Managing the franc Poincaré

Defense of the franc Poincaré dominated French economic policy during the Great Depression. While most countries took their currencies off gold in order to broaden their range of policy alternatives available to foster domestic recovery, in France policy makers resolved to preserve the gold parity of the franc by cutting government spending to balance the budget and by lowering domestic prices. This deflationary program produced economic stagnation and exacerbated political conflicts that successive governments struggled to resolve throughout the 1930s. *Managing the Franc Poincaré* examines French monetary management from 1928 to 1936 in order to explain this obstinate determination to achieve recovery through deflation and preservation of the franc Poincaré despite the success of devaluation and reflation abroad. In so doing, it explores French understanding of the depression, French economic diplomacy in an era of economic nationalism, the evolving roles of the French Treasury and the Bank of France in monetary management, and the fractious politics of the last decade of the Third Republic. Setting French monetary policy within its ideological, institutional, and political contexts, *Managing the Franc Poincaré* provides a new perspective on the frustration of French efforts to obtain security in the interwar period – in this case economic, rather than military, security.

Studies in Monetary and Financial History

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Managing the franc Poincaré

Economic understanding and political constraint in French monetary policy, 1928–1936

Kenneth Mouré
University of California, Santa Barbara

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Cambridge University Press
Cambridge
New York Port Chester Melbourne Sydney

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS
The Edinburgh Building, Cambridge CB2 2RU, UK
40 West 20th Street, New York NY 10011-4211, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
Ruiz de Alarcón 13, 28014 Madrid, Spain
Dock House, The Waterfront, Cape Town 8001, South Africa

http://www.cambridge.org

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First published 1991
First paperback edition 2002

A catalogue record for this book is available from the British Library

Library of Congress Cataloguing in Publication data
Mouré, Kenneth.
Managing the franc Poincaré: economic understanding and political
constraint in French monetary policy, 1928–1936 / Kenneth Mouré.
p. cm. – (Studies in monetary and financial history)
Includes bibliographical references.
ISBN 0 521 39458 9
1. Monetary policy – France – History – 20th century. 2. France –
Economic policy – 1918–1945. I. Title. II. Series.
HG979.M68 1991
332.4′944′09042–dc20 90-44405 CIP

ISBN 0 521 39458 9 hardback
ISBN 0 521 52284 6 paperback

Monetary policy is a science, of which little is known by the man in the street. Nor indeed can the professors be said to know much more about it; for every three professors are usually ready to advance six opinions on the subject. . . . In these conditions it is not surprising that the psychology of every country is determined largely by its own experiences.

"Recent Developments in International Monetary Policy," British Treasury paper, n.a., n.d. (probably May 1935)

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Acknowledgments

I should like first of all to thank John C. Cairns and Susan Howson; their encouragement and guidance were vital to the completion of the dissertation on which this book is based. Both gave generously of their time and expertise. Through their constructive criticisms, their energy and integrity, they taught me a great deal about the writing of history and academic fellowship.

There are many others to whom I owe a debt of gratitude. Richard F. Kuisel supplied solid practical advice in the early stages of my research, and Robert Frank provided introductions and congenial discussion when I began my research in Paris. I was fortunate to receive access to private papers through authorizations generously provided by Paul Auriol for the papers of Vincent Auriol, Madame Reynaud for the papers of Paul Reynaud, Madame Jacques Lucius for the papers of Raoul Dautry, and Bruno Jourdan for the papers of André Tardieu; Henri Germain-Martin kindly granted access to his father's unpublished memoirs. I have benefited from the patience and cooperation of the staffs of many archives and libraries, of whom I particularly thank Madame Marie Dijoux and the staff of the Archives economiques et financières of the Ministry of Finance in Paris; the Service des archives of the Bank of France; the Service des archives of the Fondation nationale des sciences politiques; the archives of the Senate and the National Assembly in Paris; the Bibliothèque de documentation internationale contemporaine at Nanterre; the Butler Library in New York; the Public Record Office in London; and Henry Gillett and the Archive Section of the Bank of England. Jane Brady and the Interlibrary Loan staff of Robarts Library were indefatigable in obtaining published French sources from libraries across North America. Bill Hyder lent his expertise in computer software to produce the figures, and Madame Nathalie Carré de Malberg kindly shared her data on the career details of French *inspecteurs des finances* at a late stage in the preparation of the manuscript.

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I should also like to acknowledge the assistance I received from the Social Sciences and Humanities Research Council of Canada, the Alberta Heritage Fund, and the Centre for International Studies at the University of Toronto, all of which provided grants that made possible the research and writing of the dissertation. A postdoctoral fellowship from the Trustees of the University of Calgary permitted further research, and the University of California, Santa Barbara, provided time for revision.

Finally, I thank my bicycles, Poincaré I, Poincaré II, and Flay. I could have gone nowhere without them.

Abbreviations used in the notes

AN	Archives nationales
AP	Archives privées (at the Archives nationales)
BN	Bibliothèque nationale
BoE	Archives of the Bank of England
CAB	British Cabinet papers, Public Record Office
CHIMT	*Cahiers d'histoire de l'Institut Maurice Thorez*
DDF	*Documents diplomatiques français*
EHR	*Economic History Review*
FNSP	Fondation nationale des sciences politiques
FO	British Foreign Office, Public Record Office
FRUS	*Foreign Relations of the United States*
INSEE	Institut national de la statistique et des études économiques
J.O.Ch.	*Journal officiel de la République française, annales de la Chambre des Députés: Débats parlementaires*
J.O.Doc.Ch.	*Journal officiel de la République française, annales de la Chambre des Députés: Documents parlementaires*
J.O.Sén.	*Journal officiel de la République française, annales du Sénat: Débats parlementaires*
MAE	Ministère des affaires étrangères
MD	Morgenthau Diaries, Roosevelt Library, Hyde Park, New York
MF	Ministère des finances, Archives économiques et financières
PV CFCh	Procès-verbaux of the Finance Committee of the Chamber of Deputies
PV CFSén	Procès-verbaux of the Finance Committee of the Senate
PV CG	Procès-verbaux of the Conseil général, Bank of France
PV CP	Procès-verbaux of the Comité Permanent of the Bank of France

REP	*Revue d'économie politique*
SGIC	Statistique générale et Institut de conjoncture
T	British Treasury, Public Record Office
billion	Usage unless otherwise specified is American billion, being one thousand million

Citations of personal papers include the archive in which they are deposited. Because of the frequency with which material from the French Ministry of Finance, the Bank of France, and the Treasury and Foreign Office papers at the British Public Record Office is used, the archive initials have been omitted from citations. Thus, a French Ministry of Finance citation appears as MF B 33193, rather than AEF MF B 33193.

Introduction

No one contends that France experienced a revolution in economic policy during the Great Depression. Other industrialized countries, struck by massive unemployment, the collapse of industrial production, plummeting prices, and financial contraction, responded with various degrees of innovation to the problems of the 1930s – the New Deal in Roosevelt's America and the Nazi economic recovery in Germany are the most striking examples.[1] In France, all novelty and experimentation were rejected in the conviction that a durable recovery could be achieved only by a return to strict economic orthodoxy. Classical economics had not failed its human subjects; policy makers had failed to adhere to its teachings, and their attempts to improve on the operation of an unfettered market system were in large part responsible for the economic ills that afflicted the world economy.

Close examination of policy making in the 1930s has dispelled the notion that the economic crisis engendered revolutions in economic policy. In Britain, where the publication of John Maynard Keynes's *The General Theory of Employment, Interest and Money* in 1936 revolutionized economic theory, the evolution of Treasury policy was less spectacular. The Treasury was beginning to accept a government role in economic management in order to reduce unemployment and maintain reasonable price stability, but this was not, in the 1930s, a "Keynesian revolution" in policy making.[2] Recent studies of the Nazi economic

[1] John A. Garraty has compared policy responses to the depression in the United States and Germany in "The New Deal, National Socialism, and the Great Depression," *American Historical Review* 78 (Oct. 1973), 907–44, and in *The Great Depression* (New York: Harcourt Brace Jovanovich, 1986), 182–211. Peter Gourevitch has attempted a broader "political sociology" of policy formation in the United States, Britain, France, Germany, and Sweden in "Breaking with Orthodoxy: The Formation of the Mixed Economy, 1929–49," in his *Politics in Hard Times: Comparative Responses to International Economic Crises* (Ithaca, N.Y.: Cornell University Press, 1986), 124–80.

[2] On the evolution of Treasury policy in the 1930s and the influence of economists, see Susan Howson, *Domestic Monetary Management in Britain, 1919–38* (Cambridge University Press, 1975), Susan Howson and Donald Winch, *The Economic Advisory Council, 1930–1939* (Cambridge University Press, 1977), and Roger Middleton, *Towards the*

recovery call attention to the limited nature of the recovery, its traditional character in the early stages, and the role of state controls as an essential counterpart to increased government spending in order to sustain recovery, which would otherwise have been curbed by market forces.[3] Roosevelt's New Deal is interpreted as a series of speculative innovations determined by short-term political objectives, an "exercise in political eclecticism" that "had nothing to do with logic or consistency."[4]

Economic policy making in France has received considerably less attention. In fact, Stephen Schuker has commented recently, "Historians know less about the course of the Great Depression in France than in any other major nation."[5] Alfred Sauvy's *Histoire économique de la France entre les deux guerres* remains the most authoritative survey of these years.[6] Sauvy's breadth of approach, his valuable statistics on interwar economic performance, and his strong views on the short-

Managed Economy: Keynes, the Treasury and the Fiscal Policy Debate of the 1930s (London: Methuen, 1985). Alan Booth has described Treasury conversion to Keynesianism as "highly protracted" and in no sense revolutionary in "The 'Keynesian Revolution' in Economic Policy-Making," *EHR* 36 (Feb. 1983): 122–3; subsequent debate in the *Economic History Review* has cast doubt on the degree to which the Treasury converted to "Keynesian" management in the 1940s and early 1950s. For a brief overview and bibliography of this debate, see G. C. Peden, *Keynes, the Treasury and British Economic Policy* (London: Macmillan Press, 1988).

3 See R. J. Overy, "Cars, Roads and Economic Recovery in Germany, 1932–8," *EHR* 28 (Aug. 1975), 466–83; Overy, *The Nazi Economic Recovery, 1932–1938* (London: Macmillan Press, 1982), and Harold James, *The German Slump: Politics and Economics, 1924–1936* (Oxford: Clarendon Press, 1986), 343–419.

4 Albert U. Romasco, *The Politics of Recovery: Roosevelt's New Deal* (Oxford University Press, 1983), 5; although Roosevelt's retinue of advisers included Keynesians, they were "generally adherents of economic orthodoxy" embarrassed by budget deficits (see Hugh S. Norton, *The Quest for Economic Stability: Roosevelt to Reagan* [Columbia: University of South Carolina, 1958], 58–63). Herbert Stein characterizes the New Deal as a fiscal, rather than a Keynesian, revolution, in *The Fiscal Revolution in America* (Chicago: University of Chicago Press, 1969), esp. 131–68; see also Walter S. Salant, "The Spread of Keynesian Doctrines and Practices in the United States," in *The Political Power of Economic Ideas: Keynesianism across Nations*, ed. Peter A. Hall (Princeton, N.J.: Princeton University Press, 1989), 27–51. Hoover had better training in economics, but restricted himself to conventional state policies; see William J. Barber, *From New Era to New Deal: Herbert Hoover, the Economists, and American Economic Policy, 1921–1933* (Cambridge University Press, 1985).

5 Stephen A. Schuker, review of Julian Jackson, *The Politics of Depression in France, 1932–1936* (Cambridge University Press, 1985), *Journal of Economic History* 47 (Dec. 1987), 1013.

