to Waley, 27 Apr. 1938; PRO, T 160/766/F.15000/02/3.

[113] Rueff, 'Note sur le fonds de stabilisation des changes', 27 Apr. 1938. The first version of the note warned that a similar proposal in 1937 had been flatly rejected. Marchandau had this version replaced by one stating that such a loan would be 'the best proof conceivable of the unity of the two countries against the common danger'. SAEF, B 33196, nos. 557 and 558.

[114] Minute of conversation between Simon and Bonnet, 29 Apr. 1938. A more official note, 'Replies to Monsieur Bonnet's Questions', n.d., stated that 'Even if only temporary, an artificial and violent depreciation could not be reconciled with the principles of the Tripartite Agreement'; PRO, T 160/766/F.15000/02/4.

[115] For the French correspondence on this, see 'Entretiens du 3 au 5 Mai 1938 relatifs à la prolongation de l'Accord tripartite', and Leroy-Beaulieu to Rueff, no. 13.024, 9 May 1938; SAEF, B 21848 and B 32325. Morgenthau, pressed on the devaluation issue with the argument that having acquiesced in the depreciation from 110 to 162, it was only a small jump to 175, replied, 'I don't mind losing my virtue, but I hate to think that I am a professional.' See Drummond, 'London, Washington', 32–6.

[116] Drummond, 'London, Washington', 36; Bewley to Waley, 5 May 1938; PRO, T 160/766/F.15000/02/4; Wilson (from Cochran) to Sec. of State, 5 May 1938; RG 59, 851.5151/1832 and Wilson to Sec. of State, 6 May 1938; RG 59, 851.5151/1837.

[117] Bank of England note on points to be made in protesting to the French; the draft approved by the governor left out the statement that the 2 per cent difference was not worth complaining about; the note begins: 'Although the devaluation was agreed, under stress of circumstances, our belief is that the franc was not overvalued at 160 and that the latest devaluation was therefore artificial and violently induced. As such, it was contrary to the spirit of the Tripartite Agreement even though it may not have been intended to result in unfair trade advantage.' Notes of 17 and 18 May 1938; BoE, C43/343.

either the Bank of France or the Treasury. Fournier opposed the measure;[118] Rueff penned a vigorous protest of a decision he found 'deplorable'. So long as the Treasury faced deficits beyond the limits of increased taxation and borrowing, there was no point in trying to calculate a 'point of equilibrium' for the currency.[119] Marchandeau claimed that his experts had decided the opening rate of 179 on the morning of 5 May and that they would bring the franc back to 175, but neither he nor Bonnet would make any firm commitment, arguing that 'around 175' stretched to 179.[120]

Calculations of a 'point of equilibrium' do seem to have played a part in determining the rate. Reynaud had complained on 3 May that the 10 per cent devaluation (to 180) suggested by Daladier would be insufficient, failing to compensate producers for their increasing costs of production.[121] Fournier mentioned rate calculations in explaining the new policy to the Conseil Général, stating that in economic terms a rate of 160 frs./£ allowed 'some advantage for French prices'. A rate of 175 would allow the state to repay Bank advances with the revaluation of gold and foreign exchange reserves, although there were no immediate plans for revaluation. As for 179, he explained that 'the government wished to prompt a return of capital and facilitate those credit operations to which it aims to have recourse'. Fournier characterized the fixed minimum for the franc as a 'profound change' from the floating Bonnet franc to a firm commitment that would give monetary policy top priority in government planning.[122] The subordination of government policy to defending the franc would make all the difference.[123]

The artificially low rate induced a major return of capital. In the first week the inflow was nearly 15 billion francs, coming from the realizing of gains on speculative positions, repatriation of capital by industry, and private capital (indicated by exchange of gold coin and foreign exchange for francs).[124] The abundance of currency brought a sharp drop in interest rates—day money rates fell to less than 1 per cent—a revival of subscriptions to Treasury bills, and a sharp decline in discounting. On 12 May the Bank reduced its discount rate from 3 per cent to $2\frac{1}{2}$ per cent.[125] The FSC needed new funds to buy foreign exchange; a decree law on 17 May authorized interest-free loans from the Treasury against deposits of gold, avoiding the need for published transfers of gold to the Bank. The FSC obtained greater flexibility and linked its operations to the Treasury—not as closely as was the case for the EEA, but with the undeniable advantage of making the operations of both bodies less transparent.[126]

[118] DCP, 12 May 1938, Fournier stated he had advised against the measure.

[119] Rueff to Marchandeau, 3 May 1938, in Rueff, *De l'aube au crepuscule*, 152–6; draft and copies in AN 579 AP 67.

[120] Wilson (from Cochran) to Sec. of State, 5 May 1938; RG 59, 851.5151/1832.

[121] Reynaud to Daladier, 3 May 1938; AN 496 AP 8. Only the first three pages of this letter are in the file, but the arguments and the stationery (Ministère de la Justice) make it clear Reynaud is the author.

[122] DCG, 5 May 1938. Jacques Lemaigre-Dubreuil and René Luche were particularly critical of the devaluation, Luche characterizing it as 'un véritable crime'.

[123] Margairaz claims this devaluation a victory for a 'groupe austéro-libéral' willing to sacrifice stability and independence of the franc for closer ties with Britain and the United States (Margairaz, *L'état, les finances*, i. 444–5). The opposition of Rueff and Fournier, and the hostility of British and American personnel who saw it as a violation of the Tripartite Agreement, make this argument untenable.

[124] DCP, 12 May 1938; DCG, 2 June 1938. [125] DCP, 12 May 1938.

[126] DCP, 19 May 1938; see also the analysis by Rowe-Dutton, 'The Mechanism of the French Exchange Fund', 19 May 1938; PRO, T 160/766/F.15000/02/4.

Steady repatriation of capital and a concentration of Treasury effort allowed the budget deficit to be financed by market borrowing through the summer. Advances from the Bank, which had totalled 8,230 millions in the first four months of the year, were unneeded until the Munich crisis in September.[127] But confidence in the franc proved short-lived in the absence of definitive measures to resolve the budget deficit. In mid-July, Pierre Lacour at the Bank predicted a new exchange crisis in September if the government did not take resolute action.[128] The Bank expected further depreciation of the franc in the absence of strict financial measures to balance the budget.[129]

In August, Daladier and Marchandeau mounted another campaign to obtain a new tripartite declaration to deny rumours that exchange rates were about to change. They approached Henry Morgenthau (in Antibes), who had no wish to make a declaration but proposed that the French ask the British about a joint declaration.[130] Mönick delivered a dramatic warning to the British Treasury: a crisis was imminent and only collective action could prevent Daladier's resignation, exchange controls, or a substantial depreciation of the franc.[131] Daladier wrote directly to Prime Minister Chamberlain, who puzzled over what, precisely, was at issue. Chamberlain expressed sympathy for the French troubles with the franc, but stated that material assistance was impossible and that declarations would not persuade the world that 'fundamental changes' had taken place in France.[132] Daladier then announced his government's resolute hostility to exchange controls and a new devaluation, and dropped the joint declaration idea because of British 'refusal to cooperate'. Bonnet told Bullitt that France would not devalue or impose exchange controls, and that the FSC had not suffered heavy gold losses as Marchandeau had claimed one week earlier.[133] The effort had been a put-on, seeking international support to ease domestic strains.

The tripartite declarations of September 1936 had pledged the British, French, and US governments to co-operate in order to minimize exchange-rate instability. Eichengreen argues that it helped solidify the $35 American gold price, 'providing a nominal anchor for the international system', reducing the risks of exchange market intervention, and encouraging greater stability in international financial markets after 1936.[134] But there is no suggestion in the archival record that British or American monetary policy would have differed substantially or shown less stability in the absence of the Tripartite Agreement. Morgenthau's enthusiasm for using the agreement to link other countries to the 24-hour gold standard provoked an exasperated British Treasury comment that Morgenthau was riding the tripartite idea to death. 'There never was in fact any tripartite

[127] Rueff, 'Note de Trésorerie', 21 Nov. 1938; SAEF, B 33196.

[128] Lacour, 'Note relative à la situation financière', 15 July 1938; BdF, 1069199121/3.

[129] Note without author or title, 18 Aug. 1938; BdF, 1069199121/3.

[130] See Bullitt to Sec. of State, nos. 1256, 11 Aug. 1938, and 1271, 13 Aug. 1938; *FRUS 1938*, ii. 286–9; also Drummond, 'London, Washington', 37.

[131] 'Note by Sir Horace Wilson', and 'Note', 15 Aug. 1938; BoE, C43/344; Johnson (Chargé in the UK) to Sec. of State, no. 784, 17 Aug. 1938; *FRUS 1938*, ii. 291–4.

[132] Chamberlain to Daladier, 17 Aug. 1938; BoE, C43/344.

[133] Bullitt to Sec. of State, no. 1303, 18 Aug. 1938; *FRUS 1938*, ii. 296; Drummond, 'London, Washington', 38.

[134] Eichengreen, *Golden Fetters*, 380–2.

agreement', it noted, merely 'reciprocal agreements' between each pair of the three parties.[135] France did not engage in systematic consultation, and British and American authorities tolerated French transgressions in order to preserve the accord for political as well as economic reasons.[136] Particularly after the French devaluation of May 1938, the idea of expelling France from the 'Currency Club' was discouraged, as it would break solidarity among the leading democratic countries and potentially drive France to exchange controls.[137]

The Tripartite Agreement did reinforce French leaders' unwillingness to adopt exchange controls. But overall, French monetary policy was determined by domestic considerations with little regard for the tripartite commitment to consult or to keep the franc stable. French ministers invoked the Tripartite Agreement repeatedly, hoping international solidarity would bolster confidence within France when weak domestic measures did not. But neither Britain nor the United States was willing to provide financial assistance or public declarations of solidarity to solve problems in French domestic policy. The claims that the problems in France were political were true in good part, but like requests for new statements of Tripartite solidarity, they also served as excuses for inaction.

## 4. CRISIS AND WAR

The Munich crisis in September 1938, in which the threat of war with Germany was averted by British and French agreement to sacrifice Czechoslovakia, increased Treasury need for funds and public demand for currency and gold. The Treasury drew more than 10 billion in new Bank advances in September and drafted a convention to provide a further 25 billion in provisional advances in the event of a general mobilization.[138] The public demand for currency and gold nearly exhausted the Bank's reserves of currency notes. Rueff claims that on the afternoon of 29 September the Bank's general secretary, René Favre-Gilly, came to bid him farewell, intending to commit suicide the next morning because the Bank's supply of notes would be exhausted. The Munich agreement spared him.[139] On 26 September the Bank put 5,000-franc bills printed in 1918 and 1934 into circulation for the first time, and on 28 September it authorized printing 3,000 and 10,000 franc bills to supplement its dwindling currency reserves. All available printing equipment was put to work, the printers' work week extended to 45 hours, and new workers were hired as rapidly as possible.[140] Earlier cutbacks in printing for economy reasons were reversed.[141]

The build-up to the Munich crisis wiped out the capital reflux of May 1938 that had followed devaluation: of the 18 billion francs in FSC resources in June 1938, 2 billion remained at the beginning of October.[142] The September Treasury deficit was 12.8 billion

[135] Note for Richard Hopkins, with agreement of Phillips, Norman, and Chamberlain, 27 Oct. 1936; PRO, T 160/885/17657/09/01.

[136] Drummond, 'London, Washington'.

[137] Draft telegram to Sir Ronald Lindsay (British Ambassador in Washington) for Bewley, n.d.; PRO, T 160/766/F.15000/02/4.

[138] DCG, 28 Sept. 1938.

[139] Rueff, *De l'aube au crépuscule*, 158.

[140] DCG, 26 and 28 Sept. 1938.

[141] See Cobbold, 'Bank of France', 18 Nov. 1938; BoE, OV45/87.

[142] Frankenstein, *Le Prix du réarmement*, 193 and 197; DCP, 17 Nov. 1938.

francs, which required Bank advances totalling 10.49 billion.[143] The government obtained decree powers on 5 October to 'take measures destined to realise the immediate restoration of the economic and financial situation of the country'.[144] Twelve days later, Rueff complained that despite the 'disastrous' state of public finances, nothing had been done to implement necessary measures. But pressure eased on the franc and the Treasury. Munich prompted a turnaround in the Treasury, which was able to reimburse 2.49 billion francs in Bank advances in October, accumulate 6.8 billions in its account at the Bank by mid-November,[145] and advance more than 12 billions to the FSC to facilitate purchases of foreign exchange and gold.[146] This improvement did not save Marchandeau, who resigned on 1 November when his conviction that France needed to adopt exchange controls encountered vigorous opposition from Fournier, Daladier, and Reynaud.[147]

Paul Reynaud took over the Ministry of Finance and directed a remarkable recovery that he would compare, four months later, to Poincaré's in 1926.[148] After five months, Reynaud and Daladier issued a review of their achievements, citing maintenance of the franc as 'the first requirement for the success of our policy as well as the most obvious sign of its success or failure'. The success was complete: FSC reserves had reached 14.32 billion by the end of January. Exchange controls would have prevented this return of capital and gold and continued the flight of capital. 'We judge monetary policy by its results,' they proclaimed; 'the franc, a money abandoned five months ago, has become the great money of refuge in Europe.'[149] Although the return of capital had not been uninterrupted, Fournier saw the return of capital in November as significant, as it was the first time capital had come back without the prompting of devaluation. It was not the lure of realizing profits on the exchange rate that brought the reflux of capital, but 'the hope of restored stability; this capital comes to be invested, at least provisionally'.[150] In December, Cobbold was struck by the 'cheerfulness of Paris bankers in comparison to London' and found the Bank of France 'quietly optimistic' in believing that the worst was over.[151] Reynaud stopped attacks on Fournier and Cariguel within the Daladier cabinet, allowing the Bank to work in peace.[152] At the Ministry of Finance, the tumult of the

[143] Marchandeau to Daladier, no. 599 CD, 3 Oct. 1938; SAEF, B 33196.