6 Alfred Sauvy, *Histoire économique de la France entre les deux guerres*, 4 vols. (Paris: Fayard, 1965–75); most subsequent references will be to the slightly revised edition in three volumes, published by Economica in 1984.

sighted political leadership that paid insufficient attention to economic data set his work apart as a landmark in the history of interwar France. But Sauvy gives little attention to actual policy formation. Monographs on French public works policy[7] and rearmament,[8] attempts at reinterpreting the arrival and nature of the depression in France,[9] and assessments of economic thought and policy within French political parties[10] have begun to trace the formation of French economic policy in the 1930s. In *The Politics of Depression in France, 1932–1936*, Julian Jackson studies policy debate and the political context in which decisions were made in order to explain the seeming "irrationality" of French policy in response to the depression. Jackson provides a stimulating analysis of the political debate, but devotes most of his attention to the ideas of the Left, where the more interesting and perceptive exchanges of views took place, rather than to the attitudes of the Right, which played a much larger role in determining policy. Jackson offers less discussion of the Right in part because there was a broad consensus on what had caused the depression and what needed to be done to foster a durable recovery. This consensus included the institutional forces that to a great extent set the policy alternatives, if not actual policy, on matters of economic and particularly monetary management. A knowledge of the roles of the Bank of France and the Ministry of Finance in policy determination is essential for understanding the decisions that were taken.[11]

7 Pierre Saly, *La Politique des grands travaux en France, 1929–1939* (New York: Arno Press, 1977).
8 Robert Frankenstein, *Le Prix du réarmement français (1935–1939)* (Paris: Publications de la Sorbonne, 1982).
9 Jacques Marseille, "Les Origines 'inopportunes' de la crise de 1929 en France," *Revue économique* 31 (July 1980): 648–84; Marseille, "Les Aspects spécifiques de la crise en France," *CHIMT* 16 (1976): 83–8; Serge Wolikow, "La Crise des années trente en France, aspects spécifiques," *CHIMT* 17–18 (1976): 11–48; and J. Mazier, Y. Picaud, G. Podevin, and H. Bertrand, "Les Deux crises des années 1930 et des années 1970," *Revue économique* 33, no. 2 (1982): 259–63.
10 See Serge Wolikow, "Le P.C.F. devant la crise (1929–1931)," *CHIMT* 11 (1975): 32–91; Michel Margairaz, "Les Socialistes face à l'économie et à la société en juin 1936," *Le Mouvement social* 93 (Oct.–Dec. 1975): 87–108; Serge Berstein, "Les Conceptions du Parti radical en matière de politique économique extérieure," *Relations internationales* 13 (1978): 71–89; and Jackson, *Politics of Depression*, 35–49.
11 A valuable study of the Mouvement général des fonds has just been completed by Michel Margairaz, "L'Etat, la direction des finances et de l'économie en France (1932–1952): Histoire d'une conversion," Thèse d'état, Université de Paris I, June 1989. Martin Wolfe's *The French Franc Between the Wars, 1919–1939* (New York: Columbia University Press, 1951) is a valuable economic survey of the interwar years focusing on financial history, but it was written from published sources before access to Bank

Preservation of the franc Poincaré dominated French policy during the depression. The refusal of the French to alter the value of the franc until they were forced to devalue in September 1936 imposed a deflationary economic program that stifled economic activity in France while nations that had depreciated their currencies were experiencing recovery. By 1935, when Britain, the United States, and Germany were showing substantial economic improvement, France had slipped back to the low levels of production touched in 1932 and did not recover completely until after the Second World War. Asked in 1935 by students in Sweden (which had devalued in 1931) why France did not devalue, Paul Reynaud replied that "the French, even when they are socialists, are at heart conservatives. For them, the currency has a sacred character. They dare not touch it."[12]

The French believed that monetary stability was the necessary foundation for any recovery, and abandonment of the franc Poincaré would open the way to financial and monetary chaos. The monetary reform of 25 June 1928 had ended a decade of inflation and currency instability produced by the inflationary financing of the war and reconstruction; the stabilization achieved by Raymond Poincaré in 1926 and ratified by the monetary reform law had been dearly won.[13] The cost, an 80% devaluation of the franc, was believed to reflect an 80% loss of national wealth. The memory of the instability of the 1920s would weigh heavily in determining policy for the 1930s; policy would be guided by the lessons learned from the Poincaré stabilization.

The de facto stabilization of the franc in December 1926 at 124 francs to the pound was considered unacceptably low by many who wanted *revalorisation*.[14] No one in 1928 believed the franc could be restored to its prewar parity of 25 francs to the pound, but some argued that a four-fifths devaluation would undervalue the franc and set off a new inflationary spiral that would jeopardize the stability achieved since 1926. A slight appreciation to 100 francs to the pound would avert a rise in

of France and Ministry of Finance records was possible and does not address policy formation.

[12] Paul Reynaud, *Mémoires*, vol. 1, *Venu de ma montagne* (Paris: Flammarion, 1960), 384.

[13] The best account of the franc crisis and stabilization in 1926 is that in Jean-Noël Jeanneney's *François de Wendel en République: L'argent et le pouvoir, 1914–1940* (Paris: Seuil, 1976), 179–354; the memoirs of Emile Moreau, appointed as governor of the Bank of France in June 1926, are also extremely valuable (*Souvenirs d'un gouverneur de la Banque de France: Histoire de la stabilisation du franc [1926–1928]* [Paris: Editions M.Th. Génin, 1954]). The earlier monetary crisis of 1924 is particularly well served 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).

[14] See Jeanneney, *François de Wendel*, 380–409, and Moreau, *Souvenirs*.

domestic prices that would otherwise lead to demands for higher wages, require higher taxes, and unbalance budgets.[15] The other reasons evoked were less compelling: that holders of government debt would believe their interests had been sacrificed by stabilization at a lower level than was necessary and that on grounds of prestige the French devaluation could not be greater than the 75% devaluation of the Italian lira.[16]

The devaluation was accepted as necessary to pay the costs of the war; the franc Poincaré was expected to restore the currency stability France had known throughout the nineteenth century with the franc germinal, created in 1803.[17] It was to last only eight years, and its preservation until 1936 sacrificed economic well-being to defense of the currency. The depression brought falling prices and currency depreciations that made preservation of the franc ultimately impossible without exchange controls. Convinced that defense of the franc Poincaré was essential to recovery, the French drew on the lessons learned in the 1920s: concentrating on reducing the budget deficit to maintain confidence and reducing domestic prices to compensate for currency depreciations abroad. Both objectives were necessary to maintain the franc; neither proved attainable. Until the devaluation in 1936, French prices remained higher than world prices despite government deflationary efforts. At the same time continuous government borrowing weakened public confidence, raising interest rates and thus the cost of borrowing. The French economist Charles Rist claimed in 1937, "The greatest brake which has been applied to French economic recovery in the last few years is the constant rise of interest rates, due to the uninterrupted appeals which the state has been obliged to make to the capital market, under increasingly unfavorable conditions."[18] As confidence deteriorated, political crises turned capital flows away from the franc and produced scrambles for gold and foreign exchange that required still higher interest rates. Under such conditions cheap money was impossible. And without economic recovery to reverse the decline in government receipts, there was no hope that budgets could be balanced by spending cuts alone. By the late 1930s, economic stagnation

[15] Jeanneney, *François de Wendel*, 404–5; André Thiers, *Ni inflation, ni déflation* (Paris: Librairie des sciences politiques et sociales, 1934), 28–35.
[16] Jeanneney, *François de Wendel*, 382.
[17] "Frenchmen became obsessed with the idea that the 'Poincaré franc,' shrunk though it was, must never again be devalued, lest they be ruined anew. The obsession became a national neurosis." William L. Shirer, *The Collapse of the Third Republic* (New York: Simon & Schuster, 1969), 166.
[18] Charles Rist, Foreword to "La France économique en 1936." *REP* 51 (1937): 489–94.

tainted perceptions of French military strength both in France and abroad. "What sorrow," Robert Marjolin lamented in 1938,

> when one thinks of the decline in French power in the last seven or eight years. Our economy has stagnated at its lowest level in a quarter century; we no longer have aircraft, and tomorrow our army will see its relative strength diminished because who could believe that we will conserve a strong army in the midst of an economy in complete decline?[19]

Defense of the franc was in itself orthodox and unremarkable: Sterling and the dollar were defended until circumstances imposed depreciation; the German mark and Italian lira were protected by exchange controls to escape devaluation. The French experience was singular not for the attempt to preserve the franc's gold value,[20] but for the perseverance with which that defense was conducted when devaluations abroad and deflation at home indicated that the battle was not just futile, but injurious to French prospects of recovery.

This book examines French monetary management from 1928 to 1936 in order to explain the defense of the franc Poincaré, the evolution of French policy making on monetary matters in reaction to the depression, and the interaction of political and economic forces that worked against innovation and created a policy paralysis, excluding positive initiatives to stimulate recovery. Chapter 1 begins with the arrival of the depression in France, the character, timing, and severity of the slump, and the importance of the overvaluation of the franc in explaining the French experience of the depression. Recent criticisms of this explanation that raise important questions about domestic forces in the business cycle in France are discussed; these qualify rather than contradict the exchange-rate explanation. The chapter then surveys con-

[19] *L'Europe nouvelle*, 28 May 1938, cited in Robert Marjolin, *Le Travail d'une vie: Mémoires, 1911–1986* (Paris: Laffont, 1986), 78. For recent assessments of the links between French economic and military decline, see René Girault, "The Impact of the Economic Situation on the Foreign Policy of France, 1936–9," in *The Fascist Challenge and the Policy of Appeasement*, ed. Wolfgang J. Mommsen and Lothar Kettenacker (London: Allen & Unwin, 1983), 209–26; Robert Frankenstein's "The Decline of France and French Appeasement Policies, 1936–9," in ibid., 236–45; and Bradford A. Lee, "Strategy, Arms and the Collapse of France, 1930–40," in *Diplomacy and Intelligence during the Second World War*, ed. Richard Langhorne (Cambridge University Press, 1985), 63–6.

[20] Peter Temin provides a general indictment of the gold standard as a policy regime paralyzing policy initiatives in all countries so long as their currencies remained shackled to gold in *Lessons from the Great Depression* (Cambridge, Mass.: MIT Press, 1989). See also Barry Eichengreen, "The Gold-Exchange Standard and the Great Depression," in his *Elusive Stability: Essays in the History of International Finance, 1919–1939* (Cambridge University Press, 1990), 239–70.

temporary perceptions of the onset of the crisis among economists, journalists, and politicians across the political spectrum in France. For those influential in policy making, these views determined the framework in which solutions were considered and policies were adopted.

Chapters 2 and 3 cover French policy making with regard to gold and international economic cooperation. The rapid growth of French gold reserves in 1929 and 1930 drew strong criticism from abroad, particularly from Britain, where French gold accumulation was blamed for the severity of the depression. Chapter 2 analyzes French gold policy from 1928 to 1932: the understanding of the problem, efforts at cooperation with Britain to control gold movements, assistance in trying to save the pound sterling in the summer of 1931, and the final rush of gold acquisition in 1932 as France liquidated its foreign exchange holdings. French understanding of the gold standard promoted a passive monetary policy that would continue beyond the period of gold acquisition, while the large accumulation of gold reserves convinced policy makers that they were following the right course. Chapter 3 deals with French preparation for and participation in the World Economic Conference in London. In 1933, French policy evolved from complacency with regard to a crisis for which France felt no responsibility to conviction that currency depreciation threatened to destroy the monetary foundation of economic and social order and that exchange-rate stabilization was the essential first step to economic recovery. When Britain and the United States refused to undertake exchange-rate stabilization at the conference, France led countries still on the gold standard to form the gold bloc in order to preserve their currencies against speculative pressures. But France provided little direction or encouragement in coordinating monetary policy or in seeking recovery through increased trade within the group.

Chapters 4 and 5 focus on the institutional forces in French management of domestic monetary affairs. Chapter 4 analyzes the role of the Bank of France in policy making, concentrating on three aspects: the Bank's unsuccessful efforts to increase the international power and prestige of the Paris capital market; its difficulties in controlling the domestic money market owing to strained relations with the commercial banks and its failure to make active use of the policy instruments available to it; and the slow evolution of interest-rate policy as the Bank tried to use this one instrument to accomplish two contradictory objectives, defense of the franc and the fostering of economic recovery. Chapter 5 covers Treasury influence in monetary affairs, paying particular attention to the growth of budget deficits in the early 1930s and the constant strain this placed on the Treasury in financing government spending. This strain was important in gradually changing Treasury opinion with regard to interest-rate policy, the feasibility and efficacy of continued deflation, and eventually defense of the franc. It also examines the conflict between the Treasury and the Bank of France over interest-rate policy, which resulted in moves toward greater Treasury control of monetary policy, culminating in the de facto nationalization of the Bank in 1936.

The last two chapters center on the problem of devaluation in France from 1933 to 1936. Chapter 6 examines the devaluation debate in this period, focusing on the alignment of political and economic forces that it produced, the arguments developed for and against devaluation, the reasons for the strength of the case against devaluation, and the decline of this strength in 1935 and 1936. The evolution of Paul Reynaud's views and his key role in the campaign for devaluation are also assessed. The public and political character of the debate was extremely important; devaluation ceased to be an economic question. Chapter 7 follows it as a political issue after the election of the Popular Front government in order to show the Blum government's difficulties in deciding to devalue and in acting effectively on the decision. Many of the opponents of devaluation publicly accepted its necessity in 1936, but the Popular Front was unable to undertake devaluation until driven to it in desperation in September 1936. The negotiation of the Tripartite Accord and the devaluation of the franc are reassessed in light of archival sources that have only recently become accessible. This reexamination reveals how reluctantly devaluation was undertaken and how political concerns dominated economic policy, contributing to the failure of devaluation to bring about economic recovery.

Throughout, the primary concern is the formulation of policy; this book seeks to explain the "irrational" quality of French policy making and investigates the influence of the depression on French perceptions of economic problems and policy determination. It focuses on those in a position to decide or to influence policy.[21] The limited availability of sources restricts the scope of the study in one important respect: The lack of cabinet records, the irregular preservation of material in the Ministry of Finance archives, and the selective character of the discussions recorded in the minutes of the Conseil général of the Bank of

[21] The cast of characters is large. For reference purposes, the Appendix to this volume provides the names and dates of the many French premiers and ministers of finance from 1928 to 1936, as well as the positions of key administrators who appear frequently in the text, and distinguishes between the Caisse d'amortissement and the Caisse des dépôts et consignations, whose operations affected Bank of France control of the money market and Treasury finances in the years of budget deficits.

France leave wide gaps in our knowledge of how most decisions were made. Between 1926 and 1928, for example, the minutes of the Conseil général weekly meetings include no discussion of the stabilization of the franc. Emile Moreau's *Souvenirs d'un gouverneur de la Banque de France* is an extraordinarily valuable source that fills in details on the struggles both within the Bank and between Moreau and Poincaré on this matter. No comparable source has been found to elucidate the activities of the Bank with regard to defense of the franc from 1934 to 1936. The records available at the Bank of France, the Ministry of France, and the Ministry of Foreign Affairs tell us little of the decision to devalue or the negotiation of the Tripartite Accord. French policy can be reconstructed only cautiously for this period, given the limitations of the sources available.[22]

However, sufficient material is available in government archives, the personal papers of politicians, memoirs, and the journals and newspapers of the time to explore the atmosphere in which decisions were made, as well as the perceptions and understanding of the problems that the policies were intended to remedy. The limited records available on actual decision making can then be examined within the contexts of economic understanding and political possibility. Defense of the franc was not irrational in the sense that it lacked mental clarity or coherence. French monetary management during the years of the franc Poincaré was based on an understanding of economics, the world depression, and French political psychology that generated a misleading diagnosis of the crisis. Policy makers came to realize this only slowly and imperfectly, and the nature and timing of that realization explain much of the "irrationality" of French policy during the depression.