[144] Cited in Drummond, 'London, Washington', 39.

[145] Rueff, 'Note de Trésorerie', 18 Nov. 1938; SAEF, 33196.

[146] 'Note sur le Fonds de Stabilisation des Changes', 23 Mar. 1940; SAEF, B 33196.

[147] Marchandeau to Daladier, 1 Nov. 1938; AN 496 AP 8, and Wilson (from Cochran) to Sec. of State, 2 Nov. 1938; RG 59, 851.5151/2002. See also Paul Reynaud, *Mémoires*, vol. ii, *Envers et contre tous* (Paris: Flammarion, 1963), 225–6; Michel Debré, *Trois républiques pour une France: mémoires* (Paris: Albin Michel, 1984), 143; Margairaz, *L'État, les finances*, i. 464–5. The conflict over exchange controls was complicated by the fact that Rueff was preparing legislation for exchange control to be implemented in the event of war; Reynaud approved of his initiative and appointed Rueff Deputy Governor of the Bank of France in September 1939 to take charge of wartime exchange controls. Rueff, *De l'aube au crépuscule*, 164–6, and comptes-rendus of Rueff's meetings on this matter on 25 May 1938 and 5 Sept. 1938 in BdF, 1065199801/10.

[148] Margairaz, *L'État, les finances*, i. 475; Reynaud did so in a radio broadcast on 6 Mar.; 80 copies of the speech were sent to the French embassy in the US; Rueff to Paul Leroy-Beaulieu, no. 5.318, 27 Mar. 1939; SAEF, B 21848.

[149] *Le Bilan économique et financier des cinq premiers mois du plan de trois ans* (Paris: Imprimerie Nationale, 1939), 5–7; copy in SAEF, B 21848.

[150] DCP, 17 Nov. 1938.

[151] Cobbold, 'Paris—20th/21st December', 22 Dec. 1938; BoE, OV45/87.

[152] Cobbold, 'Confidential', 22 Dec. 1938; BoE, OV 45/87.

Popular Front 'revolution' seemed to be at an end: 'Under the impetus of a leader,' Rueff recalled, 'the Ministry of Finance regained both will and hope.'[153]

The strength of the French recovery was remarkable, fuelled by restored confidence, undervaluation of the franc, and rearmament spending.[154] The demise of the Popular Front made a substantial difference. Rist had believed the capital flight in recent years was due 25 per cent to the socialist government, 75 per cent to the unbalanced budget. The steady return, which he believed amounted to 75 per cent of the capital flight, was in spite of a continuing budget deficit.[155] N. E. Young reported to the Foreign Office in July 1939 that 'Confidence in the franc has been completely re-established, in spite of the fact that the fundamental budgetary problem has not been solved and will not be solved until there is a very substantial increase in economic activity.'[156] The greater political stability of the Daladier government was important, particularly when the failure of the general strike in November 1938 made it clear that a revival of the Popular Front was highly improbable. The renewed external threat played a role: the calm after Munich gave way to steadying determination to buckle down to face Hitler's Germany.[157] The franc was kept linked to sterling at 179; the FSC transferred 10 billion in gold to the Bank of France in 1939,[158] and French gold reserves in September 1939 were more than double their level of August 1914 (2,833 tonnes fine gold in 1939, 1,203 tonnes in 1914).[159] The franc ceased to be a problem; commentary on the franc in British and French archives becomes sparse in 1939. 'With the franc stable and strong, there was no need for consultation,' Drummond noted, 'no need for anguished pleading—no need, in fact, for the Tripartite Agreement.'[160]

The financial and economic recovery under Reynaud's direction gave France less than a year of economic recovery before September 1939, leaving levels of output and employment well below their 1930 peaks. A similar recovery begun in June or September 1936 could have made a great difference to French financial, industrial, and military preparation for war. As in 1914, France went to war with sound monetary plans based on previous experience. The Munich crisis in 1938 had been particularly useful in exposing the weaknesses in the Bank's preparedness. Printing of bank notes was accelerated, and when hoarding resumed in 1939, particularly of the new 5,000-franc notes, printing hours were increased

[153] Rueff, *De l'aube au crépuscule*, 159; for the disruption caused by the Popular Front victory in 1936, characterized as 'une véritable révolution', see Jacques Georges-Picot (inspecteur des finances, 1925–37), 'Souvenirs d'un inspecteur des Finances', *Études & documents*, 1 (1989), 321.

[154] See the assessment in Margairaz, *L'État, les finances*, i. 480–6.

[155] N. E. Young, 'Note of an Interview with Professor Rist, May 23rd, 1939', 24 May 1939; BoE, OV45/87.

[156] N. E. Young, 8 July 1939; FO 371/22907, 166.

[157] See William D. Irvine, 'Domestic Politics and the Fall of France in 1940', in Joel Blatt, ed., *The French Defeat of 1940: Reassessments* (Providence, RI: Berghahn Books, 1998), 85–99. One Bank of England observer reported the situation in France had improved 'tremendously' since Reynaud took over at finance: 'The progress which had been made was universally felt to be due not only to Reynaud, but to Hitler. France indeed really finds itself in a cleft stick, with the spectre of war on one side and on the other the practical certainty that any sudden removal of international tension would soon give rise not only to fresh social difficulties but to a serious state of general economic disorganization.' Philip Leslie Hogg, 'General Situation', 6 July 1939; BoE, OV45/16.

[158] In two instalments of 5 billion francs each, on 20 Apr. and 28 July 1939.

[159] Frankenstein, *Le Prix du réarmement*, 205.

[160] Drummond, 'London, Washington', 40.

in workshops and a 10,000-franc note planned.[161] In August the Comité Permanent noted that the Bank's greatest difficulty in balancing its budget was the cost of increasing its reserve of bank notes for use in the event of mobilization for war to the 'indispensable' level of 150 billion francs (at this point the reserve was 92.6 billion).[162]

As the likelihood of war increased in August 1939, demand for bank notes and commercial discounting rose dramatically, but the Bank suffered no significant gold losses and kept its discount rate at 2 per cent. Reynaud and Fournier were more concerned by the situation in Britain, where the EEA was losing foreign exchange and gold; both recommended that the British take drastic steps to 'put their house in order'.[163] The decrees issued to alter France's monetary regime on 2 September 1939 had received Conseil Général approval in a convention signed on 29 September 1938. They authorized the Bank to advance 25 billion francs to the state for mobilization and suspended its need to maintain a 35 per cent reserve ratio in gold. No moratorium or Bourse closure was needed. Exchange controls were adopted by decree on 10 September to assure that the national interest took precedence in the disposition of French financial resources to meet the challenge of war.[164]

## 5. LOSING FAITH

In the last years before the war the Bank of France underwent changes that propelled it, belatedly, down the road towards modern central banking. These changes were linked to three factors: the 1936 reform of the Bank, the departure from gold (with defence of the franc turned over to the FSC), and the persistent difficulties in providing sufficient credit to the French economy and maintaining the Bank's earnings and dividend.

Within the Bank, the 1936 reform reduced the seven internal administrative committees of the Bank to two, the Comité d'Escompte to ensure that paper discounted at the Bank met statutory requirements, and the Comité de Contrôle which supervised the Bank's bookkeeping and the printing and destruction of currency notes.[165] Salaries within the Bank were raised substantially in 1937 after new salary scales in commercial banks (the Lehidieux accords) made salary reform urgent,[166] particularly at lower levels and most particularly for women. All annual salaries under 30,000 francs were increased on a sliding scale, by 20 per cent for those below 8,000 francs, declining to 1 per cent for those closest to 30,000.[167] The *statut de personnel* was reformed in 1937, with lower salaries

[161] DCP, 9 Mar. and 20 Apr. 1939; the work week in *ateliers* printing 5,000 franc notes was increased from 54 to 60 hours.

[162] DCP, 17 Aug. 1939.

[163] Bullitt to Sec. of State for the Treasury, 22 Aug. 1939; RG 59, 851.5151/2236.

[164] Problems were reported in Office des Changes to the Governor, 23 Nov. 1939; BdF, 1069199312/12.

[165] Netter, *Histoire de la Banque de France*, 499–502.

[166] The banks were hard hit by the Matignon Accords, their earnings having fallen considerably during the slump, and a high percentage of their costs being low-wage personnel who would obtain large wage increases. See P. Dieterlen, 'Les Banques', *REP* 51 (1937), 642–3.

[167] DCG, 3 Sept. 1936 and 'Extrait du Registre des Décisions de M. le Gouverneur de la Banque de France', no. 36.873, 4 Sept. 1936, ratifying the proposals made in Pierre Strohl to Labeyrie, 21 Aug. 1936; BdF, 1500197201/9.

Table 8.2. *Bank of France personnel expenses, 1935–1939*

| Date | Personnel expenditure (millions francs) | Number of employees |
|---|---|---|
| 1935 | 217.0 | 9,865 |
| 1936 | 240.9 | 9,953 |
| 1937 | 347.2 | 10,361 |
| 1938 | 363.4 | 10,592 |
| 1939 | 372.6 | 10,712 |

*Source*: Yasuo Gonjo, 'La Modernisation de la Banque de France', 308–9.

boosted further and some higher salaries reduced.[168] Personnel expenses (Table 8.2) were the main increase in the Bank's annual budget. The other significant increase was for printing bank notes, which jumped from 21.9 million francs in 1936 to 80 million francs in 1939, owing to increased demand for currency notes and the Bank's need to amass a strategic reserve for use in time of war.

These increased expenditures could not be covered by direct discounting. The effort to increase direct discounting in the early 1930s, prompted by the sharp decline in revenue from the combined effects of the economic slump and the liquidation of foreign exchange holdings (on which earnings had been falling), had greatly increased tensions between the Bank and the commercial banks. The Crédit Lyonnais was particularly annoyed, complaining directly to Governor Moret and to Deputy Governor Fournier in 1933 and 1934; complaints that the Bank acknowledged to have been justified when it retreated from direct discounting.[169]

In May 1935, needing close co-operation from the commercial banks in defending the franc, the Bank asked them to restrict foreign exchange transactions and to suspend sales of gold and advances against gold or foreign exchange. Tannery took this step following the example set in Amsterdam and London.[170] He requested bankers' co-operation formally in a letter to Roger Lehidieux (president of the Union Syndicale des Banquiers) on 4 July 1935, and renewed the request on 8 May 1936.[171] Governor Labeyrie formally cancelled the request on 16 December 1936, after Auriol's declaration that the Tripartite Agreement made it possible to allow free capital movements.[172] No further formal requests were made via the Union Syndicale des Banquiers, but the Bank kept closer

[168] On the reforms in 1937, see Stéphanie Suard, 'Les Réformes de la Banque de France comme entreprise en 1936–1937', Mémoire de maîtrise sous la direction d'Alain Plessis et Olivier Feiertag, Université de Paris—X, 1997.

[169] Gonjo, 'La Modernisation', 310–13.

[170] Norman advised him of details on these measures taken in Norman to Tannery, 29 May 1935. Tannery told Norman of his meeting with French bankers on 31 May, and sent him a copy of his letter of 4 July to Lehidieux; BdF, 1397199403 / 189.

[171] Private bankers were called into the Bank for meetings with Tannery on 31 May and 20 June 1935; Gonjo, 'La Modernisation', 314–15; Mouré, *Managing the Franc Poincaré*, 150.

[172] Labeyrie to Lehidieux, 16 Dec. 1936, and 'Note' summarizing actions, 1 Feb. 1937; BdF, 1397199403 / 189.

contact with the bankers, calling them to the Bank for meetings when the franc was under pressure, in order to ensure their co-operation in limiting speculation.[173]

In exchange for their co-operation, the Bank limited its direct discounting, which fell from nearly 50 per cent of its commercial portfolio in 1933 to 14.1 per cent in 1936, and averaged 21.5 per cent in the period 1937–9.[174] When Labeyrie sought to reorient Bank policy from direct discounting to rediscounting, he stated that the Bank could not give up direct discounting, which was needed to prevent any private bank from obtaining monopoly control of direct discounting, but explained that it must not deliberately compete with private banks. He intended to reassure the bankers on this point, hoping that in exchange they would accept Bank leadership in overall policy, and a centralization of discounting information to prevent abuse. The Comité Permanent approved his suggestions unanimously.[175] But Labeyrie made little headway in obtaining information from the commercial banks; in April 1937 he complained of this to Auriol, noting the contrast with the good information received by the Bank of England and the control it allowed.[176] In September 1937, Governor Fournier specified that the Bank would act as 'counsellor and guide' to the commercial banks in directing credit policy, and would not pursue an active direct discounting policy. Instructions to this effect were sent to Bank branch directors.[177] Fournier's hopes to centralize information in the Bank would not be realized until after the nationalization of the Bank and principal credit institutions in 1945.