[22] The difficulties and weaknesses of using documentary sources in reconstructing French economic policy after the Second World War are explored in a remarkable "dialogue" between a historian and a participant in François Bloch-Lainé and Jean Bouvier, *La France restaurée, 1944–1954: Dialogue sur les choix d'une modernisation* (Paris: Fayard, 1986).

1. The depression in France

French economic performance in the interwar years was sharply divided by the onset of the depression in 1930. The 1920s were a period of strong growth as France rebuilt war-damaged areas, depreciation of the franc encouraged exports, and a "neocapitalist" economic reform movement pressed for the modernization of French industry. The arrival of the depression in 1930 has been described as an "economic Sedan" halting the modernization of the French economy.[1] Late to arrive in France, the slump persisted through the decade, weakening and demoralizing the country as it faced the threat and then the reality of another war.

Two facets of the depression in France are treated in this chapter. The first is the extent to which monetary factors account for France's resistance to the economic crisis in 1929 and 1930 and for the persistence of the depression through the rest of the 1930s. The franc Poincaré, undervalued by its de facto stabilization in 1926 and overvalued after the fall of the pound sterling in 1931, has played the principal role in most accounts. There are difficulties with this interpretation that suggest the need for greater attention to domestic factors, particularly fiscal policy, in order to explain the peculiarities of the slump in France. The first section of this chapter reviews French economic performance between the wars and the debate on the importance of the franc Poincaré to French experience of the depression.

The second section examines the French reaction to the onset of the crisis, with particular attention to its monetary aspects. Perceptions of why the depression occurred and how it came to France influenced the means by which policy makers sought to restore prosperity. There was substantial consensus as to what had gone wrong in the world at large and how France should respond. Financial policy lay at the heart of

[1] F. Walter, cited in François Caron, *An Economic History of Modern France*, trans. Barbara Bray (London: Methuen, 1979), 180; also see Jean-Charles Asselain, *Histoire économique de la France du XVIII^e siècle à nos jours*, vol. 2, *De 1919 à la fin des années 1970* (Paris: Seuil, 1984), 10.

this consensus. This French understanding of the depression will be a constant point of reference in subsequent chapters, which show how this consensus view failed to produce policy prescriptions that would bring recovery.

Incidence of the depression in France

France emerged from the First World War a wounded victor, with nearly 1,400,000 of the 8.5 million soldiers mobilized either dead or missing in action. Four years of war had devastated the northeastern districts in which French mining and industry were concentrated, and war damage was augmented by the deliberate destruction of productive capacity by the retreating German armies in 1918. The twelve departments invaded, 8% of France's 1914 territory, contained more than 30% of its industrial production, including most of its coal, iron, steel, and copper industries.[2] Alfred Sauvy estimates that material losses in the war totaled 55 billion francs, 25% more than France's national income in 1913. Industrial production in 1919 was at 57% of its 1913 level, a level it would take five years to regain. The war was financed mainly by borrowing; the domestic national debt increased more than tenfold, most of it short term, creating an unstable financial burden that would frustrate French governments throughout the first half of the 1920s. To pay for massive imports of war materiel, France sold foreign assets and increased its international indebtedness, weakening its external balance.[3]

The effort needed to reconstruct devastated areas, return the economy to a peacetime footing, and restore French industry generated strong economic activity after the war. High government spending was financed by short-term borrowing and advances from the Bank of France, in the expectation that the costs would be recovered through German reparation payments. Maintained at 5.45 francs to the dollar during the war, the franc was unpegged on 14 March 1919 and depreciated

[2] See the detailed accounting of French industrial losses in Edmond Michel, *Les Dommages de guerre et leur réparation* (Paris: Editions Berger-Levrault, 1932), 350–468.

[3] These figures are drawn from Alfred Sauvy with Anita Hirsch, *Histoire économique de la France entre les deux guerres* (Paris: Economica, 1984), 1: 16 and 3: 390; Michel estimates the total cost of the war at 159 billion francs (*Dommages de guerre*, 97). Financial expert Gaston Jèze declared, "France's financial policy during the war will always be a model of what not to do." Cited in Caron, *Economic History*, 248. On French war finance and inflation see James Harvey Rogers, *The Process of Inflation in France, 1914–1927* (New York: Columbia University Press, 1929), and Robert Murray Haig, *The Public Finances of Post-War France* (New York: Columbia University Press, 1929).

to 11 francs to the dollar by the end of the year. In the next four years it varied between 10 and 18 francs to the dollar, until speculative pressure in March 1924 reduced it to 27 francs to the dollar. A counterattack by the Bank of France, drawing on credits from Lazard Brothers in New York and London, and J. P. Morgan and Co., broke the speculative wave. As speculators rushed to cover their positions, the Bank quickly reconstituted the stocks of foreign exchange it had spent, while the franc recovered to 15 francs to the dollar.[4]

The governments of the Bloc national that had led France since the war lost power in the May 1924 elections to the Cartel des gauches, and the next two years brought deterioration of government finances, public confidence, and the exchange value of the franc. Burdened by its fiscal inheritance and internally divided, the Cartel was unable to overcome its financial problems or to avoid being held hostage by the Bank of France.[5] It yielded office to a government of National Union led by Raymond Poincaré in July 1926, the franc having tumbled to one-tenth of its prewar value.

Benefiting from an immediate revival of confidence, Poincaré raised taxes, cut spending, balanced the budget, and stabilized the franc. Inflation, characterized by Keynes as a "concealed capital levy" that the French preferred to direct taxation,[6] had eased the burden of the national debt and encouraged investment, while currency depreciation had stimulated exports. By the end of 1926, reconstruction was 90% complete,[7] and industrial production and national income had substantially sur-

[4] For French financial management in this period see Schuker, *The End of French Predominance*, esp. 89–115, "Saving the Franc," and Rogers, *The Process of Inflation in France*. On the speculation against the franc in 1924 see also Jean-Claude Debeir, "La Crise du franc de 1924: Un exemple de spéculation 'international,' " *Relations internationales* 13 (1978): 29–49; and Jean-Noël Jeanneney, "La Spéculation sur les changes comme arme diplomatique," in *L'Argent caché*, 2d ed. (Paris: Seuil, 1984), 169–99. For a sympathetic account of financial management in France in comparison with that in Britain and the United States, see Dan P. Silverman, *Reconstructing Europe after the Great War* (Cambridge, Mass.: Harvard University Press, 1982).

[5] See the evocative account of Bank of France pressure on the Cartel government in Jean-Noël Jeanneney, *Leçon d'histoire pour une gauche au pouvoir: La Faillite du Cartel, 1924–1926* (Paris: Seuil, 1981), esp. 86–97, 128. But the Cartel placed its fate in the hands of the Bank through ill-advised and ineffective policy; see ibid., 135–42; also Alain Prate, *La France et sa monnaie: Essai sur les relations entre la Banque de France et les gouvernements* (Paris: Julliard, 1987), 95–7.

[6] The Cartel threatened but never implemented a capital levy; see John Maynard Keynes, Preface to the French edition of *A Tract on Monetary Reform* in *The Collected Writings of John Maynard Keynes*, vol. 4 (London: Royal Economic Society, 1971), xxii.

[7] In terms of 1913 francs spent by the government; at the end of 1926 this totaled 25,299 million francs. See Sauvy, *Histoire économique*, 2: 259.

passed their 1913 levels. The appreciation of the franc in the autumn of 1926 caused an economic slowdown – an extremely important factor in the decision to stabilize the franc in December[8] – leading into recession in 1927. But strong growth resumed in 1928 and continued until mid-1930, with industrial production maintained from January to May 1930 at 44% higher than its 1913 level.[9] The strongest growth was in the capital goods sector and in new industries such as automobiles, electricity, and petroleum. Traditional industries such as textiles, leather goods, and construction did not fare as well after the stabilization.

Alone among the industrialized nations, France seemed immune to the economic depression that spread through the international economy in 1929. Industrial production began to decline in April 1929 in Germany, in June in the United States, and in July in Great Britain. The downturn in France occurred a year later, in June 1930.[10] By the end of 1930, German and American industrial production had fallen nearly 30% from their 1929 peaks. British industrial production, after sluggish growth in the 1920s, slipped 15% in the same period. Unemployment climbed dramatically. At the end of 1930, nearly 4.5 million Germans were registered as unemployed, and nearly 2 million were wholly unemployed in Britain.[11] In the United States the unemployed numbered more than 4.3 million.[12] In contrast, France was an *île heureuse*. Industrial production had slipped only 7% by the end of 1930 from its 1929 average, and recorded unemployment passed ten thousand only in November 1930[13] (Tables 1.1 and 1.2). When Britain left the gold standard in 1931, *Paris-Midi* claimed, "France is untouched by the crisis."[14]

But France was not to escape the slump. Although late to arrive and less acute than the depression in Germany and the United States, the depression in France was severe and persisted through the 1930s. In 1932, industrial production had fallen 30% from its 1929 level, compared with nearly 50% in the United States and Germany (Figure 1.1 and Table 1.1). Unemployment in France seemed extraordinarily low.

[8] See Jacques Rueff, "Sur un point d'histoire: Le Niveau de la stabilisation Poincaré," *REP* 69 (1959): 172; and Moreau, *Souvenirs*, vii–ix, 147–83.

[9] Sauvy, *Histoire économique*, 3: 315.

[10] Charles P. Kindleberger, *The World in Depression, 1929–1939* (Berkeley: University of California Press, 1973), 116.

[11] From League of Nations, *Monthly Bulletin of Statistics* (Feb. 1931), 55, 88–9.

[12] United States Bureau of the Census, *Historical Statistics of the United States, Colonial Times to 1957* (Washington, D.C.: U.S. Government Printing Office, 1960), 70.

[13] Sauvy, *Histoire économique*, 3: 315, 305.

[14] A. L. Jeune in *Paris-Midi*, 22 Sept. 1931, cited in Sauvy, *Histoire économique*, 1: 99.

Table 1.1. *Index of industrial production, 1929–36 (1929 = 100)*

	1929	1930	1931	1932	1933	1934	1935	1936
January	98	103	94	73	77	80	72	79
February	97.5	103	94	72	79	79	72	79
March	99	103	93	71	80	78	71	81
April	100	103	92	70	81	77	70	81
May	100	103	89	70	82	76	72	80
June	101	102	86	71	83	75	72	73
July	100	101	84	71	83	74	73	75
August	100	100	84	72	82	73	73	70
September	99	98	83	72	81	72	74	74
October	101	97.5	82	73	80	72	75	81
November	102	97.5	80	74	80	72	75	83
December	103	96	77	76	80	72	76	83
Average	100	100	86	72	81	75	72	78

Source: Sauvy, *Histoire économique*, 3: 315.

Official figures for *chômeurs secourus* peaked at 316,000 in March 1932, compared with more than 6 million unemployed in Germany, more than 12 million in the United States, and 2.3 million in Britain[15] (see Table 1.2). But these official statistics recorded only those claiming benefits from irregularly established local authorities' funds with stringent conditions for granting benefits, and employment relations in much of France tended to blur the distinction between employment and unemployment, leaving many workers underemployed.[16]

When economic indices turned upward in the summer of 1932,

[15] League of Nations, *Statistical Yearbook, 1935–36* (Geneva, 1936), 174; U.S. Bureau of the Census, *Historical Statistics*, 70; and Sauvy, *Histoire économique*, 3: 305.

[16] See the important contribution of Robert Salais, "Why Was Unemployment So Low in France During the 1930s?" in *Interwar Unemployment in International Perspective*, ed. Barry Eichengreen and T. J. Hatton (Boston: Kluwer, 1988), 247–88. The national census in March 1931 recorded 452,815 unemployed when the official figure for *chômeurs secourus* was 50,800, and even the census understated the size of the problem by its restrictive definition of unemployment (ibid., 252–3). Of unemployment in 1938, Sauvy commented, with some exaggeration, that "the elasticity of the evil is such that, according to the definition given, the number of unemployed in France can vary from 200,000 to two millions." *L'Europe nouvelle*, 7 Jan. 1938, cited in Jean-Charles Asselain, "La Semaine de 40 heures, le chômage et l'emploi," *Le Mouvement social* 54 (Jan.–Mar. 1966): 187.

For further discussion of the inadequacies of French unemployment statistics, see Asselain, "La Semaine de 40 heures," 187–9; Gabrielle Letellier et al., *Enquête sur le chômage*, vol. 1, *Le Chômage en France de 1930 à 1936* (Paris: Librairie du Recueil Sirey, 1938), 35–9; and Jackson, *Politics of Depression*, 29.

Table 1.2. *Unemployed receiving assistance, 1930–7 (thousands of* chômeurs secourus*)*

	1930	1931	1932	1933	1934	1935	1936	1937
January	1.5	28.5	248.1	316.3	332.3	487.4	477.2	426.1
February	1.7	40.8	303.4	330.9	350.9	502.9	487.4	410.2
March	1.6	50.8	316.0	314.2	345.8	484.5	465.1	386.2
April	1.2	48.7	299.8	309.6	334.5	452.4	443.2	368.4
May	0.9	41.3	285.6	276.6	318.2	423.2	422.0	345.5
June	1.0	36.2	259.8	252.3	310.9	402.9	419.9	321.7
July	0.9	35.8	265.1	239.7	320.4	380.5	420.8	313.5
August	1.0	37.7	264.2	234.1	325.6	380.7	413.3	311.3
September	1.0	38.5	257.2	226.6	323.4	373.4	407.7	307.5
October	1.7	56.1	247.6	232.9	347.8	385.3	406.6	319.2
November	4.9	92.2	255.4	257.8	375.2	409.5	407.8	332.8
December	11.9	161.8	277.1	312.9	419.1	439.8	413.4	365.4
Average	2.4	54.6	273.8	276.3	341.6	425.8	433.7	351.3

Source: Sauvy, *Histoire économique*, 3: 305. *Chômeurs secourus* are those receiving unemployment relief from local unemployment funds; they are only a very rough indicator of the actual extent of French unemployment; see note 16.

France promptly joined the world recovery. Industrial production climbed back from its low of 70 (1929 = 100) in May 1932 to 83 in June 1933. Charles Rist, in his preface to *La France économique en 1932*, reported with satisfaction that "the French economy, which was one of the last to submit to the effects of the crisis, now accompanies the economies of other countries on the road to recovery with no perceptible delay."[17] But the French recovery was not destined to last. While recoveries elsewhere continued from 1932 to 1937, the French economy suffered a relapse. In 1935 France was again isolated, this time seemingly immune to recovery. Industrial production slipped back to 70 in April 1935; the number of unemployed receiving assistance rose to more than a half million in 1935, and national income and investment declined to their lowest points of the 1930s. France's resistance to world recovery from 1933 to 1935 is evident in Figure 1.1. Signs of recovery appeared in the spring of 1935, but these were neither substantial nor sustained. In May 1936 production had climbed back to 81% of its 1929 level, but it slumped again in the turmoil of the Popular Front's coming to power. Social and political convulsions repeatedly stalled recovery; French production was operating at 12% below its 1929 peak when war broke out in 1939.

[17] *REP* 47 (1933): 594–5.

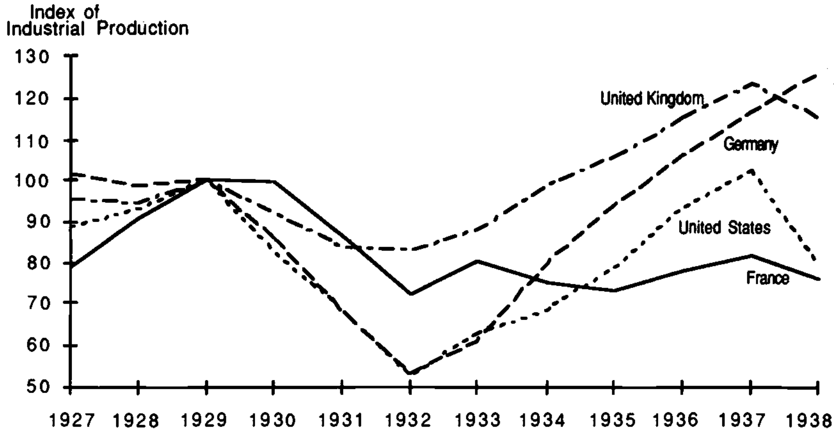

Figure 1.1. Industrial production index (1929 = 100). *Source:* League of Nations, *Statistical Yearbook, 1935–36*; *Statistical Yearbook, 1939–40*.

No single explanation can account for this erratic performance. The political and social upheavals from February 1934 through the Popular Front seriously disrupted economic life, rendering any purely economic explanation insufficient. The late arrival of the depression in France, however, and the persistence of the slump from 1933 to 1935, have usually been attributed to misalignment of the franc's exchange rate – for example, by Alfred Sauvy, Tom Kemp, Martin Wolfe, and Charles Kindleberger.[18] On this interpretation, the undervaluation of the franc Poincaré in 1928 permitted continued prosperity in France from 1929 to 1931 while the world economy skidded into depression. Undervaluation cushioned French producers against the early stages of the fall

[18] Alfred Sauvy has been the most prominent advocate of this view; see his *Histoire économique* (1984) 1: esp. 92–138, and Sauvy, "The Economic Crisis of the 1930s in France," *Journal of Contemporary History* 4 (Oct. 1969): 21–2. Other historians to adopt this view have generally been concerned with matters other than the delayed onset of the depression and have not explored the problem in depth; e.g., W. A. Lewis, *Economic Survey, 1919–1939* (London: Allen & Unwin, 1949), 98–100; Tom Kemp, *The French Economy, 1913–1939: The History of a Decline* (London: Longman Group, 1972), 100–2; Tom Kemp, "The French Economy under the Franc Poincaré," *EHR* 24 (Feb. 1971): 89–90; Kindleberger, *World in Depression*, 62, 247–8; and Wolfe, *The French Franc between the Wars*, 83–96. Julian Jackson assumes this exchange-rate explanation in his analysis of economic policy making, but recognizes that domestic demand played an important role, in *Politics of Depression*, 1, 23–7. Asselain, *Histoire économique de la France*, 2: 32–5, stresses the influence of the depreciations of sterling and the dollar, but he is careful to emphasize that domestic factors accentuated the crisis.

in world prices, and domestic activity was stimulated by a strong current account balance. By mid-1931 the benefits of undervaluation had been exhausted; French prices were rising while world prices plummeted. The decisive turning point was September 1931, when sterling left the gold standard. Thereafter, French goods were overpriced on world markets; the depreciations of sterling and the dollar created a price disparity fundamental to the French experience of the slump: "From 1931 and particularly from 1933 to September 1936, this was the key index which dictated economic policy, or at least proposed a choice."[19] Sauvy describes France until the depreciation of the pound sterling as "a ship not in distress, but adrift, of which the captain could not, for the moment, control the movement."[20]

After the pound went off gold, however, defense of the franc Poincaré required deflationary policy to lower French prices. A 15% ad valorem tariff was imposed on British goods in November 1931 to keep French goods competitive at home, but this did not obviate the need to lower prices in order to compete for export markets. In 1933 the depreciation of the American dollar required that the deflationary effort in France be extended and intensified, causing the economic relapse in 1933 and stagnation in the years that followed.[21] The combination of an overvalued currency and a deflationary domestic policy isolated France from the general world recovery. For Sauvy, the refusal to devalue the franc was the major policy error of this period, imposing a high cost on the French economy.[22] It resulted in contraction of the money supply, declining consumption and investment, and economic stagnation.[23]

Recovery recommenced in mid-1935 when Pierre Laval combined France's most serious effort at deflation with increased agricultural subsidies and advances from the Bank of France to cover the budget deficit. Increasing government spending and growth of the money supply allowed further improvement in early 1936. But it was only the deval-

[19] Sauvy, *Histoire économique*, 2: 206; and see Sauvy's comparison of French prices relative to British in Fig. 25, ibid., 2: 207 and Table 22, 3: 366. He estimates French prices to have been 12 to 13% lower than British prices until sterling went off gold; they were thereafter 13 to 20% higher until the devaluation of the franc in 1936.

[20] Ibid., 1: 106–7.

[21] According to Sauvy, "Rien ne permet de penser que la rechute français soit due à des facteurs internes." Ibid., 1: 134.

[22] Ibid., 1: 134–8; also Kindleberger, *World in Depression*, 248.

[23] Christian Saint-Etienne estimates M1 fell by 5.4%, M2 by 5.1%, from the third quarter of 1933 to the first quarter of 1936. (*The Great Depression, 1929–1938: Lessons for the 1980s* [Stanford, Calif.: Hoover Institution Press, 1984], 37). Jean-Pierre Patat and Michel Lutfalla, *Histoire monétaire de la France au XX^e siècle* (Paris: Economica, 1986), 60, 75, show M2 falling by nearly 14% (from 170 to 146 billion francs) from 1930 to 1935, then rising 7.7% in 1936 (by 19 billion francs).

uation of the franc in September 1936, and its realignment with the dollar and the pound, that would permit genuine recovery. Sauvy states that "brilliant perspectives opened to the French economy now that the golden chain which had bound it was broken"; with proper management France could have achieved complete recovery in less than two years.[24] Unfortunately, the incoherence of Popular Front economic and social policy, the deterioration of domestic political and economic relations, and the increasing burden of rearmament frustrated hopes for full recovery.

This account of the French slump based on the exchange rate of the franc has been criticized as insufficient to explain the delayed onset of the crisis and its subsequent severity and duration. Each of these aspects will be taken up in turn. With regard to the delayed onset of the crisis, Jacques Marseille has pointed out that the downturn in the general index for French industrial production in June 1930 hides a much earlier decline for traditional, unprotected industries with a strong export orientation. Such sectors as textiles and leather goods expanded rapidly in the early 1920s not through internal dynamism, but by the *coupe de veine* of franc depreciation. The recovery and stabilization of the franc in 1926 brought this expansion to an abrupt end, and even modern industrial enterprises such as Renault (automobiles) and Pont-à-Mousson (iron and steel) found their exports curtailed after rapid growth in the years of currency depreciation.[25] Marseille explains the downturn in the unprotected sectors as a failure of the domestic market to expand in step with French industry's productive capacity. The crisis was a "divorce" between the tremendous growth of productivity in the twentieth century and the perseverance of nineteenth-century attitudes restricting wages and consumption.[26]

Marseille bases his argument mainly on the experience of French textiles and leather goods. The loss of export markets for textiles was

[24] Sauvy, *Histoire économique*, 1: 279–80.

[25] Jacques Marseille, "Les origines 'inopportunes,' " 648–84; updated in Marseille, *Empire colonial et capitalisme français: Histoire d'un divorce* (Paris: Michel, 1984), 165–86; see also, with less detail, Marseille's "Les aspects spécifiques," 83–8. On Renault and Pont-à Mousson, Marseille draws on Patrick Fridenson, *Histoire des usines Renault*, vol. 1, *Naissance de la grande entreprise, 1898–1939* (Paris: Seuil, 1972) and Alain Baudant, *Pont-à-Mousson (1918–1939)* (Paris: Publications de la Sorbonne, 1980).

[26] Marseille, "Les origines 'inopportunes,' " 684. Marseille does not take into account that French prices were rising from 1928 to 1930, while prices abroad were falling. Jean-Charles Asselain gives a solid critique of Marseille in *Histoire économique*, 2: 93–5, and of the qualified version of this argument, attributing the depression to a deficiency of domestic demand, in Mazier, Picaud, Podevin, and Bertrand, "Les deux crises," 259–63.

not a problem unique to France; all Europe lost to foreign competition, particularly from Asia, in a worldwide shift in the geography of textile production and sales, and France did not fare as badly in the textile crisis as did Britain.[27] The French domestic market took up some of the slack created by the decline in cotton exports in 1928 and 1929, albeit at prices that were not remunerative for producers.[28] Marseille's analysis still hinges on the value of the franc, which explains both the expansion in the early 1920s and the subsequent downturn.

Serge Wolikow agrees that after 1926, the easy profits of the era of inflation were no longer possible. From 1926 to 1931, right-wing governments promoted and subsidized new investment through public works projects, tax reductions, subsidies for reequipment, electrification, military spending, and development of infrastructure. This benefited specific industrial sectors: heavy industry, iron and steel, the mechanical, electrical, and chemical industries, and construction. These were little affected by the world depression until 1931, while consumer goods industries, especially those reliant on export markets, suffered steady decline. The deterioration of the French trade balance from 1929 to 1931 reflected this: While exports of manufactured goods declined, imports were maintained and imports of primary materials increased.[29] Wolikow is on firm ground in maintaining that the delayed onset of the depression was due to sustained activity in the capital goods sector. A surge in investment from 1929 to 1931, particularly in capital equipment, prolonged prosperity and delayed the decline in the index of industrial production (Tables 1.3 and 1.4). Carré, Dubois, and Malinvaud stress the strength of domestic demand in 1930[30] and assert that André Tardieu's *politique de prospérité*, undertaken in the belief that the surplus budgets since 1926 would continue, produced "involuntary" deficit financing which reduced the severity of the slump.[31]

[27] Ingvar Svennilson, *Growth and Stagnation in the European Economy* (Geneva: United Nations, 1954), 142–3.

[28] *REP* 43 (1929): 637 and 44 (1930): 706.

[29] Wolikow, "La crise des années trente," 19–20.

[30] While the value of imports fell from 58 to 52.5 million francs in 1929–30, this appears to have been the result of falling prices; the volume of all imports increased, particularly that of manufactured goods (the index for which increased from 143 to 173, with 1913 = 100); foodstuffs and materials necessary for industry increased slightly but fell in value: INSEE, *Annuaire statistique de la France 1966, résumé rétrospectif* (Paris: Ministère de l'économie et des finances, 1966), 350, 360.