The rate of discount received greater attention. Popular Front reforms had prompted a shift from use of the discount rate to defend the franc to closer attention to the credit needs of the French economy. But pressure on the franc prevented consistent cheap money as was achieved in Britain and the United States (Figure 8.2). There were three influences on the Bank's discount rate policy in practice. The first was the desire to provide cheap money in order to assist in economic revival, particularly investment, and to benefit the Treasury by reducing its cost of borrowing. The discount rate had been raised to 6 per cent in May and November 1935, and again in May 1936 after the Popular Front election victory. The Treasury had argued since 1934 that lower interest rates were needed to promote economic recovery.[178] With Labeyrie as governor of the Bank after the Popular Front took power, the discount rate was lowered rapidly to 3 per cent in early summer 1936, and after an increase to 5 per cent as a matter of form before the devaluation of the franc in September, it dropped to 2 per cent.[179]

173 See, for example, Fournier's account of his instructions to bankers in Sept. 1937; DCP, 30 Sept. 1937.

174 Gonjo, 'La Modernisation', Table 6, 305.

175 DCP, 19 Nov. 1936; Netter, *Histoire de la Banque de France*, 598; Gonjo, 'La Modernisation', 318–19.

176 Labeyrie to Auriol, 14 Apr. 1937; Auriol Papers (formerly FNSP: 2 AU 5, dr 4).

177 DCP, 2 Sept. 1937; see Netter, *Histoire de la Banque de France*, 599–604; Gonjo, 'La Modernisation', 316 n. 779.

178 Mouré, *Managing the Franc Poincaré*, 171–2. Jacques Rueff played a hitherto unappreciated role in the Treasury's realization of the importance of lower interest rates. See the case made in an unsigned note, 'Arguments en faveur d'une baisse du taux d'escompte de la Banque de France', 6 Sept. 1934, and the stress on the role of low interest rates for British recovery in 'Les Enseignements de l'assainissement financier anglais', 11 May 1935, AN 579 AP 60. Rueff argued the need for low interest rates to promote economic recovery in July 1935, insisting 'It is ... indispensable that the Bank rate be as low as possible at all times.' Rueff to Laval, drafts of 23 and 24 July 1935; AN 579 AP 63.

179 Mouré, *Managing the Franc Poincaré*, 145–54.

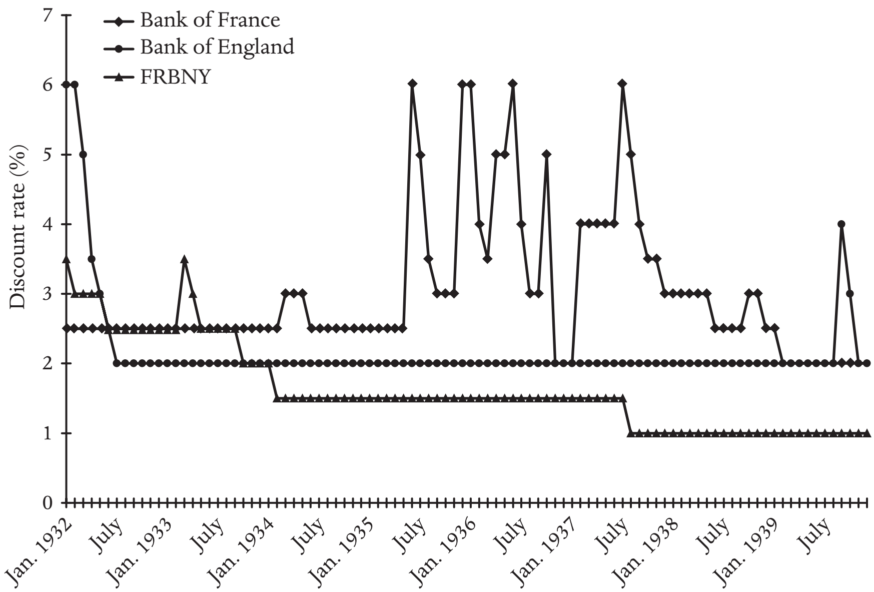


**Figure 8.2.** *Central bank discount rates, 1932–1939*

*Source*: Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics*, 658–61.

An increase to 4 per cent was needed in January 1937 to catch up with rising market rates and allow higher Treasury rates to encourage subscription to Treasury bills, as well as to discourage speculation.[180] In June 1937, the rate returned to 6 per cent to assist in defence of the franc. Bonnet's floating franc made the Bank prudent in lowering its discount rate, to 5 per cent on 6 July in signalling that the period of acute crisis had passed,[181] to 4 per cent on 3 August. The latter was justified as assistance to the Treasury to help convert maturing loans, support the *marché des rentes*, and assist economic recovery.[182]

Fournier proposed a further reduction of 0.5 per cent on 2 September, on the grounds that the discount rate was too far out of line with rates in other centres where capital movements were unrestricted. A significantly higher rate might attract capital in theory, but it had proven problematic in practice, inspiring doubts rather than attracting capital. A larger reduction of 1 per cent, however, was deemed to exercise too strong an influence on the market.[183] The Bank tried to follow the market more closely than in the past, but was not prepared to lead it. The discount rate was held at $3\frac{1}{2}$ per cent through strong pressure on the franc in September 1937, and a turning of the trend and capital repatriation in October. It was lowered in mid-November to encourage longer-term placements.[184] The Bank

[180] DCP, 28 Jan. 1937.
[181] DCP, 6 July 1937.
[182] DCP, 3 Aug. 1937, and DCG, 5 Aug. 1937.
[183] DCG, 2 Sept. 1937.
[184] DCP, 12 Nov. 1937.

maintained this 3 per cent rate through the monetary crisis of April 1938, then lowered it to $2\frac{1}{2}$ per cent following the success of the 5 May devaluation.[185]

At the height of the Munich crisis, when discounts at the Bank increased from less than 7 billion in early August to 15 billion on 26 September, the Conseil Général nudged the rate upwards by 0.5 to 3 per cent. Their reasoning was twofold. First, it would be unusual to leave the rate at $2\frac{1}{2}$ per cent with discounts rising rapidly. Second, the Treasury intended to go on a war footing, issuing three-month bills for which they wished a 3 per cent rate.[186] The Bank discounted liberally, surprised at the quality of paper received, and came through the crisis at 3 per cent, dropping the rate back by 0.5 per cent in November when the crisis had passed and the Treasury sought to reduce interest rates.[187]

From this point, the Bank maintained a consistent policy of cheap money of 'modern' inspiration, in contrast to its nineteenth-century practice of a low, stable discount rate to prevent usury,[188] but not without resistance. A further reduction to 2 per cent on 3 January 1939, justified on the grounds that market rates had fallen considerably below the Bank's rate, provoked opposition within the Conseil Général. Counter-arguments were raised that the Bank should not be forcing a low rate on other institutions, that it was contrary to tradition that 'the French rate of discount is 3%', that rate stability was preferable to frequent changes, and that a lower rate would risk operating the Bank at a loss. Jean-Jacques Bizot, presiding in Governor Fournier's absence, replied with arguments illustrating the degree of progress in Bank practice since the early 1930s. The Bank was following the market, not leading it, and keeping the discount rate in contact with the market was more important than a stability that ignored the existence of the market; and he noted 'the Bank of France must not decide its discount policy as a function of its operating costs'.[189] The following week, Rueff objected to a phrase in the Bank's annual report lauding the stability of the discount rate as a tradition to which the Bank was 'firmly attached', as if discount rate stability were a policy objective.[190] The rate remained at 2 per cent in 1939 and through the fall of France in 1940; it was not changed until March 1941, when it was reduced to $1\frac{3}{4}$ per cent.

The second factor affecting the Bank's discount rate policy was a new consciousness that changes in the rate could have perverse consequences, roiling the waters rather than calming them. Thus in September 1937, having lowered the discount rate to $3\frac{1}{2}$ per cent just as pressure on the franc was mounting, the Bank did not raise its rate as the franc declined in mid-September. The FSC and the government were responsible for the franc; discounting had not risen sufficiently to require a higher rate. Fournier pointed out that raising the discount rate had two effects: a mechanical effect in increasing credit costs, and a psychological effect in alerting the market that the franc was under pressure. In this case, the mechanical effect would not reduce market liquidity because the Treasury was drawing advances from the Bank, and the market was well aware of the pressure on the

185 DCP, 12 May 1938. 186 DCG, 27 Sept. 1938. 187 DCG, 24 Nov. 1938.

188 Gonjo, 'La Modernisation', 326.

189 DCG, 3 Jan. 1939. Significantly, Bizot's support came from the government representatives on the Conseil—Rueff, Baumgartner, and Deroy.

190 DCG, 12 Jan. 1939; although Fournier defended the text, it was revised to declare the Bank's success in keeping its rates as *moderate* as possible.

franc. The psychological effect could provoke alarm when the situation was not yet serious.[191] In mid-January 1938, the Comité Permanent decided against a rate increase at a time when increased discounting was not accompanied by new pressure on the franc, as the change could cause unnecessary alarm.[192]

The third factor was a new scepticism regarding the importance of discount rate differentials between European financial centres in determining capital movements. Domestic finance and the instability of the international political situation seemed to play a much greater role than interest rates on the movements of international capital. The unusually high rate in France was *not* seen as a factor that would attract capital from abroad in search of better remuneration (see Figure 8.2), but rather a signal that something was wrong.

The retreat from direct discounting and the lower rates on discounts and advances combined to threaten the Bank's profitability. In June 1938, reviewing the budget for the second half of the year, Fournier warned that the Bank would have an operating deficit of 60 million francs. The decline in interest rates and the diminished discount portfolio were immediate factors, but longer-term concerns played a part, particularly the conditions of service imposed on the Bank by the state. Of the Bank's 260 *comptoirs*, most of them required by the state, 93 had run losses in the previous semester, and the Bank maintained 399 *villes rattachées*; 'it appears that our network of branches and auxiliary offices are only a financial burden on the Bank'. Fully two-thirds of the Bank's expenses were personnel costs, he claimed, for which it was impossible to reduce either their number or their remuneration. The Bank suffered the same inelasticity with regard to its revenue: for its discounting and advances, the Bank's role was essentially passive, relying on market demand for its facilities. The greater part of the Bank's difficulties, Fournier stated, were the charges imposed by the state: 40 of the 57 billion francs in advances made by the Bank went to the state, earning a mere 0.20 per cent, only 45 million francs in 1938, while the Bank would pay 144 millions in taxes and *redevances*, and 50 per cent of any annual dividend exceeding 240 francs.[193]

Fournier proposed three ways to increase Bank earnings. The first was to increase the rate paid by the state on advances, a matter that would have to be decided by the state.[194] Secondly, the Bank could increase its service charges (*droits de garde*), which would yield at best 10 million francs. A third possibility was to increase the activities of the Bank. Fournier had no wish to increase competition with the commercial banks, but there was the possibility of open market operations: the government granted the Bank power to intervene directly in the market by a decree issued on 17 June. Many members of the

[191] DCP, 23 Sept. 1937.

[192] DCP, 17 Jan. 1938, 2nd meeting. Fournier stressed the need for caution: 'It is impossible to know in advance how an increase in rate will be interpreted: perhaps it will be seen as a warning signal, indicating that the situation is more serious than people realize.'

[193] This and the analysis that follows are from DCG, 23 June 1938.

[194] The 0.20 per cent rate had been set for *new* advances in 1925, the existing advances paid a much higher rate. The repayment of advances in 1928 meant that *all* advances since 1936 were paying the low rate. Bank earnings on advances to the state had been 1,073.3 millions in 1925, and 1,439.5 millions in 1926; in 1938 they were 46 millions. Gonjo, 'La Modernisation', Table 11, 310.

Conseil Général found open market operations a disquieting departure: Lemaigre-Dubrueil worried that 'it can lead to catastrophes'.[195] The Conseil Général's discussion of the Bank budget at the end of 1938 repeated the same financial concerns as six months earlier: Francis Million gave a particularly gloomy report on the repercussions of interest rate reductions. Fournier proposed that he establish committees to investigate possibilities for the Bank to sell or lease the real estate purchased for future expansion in the 1920s, and to simplify Bank operations in order to reduce the personnel required.[196]

The acceptance of open market operations as a legitimate tool of monetary policy for controlling the Paris market, *and* as a means of increasing Bank revenue, marked a significant departure that requires explanation of past attitudes. The issue was critical not for its financial benefits, but for Bank control of the Paris money market and the role of the central bank in the economy. The Bank had long opposed open market operations as an inflationary measure and a violation of the necessary and sufficient discipline of the gold standard. In 1928, Pierre Quesnay had envisaged open market operations becoming a customary tool for Bank control of the market, a means to recover the market control lost since 1914. Provisions in the 1928 monetary reform allowed Bank intervention to purchase short-term securities for foreign central banks and to sell bonds of the Caisse Autonome d'Amortissement, which Moreau lauded as effective instruments to increase Bank control of the circulation.[197]

After the 1928 monetary reform, the Bank considered the possibilities for open market operations. Quesnay's desire to develop an open market policy met firm opposition from Deputy Governor Charles Rist, leading both to consult H. A. Siepmann at the Bank of England as to British procedures. Quesnay urged that the Bank exploit its new powers to engage in systematic open market operations. The authorization to purchase short-term bills for foreign central banks gave the bank permission to purchase bills for its own account, a complement to its authorization to sell bonds of the Caisse Autonome d'Amortissement in order to reduce market liquidity. An active open market policy could be used as 'the avant-garde of the discount policy', working in the same direction as discount-rate changes, rather than to 'falsify systematically the normal play of economic forces'. Quesnay argued for Bank support to create a strong acceptance market in Paris, and for an active discount policy to be kept within $\frac{1}{8}$ to $\frac{1}{4}$ per cent of the market rate—not to impose a Bank policy, but to be sensitive to the pulse of the market. 'The essential character of the interest rate is to vary with credit conditions, and the policy of discount-rate immobility no longer has any justification ... appearances are sacrificed to reality.'[198]

Rist rejected Quesnay's arguments, insisting that the Bank maintain a passive policy stance. Reviving the pre-war acceptance market depended not on Bank intervention but on a stable franc. Open market operations would be dangerous in two ways. First, they would depart from the Bank's passive role in offering discounts and rediscounts on the same basis to all; open market purchases and sales would be an active policy serving only a part of the market. Second, and more significantly, Rist could see nothing other than

[195] DCG, 23 June 1938. [196] DCG, 23 Dec. 1938. [197] Mouré, *Managing the Franc Poincaré*, 136.

[198] Quesnay, 'Note sur l'établissement d'un important marché hors banque à Paris', Aug. 1928; BdF, 1069198810/35.

inflation pure and simple in open market operations, working *against* the normal market correction, when judicious management of the Bank's discount rate could accomplish the same ends without the risk of inflation. Open market operations in the United States, a country 'indifferent to inflation', were responsible for the credit abuse of the past year. British experience, too, served as a warning. The Bank of England had used open market operations since 1919, he claimed, because the British exchange was 'precarious and constantly threatened'. British policy was not an example to follow. 'The policy I have advocated constantly at the Bank of France for the last two years', he concluded, 'has been inspired by a very simple idea: to return in all domains to the normal methods which gave satisfactory results in all great money markets before the war.' The restoration of free capital movements, gold convertibility, and judicious use of the discount rate were the best and the only sure measures for central bank control.[199]

Quesnay conceded much of Rist's case against experience abroad, but he still insisted that open market operations could stabilize the French money market. His concern was not to increase liquidity, which would indeed be inflationary, but to prevent a contraction when large Bank foreign exchange holdings were liquidated, drawing currency into the Bank. The Bank could increase its market control by replacing foreign exchange holdings with increased discounts, advances, and open market operations.[200] He agreed that it was desirable to return to the passivity and automaticity of pre-war practice in all domains, but insisted that to do so alone when all other major centres were following a completely different path would result in isolation. To rely on the discount rate when monetary authorities elsewhere intervened directly to control the volume of credit in their markets would handicap the Paris market: 'it would be disarming ourselves perilously'.[201]

Siepmann discussed open market operations with Quesnay in London and sent a summary of the discussion to Rist that explained British methods, which clearly worked along the lines advocated by Quesnay.[202] Replying to Rist's concern about the proportions of open market and rediscounting operations, Siepmann explained that open market operations were minimal, used only to make the Bank rate effective.[203] Quesnay stated that he hoped to proceed by stages, beginning with open market purchases for foreign central banks. But the second stage, selling Caisse Autonome bonds to the

[199] Rist, 'Note sur l'intervention éventuelle de la Banque de France sur le marché hors banque', 25 Aug. 1928; BdF, 1069198810/35. Rist also stated his opposition to Benjamin Strong's views on central banking, which he found inflationary, 'which I in no way share ... It is that the role of central banks is to create or withdraw credit in order to regulate movements in output and exchange, and that central banks are effectively able to fulfill this role' (p. 9). 'The word "organization" is repugnant to his liberalism, as much as the word "intervention,"' Quesnay commented. 'In other words, he prefers his roses wild.' Quesnay to Siepmann, 16 Aug. 1928; BoE, OV45/80.

[200] As explained to Siepmann; 'Note of Conversations in Paris with Monsieur Rist and Monsieur Quesnay on the 25th and 26th July, 1928', 31 July 1928; BoE, OV45/79.

[201] Quesnay, 'Remarques sur la note de M. Rist relative à l'intervention éventuelle de la Banque de France sur le marché hors banque', 27 Aug. 1928; BdF, 1069198810/35; there is a copy of the note, heavily annotated by Pierre Ricard (who disagreed with much of it), which notes this was dictated in haste on 27 Aug.; BdF, 1397199403/67. Quesnay expressed similar concerns in Quesnay to Siepmann, 16 Aug. 1928; BoE, OV45/80.

[202] Siepmann, 'Market Control', 27 Aug. 1928; BoE, OV45/80.

[203] Siepmann to Rist, 7 Sept. 1928; BoE, OV45/80.

market, was stalled by a Treasury refusal to exempt the Bank from the tax on interest earned in these operations. Quesnay did not think this loss significant, especially given the size of Bank profits at the time.[204] When the Bank authorized selling bonds to tighten the market in January 1930, the taxation of interest earnings on the bonds was its excuse for not engaging in the operation, but the real reason, which may have been decisive in 1928 as well, was opposition to open market operations among the regents.[205]

Pierre Ricard in the Bank's Direction des Études sided with Rist in the dispute over open market operations in 1928;[206] in 1929 he echoed Rist's views, arguing that the Bank had secure control of the money market through use of its discount rate, and that the Bank's strength and prestige were based upon the 'exclusively passive' role established by its founding statutes in the interest of democratic access to credit. He found open market operations, although 'highly fashionable in some countries in the last few years', impossible for the Bank of France on its own account, and contrary to effective use of its discount rate: 'operations of this sort would only end up competing with its own discount policy to the profit of a privileged few, which would clearly break with the principles of equality in credit conditions established in its own constitution'.[207]

When the Bank came under fire in the early 1930s for the size of the gold drain to France, it defended its passivity, rejecting open market operations as inappropriate and not permitted by current Bank statutes.[208] The official French reply to British Treasury complaint stated that France saw in open market policy 'a great danger, if it seeks to avoid the spontaneous reactions which, by the functioning of the gold standard, assure market equilibrium and restore it when it has been accidentally disturbed'.[209] Sterling's departure from gold in September 1931 served to confirm this view. Open market operations, a form of monetary management (*monnaie dirigée*) even more dangerous than the sterilization of gold, had systematically neutralized the effect of gold losses on the British economy, preventing a natural correction of the British international payments imbalance. The British experience confirmed Rueff in his belief that open market operations conducted on a systematic basis were at best unnecessary (*inutile*), and most often harmful (*nuisible*).[210] Observers in the Bank of France agreed: open market operations had been used systematically to obstruct the automatic corrections of the gold standard.[211]

[204] Quesnay to Siepmann, 1 Sept. 1928, and Siepmann, 'Note of Conversations Held in Paris on Saturday the 6th October 1928', 9 Oct. 1928; BoE, OV45/80.

[205] Mouré, *Managing the Franc Poincaré*, 139–40.

[206] Ricard annotations to Quesnay's 'Remarques sur la note de M. Rist', BdF, 1397199403/67.

[207] Ricard, 'Le Taux d'escompte officiel, sa signification, son importance', and 'Le Rôle et la mission de la Banque de France dans le fonctionnement du marché monétaire français', Nov. 1929; BdF, 1397199403/67. Gonjo states that the Bank was amenable to open market operations at this time and that its opinion changed in 1931 when the British advocated open market operations to slow the inflow of gold, but there was clearly resistance within the Bank from the time Quesnay first pushed the development of open market operations in 1928. Gonjo, 'La Modernisation', 320–1.

[208] Mouré, *Managing the Franc Poincaré*, 61, 141, 143.

[209] Escallier, 'Note pour le Ministre', 13 Jan. 1931; SAEF, B 31851; the point was made in nearly identical terms in a draft by Rueff for this note, 9 Jan. 1931; BdF, 1397199403/2.

[210] Rueff, 'Sur les causes et les enseignements de la crise financière anglaise', 1 Oct. 1931; reprinted in Rueff, *De l'aube au crépuscule*, 312–13.

[211] Georges Lacout, 'La Banque d'Angleterre et la défense de la livre sterling', 30 Sept. 1931; BdF, 1397199403/163.

In 1932 and 1933 the Direction des Études produced a series of notes, partly in preparation for the World Economic Conference of June 1933, which echoed and elaborated the arguments Rist had used in 1928. Systematic open market operations were presented as a purely post-war development, undertaken particularly in the United States and Britain in an effort to stabilize domestic prices and credit conditions in direct opposition to the logic of the gold standard. France gave three reasons for opposing their use at home. First, open market operations were forbidden by the Bank's statutes. This was not strictly true, but without the Bank's co-operation, a change in practice would require parliamentary approval. Second, open market operations would be ineffective. Because commercial banks did not hold large quantities of government debt, Bank purchases would drive down the price of government paper. Third, and most important, they were unnecessary. The Bank's uniform discount rate, made effective through direct discounting at its 360 branches, made sufficient credit available at uniform rates throughout the country. Open market operations were 'a concept eminently foreign to the spirit and to the statutes of the Bank of France, in virtue of which the bank of issue must not take the initiative in the creation of credit, for which it is always difficult to assess the need, but be ready to furnish at all times the credit demanded of it'.[212]

Open market operations had contributed significantly to the monetary instability and the economic crisis of recent years: 'They seek to ignore systematically the traditional rules of the gold standard, claiming to improve its functioning by arbitrary manipulation of the rate of interest and the purchasing power of the currency.'[213] The note written for Georges Bonnet shortly before the World Economic Conference pointed out that while open market operations could be used either to reinforce or to neutralize the effect of gold movements, in both Britain and the United States they had been used only for the latter. In Britain, open market purchases in 1931 had neutralized the effect of gold losses, promoting speculation and producing sterling's fall from gold. In the United States, open market operations in 1931–2 had weakened American gold reserves and confidence in the dollar without raising prices.[214] Bank discount policy was claimed to be 'more active' than in either Britain or the United States, since direct discounting and nationwide branches of the Bank of France provided better control of interest rates and credit than was possible for its counterparts abroad.[215]

The Bank maintained its opposition to open market operations so long as the franc remained on gold. Lacour-Gayet explained in 1934, in a 'layman's explanation' based on the earlier exposés, that open market policy as practised by the Bank of England and the Federal Reserve Bank of New York 'must be resolutely rejected, not only because it is contrary to the very principle of the functioning of the gold standard, but also because it

[212] Drawn from 'Note relative aux opérations sur le marché libre et à la politique de la Banque de France', 6 Jan. 1933. The progression of the argumentation can be followed in 'Les Opérations d'open market', 6 July 1932; 'Note sur l'intervention des banques centrales sur le marche libre', 13 July 1932; and a series of notes from 24 and 25 Oct. 1932; BdF, 1397199403/67.

[213] 'Note sur l'intervention des banques centrales sur le marché libre', 13 July 1932; BdF, 1397199403/67.

[214] The bulk of American gold losses went in fact to France, which converted its dollar holdings independent of American open market operations.

[215] 'Note sur l'open market policy', 23 May 1933; BdF, 1397199403/67, and see Mouré, *Managing the Franc Poincaré*, 143–4.

actually constitutes an indirect form of inflation. The role of a bank of issue does not consist of issuing bank notes against state securities, but in according credit to commerce and to industry. Only in this way can it usefully assist in the development of economic activity.'[216] The same note was submitted to René Brunet, head of the Chamber of Deputies' finance commission examining the legislation to reform the Bank in July 1936, which did not tackle open market operations.[217] Interest in the subject revived nonetheless; several politicians declared a cautious interest in granting the Bank open market powers in 1936 (notably Joseph Caillaux and Marcel Régnier). The chief difficulty, even in recognizing their utility, was their inflationary potential: American and British practice were not seen as examples to be followed.[218]

Departure from gold did bring an effort to clear the way for open market operations. The Popular Front's *projet de budget* for 1937 contained an article that would authorize the Bank to engage in open market operations, 'to act on the volume of credit and to maintain control of its circulation', the *exposé des motifs* noted that the purpose was not to substitute for discount rate variations, but to reinforce their effect and reduce their frequency.[219] The prospect seemed dangerous to commentators; Jenny noted that the government was mistaken in seeking a technical solution to high long-term rates in France when what they faced was 'a problem of financial policy and even of policy, period'.[220] The article was removed before the budget reached discussion in the Chamber.[221] Authority was granted in June 1938, when the Daladier government used its decree powers to give the Bank the necessary authority without parliamentary discussion or extended explanation of a measure that remained controversial, as was evident in the press accounts which followed. Although the press of the Left was mainly favourable, that of the Right and Extreme Right was critical, with many journalists terming open market policy an 'open door to inflation'.[222]

Fournier supported the measure. He brought it to the Conseil Général's attention in his review of the Bank's budget for the second half of 1938, as one way in which the Bank could extend its activities and increase revenue. Fournier stated he was studying the matter in accord with government wishes, and that he was not hostile to the measure provided constraints ensured that the Bank would be the 'sole mistress of its interventions', free of pressure for operations to benefit the Treasury.[223] At the end of June, he informed them of a government decree of 17 June that authorized open market operations (published in the *Journal officiel* on 29 June), making it clear that the conditions and limits

[216] Lacour-Gayet, 'L'open market policy', 2 May 1934, marked 'Note de "vulgarisation" destinée a M. Duchemin'; BdF, 1397199403/67.

[217] 'L'open market policy', 15 July 1936; BdF, 1397199403/67.

[218] See Jenny, 'La Politique du marché ouvert', *Le Temps*, 31 Aug. 1936.

[219] Draft of projet and 'Note sur le projet autorisant la Banque de France à pratiquer une politique d'open market', 7 Nov. 1936; BdF, 1397199403/67.

[220] Jenny, 'Le Loyer des capitaux et l' "open market" ', *Le Temps*, 9 Nov. 1936.

[221] Netter, *Histoire de la Banque de France*, 612.