[31] J. J. Carré, P. Dubois, and E. Malinvaud, *French Economic Growth*, trans. John P. Hatfield (Stanford, Calif.: Stanford University Press, 1975), 381: "It is striking today to realize that the public at that time attributed responsibility for the depression to the deficit in public finance, which in fact had reduced the scale of the slump." On

Table 1.3. *Investment indices and budget balance, 1926–36 (1913 = 100)*

Year	Investment in capital equipment	Building and public works	Volume of investment	Budget surplus/deficit (millions of francs)
1926	124	115	118	+ 1,088
1927	100	93	95	+ 725
1928	136	105	116	+ 3,929
1929	166	124	140	+ 5,419
1930	184	135	153	− 4,918
1931	150	125	134	− 5,484
1932	111	109	110	− 4,628
1933	122	100	108	−11,509
1934	116	90	100	− 8,813
1935	114	85	96	−10,383
1936	126	86	101	−16,896

Source: Carré, Dubois, and Malinvaud, *French Economic Growth*, 528; Sauvy, *Histoire économique*, 3: 381. The term of the budget year changed from 1929 to 1932; see Table 5.1.

In the most stimulating recent contribution to this debate, Barry Eichengreen and Charles Wyplosz argue that the influence of the undervalued franc has been vastly overrated and that it was Poincaré's fiscal policies, having induced the surge in investment through "crowding in" from 1928 to 1930, that were the source of French resistance to the slump. Their study is a useful corrective to overreliance on a simple exchange-rate argument. As they point out, undervaluation by itself is hardly likely to have stimulated four years of growth, and the share of exports in GNP declined after 1927.[32] Although they treat Poincaré's fiscal policies without reference to specific policy changes, and thus overlook the role of government capital expenditure in the French investment boom, they argue a strong case for directing more attention to the "fiscal contraction" from 1926 to 1930, which has received little notice in previous literature.[33] Pierre Saly has also reexamined Poincaré's fiscal

Tardieu's spending program, instituted to take advantage of a Treasury surplus, see Chapter 5, this volume, and Saly, *La Politique des grands travaux*, 119–60, 303–21.

[32] Barry Eichengreen and Charles Wyplosz, "The Economic Consequences of the Franc Poincaré," in *Economic Effects of the Government Budget*, ed. Elhanan Helpman, Assaf Razin, and Efraim Sadka (Cambridge, Mass.: MIT Press, 1988), 257–86.

[33] Eichengreen and Wyplosz's figures for growth of real GDP and industrial production in their Table 14.1 [ibid., 258] are misleading in that the strong annual growth rates for the period 1921–6 start from a year in which industrial production averaged only 55% of its 1913 level. The strong "growth" figures mainly reflect recovery from the war and postwar recession until 1924. From 1922 to 1926, government spending as a

Table 1.4. *Key economic indicators, 1928–36*

Date	Index of industrial production (1929 = 100)	GDP (1929 = 100)	National income (billions of francs)	Investment (1913 = 100)	Exports (of goods, millions of francs)	Imports (of goods, millions of francs)
1928	91	92	337	116	51,375	53,436
1929	100	100	393	140	50,134	58,221
1930	100	97	395	153	42,835	52,511
1931	86	93	361	134	30,436	42,206
1932	72	89	307	110	19,705	29,808
1933	81	93	295	108	18,474	28,431
1934	75	93	247	100	17,850	23,097
1935	72	90	245	96	15,496	20,974
1936	78	91	261	101	15,492	25,414

Sources: Industrial production: Sauvy, *Histoire économique*, 3: 315; real gross domestic product: Carré, Dubois, and Malinvaud, *French Economic Growth*, 24; national income: Patat and Lutfalla, *Histoire monétaire*, 60, 75; investment (index of volume): Carré, Dubois, and Malinvaud, *French Economic Growth*, 528; exports and imports: Institut national de la statistique et des études économiques [INSEE], *Annuaire statistique 1966*, 350.

policy. He suggests that Poincaré generated recovery through proto-Keynesian management of aggregate demand; he points to rising real wages, tax changes that served as a levy on middle-class savings, and a doubling of state expenditure on public works, military equipment, and military installations from 1926 to 1928. The essay is deliberately provocative, but Saly's definition of "Keynesianism" as any government effort to increase aggregate demand is imprecise and misleading, and Saly lacks the documentary evidence and theoretical support necessary to argue convincingly that Poincaré was engaged in anything other than orthodox balancing of the budget.[34]

Poincaré's fiscal policies were indeed important and merit detailed investigation to determine how specific tax and spending changes influenced the growth of domestic demand and investment. At the same

proportion of GNP fell steadily from 31.2 to 15.2%; its share then stabilized, touching a low of 14.7% in 1929, before beginning its climb back to 23% in the 1930s. See Table 14.2 [ibid., 264], based on Carré, Dubois, and Malinvaud, *French Economic Growth*, 246.

[34] Pierre Saly, "Poincaré keynésien?" in *Le Capitalisme français XIX^e–XX^e siècle*, ed. Patrick Fridenson and André Straus (Paris: Fayard, 1987), 33–46. He suggests that Poincaré was "a Keynesian in spite of himself, a Keynesian without the *General Theory*." If Poincaré was a Keynesian at all, and he wasn't, "unwitting" would have been the most appropriate qualifying adjective.

time, the effects of undervaluation should not be neglected. These effects were prolonged by the provisional character of the stabilization from December 1926 to June 1928 – a further appreciation of the franc was anticipated by many, and desired by Poincaré until he was pushed into devaluation – and by the Bank of France and the government doing their utmost to prevent any increase in the money supply and French prices as a result of the inflow of capital stimulated by the undervaluation.

The investment boom complements the importance of the undervalued franc. Undervaluation stimulated business, increased government revenue, and strengthened France's current account balance; with the increased taxation introduced by Poincaré, these made possible Tardieu's *politique de prospérité.* The collapse of investment after 1930 in turn reflects a combination of domestic and foreign forces. The depression was imported into France through a decline in exports; the effects of lost sales and falling prices were aggravated by the deflationary policies followed after 1931. The contraction of the money supply and government borrowing to cover budget deficits accentuated the steep decline in investment from 1932 to 1935 (Table 1.3).

The role of overvaluation of the franc after 1931 is less controversial. Serge Wolikow has criticized the fit of French trade statistics to changes in domestic economic activity, arguing that the decline in industrial production in France preceded that in exports in 1931, that the recovery in 1932 occurred just when one would have expected the depreciation of sterling to produce a contraction, and that the relapse into depression in 1933 and 1934 coincided with a decline of only 3% in exports (measured in gold francs), while imports fell by 19%.[35] He emphasizes the role of domestic demand rather than the exchange value of the franc in delaying the onset of the crisis and in prolonging the depression. Agricultural purchasing power, maintained by protectionism and price supports until 1934, played a vital role in sustaining demand from 1930 to 1934 and in sparking recovery in 1932 through demand for consumption goods, particularly textiles.[36] French agriculture employed more than one-third of the active population in the 1930s and carried considerable political influence with the right-wing governments of 1926–32 and with the Radical Party, which led the first coalition governments after the 1932 elections.

Wolikow bases his argument on annual averages of agricultural purchasing power, which lack sufficient precision to show when and how the agricultural sector determined the cycle of recovery and slump.

[35] Wolikow, "La crise des années trente," 24–5.

[36] Ibid., 26–32.

Protectionist measures, price support, and a poor harvest in 1930 sustained agricultural prices until 1932, but from June 1932 to 1934 they fell steadily, although purchasing power was maintained by the decline in prices of other goods.[37] From 1934 to 1936 agricultural income and purchasing power dropped dramatically.[38] Agriculture helped sustain domestic purchasing power in the early years of the depression in France, but better statistical evidence is needed to demonstrate that it was the pivotal influence at turning points for the French economy.

As for the fit of French trade statistics to the exchange-rate argument, Wolikow argues that the deterioration of the French trade balance in 1929–31 reflects the importance of domestic forces and the continued prosperity of the capital goods sector, with imports of raw materials for industry being particularly important. INSEE statistics show that the volume of such imports increased only slightly from 1929 to 1930 and declined thereafter; imports of manufactured goods increased more substantially in 1930 and fell only slightly in 1931.[39] This supports the view that the strength of domestic demand worsened the trade balance as foreign prices fell faster than those in France.

Wolikow's argument that the timing of the French slump and recovery in 1931–2 and relapse in 1934 does not substantiate the importance of the depreciations of sterling and the dollar posits an oversimplified effect of exchange-rate changes on trade.[40] Figure 1.2 illustrates the changes in French export and import values from 1929 to 1936, and Figure 1.3 shows the volume of exports and industrial production from 1931 to 1936. The value of French exports began to decline in July 1929[41] and had fallen one-third by September 1931. Falling prices abroad and inflation in France had eliminated the exchange advantage of the undervalued franc, and relative prices were playing a part in the French slump in 1931. The depreciation of sterling aggravated this decline. The time lag for trade adjustments to changes in exchange rate is longer than Wolikow suggests,[42] and through the phenomenon known as the J-curve, an appreciation of the real exchange rate can temporarily raise the value of exports (because export prices

[37] Jean Dessirier, "L'Economie française devant la dévaluation monétaire," *REP* 50 (1936): 1565, 1578, 1582.

[38] Ibid. Dessirier estimates that agriculture's gross revenue fell from 83.6 billion francs in 1929 to 39.5 billion in 1935.

[39] INSEE, *Annuaire statistique, 1966*, 350, 360 (Table 2).

[40] Wolikow, "La crise des années trente," 24–5.

[41] Statistique générale et Institut de conjoncture, *Mouvement économique en France de 1929 à 1939* (Paris: Imprimerie nationale, 1941), 99.

[42] It can be as much as five years for full adjustment; see Helen B. Junz and Rudolf R. Rhomberg, "Price Competitiveness in Export Trade Among Industrial Countries," *American Economic Review* 63 (May 1973): 412–18.

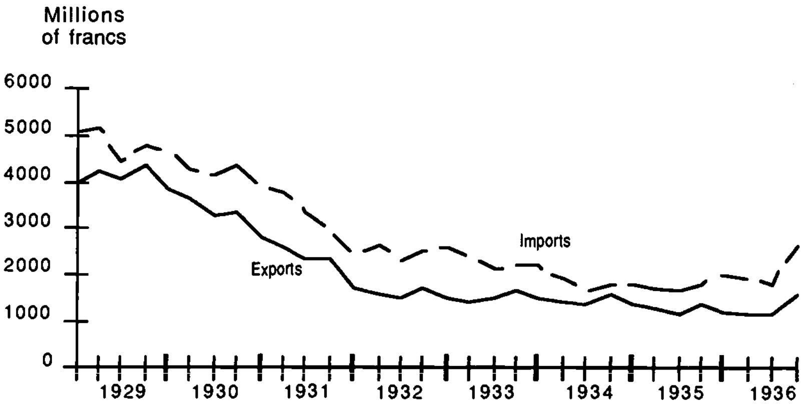

Figure 1.2. Monthly exports and imports by value (quarterly averages, millions of francs). *Source*: *Revue d'économie politique*, 1930–7.

increase) and lower the value of imports (because import prices fall) until the volume of trade has adjusted to the exchange-rate appreciation.[43] The subsequent devaluation of the dollar need not have produced a further drop in French exports after four years of decline. The French balance of trade had deteriorated sharply after the fall of sterling; by April 1933 the effects of the overvalued franc seem to have been felt more as an inability to generate recovery than as a further loss of exports. By this time, the value of French exports had fallen by two-thirds since 1928; dollar depreciation intensified the deflationary effort necessary in France.

The influence of the overvalued franc can be seen in its effects on tourism and French prices. French tourist receipts were sustained in 1930, despite the depression, but fell by 30% in 1931 owing to the contraction of incomes abroad and reduced tourism.[44] The effects of sterling depreciation were clearly visible in the next year: Tourist receipts fell by more than 50% in 1932, to 2.5 billion francs. Tourists chose to visit less expensive countries and to spend less when they came to France.[45]

France experienced a larger fall in wholesale prices than did countries

[43] Stephen Magee, "Currency Contracts, Pass-through, and Devaluation," *Brookings Papers on Economic Activity* no. 1 (1973): 303–25.

[44] *REP* 46 (1932): 589; Jackson cites sustained tourist receipts in 1931 as a factor in the delayed onset of the depression (*Politics of Depression*, 25); receipts were sustained in 1930, but fell sharply in both 1931 and 1932.

[45] *REP* 46 (1932): 589; 47 (1933): 670; and 53 (1939): 539.

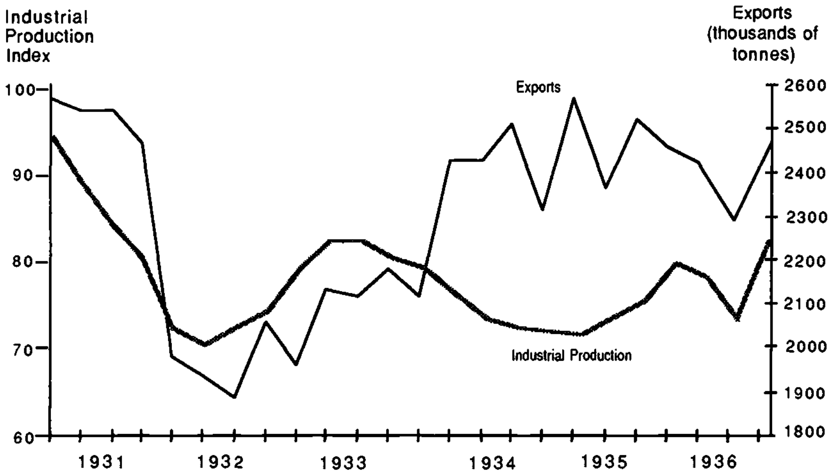

Figure 1.3. Exports and industrial production: industrial production index (1929 = 100); export volume (quarterly averages). *Sources*: Statistique générale et Institut de conjoncture, *Mouvement économique*, 163–4 (export volume); Sáuvy, *Histoire économique*, 3: 315 (industrial production).

that devalued. Wholesale prices fell by half from early 1929 to mid-1935.[46] Retail prices, reflecting the strength of domestic demand, began to fall in December 1930, nearly two years after the downturn in wholesale prices. In March 1934 in France, they had fallen 5% since 1929, while wholesale prices had fallen 37%. In Britain wholesale prices fell 24% over the same period; in the United States they fell 23%.[47] This disparity between wholesale and retail price movements in France and the greater decline in wholesale prices reflect the downward pull exerted by lower world prices while the franc was overvalued, with protectionism insulating retail prices. One of Paul Reynaud's strongest arguments for devaluation in 1935 would be the need to restore profitability to businesses that were maintaining export sales only by selling at unremunerative prices.