[222] See the press collected in BdF, 1069198810/35, and summary of press reaction in 'Le Décret du 17 Juin 1938, L'open market', May 1945; BdF, 1397199403/67. Edmond Giscard d'Estaing, writing in the *Revue de Paris*, saw no utility whatsoever for open market operations in France, which would serve only as a new means for Bank advances to the Treasury. Giscard d'Estaing, 'L'open market', *Revue de Paris*, 1 Feb. 1937, 654–64.

[223] DCG, 23 June 1938.

of Bank intervention would be determined by the Conseil Général, a matter on which he had insisted in his negotiations with the Minister of Finance.[224] The decree authorized the Bank to deal only in short-term paper, either government bonds of less than two years or bank acceptances of less than ninety days that met Bank rediscount requirements. In their discussion, some councillors sought to limit narrowly the extent of Bank open market purchases. Fournier objected that the practice would prove futile if overly restricted, and justified the measure by the flexibility it could provide in managing the money market. He insisted, significantly, that 'The idea inspiring the institution of the open market is that *it can be harmful for a bank of issue to remain purely passive.*'[225] After extensive discussion, the limits imposed were that the balance of operations could not exceed half the total of discounts (commercial discounts and thirty-day *advances sur effets publics*) or 8 per cent of the gold reserve.[226]

The Bank made limited use of the new provision before the war. Earnings from open market operations were 29.4 million francs in 1938, and 109.4 million francs in 1939 (nearly one-seventh the Bank's revenue for the year).[227] The provisions for intervention were revised slightly in September, to allow the Bank to purchase *effets en la forme de pensions* (i.e. purchase with immediate resale forward), to render the open market system more flexible.[228] In July 1939 the limit on open market operations to half the total discounts and advances was relaxed; it had proved tight in April, and the governor wished a wider margin of manoeuvre.[229] In all, open market operations made only a marginal difference to the Bank's budget and in their influence on the French money market.

Open market operations in the late 1930s did not mark a decisive entry into modern central banking.[230] They did, however, mark a new step towards active monetary management, significant not so much for what it accomplished at this time, as for the abandonment of the rhetoric of passivity and gold standard automaticity that had marked the Bank's resistance to innovations throughout the inter-war period.

The Bank's progress towards modern central banking was a product of three interlinked factors. First, the relentless financial needs of the government and concerns for the state of the national economy increased the demands made on the Bank, not simply for advances to the state and cheaper credit, but for better organization of the French money market and increasing intervention in the market. The Bank had used a rhetoric of passivity to resist modernization, but by 1938 the forces of resistance within the Bank had been weakened, and the examples of managed money abroad could no longer be dismissed as utterly mistaken and leading ineluctably to catastrophe when

[224] DCG, 30 June 1938. [225] DCG, 7 July 1938, emphasis added.

[226] This double requirement was to ensure that when discounting increased simultaneously with gold losses, open market purchases could not rise indefinitely with the discount portfolio. These provisions adopted in part the recommendations of the Direction des Études in studying the problem one year earlier: 'Suggestions tendant à limiter les interventions de la Banque de France sur le marché libre en cas de mis en œuvre d'une politique d'open market', 19 Aug. 1937; BdF, 1069198810/35. [227] Gonjo, 'La Modernisation', 310 (Table 11).

[228] 'Note', 31 Aug. 1938; BdF, 1069198810/35; discussed and approved in DCG, 1 Sept. 1938.

[229] DCG, 6 July 1939.

[230] For a detailed account of the Bank's logic and actions, see Najat Lakhal, 'La Politique monétaire de la Banque de France: l'open market policy de juillet 1928 à juillet 1939', mémoire de maîtrise, Université de Paris—X, 1997, sous la direction de M. Alain Plessis.

economic and financial conditions in the countries in question were so much better than those in France. Second, the reforms of 1936, particularly the elimination of the regents, facilitated modernization by removing the most conservative elements in the Bank and reorganizing the Conseil Général to provide strong representation of national economic interests therein. Third, the demise of the gold standard between 1931 and 1936 provided an important longer-term lesson in the viability of managed currency and exchange rates abroad in conjunction with economic recovery, and in marked contrast to the prolonged depression experienced in France while clinging to faith in the gold standard. Without the illusory 'automaticity' of the gold standard, the need for modern monetary management could not be ignored or obscured.

Developments within the Bank reflected a more general loss of faith in the gold standard. True believers might lament the demise of the inter-war gold standard, but the trend abroad moved clearly towards active monetary management to stabilize domestic prices, promote employment and economic growth, and effect adjustments with the international economy via the exchange rate. The last congress of French economists before the war concluded unanimously that the gold standard has ceased to exist.[231] Bertrand Nogaro, an economist and Radical deputy, analysed the relationships between gold, currency units, and prices in the 1930s and found that managed currencies had greater stability of purchasing power than those tied to gold. He asked whether the gold standard as traditionally understood in France had ever existed at all.[232]

[231] M. Ansiaux, 'Comment se pose actuellement la question des étalons de valeur?' *REP* 52 (1938), 1523–34.

[232] Nogaro, 'L'Étalon d'or a-t-il existé?'

# 9

# Conclusions

The gold standard earned a better reputation than its actual performance merited. The smooth functioning of the classical gold standard owed a great deal to favourable historical circumstances (Chapter 1). The First World War sent a seismic shock through the international economy, with the worst effects felt at its epicentre among the European belligerents. War finance produced inflation and instability: high levels of government debt, rising prices, and currency depreciation. Looking back from the early 1920s, the classical gold standard seemed to have provided an ideal system of balanced budgets, stable currencies, and stable prices. Relinking currencies to gold, from this perspective, offered a solid anchorage for drifting currencies and a reliable mechanism of adjustment to assure financial equilibrium. The Cunliffe Committee's explanation of the gold standard provided the classic statement of the presumed working of this system, and of the means to restore it in Britain by reversing the inflationary process that had destabilized the system since 1914. Belief in the gold standard as the ideal system against which all rivals would be measured and found wanting was persuasive in the 1920s. But the restored gold standard in operation proved deeply flawed. This chapter summarizes four critical aspects of our historical understanding of the operation of the inter-war gold standard as seen through the lens of French experience.

## 1. THE GOLD STANDARD AND POLICY REGIMES

The inter-war gold standard operated with a deflationary bias, imposing monetary contraction on those central banks losing gold without inducing compensating expansion by central banks gaining gold. It transmitted monetary shocks internationally with impressive efficiency, and encouraged destabilizing speculation. The Bank of France, accumulating a vast hoard of gold from 1928 to 1932, contributed significantly to the contractionary pressure exerted by the gold standard. It employed the logic of adherence to the gold standard consistently to determine, explain, and defend its policy. In many ways, it provides an ideal case to demonstrate the gold standard's determining power as a monetary regime that pushed the world and then France itself into deep depression. As the central bank making the most adamant claims for the importance of gold standard orthodoxy, the Bank of France defended the franc on gold at great cost to the French economy in the mid-1930s. Even after devaluation in 1936, it failed to exploit the greater freedom of its monetary policy in order to promote a strong domestic recovery.

Although French experience demonstrates that gold standard belief played a powerful role in setting French policy, the archival record qualifies the blame that can be attached to the gold standard and to a 'gold standard ethos' for causing the Great Depression and delaying recovery from the slump. The process of policy formulation was more complex and unpredictable than treatments of the gold standard as a policy regime maintain. The development of policy knowledge and the techniques of monetary management was an incremental process; interpretations positing abrupt regime changes from gold to managed currency or to 'socialist' state direction of the economy obscure the gradual policy evolution that took place.[1] Individual character and beliefs, institutional interests and tradition, and the pervasive influence of politics all played important roles in determining policies and their outcomes. The agency of the players must not be sacrificed in order to argue the determining force of regime principles or 'rules of the game'.[2]

No gold standard 'regime' or underlying principles drove French policy to impose monetary contraction, either domestically or internationally. Particular individuals, institutions, and political concerns determined policy within intellectual constraints adopted willingly. Fear of inflation was the strongest determining principle of French policy, and much of the gold standard's influence was as a proven means to prevent inflation. The consistency of French views on this point, particularly within the Bank of France, is striking throughout the period 1914 to 1939. Suspension of gold convertibility in August 1914 provided an escape hatch to permit Bank advances to the government—an avenue for inflation—for the purposes of mobilization and war finance. At the end of the war, return to the gold standard was believed necessary for three reasons. First, it would reimpose the constraint of gold losses as a means to control government spending and to adjust external accounts in order to maintain equilibrium in the balance of payments. Second, it would restore the primacy of the central bank in determining monetary policy, taking control back from governments whose spending during and after the war fed inflation to satisfy political objectives (be they national defence, reconstruction, or avoidance of heavy taxation). Third, it would provide the stability of exchange rates and currency value deemed essential as the foundation for trade, investment, and economic growth (Chapter 2).

The gold standard was not easily restored. During the war, the Bank of France had promised the franc would return to its 1914 parity, and it sought to keep its own credit distinct from that of the state. Its inability to deliver on either count reinforced belief in the need for the gold standard as a bulwark against state-directed currency mismanagement and against any compromising of the power and prestige of the central bank. For good economic and political reasons, reconstruction took precedence over monetary stabilization after the war, but the government's inability to repay wartime advances and reduce currency in circulation left monetary policy subject to political demands and mismanagement. The Bank's co-operation was necessary for the state to maintain its deficit spending; the Bank was drawn from an advisory role into a clearly political role in

[1] In particular see Temin, *Lessons*.

[2] This argument is developed at greater length in Kenneth Mouré, 'Vu du pont: l'étalon-or de l'entre-deux-guerres était-il un "régime"?' *Économie internationale*, 78 (1999), 105–28.

determining the degree of assistance it would provide to the state and in seeking to influence public debate regarding policy priorities.

This was particularly evident in the mid-1920s, when bank co-operation with the government was essential to effective defence of the franc. Under Georges Robineau and his influential secretary general, Albert Aupetit, the Bank played a significant part in bringing down the Cartel des Gauches in 1924–6, taking advantage of inept state policy to undermine the Cartel, and eventually risking monetary collapse in order to destroy the Cartel (abetted by the Cartel's limited competence), seeking to preserve its gold reserves for post-Cartel monetary reconstruction (Chapter 4). The importance of individuals is particularly clear in the change of Bank direction in June and political leadership in July 1926. Under Émile Moreau, the Bank exerted greater influence on government policy and public debate, in effect determining both the timing and the rate of stabilization in 1926–8. The Bank's commitment to the gold standard had not changed, but Moreau abandoned Robineau's mania for restoring the 1914 franc, choosing the more practical policy of immediate stabilization. His success, however, depended on Raymond Poincaré's political mastery of the Chamber of Deputies, using the threat of renewed monetary instability to discipline an otherwise fractious coalition government (Chapter 5).

French monetary policy after June 1928 was dominated by three concerns. The first was to preserve the franc by vigilance against the pre-eminent danger: inflation. As the quantity of notes in circulation rose, the Bank sought to limit the increase in circulation to the needs of commerce and prevent any significant rise in prices. The second was to maintain the Bank's autonomy and increase its domestic influence. Bank efforts to exercise greater control over the money market in Paris were unsuccessful, through resistance from the financial community (including some regents) and the impact of the Depression.[3] But the recovery of Bank prestige and authority made the Bank virtually unassailable. The government had no need to interfere with Bank authority so long as prices were stable, gold reserves rising, the Treasury healthy, and the French economy thriving despite the onset of depression abroad. With no interference from government and no threat of inflation from state fiscal policy, the Bank could abstain from engagement in domestic politics. The third concern was the Bank's international position. Governor Moreau was particularly committed to enhancing the Bank's prestige abroad, and although Paris remained inferior to London and New York as a financial centre, Moreau secured his bank's international position on a par with the central banks in those centres. The political element implicit in central bank relations was explicit in Moreau's insistence on the role of the Bank of France in maintaining French influence abroad.

In seeking to satisfy these three concerns, the Bank accorded no consideration to the impact of its policies abroad.[4] Contemporaries accused French policy of deliberately using financial power to exercise political influence in Europe. Even sympathetic critics found French policy negligent or inept in imposing deflation on the gold standard world

[3] See Mouré, *Managing the Franc Poincaré*, 123–40.

[4] It did pay attention to criticism from abroad, seeking to explain its policy, and considered such criticism in making policy, but this is not the same as considering the actual monetary and economic impact of its policies abroad.

after 1928. The new orthodoxy in the historical literature, attributing the contractionary force causing depression to monetary policy and gold standard orthodoxy, necessarily finds French policy to have played a significant role in the onset of the Depression and the severity of the contraction. Johnson charges that French policy sought to deflate world prices rather than allow French prices to rise after 1926, and deliberately drew gold to effect deflation abroad.[5] Archival records yield no sign that French policy makers sought to lower world prices. Rather, they sought price stability in France, and were untroubled by deflation abroad. These records do reveal fundamental problems with the inter-war gold standard, problems that surpassed French responsibility. French domestic policy dealt rationally with the difficulties and the phobias it faced. It is not French experience, but the broader systemic problems that French experience highlights, which are most worthy of note.