The price averages hide wide differences between the protected and unprotected sectors of the French economy. From 1930 to 1935, in the protected sector, petroleum prices fell 18%, sugar prices by 15%, coal by 16%, bread by 25% (mainly in 1935; they rose again to within 12% of 1930 prices by July 1936). In the unprotected sector, textile and

[46] Sauvy, *Histoire économique*, 3: 351.

[47] See the table comparing changes in wholesale and retail prices in League of Nations, *World Economic Survey, 1933–34* (Geneva, 1934), 146.

leather goods prices fell 44%, copper 63%, and agricultural 45%.[48] Both Marseille and Wolikow emphasize the importance of sectoral differences, which were apparent to contemporary observers.[49] The strength of the capital goods sector at the end of the 1920s contrasted sharply with the decline of traditional, unprotected, export-oriented industries since 1926. Such differences were not unique to France; Derek Aldcroft and H. W. Richardson have stressed the vitality of "new industries" in Britain between the wars.[50] But the sectoral split in France appears to have been determined in large part by government intervention: protectionism, price supports, and government investment.

While the effects of overvaluation of the franc are difficult to separate from the decline in exports owing to the world depression, the effects are more clearly seen in the inability of the French economy to share in the world recovery of the mid-1930s. As Barry Eichengreen and Jeffrey Sachs have shown, devaluations in the 1930s tended to increase output, investment, and employment, not just in the devaluing countries, but in the world at large. They suggest that devaluations, "adopted even more widely and in a coordinated fashion, . . . could have been beneficial for all the countries involved."[51] In abstaining from devaluation, France experienced the obverse. Preservation of the gold parity of the franc required higher interest rates and a deflationary fiscal stance that reduced output, investment, and employment and delayed recovery from the depression.

In sum, the role of the exchange rate of the franc remains fundamental to an explanation of the cycle of prosperity and slump in France from 1926 to 1936. French prosperity was prolonged into 1930 by monetary and fiscal policies that righted the budget imbalance that had plagued France since the war and promoted a powerful surge in investment, which, coupled with tax cuts and government spending under Tardieu's *politique de prospérité*, peaked in 1930, and sustained a high level of economic activity in France while the rest of the world succumbed to

[48] Jean Dessirier, "Secteurs 'abrités' et 'non-abrités' dans le déséquilibre actuel de l'économie française," *REP* 49 (1935): 1330–58.

[49] See Dessirier, "L'économie française" and "Secteurs 'abrités' et 'non-abrités.' "

[50] See Derek H. Aldcroft, "Economic Growth in Britain in the Inter-War Years: A Reassessment," *EHR* 20 (1967): 311–26; H. W. Richardson, *Economic Recovery in Britain, 1932–9* (London: Weidenfeld & Nicolson, 1967); and Derek H. Aldcroft and Harry W. Richardson, *The British Economy, 1870–1939* (London: Macmillan Press, 1969), 239–88.

[51] Barry Eichengreen and Jeffrey Sachs, "Exchange Rates and Economic Recovery in the 1930s," *Journal of Economic History* 45, no. 4 (1985): 925–46, quote from 944.

the depression. After 1931, defense of the franc Poincaré intensified and prolonged the depression in France.

L'heure de la pénitence économique: contemporaries view the crisis in France

French immunity to the world crisis in 1930 led some commentators to indulge in smug self-congratulation that France would escape the depression. André Tardieu, writing just before the fall of his government in December 1930, echoed many analysts in commenting:

> One of the reasons for which opinion abroad admires the French people is their resistance to the world economic depression. France's harmonious economic structure and the prompt measures taken by the authorities have facilitated this resistance. The natural prudence of the French people, their ability to adapt, their modernity, and their courage have contributed equally.[52]

Pride in this privileged position was often reflected in French discussions of the depression. But the French were not oblivious to the crisis. Awareness of its arrival in France was evident late in 1930. A great deal of attention was paid to the international slump; many were alert to the downturn in France and sought to explain how and why France's economic course differed from that of its neighbors.

In June and July 1930 Marcel Hutin, financial columnist for *L'Echo de Paris*, interviewed a number of business leaders, asking, "Y a-t-il une crise des affaires?" The responses illustrate the breadth of opinion among businessmen and the uneven onset of the slump in France. Théophile Bader, founder of the Galeries Lafayette, told Hutin: "There is no crisis; the crisis does not exist. It is a phantom invoked by the incompetent and the eternally discontented who are only too happy to have a pretext for complaint and recrimination."[53] Retail prices were still rising and consumption was healthy. Pierre Laguionie, director of the department store Au Printemps, saw no crisis; Printemps sales were unaffected by the decline in French exports.[54] Albert Buisson, president of the Tribunal de commerce de la Seine, did not expect France to be seriously affected by the world economic crisis. Reciting platitudes about the nature of the French economy, he declaimed, "Thanks to its social structure, its perfectly balanced economy, and the continuous

[52] Written for the *Sunday Referee*; quoted in *L'Echo de Paris*, 7 Dec. 1930.
[53] *L'Echo de Paris*, 2 July 1930.
[54] Ibid., 17 July 1930.

development and potential of its colonial empire, our country occupies a privileged position."[55]

Many of the interviewees, however, were business leaders in the stricken textile industry. They had experienced a sharp price decline since 1926, which had brought on a crisis aggravated by the collapse of foreign markets and increased foreign competition. Recovery would require increased purchasing power for customers in the primary producing countries, a remote possibility. Eugène Motte, president of the Crédit du Nord (which provided credit to textile manufacturers), noted that in France domestic demand had fallen off considerably owing to declining agricultural purchasing power.[56]

The Hutin series reveals one curious aspect of the crisis not unique to France: concern that public discussion would aggravate problems that might otherwise solve themselves. A head-in-the-sand approach was frequently voiced in Hutin's limited investigation. "Let's not talk too much of the crisis," Pierre Laguionie advised. "One can become ill in reflecting upon illness. Let us think of the crisis in order to combat it; let our words be words of confidence in the equilibrium of our country."[57] Albert Buisson concurred: "During an epidemic, the fearful are the most vulnerable; in the course of a world crisis, those who are strong and confident have a good chance of remaining unscathed."[58] Théophile Bader, who, as we have already seen, characterized the crisis as a phantom, went on to state:

> The crisis, it need be said, is above all a crisis of morale: it is a state of mind against which it is important to react: it is a lack of confidence, the fear by anticipation of an imaginary catastrophe; it is, to employ medical terminology, a veritable psychosis with no foundation, of which we must cure ourselves quickly.[59]

Business opinion was not alone in fearing that too much attention to the crisis would encourage its growth. In 1933 the economist Jacques Rueff recommended the suppression of trade statistics as a means of reducing the pressure on the government to adopt unwise economic

[55] Ibid., 19 July 1930.

[56] Hutin's interviews in *l'Echo de Paris* with Etienne Fougère, president of the Fédération de la soie, 7 July 1930; Louis Nicole, député du Nord (affected by the crisis in the linen industry), 26 July 1930; René Laederich, regent of the Bank of France and president of the Syndicat général de l'Industrie cotonnière française, 30 July 1930; Eugène Motte, president of the Crédit du Nord, 9 Aug. 1930; and Eugène Mathon, president of the Comité centrale de la laine, 14 Aug. 1930.

[57] Ibid., 17 July 1930.

[58] Ibid., 19 July 1930.

[59] Ibid., 2 July 1930.

policies, such as import quotas and other trade barriers.[60] In 1934, Finance Minister Louis Germain-Martin ended the monthly publication of statistics on tax receipts, releasing them on a quarterly basis thereafter. In March 1930 Paul Reynaud, newly installed as minister of finance, shocked financial opinion in stating of the fall in prices on the Paris stock market: "The truth is, that behind the slump on the stock exchange, a slump which many consider to be an artificial phenomenon, there is an immense economic crisis. . . . Nothing could be more imprudent than to foresee an immediate recovery."[61] *Le Figaro* asked why a minister of finance would try to alarm *les intérêts* when the crisis was nearing its end. Not to be outdone, *L'Action française* called for Reynaud's resignation and claimed he was legally liable for the losses incurred on the stock market.[62]

Reynaud had been referring to the world crisis, and in particular to the declining purchasing power of primary producers. With regard to France, he was capable of the requisite optimism. In a speech at Epinal in August 1930, he echoed Bertrand Nogaro's claim that the Tardieu government had inherited the "most favorable financial situation of the Third Republic," adding that "everything permits us to hope that we are entering a grand period in our history."[63]

At the policy-making level in France, there was a remarkable degree of consensus on why the depression had developed in the way it had and what remedial measures were needed to foster recovery. Among politicians, civil servants, and influential economists, this consensus can be characterized as an "official view" of the depression. It was of sufficient breadth and solidity to dominate policy determination in reaction to the slump until the Popular Front took power in 1936. Politically, its support ranged across the right and center of the political spectrum to the moderate left, ending unevenly toward the left side of the Radical Party. Beyond the policy-making level, this "official view" was the basis for popular understanding of the crisis, propounded by many influential financial writers and shared by leading figures in French commerce and finance. And it was by no means a view of the depression peculiar to

[60] Jacques Rueff, "De quelques hérésies économiques qui ravagent le monde," from a lecture at the Sorbonne, 27 Feb. 1933, published as appendix 4 in Rueff, *De l'aube au crépuscule* (Paris: Plon, 1977), 324–5.

[61] *L'Echo de Paris*, 8 Mar. 1930, an interview with Marcel Hutin. For Reynaud's account of the affair, see his *Mémoires*, 1: 292–4.

[62] Cited by Reynaud in his *Mémoires*, 1: 294. Press clippings on the incident have been collected in the Reynaud Papers, AN 74 AP 18.

[63] "Discours à Epinal," 3 Aug. 1930, in AN 74 AP 13.

France. It bears an obvious resemblance to British and U.S. analyses, as well as analyses by Austrian theorists, best exemplified by Friedrich Hayek's *Prices and Production*, and caricatured by critics as the "crime and punishment" theory of business cycles.[64]

In France, this "official view" reflected economic experience since the war, in particular the experience of budget deficits and inflation and the Poincaré stabilization, which colored perceptions of the depression and its arrival in France. It provoked little debate among those determining policy as long as it explained the course of events within France and abroad and prescribed policies compatible with opinion and experience. From 1933 onward, as France slid back into depression while the rest of the world enjoyed recovery, this view drew increased criticism not only from the Left, where it had attracted little sympathy, but from those within the French establishment who had once given it their support. Until 1936 and the advent of the Popular Front, however, those holding differing views were powerless to implement alternative policies.

It is a truism that the crisis was due to a disequilibrium between supply and demand. Solutions of the Left and Right were roughly divisible according to whether they sought to reduce supply or stimulate demand. The "official view" saw the crisis as one of worldwide overproduction that could be brought to an end only by a contraction of economic activity to permit the exhaustion of inventories, reduce production costs (particularly wages), and eliminate marginal producers.[65] Initially there was little reason to believe that the slump was any different from previous cyclical downturns. When the unprecedented scale of the crisis demanded some larger explanation, it was attributed to the tremendous growth in production since the war. This increase was in turn due to a number of factors, some of them natural, others not.

The idea of natural causes was rooted in the belief that productive capacity would tend naturally to outstrip the possibilities for consumption. The economist and deputy Bertrand Nogaro explained that

[64] Friedrich A. Hayek, *Prices and Production* (London: Routledge, 1931), esp. 84–7. For a spirited critique of Hayek's arguments, see the review by Piero Sraffa in *Economic Journal* 42 (1932): 42–5.

[65] Robert Wolff tried to systematize this in "Réflexions sur les crises," *REP* 46 (1932): 1288–1320. His conclusions began (1316–17), "Every crisis is a sign of excess; excess of production, excess of equipment; that excess results in a sharp decline in orders for equipment, which in turn is the principal cause of unemployment, and the acuity of the crisis." R. Hacault spoke in a similar vein to the Société d'économie politique in October 1930: "A crisis is always a reaction against the collective errors or aberrations which preceded it. It is the necessary expiation of faults committed." *Journal des économistes* (Oct. 1930): 216.

"the crisis proceeds first of all from a real overproduction of a small number of products . . . and also from a massive increase in the means of production, the development of equipment, and the perfecting of techniques."[66] Joseph Caillaux, Radical chairman of the Senate Finance Committee in the 1930s, believed that science had "outpaced man" and that the crisis was due to a "superabundance of mechanical appliances." The only solution was to reduce production to match consumption.[67] After the war, pent-up demand had resulted in high investment to mechanize and rationalize industry. This created excess productive capacity, the full effects of which were felt only at the end of the 1920s, when prices were already falling and inventories rising. At the same time, the war dislocated international production. Productive capacity created outside Europe to meet wartime needs resulted in overproduction of both primary products and manufactured goods when production resumed in Europe. Market dislocations, particularly Russia's lurches from agricultural export to import to export, further aggravated the tendency to produce more goods than could be consumed.