First, the stabilization process in the mid-1920s paid insufficient attention to currency valuation. Central bankers believed the gold standard system would adjust domestic price levels to restore equilibrium. After the conspicuous instability of the post-war years, returning to gold seemed to offer a sure solution to currency depreciation, price inflation, and budget deficits. The precise valuation of a currency mattered less than the commitment to maintain parity, with the fiscal and monetary discipline this would impose. The overvaluation of sterling was the most important currency misalignment of the 1920s, weakening the gold standard system at its heart. The domestic logic of maintaining confidence in sterling as a gold currency and in London as a financial centre took precedence over the domestic adjustments this entailed. London's weakness increased the need for co-operative management of the gold standard, encouraged other European currencies to return to gold at lower parities to ease their own adjustment difficulties, and worked to discredit the gold exchange standard, monetary management, and central bank co-operation. As late as 1933, European bankers looked to London for leadership that British monetary authorities were unable to provide.[6] The Belgian franc was undervalued in October 1926 and the Italian lira was overvalued in December 1927, each with the seal of central bank credits approving the stabilization.[7] The French franc was undervalued in June 1928; central bankers and economists approved the rate initially as well chosen.[8] These decisions and the international comments upon them demonstrated widespread faith in the gold standard as mechanism of adjustment. Most comment approved giving priority to domestic concerns for durable stabilization in the belief that the gold standard as an international system would look after itself. This assumption quickly proved problematic.[9]

[5] Johnson, *Gold, France, and the Great Depression*.

[6] See Clavin, *Failure of Economic Diplomacy*.

[7] Meyer, *Bankers' Diplomacy*; Jon S. Cohen, 'The 1927 Revaluation of the Lire: A Study in Political Economy', *Economic History Review*, 25 (1972), 642–54, and Roland Sarti, 'Mussolini and the Italian Industrial Leadership in the Battle of the Lira, 1925–1927', *Past and Present*, 47 (1970), 97–112.

[8] Kenneth Mouré, 'Undervaluing the Franc Poincaré', *Economic History Review*, 49 (1996), 137–53.

[9] One of the most obvious cases was Keynes's rapid revision of his initial view that the choice of rate for the franc was 'about right' to belief that French policy would exert 'steady deflationary pressure' within the gold standard world; cited ibid. 150–1.

National concerns took precedence in determining monetary policy for two reasons. First, decisions regarding currency were a domestic matter in which no international body could claim the knowledge, the authority, or the right to interfere. Recommendations by outside experts could be proffered, and could be made a condition for foreign credits if the country sought such aid, but could not be imposed except in unusual circumstances such as those that prevailed in Germany and Austria. Such treatment was immediately recognized as appropriate for defeated enemies. Second, no individual or organization possessed or wished to take responsibility for the operation of the international system. The apparent automaticity of the classical gold standard, balancing divergent or conflicting national policies, was a significant part of its attraction. How it actually worked received little analysis until the gold standard failed to run smoothly in the inter-war years.

Central bank co-operation was the means envisaged to co-ordinate policy and stabilize the system, but central banks were divided by personality conflicts, institutional rivalries, conceptual disagreements, and differing national political and economic interests. Governors Strong and Norman both admitted in the late 1920s that if one gathered central bankers from many countries with differing languages, institutions, economies, and ideas, it would be difficult to get them to agree on anything at all. The Genoa resolutions for co-ordinated effort to stabilize the purchasing power of gold could not be put into practice. Central bankers retreated from the 'Genoa principles' because the benefit offered—a temporary reduction in demand for gold—was outweighed by the systemic instability produced when gold 'centres' could not necessarily meet the claims of central banks holding gold currencies as reserves.

Domestic concerns dominated policy determination. The gold standard linked currencies via their gold parities and disciplined policy via the external constraint of gold losses. The 'underlying principles' that set the conceptual framework for policy discussion and determination came not from the gold standard itself, but rather from the prevailing economic conceptions of which the gold standard formed but one part. The importance of a balanced budget and a balance or a surplus in external payments were not products of gold standard belief; the gold standard provided the means to discipline domestic policy to meet these ends. Departure from gold did not liberate policy makers from these objectives in the 1930s, not because of the lingering influence of a gold standard 'policy regime' or 'ethos',[10] but because these objectives made sense on or off gold. A conceptual reorientation was needed to change the goals set for policy. The failure of the gold standard and the policy innovations off gold in the 1930s provided an important transitional stage in which employment, output, and price stability would take precedence over exchange-rate stability. A strong national economy would subsume and supersede the narrower goals of sound finance and sound money as the ultimate objective for fiscal and monetary policy.

The influence of the gold standard, as revealed by policy in France, remains significant in pushing deflationary policy upon countries losing gold. But French policy makers' disregard for the influence of their policies abroad and the orientation of British and American policies toward domestic needs reveal an important aspect of gold standard

[10] As argued in Temin, *Lessons*, and Eichengreen, *Golden Fetters*.

operation. Just as the classical gold standard can be seen as an 'additive' or 'residual' system internationally, with decisions within national monetary systems producing a coherent international system, the inter-war gold standard remained an additive system. Decisions made within national monetary systems, determined by domestic demands that were as often political as economic, produced a situation in which rivalry and conflict reduced the coherence of the international system. The gold standard had never been automatic. In the complex and conflicted world of inter-war politics, the agency of individuals and institutions and the importance of political factors all influenced the policies that drove individual nations and the world into depression. In contrast to the era of the classical gold standard, the inter-war years witnessed far greater political conflict, economic dislocation, and diplomatic strain. The gold standard was a fair-weather instrument, suspended in times of conflict, and ill-suited to the stormy years of the inter-war period.

In both the United States and Britain, domestic political pressures pushed central bank policy in directions that did not always accord with the underlying principles of the gold standard. In France, the success of French gold policy allowed the Bank of France greater freedom from political pressures, but that freedom remained conditional. The potential for rising prices could spark domestic criticism leading to action to curb Bank autonomy. This increased opposition to any deliberately inflationary policy after recent experience had demonstrated the difficulty of controlling inflation once it was under way. For all three central banks, there was conflict between making policy to meet the needs of the domestic economy and the demands of politicians and interest groups on one hand, and making policy to conform to abstract principles of sound and stable money as embodied in the gold standard on the other. All three banks tended to satisfy the former at the expense of the latter.

Departure from gold allowed greater policy freedom, but the principles that constrained policy on gold were not exclusive to the gold standard. British and US authorities adapted more easily and successfully to exchange-rate management and to cheap money off gold. Their convictions and experience in the 1920s had allowed greater leeway for monetary management and policy evolution on gold. French convictions were more rigid, with greater faith in gold standard automaticity and greater suspicion of discretionary policies that could produce inflation. With sterling and the dollar off gold, French authorities resisted rethinking their battle-hardened faith in gold, which seemed to have yielded extraordinary benefits in the years 1926 to 1932. Amidst a collapsing gold standard system, the Bank of France crusaded to rally true believers and to convince the French public and politicians that the gold standard worked, and that its preservation in France would promote the restoration of monetary order in the world at large.

## 2. CREDIBILITY AND CO-OPERATION

Inter-war central bank co-operation developed from concern that monetary policy could not be directed solely by domestic policy objectives without regard for the stability of the international system. Assistance between central banks under the classical gold standard had been on an ad hoc basis, motivated by enlightened self-interest rather than concern for systemic stability. No formal linkages connected central banks to promote co-operative or co-ordinated action. The overlap of personnel between central bank directors and private merchant banks facilitated indirect contacts, and sound management on gold precluded the need for closer co-operation. The abrupt end to the classical gold standard in 1914 brought a new initiative for co-operation not from among the belligerents, whose greatest concerns were financing their own war efforts, but from the Federal Reserve Bank of New York, perturbed by the concentration of gold reserves in the United States. Benjamin Strong's wartime efforts to develop co-operation among leading central banks were extended by Montagu Norman after the war, as well as by international conferences in Brussels (1920) and Genoa (1922).

This inter-war initiative sought to co-ordinate and expedite monetary reconstruction and to undo the problems (inflation and currency depreciation) engendered by the war. It included a push to create new central banks independent from political direction, in hopes that international financial questions could be resolved on technical grounds rather than by competition among politicians. It is scarcely surprising that co-operation was most evident in restoring gold convertibility for currencies weakened by wartime inflation: the initiative for greater co-operation had come from concern to restore the gold standard. Strong's worry that the gold accumulation in the United States would produce inflation if it was not returned to Europe in an orderly fashion took a different form after the war: concern that the acquisition of sufficient reserves to permit a general return to gold would produce a global deflation and a scramble for the precious metal. The Genoa Conference proposed that central bank co-operation offered the best means to deal with this problem.

The 'Genoa principles' were never fully adopted for three reasons. First, the signatory powers did not fully agree with the resolutions they signed (Chapter 3, section 1). Second, most central bankers came to see the gold exchange standard as a threat to the stability of the gold standard system, suitable at most as a transitional stage on the way back to gold (Chapter 6, section 3). Third, the differences between central banks and bankers and the vulnerability of central banks to political interference rendered the Genoa plan calling for central bankers to meet in conference and manage the international monetary system too problematic to proceed. The Genoa principles were a new departure for which central banking was not yet prepared. As Hawtrey commented later, until Genoa, 'it was never suggested that any country in determining the extent of its absorption of gold ought to have regard to the effect of its action on the world value of gold or on the monetary position of its neighbours'.[11] Subsequent effort to bring central bankers together formally also proved difficult: there was insufficient agreement among them to make such a meeting practicable. Central bankers were not a caste of apolitical financial experts, and did not prove any more capable of solving inter-war economic problems than the partisan, nationalist politicians.

Central bank co-operation developed mainly along bilateral lines, with most of the initiative coming from Norman and the Bank of England. This limited its success because of the suspicions and animosities that Norman's leadership aroused in Europe, most

[11] R. G. Hawtrey, 'The Gold Standard and the "Rules of the Game" ', 17 Oct. 1931; PRO, T 188/28.

notably in relations with the Bank of France. Sterling having been the main international currency before the war, the Bank of England's experience and prestige made it the natural leader for co-operative initiatives, and it played a key role in promoting currency stabilization on gold. But the weakness of sterling on gold had system-wide repercussions. Sterling overvaluation encouraged the undervaluation of the French franc, and the drain of gold to Paris after 1928 posed the greatest threat to sterling and the Bank of England. Co-operation was needed to maintain sterling; sterling's weakness discredited the gold exchange standard and made British initiatives for co-operative management of the system suspect as schemes contrived to deal with problems particular to Britain. The co-operative effort to thwart the League of Nations Gold Delegation inquiry illustrated this problem particularly well (Chapter 6, section 3).

In the late 1920s, the dynamic for central bank co-operation changed. With Norman's initiatives suspect, Strong in declining health, and Moreau demanding parity of influence with the Bank of England, even central bank assistance for currency stabilization fell into disrepute. The subtext of political influence present in currency stabilization was emphasized by the Bank of France, and the very idea of stabilization credits was called in question as an unnecessary extra used to facilitate private borrowing. But the stabilization process was nearly complete by then. Further stabilizations on gold—Greece in 1928, Romania in 1929, Japan in 1930, Honduras, Portugal, and Yugoslavia belatedly in 1931—were scarcely critical for the system. With the gold standard restored, progress was needed to co-ordinate domestic policies in order to promote the stability of the international system. Central bankers agreed, however, that domestic objectives must take precedence over international concerns.

The financial crises of 1931 fused financial and budgetary problems resolvable only in the realm of politics with currency speculation and international diplomatic tensions. If central bank co-operation failed to resolve the crises, the reason was not unwillingness, but rather inability to do so. Co-operation was not an independent pillar able to sustain the gold standard when credibility weakened; it was a contingent factor, capable of bolstering credibility, but not replacing it.[12] The credibility crises that destroyed the gold standard needed resolution in the province of politics, not central banking (Chapter 7, section 2).

Yet the establishment of regular contact between central banks was not without result. Occasional encounters between governors developed into the routine exchange of information between subordinate officers specifically assigned to maintain contact. The exchange of policy information and the discussion of policy in response to crises increased the opportunities for co-ordinated effort. The exchanges of personnel between banks increased knowledge of central bank operations in other markets and improved understanding between them. Central bank co-operation had not failed in 1931, and continued thereafter despite the weakening of central bank authority off gold. Central bankers shared a sympathy of understanding and analysis present to a much lesser degree in the conflict-ridden relations between national treasuries managing currencies in the

[12] The much greater importance of credibility is clear in Beth A. Simmons, *Who Adjusts? Domestic Sources of Foreign Economic Policy during the Interwar Years* (Princeton: Princeton University Press, 1994).

1930s. Inter-war central bank co-operation helped lay the foundations for more successful co-operation after 1945.[13]

## 3. THE GOLD STANDARD AND THE DEVELOPMENT OF CENTRAL BANKING IN FRANCE

The strength of gold standard belief in France delayed the development of active monetary and credit management.[14] The gold standard belief that monetary authorities should give their first attention to gold movements rather than domestic credit needs was intended to preserve exchange-rate stability and prevent domestic inflation. The use of open market operations to make central bank discount rate effective and provide greater flexibility in the control of credit was resisted by the Bank of France until the end of the 1930s on the grounds that it would bring speculative profit to the Bank, would privilege one part of the national market, and would be used for inflationary purposes, subverting the discipline of the 'automatic' gold standard. When combined with the Bank's historic emphasis on discount-rate stability, this left the Bank no effective means to manage money market conditions. Observers in the Bank of England and the FRBNY wondered in exasperation whether the Bank of France had really made the transition to being a true 'central bank' in the early 1930s, and concluded the contrary.[15]

Altering this passivity required a good deal more than release from the golden fetters of convertibility. The advance in the late 1930s towards modern central banking was an unfinished process, the result of several factors (Chapter 8). First, the personnel directing the Bank changed. Fournier's appointment as governor in July 1937 clearly marked a change in the direction of the Bank and management by the Fonds de Stabilisation des Changes, as did the composition of the reformed Conseil Général. Second, the Bank's leadership met with greater acceptance from the French commercial banks, a process begun with the Bank's retreat from direct discounting in 1935 and only partially achieved in 1939. Third, the goals and priorities of monetary officials began a significant shift, entailing the adoption of new policy tools. The 1930s marked a crucial transitional stage in monetary thought within policy-making institutions. Although most authorities continued to profess belief in the gold standard and claim its restoration as an ultimate objective (rather than blaming it for the Depression), their policies gave priority to national economic recovery. The shift of authority from central banks to treasuries was indicative of a shift in priorities and attention from the exchange rate to the state of the national economy. Inflation and currency depreciation in the early 1920s, although they tended to encourage output and employment, had enhanced the importance of the gold standard as a bulwark against runaway inflation and as a guarantor of monetary and political stability. The Depression forced greater governmental attention to output, employment, and price

[13] See Harold James, *International Monetary Cooperation since Bretton Woods* (Oxford: Oxford University Press, 1995).