It was believed that by its normal functioning the market would have been able to cope with these difficulties had it not been frustrated by various forms of interference. Protectionism, consumer cooperatives, marketing boards, and government purchases of surplus wheat and metals prolonged overproduction, resisting market pressures for contraction. Stockpiling was most evident for primary goods, and declining commodity prices were recognized as an important factor in the declining demand for industrial goods.[68] But the most important unnatural – hence, remediable – factor was the unprecedented growth of credit since the war. The official view of how a normal cyclical slump had assumed such grave proportions was that an "abuse of credit" in the 1920s had seriously overstimulated production and prevented correction by normal market forces. While economic factors were in large part unavoidable, wise management should have prevented errors from being made in monetary policy. The world monetary system had never fully recovered from war-related currency inflations, and the restoration of the gold standard as a gold exchange standard in the 1920s preserved currency misalignments and multiplied the effects of credit overexpansion in the United States and Britain.

Charles Rist, France's most influential economist in the interwar years,

[66] Cited in Sauvy, *Histoire économique*, 1: 102.

[67] Joseph Caillaux, *The World Crisis: The Lessons Which It Teaches and the Adjustments of Economic Science Which It Necessitates* (London: Cobden-Sanderson, 1932), 23–5.

[68] The Bank of France laid particular stress on this in 1930; see discussion of the Bank views in Chapter 2.

was the most prestigious proponent of an analysis along these lines.[69] Rist's views are expressed most clearly in his report on the origins of the crisis, adopted by the Conseil national économique and printed in the *Journal officiel*.[70] He criticized the restoration of the gold standard in the mid-1920s for its basis on the American dollar, which had remained on gold while experiencing a 60% inflation from 1914 to 1925. This reduced the purchasing power of gold by 60%. Countries returning to gold at prewar parities needed to increase their monetary circulation and their gold reserves by 60% to maintain prices that reflected wartime inflation. Prices in terms of gold were thus "entirely artificial," having been determined by the exceptional economic and monetary conditions in the United States since the war.[71] The world gold supply was insufficient to maintain this level of prices; prices had to fall to raise the purchasing power of gold. The effects of mechanization and rationalization aggravated the problem; Rist found the downward movement in prices "completely normal."[72]

[69] Rist combined a distinguished academic career, teaching at the Sorbonne and editing the *Revue d'économie politique*, with an important role in French policy making. He was a member of the 1926 Sergent Committee, which determined conditions for stabilization of the franc, and was assistant governor of the Bank of France under Emile Moreau during the period of stabilization, 1926–9. During the 1920s he also acted as an adviser on committees to reorganize currency and finances in Austria, Rumania, Turkey, and Spain. Although he resigned from the Bank of France in 1929 to devote his full attention to teaching, his opinions remained influential in the 1930s. He advised successive governments on international economic and monetary matters, participating in the Laval and Herriot visits to Washington and preparations for the World Economic Conference in 1933, headed the Comité d'adaptation du régime douanier aux conditions économiques created in 1935, and was a member of the committee that managed France's Exchange Equalization Fund from March to June 1937. Rist's views were broadly shared among French economists, civil servants, and financial writers. For biographical details see Rist's "Notice biographique," *REP* 65 (1955): 977–1045, condensed by Jean-Noël Jeanneney in his introduction to Charles Rist, *Une saison gâtée: Journal de la Guerre et de l'Occupation, 1939–1945* (Paris: Fayard, 1983), 9–15.

[70] This report was written in response to a League of Nations questionnaire on the depression and is reprinted as "Caractère et origine de la crise de 1929," in Charles Rist, *Essais sur quelques problèmes économiques et monétaires* (Paris: Librairie du Recueil Sirey, 1933), 325–43.

[71] Ibid., 330–1.

[72] Rist expected a downward trend in prices even without the gold problem. Increased productivity through rationalization and mechanization was bound to lower prices, aided by increased competition. He expressed surprise that this combination of forces had not produced a greater fall in prices. See "Caractère et origine," 333, and, more pointedly, his address to the Bank for International Settlements in May 1932, "Retrouvera-t-on le niveau des prix de 1928?" *Essais sur quelques problèmes*, esp. 159. Clément Moret, governor of the Bank of France from 1930 to 1935, likewise saw de-

More serious than the long-term downward trend in prices was the manipulation of credit, which prevented the correction of overproduction by normal market mechanisms. According to Rist:

The increased production would have provoked a general decline in the price level earlier if efforts had not been made from all sides to stimulate consumption artificially and to maintain it at a level superior to that corresponding to real income. It is there, in our view, that it is necessary to seek the specific origin of the present crisis.

This was particularly important on the international level, where monetary policy had been used to assist countries experiencing exchange difficulties and in an attempt to stabilize prices; this had promoted speculation and "artificial" consumption in the late 1920s.[73]

The crisis was thus a cyclical crisis of overproduction, aggravated by credit policies in America and Britain, which had attempted to maintain unrealistically high dollar and sterling values after wartime inflation.[74] Bumper crops in 1929 and 1930, which lowered agricultural purchasing power, the decline in the price of silver, which reduced purchasing power in the Orient, rising tariffs, which choked off international trade, and political tensions disrupting international lending all served to worsen the slump. Prices in 1929 had been too high, and monetary policy could not alter the inevitable downward trend.[75]

Two elements of this explanation warrant further explanation: the problems with the way the gold standard had been restored and the belief that an "abuse of credit" explained the severity of the depression. For French analysts versed in economic and financial orthodoxy, a freely operating gold standard was the necessary international complement to the price mechanism in domestic markets. It automatically maintained balance-of-payments equilibrium and prevented domestic credit inflation by requiring credit restriction in response to gold losses. Jacques Rueff, an economist and at this time the financial attaché at the French

clining prices as perfectly normal and salutary. See Moret to Bonnet, 6 Apr. 1933, MF B 32322; this letter is discussed in Chapter 3.

[73] Rist, "Caractère et origine," 333. The aid to countries experiencing exchange difficulties referred to the low-interest-rate policy of the Federal Reserve Bank of New York in order to assist the Bank of England in 1927. Rist's views evolved, leading him to abandon speculation as an important factor, stressing instead the overvaluation of the dollar and sterling in relation to gold. See his "Notice biographique," 1021–2.

[74] The most explicit statement of this is in Rist, "Notice biographique," 1006.

[75] "I cannot see," Rist confessed, "by what means (if the trend of the price level continues downward) one would be able to reverse the trend." Rist, "Retrouvera-t-on le niveau des prix de 1928?" 160.

Embassy in London, concluded a classic description to this effect in 1932 with the claim:

That which must be remembered is that the system, when allowed to function, cannot *not* be entirely effective . . . the gold standard reacts with absolute efficacy on all our international trade. Like the price mechanism, of which it is only a particular case, it is a master both imperious and discreet, who governs without ever appearing to, and without ever being disobeyed.[76]

The prewar gold standard was replaced with a "gold exchange standard" by which countries could hold convertible currencies as reserves in place of gold itself. In 1922 the Genoa conference had advocated the gold exchange standard as a means of easing an expected shortage of gold for monetary reserves.[77] Although the French sanctioned these ideas reluctantly in 1922, they came to see the gold exchange standard as a serious error in international monetary management. After the fall of sterling in September 1931, the French gave regular attention to when and how the gold standard should be restored in order to prevent another collapse. Commentators returned repeatedly to the existence of the gold exchange standard as the origin of monetary problems. It was dangerously inflationary in allowing two currencies to be issued backed by one stock of gold. While laudable in assisting countries in Central and Eastern Europe to return to gold in the 1920s, it should have been a transitional system, followed by a return to the true gold standard.[78]

One reason this had not occurred, critics explained, was that the

[76] Jacques Rueff, "Défense et illustration de l'étalon or," Lecture at the Ecole libre des sciences politiques, 17 Mar. 1932, in Société de anciens elèves et elèves de l'Ecole libre des sciences politiques, *Les Doctrines monétaires à l'épreuve des faits* (Paris: Librairie Félix Alcan, 1932), 192. My emphasis to stress Rueff's double negative.

[77] On the work of the Financial Commission of the Genoa Conference see Carole Fink, *The Genoa Conference: European Diplomacy, 1921–22* (Chapel Hill: University of North Carolina Press, 1984), 232–42; S. V. O. Clarke, *The Reconstruction of the International Monetary System: The Attempts of 1922 and 1933*, Princeton Studies in International Finance no. 33 (Princeton, N.J.: Princeton University Press, 1973), 11–18; W. A. Brown, *The International Gold Standard Reinterpreted, 1914–1934* (New York: National Bureau of Economic Research, 1940), 1: 342–57; Roger Picard, "Les Questions financières à la conférence de Gênes," *REP* 36 (1922): 481–91. The report of the Financial Commission is reprinted in J. Saxon Mills, *The Genoa Conference* (London: Hutchinson, 1922), 360–72.

[78] Edmond Lebée, "Le Gold exchange standard," *Les Doctrines monétaires à l'épreuve des faits*, 160–1. French dislike of the gold exchange standard is discussed in Judith L. Kooker, "French Financial Diplomacy: The Interwar Years," in *Balance of Power or Hegemony: The Interwar Monetary System*, ed. Benjamin M. Rowland (New York: New York University Press, 1976), 86–90.

system worked to the advantage of the New York and London markets, allowing them to lend abroad "with no loss of monetary resources."[79] Another was the desire in New York and London to stabilize the purchasing power of gold. This had been one of the recommendations of the Financial Commission in Genoa. According to Rueff, efforts to stabilize prices removed the essential means by which the gold standard functioned. If supply and demand were not kept in equilibrium by price adjustments, only changes in the value of money could give the economy flexibility to adjust supply to demand; this produced a "tragic battle between money and prices," which generally resulted in suspending convertibility of the currency:

In these conditions, is it not a dreadful untruth to say that the gold standard is no longer able to fulfill its function, and must be replaced by a new regime? On the contrary, it is precisely in those domains where its functioning has been impeded that serious difficulties have arisen.[80]

Charles Rist acknowledged that even with regard to France, the gold exchange standard had created problems. The unnecessarily long period of de facto stabilization for the franc had fueled the creation of international credit. The Bank of France had invested its foreign exchange holdings in New York and London, rather than exchanging dollars and sterling for gold. There had thus been no contraction of either dollars or sterling to counterbalance the francs created. When the franc was stabilized de jure in 1928, France converted some dollar holdings to gold, but the Federal Reserve prevented a monetary contraction by undertaking open market purchases. Through a combination of open market purchases and low interest rates, the United States maintained an excessive level of production, fueling stock market speculation and overconsumption based on speculative gains. The stock market crash then coincided with an unusually sharp curtailment of consumption.[81]

Britain had similarly been able to avoid the rigors of deflation thanks to the permissiveness of the gold exchange standard. Jacques Rueff analyzed Britain's departure from the gold standard in 1931 for Prime Minister Laval and Minister of Finance Pierre-Etienne Flandin. He

[79] Lebée, "Le Gold exchange standard," 146–8, 154–8. As Rueff put it, it allowed British capital to be exported, return, and be sent abroad again "like soldiers in a comic opera." Rueff, "Défense et illustration," 209.

[80] Rueff, "Défense et illustration," 213–15.

[81] Rist, "Caractère et origine," 333–6, and "The International Consequences of the Present Distribution of Gold Holdings," in Royal Institute of International Affairs, *The International Gold Problem* (London: Oxford University Press, 1931), 201–2. Raymond Philippe argued the same case in *Le Drame financier de 1924–1928* (Paris: Gallimard, 1931), 132–44.

concluded that Britain had been forced off gold not by the overvaluation of sterling in 1925, but by Britain's refusal to accept the policies necessary to maintain that parity. Generous unemployment insurance benefits had prevented the fall in wages required to reduce British production costs, causing unemployment and the decline of export sales.[82] The City had been able to maintain an excessive volume of foreign lending, despite the reduced strength of the British economy. And "management" of the pound with an artificially low Bank rate and open market purchases had prevented production costs, including wages, from being forced down.[83] Charles Rist, too, blamed British credit policy in a January 1931 article in *L'Information*: "The real cause of the formidable crisis with which the world is struggling is none other than the mistaken monetary policy which England has followed for the past ten years, and which she seems, unfortunately, still disposed to follow."[84]

The gold exchange standard had thus facilitated the "abuse of credit" responsible for the severity of the depression. André Tardieu, French premier in 1929 and 1930, included American inflation of credit for speculative purposes and lending at low interest rates to Europe's least reliable borrowers in his indictment of American economic policy for having caused the depression.[85] Joseph Caillaux attacked those who advocated cheaper credit to support weaker industries when circum-

[82] Rueff was emphatic in blaming British unemployment insurance for the crisis. Prior to sterling's fall, he wrote, "It seems to us incontestable that, in the conditions in which England now finds itself, it is unemployment insurance, and it alone, which is responsible for the permanent unemployment, and that there is but one means to make it disappear, that being to revoke the measures which immobilize wages at the level where they are currently fixed." Rueff, "L'Assurance chômage, cause du chômage permanent," *REP* 45 (1931): 241. Britain's being forced off gold in September confirmed his analysis, which he repeated for Laval and Flandin ("Sur les causes et les enseignements de la crise fianancière anglaise," 1 Oct. 1931). There is a copy of the original note in the Fonds Flandin, Bibliothèque nationale, carton 52. The note is reproduced, with the hardest edges of Rueff's argument about unemployment insurance removed, in *De l'aube au crépuscule*, 299–320.