[14] For the non-management of the franc Poincaré from 1928 to 1936 see Mouré, *Managing the Franc Poincaré*, especially p. 279 (the book title is ironic).

[15] Such observations came up in discussing the Bank of France's inability to control the Paris money market and unwillingness to engage in open market operations. See for example Mouré, *Managing the Franc Poincaré*, 127.

stability, in reaction to the passivity of classical, gold standard policy in the face of protracted deflation and depression.[16]

The progress of the Bank of France towards modern central banking was halting at best. French policy lagged behind developments in the United States and Britain, with particular problems evident in two related areas. The first was the conflict of interest between the Bank as a public institution directing national monetary policy and the Bank as a private institution seeking to pay respectable dividends to its shareholders. This latter concern influenced the Bank's choices with regard to its discount rate and its foreign exchange holdings; it led British officials to suspect the Bank of France was fixing its books to hide losses in the early 1930s. For ten years after the war, the Bank depended on interest payments on its advances to the state; the transition from this reliance on state payments was eased by high interest earnings on foreign exchange at the end of the 1920s. When interest rates fell, the Bank increased its direct discounting, competing directly with commercial banks and thus weakening its influence with them. Declining earnings on foreign exchange brought a sharp reduction in foreign exchange holdings; in their place, the Bank stockpiled gold, a non-earning asset which for three years made up roughly 85 per cent of the Bank's total assets.[17] Bank earnings fell dramatically; the reform of the Bank reoriented its direction such that earnings were no longer permitted to influence discount-rate policy. But the need to develop new sources of revenue still played a role in the Bank logic for developing open market operations.

The second problem area was the varying relationship between the Bank and the state, and the Bank's operational autonomy in directing French monetary policy. The most important influence on this relationship was the financial condition of the Treasury.[18] The financial needs of the state at war, during reconstruction in the 1920s, during the years of depression and for rearmament in the 1930s took precedence over Bank concerns for the volume of its note circulation and the value of the franc. The Bank had little choice but to agree when the state demanded advances, trying only to limit their size and encourage tighter fiscal policy.[19] Bank dependence on sound state financial policy to preserve its own autonomy from state demands in determining monetary policy gave the gold standard added significance for the Bank as a disciplinary constraint on state spending. Gold losses would in theory keep government budgets in line, and preserve the Bank's autonomy and control of monetary policy.

A second important factor was the character of key personnel involved—be they governors of the Bank, Ministers of Finance, or directors of the Treasury. Weak governors could be dominated by their council of regents; weak ministers were vulnerable to pressures from their directors of the Treasury and governors of the Bank. Clémentel's reliance on Robineau in the first Cartel government is instructive: the Bank's programme

[16] Forsyth and Notermans, 'Macroeconomic Policy Regimes and Financial Regulation in Europe'.

[17] Much of the shift into gold was, of course, in preference to holding foreign exchange at low interest with the risk of loss if it depreciated or was devalued.

[18] This is the central theme in the analysis of Bertrand Blancheton, 'Trésor, Banque de France et politique monétaire'.

[19] The one time the Bank refused advances until the government altered legislation to allow them was in July 1926, in a situation of crisis with a weak minister in a collapsing government.

for restoring the pre-war parity of the franc made no allowance for the plight of the Treasury, and the stability of the franc depended upon market perceptions of French finance. A weak governor such as Labeyrie was vulnerable to manipulation and abuse by a strong director of the Treasury. Ideally, strong individuals were needed in all three positions for each to fulfil his own responsibilities without trespassing into the territory of others.

The struggle for Bank autonomy had an impact on the co-ordination of policy between the Bank and the Treasury. Co-ordination of interest-rate policy facilitated the funding of government debt, central bank control of the money market, and effective defence of the franc. Co-ordinated action by the Bank and the government produced a successful defence of the franc in March 1924. The failure of exchange market intervention in 1926 was due in part to Bank refusal to co-operate with the last, weak Cartel governments. In both cases, as in efforts to defend the franc in the mid-1930s, the relationship was conditioned by the political nature of monetary defence. Although part of the benefit of the gold standard was supposed to derive from the removal of monetary policy from the contentious realm of politics, the idea that monetary policy could be abstracted and isolated from political debate and influence was itself a dangerous illusion. This illusion was part of the attraction of the gold standard, which was supposed to discipline fiscal policy and provide central banks with an unambiguous signal for discount rates changes.

State direction of economic mobilization for war had increased its role in the economy, and although there was a retreat from wartime levels of intervention, there was no returning to the pre-war world. Servicing vastly increased public debt, the reconstruction of devastated areas, the provision of pensions for veterans, invalids, widows, and orphans, military and economic demobilization, and industrial redevelopment all burdened state expenditure. The economic slump further increased government responsibility, with greater demand for unemployment insurance and public works, followed by the resurgence of defence expenditure to meet the threat of a new European war. Policy co-ordination between state and central bank was needed to maintain monetary and financial stability; operational autonomy for the central bank and the Treasury was only possible when neither depended upon the other.

Support from the central bank was essential to co-ordinate financial and monetary policy in an era of financial crisis, depression, and rearmament. Intervention by the Bank of France in political debate is explicable and understandable as an effort to defend Bank views and interests. The fact that intervention was surreptitious reflected the importance attached to maintaining central bank independence from politics, with the quid pro quo that the bank in its turn would not interfere in politics. The struggle to redefine realms of policy responsibility and control in the inter-war years was not, as many participants assumed, a struggle to restore timeless principles of order that had been abandoned during an interval of chaos. Rather, the struggle concerned redefinition of power and responsibility in a period of significant change in the economic role of the state, in the priorities for fiscal and monetary policy, and in the policy instruments to be used to attain new ends. The Bank's political engagement went beyond defence of its own views and interests, favouring particular parties, politicians, and political and financial interests. The reform of the Bank in 1936 reoriented the Bank direction to ensure that national interests would take precedence over the narrower private and institutional concerns for profit and prestige.

## 4. THE RHETORIC OF THE GOLD STANDARD

The language employed in gold standard argument played an important role in attraction to the gold standard and in perceptions of economic problems and appropriate policy. Gold standard rhetoric presented the linkage to gold as a guarantor of stability, a maintenance of tradition, a mechanism that worked automatically to correct imbalances and maintain equilibrium, and the essential component of a 'natural' order.[20] Without explicit reference to other systems, alternatives were implicitly condemned as unstable, artificial, unreliable, and prone to inevitable errors of human judgement. The Cunliffe Committee in 1918 set the pattern with reference to the pre-war gold standard as 'an automatic machinery by which the volume of purchasing power in this country was continuously adjusted to world prices of commodities in general. Domestic prices were automatically regulated so as to prevent excessive imports; the creation of banking credit was so controlled that banking could be safely permitted a freedom from state interference which would not have been possible under a less rigid currency system.'[21] The gold standard was 'the machinery which long experience has shown to be the only effective remedy for an adverse balance of trade and an undue growth of credit'.[22] Central bankers dismissed proposals for more active monetary management and concerns for the deflationary potential of the gold standard as the work of 'currency cranks' unworthy of serious consideration. Faith in the gold standard's automaticity and efficacy was absolute: it meant freedom from the arbitrary, inevitably flawed interference of human hands.

Bank of France claims with regard to the role of the gold standard were well represented in the Bank's annual reports, particularly in periods when the currency or the gold standard itself were challenged in public debate. Economists like Charles Rist and Jacques Rueff made equally adamant claims. This rhetoric of automaticity was not employed to explain the working of the gold standard, as it paid little attention to pre-war experience.[23] It was employed to describe the system monetary authorities wished to see in place, and it reflected their dissatisfactions with current policy—budget deficits, inflation, currency depreciation, and state demands on the central bank. How gold standard policy would operate in detail was less important than what it would prevent in general.

[20] Eichengreen and Temin stress the use of a gold standard rhetoric of wage reduction in Barry Eichengreen and Peter Temin, 'The Gold Standard and the Great Depression', *Contemporary European History*, 9, no. 2 (2000), 183–207; wages were the principal cost to be reduced in gold-standard-imposed deflation. But this 'rhetoric' was with regard to the need to reduce prices. The gold standard rhetoric I argue here, of a system claimed to be automatic and natural, correcting imbalances to preserve equilibrium, was more widely used, and was used to justify the system as a whole, not to apply it to one aspect of economic performance in particularly difficult circumstances. Belief in the gold standard was based on faith in its ability to maintain equilibrium, not its ability to reduce wages.

[21] Committee on Currency and Foreign Exchanges after the War, *First Interim Report* (London: HMSO, 1918), para. 6.

[22] Ibid., para. 15, repeated para. 47.

[23] Even after the Second World War, Rueff would look back to the pre-1914 era with regret; he described life under a sound money with prices free to adjust as a world in which 'Accurate prediction will be possible. All possibility of monetary crisis avoided, mankind will live, as before 1914, in the blissful state of monetary ignorance characteristic of civilizations with genuine rights.' Jacques Rueff, *Il faut choisir: monnaie saine ou état totalitaire* (Paris: Éditions SEDIF, 1947), 35–6.

The gold standard would correct the policy errors and payments imbalances of state-managed monetary policy; it would also exclude the adoption of the proposals of 'inflationists' who advocated monetary management.

This rhetoric, stressing escape from human interference and relying upon the illusion of automaticity in a 'natural' system, obscured two important elements in the actual operation of the gold standard. The first was the exercise of discretionary authority by central banks. Gold movements merely provided signals for action; central bankers still had to decide when, how, and how much to react in response to these signals. Evoking the automaticity of the gold standard displaced attention from monetary authorities' responsibility for discretionary policy decisions. Their decisions were increasingly influenced by concern for the domestic economy, often as refracted through domestic political pressures. The second element at work was the way that economic, financial, and monetary problems were presented in public discourse. Gold standard belief placed maintenance of the currency's gold value as the highest priority for monetary policy; gold standard rhetoric argued that doing so would provide a stable system adjusting naturally to economic changes in order to recover and maintain equilibrium. Attempts at greater management, particularly any attempt to stabilize prices, the mechanism through which the gold standard made adjustments, would subvert the natural operation of the gold standard and lead to imbalances, inflation, and even to hyperinflation and currency collapse. This line of argument had a political purpose. It minimized government interference and maximized the operational autonomy of the central bank. At the same time it reduced the power and influence of the central bank, by denying it access to tools for credit management to help make its policies effective.

The gold standard was not yet a 'barbarous relic' in the 1920s, as it provided a valuable point of reference for monetary reconstruction. But for the 1930s the phrase is apt: gold standard belief and policy in France, maintained in the face of their abandonment elsewhere, amply demonstrated policy paralysis in the face of economic recession caused by monetary contraction and price deflation. The rhetoric of the gold standard displaced attention from real problems in 'orthodox' monetary policy, blaming budget deficits and departures from orthodoxy for problems produced in good part by monetary policy. It sought to exclude policy alternatives from discussion, denouncing them as irrational, unnatural, artificial, inflationary. Even where gold standard arguments stuck to theoretical or economic grounds, they were implicitly political in seeking publicly to exclude the use of currency management and fiscal policy to promote economic recovery.

The gold standard's day as a national and international monetary system has passed.[24] Monetary authorities now focus on price stability and maximizing non-inflationary levels of output and employment rather than seeking to fix currency value in terms of gold and gold-linked currencies. If no revival of the gold standard is conceivable now, the patterns of belief and the use of gold standard rhetoric in the inter-war period still remain relevant as warnings for the present and future. The gold standard was argued to be a natural, automatic system of adjustment that could only be undermined and rendered

[24] Though not everyone agrees; for an exception, see the long-running campaign for a return to the gold standard in *The Freeman*.

less efficient by discretionary human intervention seeking to improve on its operation. In France in the early 1930s, gold standard belief dominated central bank and state policy to the point of near-total exclusion of alternative views. The progress in economic knowledge and monetary management since that time has been vast. Rhetorical strategies have changed much less. We should be wary of economic arguments that insist upon the strict application of any orthodox remedy deemed to be beyond dispute, of any rigid rule, and of any 'natural' solution to economic problems. As Paul Krugman has warned, economic analysis is a way of thinking in order to 'craft new responses to an ever-changing world',[25] not to prescribe remedies for current problems based upon timeless truths, on what should have worked in the past, or on what would have worked in a more perfect world.

Ironically, in the light of its failure and abandonment, the gold standard has been accepted in common parlance as a term for the ultimate, the ideal, the standard against which all rivals are to be measured. The opening of a Peet's Coffee and Tea shop on State Street in Santa Barbara in 1998 was greeted with the claim, 'It's the temple of coffee. It's the gold standard'. 16 mm footage of a sasquatch, shot in northern California in 1967 and challenged as a hoax in 1999, elicited the comment: 'Discredit the footage, experts agree, and the gold standard for Bigfoot tracks will be washed away.'[26] A recent National Public Radio programme on baby-sitting detoured briefly for historical reflection, noting, 'First, we need to talk about Mary Poppins. Mary Poppins is The Gold Standard, the standard against which all other baby-sitters are measured.'[27] If such references seem remote from the gold standard and its operation in the inter-war years, they do carry the sense gold standard advocates wished the term to convey: the gold standard as an absolute, as the best, as the only practicable system for valuing currency. The gold standard's survival as metaphor is assured, appropriately, on the basis of a disregard for historical experience—one further, and perhaps final, gold standard illusion.

[25] Paul Krugman, *The Return of Depression Economics* (New York: W.W. Norton, 1999), 167.

[26] *Santa Barbara News Press*, 7 Mar. 1998 and 11 Jan. 1999.

[27] 'This American Life', National Public Radio, 15 Jan. 2001.

# *Appendix I. Premiers, Ministers of Finance, Governors, and Treasury Directors August 1914 to September 1939*

| Year | Premier | Minister of Finance | Governor of the Bank of France | Director of the Mouvement Général des Fonds |
|---|---|---|---|---|
| 1914 | René Viviani | Alexandre Ribot | Georges Pallain | Eugène Féret du Longbois |
| 1915 | Aristide Briand | | | |
| 1916 | | | | |
| 1917 | Alexandre Ribot | Joseph Thierry | | André Luquet |
| | Paul Painlevé | Lucien Klotz | | |
| | Georges Clemenceau | | | Paul Célier |
| 1918 | | | | |
| 1919 | | | | |
| 1920 | Alexandre Millerand | Frédéric François-Marsal | Georges Robineau | |
| 1921 | Aristide Briand | Paul Doumer | | Jean Parmentier |
| 1922 | Raymond Poincaré | Charles de Lasteyrie | | |
| 1923 | | | | Pierre de Moüy |
| 1924 | Raymond Poincaré | Frédéric François-Marsal | | |
| | Édouard Herriot | Étienne Clémentel | | Clément Moret |
| 1925 | | Anatole de Monzie | | |
| | Paul Painlevé | Joseph Caillaux | | |
| | | Paul Painlevé | | |
| | Aristide Briand | Louis Loucheur | | |
| | | Paul Doumer | | |
| 1926 | | Raoul Péret | | |
| | | Joseph Caillaux | Émile Moreau | |
| | Édouard Herriot | Anatole de Monzie | | |
| | Raymond Poincaré | Raymond Poincaré | | |
| 1927 | | | | |
| 1928 | Raymond Poincaré | Henri Chéron | | |
| 1929 | Aristide Briand | | | Charles Farnier |
| | André Tardieu | | | |

| Year | Premier | Minister of Finance | Governor of the Bank of France | Director of the Mouvement Général des Fonds |
|---|---|---|---|---|
| 1930 | Camille Chautemps | Charles Dumont | | Louis Escallier |
| | André Tardieu | Paul Reynaud | Clément Moret | |
| | Théodore Steeg | Louis Germain-Martin | | |
| 1931 | Pierre Laval | Pierre-Etienne Flandin | | |
| 1932 | Pierre Laval | | | |
| | André Tardieu | | | |
| | Édouard Herriot | Louis Germain-Martin | | |
| | J. Paul-Boncour | Henry Chéron | | |
| 1933 | Édouard Daladier | Georges Bonnet | | |
| | Albert Sarraut | | | |
| | Camille Chautemps | | | |
| 1934 | | | | Yves Bréart de Boisanger |
| | Édouard Daladier | François Piétri | | |
| | Gaston Doumergue | Louis Germain-Martin | | |
| | Pierre-Étienne Flandin | | | |
| 1935 | | | Jean Tannery | Wilfrid Baumgartner |
| | Fernand Bouisson | Joseph Caillaux | | |
| | Pierre Laval | Marcel Régnier | | |
| 1936 | Albert Sarraut | | | |
| | Léon Blum | Vincent Auriol | Émile Labeyrie | Jacques Rueff |
| 1937 | Camille Chautemps | Georges Bonnet | Pierre Fournier | |
| 1938 | | Paul Marchandeau | | |
| | Léon Blum | Léon Blum | | |
| | Édouard Daladier | Paul Marchandeau | | |
| | | Paul Reynaud | | |
| 1939 | | | | |

# *Appendix II. Dramatis Personae*

AURIOL, VINCENT. Socialist (SFIO) deputy 1914–42; Minister of Finance June 1936–June 1937; Minister of Justice 1937–8; President of the Fourth Republic 1947–54.

BAUMGARTNER, WILFRID. Admitted to Inspection Général des Finances (IGF) in 1925; *chef de cabinet* to Minister of Finance Paul Reynaud in 1930; *sous-directeur* of the Mouvement Général des Fonds 1930–4; *directeur adjoint* in 1934, director in 1935–6; director of Crédit National 1936–43; governor of the Bank of France 1949–60.

BIZOT, JEAN-JACQUES. Admitted to IGF in 1922; *sous-directeur* of the Mouvement Général des Fonds 1929–34; *directeur adjoint* 1934–5; of Contributions Directes 1935–7; deputy governor of the Bank of France 1937–9.

BLUM, LÉON. Socialist (SFIO) deputy 1919–42; leader of the Socialist Party; Premier of the first Popular Front government 1936–7; Premier and Minister of Finance Mar.–Apr. 1938.

CAILLAUX, JOSEPH. Admitted to IGF in 1888; Radical deputy 1898–1919, Radical senator 1925–44. Minister of Finances 1899–1902, 1906–9, 1911, 1913–14, 1925, 1926, 1935; Premier 1911–12; chair of Senate finance committee 1932–40.

CARIGUEL, CHARLES. Director, Foreign Banking Department, Bank of France, 1929–42; this included direction of the Bank's *service de change*.

CLÉMENTEL, ÉTIENNE. Gauche Radicale deputy 1900–19, senator 1920–36; Minister of Finance in June 1914 and from June 1924 to Apr. 1925; Minister of Commerce and Industry 1915–20.

COBBOLD, CAMERON F. Adviser, Bank of England, 1933–8; executive director 1938–45; deputy governor 1945–9; governor 1949–61.

DÉCAMPS, JULES. Employed in the Service des Études Économiques of the Bank of France from 1910; appointed director (1920–6) when this became the Direction des Études Économiques in 1920.

DUCHEMIN, RENÉ. President of Kuhlmann; president of CGPF 1926–36; regent of the Bank of France 1930–6.

ERNEST-PICARD, PAUL. General secretary of the Bank of France 1906–20; deputy governor 1920–6; governor of the Bank of Algeria 1926–34.

ESCALLIER, LOUIS. Admitted to IGF in 1911; director of the Mouvement Général des Fonds 1930–4; *directeur général* of Bank of Algeria 1934–46.

FARNIER, CHARLES. *Inspecteur des finances* from 1919; director of the Mouvement Général des Fonds 1929–30; deputy governor of Bank of France 1930–4; then director of the Comptoir National d'Escompte.

FOURNIER, PIERRE. Director of Budget and Controller of Finance in Ministry of Finance 1925–30; deputy governor, Bank of France, 1929–37; governor 1937–40; president of the Société National des Chemins de Fer 1940–6.

FRANÇOIS-MARSAL, FRÉDÉRIC. Union Républicaine senator 1921–30, Minister of Finance 1920, Mar.–May 1924; briefly Premier in June 1924.

HARRISON, GEORGE. Deputy governor, Federal Reserve Bank of New York, 1920–8; governor 1928–36; president 1936–41.

HARVEY, SIR ERNEST. Employed in Bank of England beginning 1885; Comptroller 1925–8; director 1928–9; deputy governor 1929–36.

HAWTREY, RALPH G. Employed in British Treasury beginning 1904; director of Financial Enquiries 1919–45.

HERRIOT, ÉDOUARD. Radical senator 1912–19, deputy 1919–42, leader of the Cartel des Gauches; Premier and Minister of Foreign Affairs 1924–5; Premier in July 1926 and from June to Dec. 1932.

HOPKINS, SIR RICHARD V. N. Chairman, Board of Inland Revenue, 1922–7; Controller of Finance and Supply and Services, Treasury, 1927–8; Second Secretary, Treasury, 1928–42; Permanent Secretary 1942–5.

KEYNES, JOHN MAYNARD. British economist; employed in the British Treasury Jan. 1915 to June 1919, head of 'A' division (external finance) 1917–19; chief Treasury representative at Paris peace conference 1919; fellow, King's College, Cambridge, 1909–46; influential as critic, adviser, and theorist.

LABEYRIE, ÉMILE. *Procureur général* in the Cour des Comptes, 1933–6; governor, Bank of France, 1936–7.

LACOUR-GAYET, ROBERT. Admitted to IGF in 1921; *attaché financier* to French Embassy in Washington 1924–30; director of Direction des Études Économiques 1930–6.

LECLERC, JAMES. Deputy governor, Bank of France, 1922–8; then governor of the Crédit Foncier 1928–36.

LEITH-ROSS, SIR FREDERICK. Deputy Controller of Finance, British Treasury, 1925–32; chief economic adviser to HM government 1932–46.

MÖNICK, EMMANUEL. Admitted to IGF in 1920; *attaché financier* to French Embassy in Washington 1930–4; *attaché financier* to French Embassy in London 1934–40; governor of the Bank of France 1944–9.

MOREAU, ÉMILE. Admitted to IGF in 1896; governor of the Bank of Algeria 1906–26; governor of the Bank of France, 1926–30.

MORET, CLÉMENT. Director, Mouvement Général des Fonds, 1924–8; deputy governor of the Bank of France 1928–30; governor 1930–5.

MORGENTHAU, HENRY, JR. Under-Secretary and Acting Secretary of US Treasury 1933–4; Secretary of Treasury 1934–45.

MOÜY, PIERRE DE. Worked in Cour des Comptes beginning 1911; *directeur adjoint* of the Mouvement Général des Fonds 1921–3; director, Mouvement Général des Fonds, 1923–4; director of Customs 1924–30.

NORMAN, MONTAGU. Governor of the Bank of England 1920–44.

PALLAIN, GEORGES. Governor of the Bank of France 1897–1920.

PARMENTIER, JEAN. *Inspecteur des finances* from 1908; director of the Mouvement Général des Fonds 1921–3.

PÉRET, RAOUL. Gauche Radicale deputy 1902–27, senator 1927–36; Minister of Finance Mar. to June 1926.

PHILIPPE, RAYMOND. Banker with Lazard Fréres; member of the committee of experts in 1926.

POINCARÉ, RAYMOND. Moderate deputy 1887–1903, senator 1920–34; French President 1913–20; Premier 1912–13, Premier and Minister of Foreign Affairs 1922–4, Premier and Minister of Finance 1926–8, Premier 1928–9.

QUESNAY, PIERRE. Director of Direction des Études Économiques, Bank of France, 1926–30; general manager, Bank for International Settlements, 1930–7.

REYNAUD, PAUL. Alliance Démocratique deputy 1919–24, 1928–42; Minister of Finance 1930 and Nov. 1938 to Mar. 1940; most important advocate of devaluation 1934–6; Premier Mar. to May 1940.

RIBOT, ALEXANDRE. Union Républicaine deputy 1878–1909; senator 1909–23, Premier, 1892–3; Premier and Minister of Finance 1895; Premier and Minister of Justice 1914; Minister of Finance 1914–17; Premier Mar. to Sept. 1917.

RIST, CHARLES. Economist; key member of the committee of experts in 1926; deputy governor of the Bank of France 1926–9; editor of the *Revue d'économie politique*.

ROBINEAU, GEORGES. Employed in the Bank of France beginning 1887; governor of the Bank of France 1920–6.

ROWE-DUTTON, ERNEST. Financial adviser to the British embassy in Paris 1934–9.

RUEFF, JACQUES. Admitted to IGF in 1923; *attaché financier* to the French Embassy in London 1930–4; *directeur adjoint*, Mouvement Général des Fonds 1934–6; director 1936–9; deputy governor of the Bank of France 1939–41.

SALTER, SIR ARTHUR. Director, Economic and Finance Section, League of Nations, 1922–31.

SERGENT, CHARLES. Admitted to IGF in 1894; *sous-directeur* of the Mouvement Général des Fonds; director 1909–11; deputy governor of the Bank of France 1911–17; chair of committee of experts in 1926.

SIEPMANN, H. A. Adviser to the governor, Bank of England, 1926–45; head of Central Banking Section 1926–36; Executive Director, Bank of England, 1945–54.

STRONG, BENJAMIN. Governor, Federal Reserve Bank of New York, 1914–28.

TANNERY, JEAN. Director, Caisse des Dépôts et Consignations, 1925–35; director of the Caisse Autonome d'Amortissement 1926–35; governor, Bank of France, 1935–6; president of the Banque de l'Union Parisienne 1936–9.

WALEY, S. D. Assistant Secretary, British Treasury, 1914–31; Principal Assistant 1931–9.

WENDEL, FRANÇOIS DE. President of the Comité des Forges; Fédération Républicaine deputy 1914–33; senator 1933–41; regent of the Bank of France 1913–36.

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