Rueff is one of the "contemporary observers" whom Daniel K. Benjamin and Levis A. Kochin believe to have been unjustifiably ignored by economic historians discussing interwar unemployment. Benjamin and Kochin, "Searching for an Explanation of Unemployment in Interwar Britain," *Journal of Political Economy* 87 (June 1979): 468–71.

[83] Rueff, "Sur les causes et enseignements," 300–1. Rueff provided a similar analysis of the English problem in his 1932 lecture, "Defense et illustration de l'étalon or," *Les Doctrines monétaires à l'épreuve des faits*, 200–7.

[84] *L'Information*, 21 Jan. 1931, cited by R. G. Hawtrey in a memorandum for Frederick Leith-Ross, 1 Apr. 1931, T 208/150.

[85] André Tardieu, *Où en sommes-nous?* (Paris: La Revue hebdomadaire, 1933), and address to the Société des conférences, 27 Jan. 1933.

stances called for dearer credit to purge uneconomic enterprises.[86] For Louis Germain-Martin, minister of finance in 1932, 1934, and 1935, the creation of an "artificial capacity" to purchase goods in the 1920s was the first of three errors by the "supermen" who believed they could abandon the lessons of classical economics and create unlimited prosperity. The second error was believing they could direct markets better than the laws of supply and demand. The third was the use of monetary manipulation to control prices.[87] René-Paul Duchemin, president of the Confédération générale de la production française (CGPF) and later a regent of the Bank of France, criticized banks for having been too liberal in granting credit, and consumers for making purchases on credit and losing the "good and healthy habit of bargaining."[88] Rist, having found a credit surplus to have "very largely contributed" to the depression by delaying a necessary contraction, could see no way that credit expansion could now improve the situation.[89] And Clément Moret, in his annual report to Bank of France shareholders in January 1932, spoke in similar terms of the distance left to travel in the international *assainissement*:

> In order to bring the depression to its conclusion, it would have been necessary to stop the abuses of credit that have contributed so largely to the creation and spread of the crisis. In fact, there has been no movement toward a sufficient contraction of banking credits, so powerful were the efforts brought into play to maintain at any cost, by an artificial policy of cheap and easy money, the spirit of enterprise and the taste for speculation. This tendency has undoubtedly served to increase the disorders it was intended to mitigate.[90]

The prescription for recovery was that for any cyclical recession. A contraction was needed to eliminate the least efficient producers, to allow the exhaustion of inventories, and to lower production costs, including

[86] Caillaux, *The World Crisis*; see Rueff quotation below on the vital importance of bankruptcies to the preservation of the capitalist system.

[87] Louis Germain-Martin, *Sommes-nous sur la bonne route? Problèmes financiers du temps présent* (Paris: Payot, 1934), 18–21.

[88] René-Paul Duchemin, *La Crise actuelle, ses causes et ses conséquences au point de vue français* (Paris: Imprimerie de Vaugirard, 1932), 10–11. Lucien Romier, financial columnist for *Le Figaro*, believed recourse to credit had increased the influence of financiers and technicians in industry, promoting overcapitalization and overproduction: "That which these two lack," he claimed, "is the salutary prudence and foresight of the patron who says: 'It is my money which is in question, let's wait a bit before spending it!' " Lucien Romier, *Problèmes économiques de l'heure présente* (Montréal: Editions Albert Lévesque, 1933), 29–30.

[89] Rist, "International Consequences," 202.

[90] *Compte rendu des opérations de la Banque de France, 1931* (hereafter referred to as *Annual Report*, with year) (Paris: Dupont), 4–5.

wages. Since overexpansion of credit was the fundamental cause of the crisis, easy credit could not be the solution. Restricting credit would speed the purging of the marketplace necessary to restore order. In November 1930, Clément Moret resisted pressure to lower the discount rate in France on the grounds that cheap credit would promote speculation and excessive recourse to Bank of France discounting.[91] Jacques Rueff lauded bankruptcy as the necessary means by which individual interests could be reconciled to those of the general public: "Bankruptcy is not just a measure of morale or of equity; it is above all the condition of existence for the price mechanism, and thus for the economic regime termed 'capitalist.' Renounce it, and the regime crumbles."[92] Joseph Caillaux, linking credit and production excesses of the 1920s to the severity of the slump, described the period of adjustment now necessary as *l'heure de la pénitence économique et financière*.[93]

It was widely accepted that the origins of and responsibility for the depression lay abroad. The slump had been imported into France by the contraction in trade, the fall in world prices, and the rise in tariff walls.[94] As the delayed arrival of the slump seemed to indicate, France occupied a privileged position. French credit expansion had been prudent, and French industry had not contributed significantly to world overproduction. Politicians and journalists noted the "perfect balance" between French agriculture and industry that had prevented the excesses to which American and German industry and British and American banking had been drawn. The task facing France was to maintain its economy in good health, in readiness to take part in the eventual world recovery. Believing recovery imminent in 1932, René-Paul Du-

[91] These pressures were from the Bank of England and the Federal Reserve Bank of New York, which hoped to slow the inflow of gold, and the discount rate was lowered for this reason at the beginning of January 1931 (see Chapters 2 and 4). Moret explained his views to the Council of Regents at the time of discussions with Governor George Harrison of the Federal Reserve Bank of New York in November 1930 and reiterated them when the discount rate was lowered. See PV CG, 27 Nov. 1930 and 2 Jan. 1931.

[92] Rueff, "Defense et illustration de l'étalon or," 198.

[93] Joseph Caillaux, Préface to Raymond Patenôtre, *La Crise et le drame monétaire* (Paris: Gallimard, 1932), 8. The phrase loses some of its piquancy, but reveals the continuity in French thought on financial problems, when one notices that Caillaux used the same phrase to characterize the inflation problem facing the Cartel des gauches in 1925, and the deflation facing France when he was again minister of finance in the short-lived Bouisson cabinet of June 1935.

[94] Rist, "Caractère et origine," 325–9, and his foreword to "La France économique en 1930," *REP* 45 (1931): 466. See also Pierre Meynial's analysis of the origins of the depression in the United States, blaming "abuse of credit," in *REP* 44 (1930): 1605–8.

chemin speculated that a revival of confidence would draw hoarded currency back into circulation and set in motion a French recovery. Duchemin focused on the one element in the French economic situation most vulnerable to criticism, on which government and public attention would focus throughout the depression in France: the budget deficit. According to Duchemin, France needed to set the example by putting its own house in order and balancing the budget: The recovery of confidence and consumption depended on it.[95]

After running a healthy surplus in the late 1920s, the budget slipped back into deficit in 1930–1. The restoration of budgetary equilibrium dominated French financial policy for the next four years, to be displaced only in 1935 by defense of the franc, for which a balanced budget remained the first requirement. Budget concerns were central to the official view on the depression. As a cyclical crisis, the slump was bound to end once inventories were exhausted and production costs declined sufficiently. The budget deficit was a problem of a different order. As the 1920s had shown, a state living beyond its means experienced inflation and currency depreciation. Once unleashed, inflationary forces would gather strength and sweep away the foundations of economic and social order; only Poincaré had saved France from hyperinflation and a collapse of currency like that in Germany in 1923. Campaigning for a balanced budget and reduced taxes, the National Taxpayers' Federation linked social peace to the state of the budget: "There can be no social peace without a healthy economy, no healthy economy without a low interest rate, no low interest rate without a strong credit policy, no strong credit policy without a balanced budget."[96] Because the depression originated abroad, France needed to concentrate on eliminating domestic factors that could put recovery at risk. Attention became fixed on preservation of the gold parity of the franc and a return to a balanced budget.

This explanation of the crisis owed more to political partiality than to economic analysis. Alfred Sauvy has faulted both inadequate economic education and a lack of attention to economic data in his condemnation of French economic policy between the wars.[97] Keynes, addressing the Macmillan Committee on French gold and currency policy in 1930, commented, "Both in official and academic circles in France it is hardly an exaggeration to say that economic science is non-

[95] Duchemin, *La Crise actuelle*, 20–3.

[96] From *Les Contribuables*, Nov. 1935, quoted in William A. Hoisington, *Taxpayer Revolt in France: The National Taxpayers' Federation, 1928–1939* (Stanford, Calif.: Hoover Institution Press, 1973), 64.

[97] See esp. Sauvy, *Histoire économique*, 2: 378–89.

existent."[98] Economic training took place mainly as an auxiliary field in faculties of law that offered insufficient theoretical training and made little attempt at practical application. The economist Gaëtan Pirou viewed law and economics as fundamentally opposed in nature and method, law being an art or technique, economics a science. Economics was taught with little interest or enthusiasm in faculties of law; its students were treated as "poor relations, condemned to an austere existence."[99] The economics taught was strongly liberal and classical, vaunting the merits of self-regulating markets and governmental noninterference, and looked upon new theories from abroad with skepticism.[100]

Within the Ministry of Finance, *inspecteurs des finances* received some training in economics, and those sent abroad as *attachés financiers* could gain invaluable exposure to a broader range of economic theories and policies. With an interest in economics, an *inspecteur* could teach economics to incoming candidates and influence the understanding of problems and development of solutions within the ministry. One such *inspecteur*, Jacques Rueff, was highly critical of the policy developments he witnessed in England from 1930 to 1933. Another, Emmanuel Mönick, drew obvious benefit from his observation of American and British policy in the 1930s, leading him to regard French policy in a more critical light. Both would be influential in French policy making, but always from a subordinate level, offering advice on essentially political decisions.[101]

[98] Donald E. Moggridge, ed., *The Collected Writings of John Maynard Keynes* (hereafter *JMK*), vol. 20, *Activities, 1929–1931* (London: Royal Economic Society, 1981), 154.

[99] Gaëtan Pirou, "Les Facultés de droit," in Charles Rist et al., *L'Enseignement économique en France et à l'étranger* (Paris: Librairie du Recueil Sirey, 1937), 10; and see the comments on the interwar period by postwar planners quoted in François Fourquet, *Les Comptes de la puissance: Histoire de la comptabilité nationale et du plan* (Paris: Recherches, 1980), 16–29. Pierre Mendès France, who was interested in economics and finance as a law student from 1923 to 1926, later commented: "The best students studied pure law . . . or at least international or constitutional law. Economics was disdained." Jean Lacouture, *Pierre Mendès France* (Paris: Seuil, 1981), 46.

[100] See the brief discussions in Jackson, *Politics of Depression*, 12–15, and Richard F. Kuisel, *Capitalism and the State in Modern France: Renovation and Economic Management in the Twentieth Century* (Cambridge University Press, 1981), 97–8.

[101] Mönick played a key role in the devaluation negotiations discussed in Chapters 6 and 7. On *attachés financiers* see Robert Frank's illuminating "L'Entrée des attachés financiers dans la machine diplomatique, 1919–1945," *Relations internationales* 32 (Winter 1982): 489–505. On the finance inspectors, see Pierre Lalumière, *L'Inspection générale des finances* (Paris: Presses universitaires de France, 1959); their recruitment has received fuller attention in Nathalie Carré de Malberg, "Le Recrutement des inspecteurs des finances de 1892 à 1946," *Vingtième siècle* 8 (Oct. 1985): 67–91, and there are useful details on

Observers to the left of this consensus tended to attribute the disequilibrium between supply and demand to underconsumption. Rather than wishing to restrict production, they sought recovery through increased demand. The deficit was seen as a product of the crisis, through the decline in government receipts, and they believed a balanced budget impossible to achieve without first restimulating economic activity. Only then could receipts be restored without overtaxing the existing level of business.

On the extreme left, French communists, ever alert to the final collapse of capitalism and to evidence that the contradictions of capitalism were engendering a new crisis, were the first to predict that France would not remain immune to the world depression. In the spring of 1929 the French Communist Party (PCF) had perceived the onset of a crisis of underconsumption, and early in 1930 it warned against the notion that France could escape the crisis when solidly integrated into the international capitalist economy. The journal *Cahiers du bolchévisme* reported evidence of the crisis in France throughout 1930, well ahead of liberal and socialist analyses.[102]

But a predisposition to detect crises did not necessarily produce high-quality analysis.[103] The crisis was ascribed to underconsumption in a system bound by its structure to increase productive capacity out of all proportion to its ability to consume. Once the existence of the crisis was documented, PCF interests lay in exploiting discontent to mobilize the victims of the crisis under Communist leadership. The causes of the crisis were of importance only insofar as they affected mobilization tactics. The ultimate goal was replacement of the capitalist system, not its reform and rehabilitation.[104]

Mönick's career in her "Les Attachés financiers en 1938 – technocrates ou techniciens? – et la perception de la puissance de la France," *Relations internationales* 33 (Spring 1982): 43–64.

[102] Wolikow, "Le P.C.F. devant la crise," 48–67.

[103] In January 1930, Trotsky wrote: "One can be sure that the current directors [of the Comintern], when the crisis really makes itself felt, will claim that their forecast has been completely confirmed. . . . He who each day forecasts an eclipse of the sun will eventually see his prediction fulfilled. But it is unlikely that we would consider this oracle to be a serious astronomer." Trotsky's contempt for Communist crisis prediction was ill-timed; he did not believe that capitalism was facing a serious crisis in 1929–30. From *La Troisième période d'erreurs de l'Internationale communiste* (Paris: Librairie du Travail, 1930), 64, cited by Jean Charles and Serge Wolikow in their introduction to Eugène Varga, *La Crise économique, sociale, politique* (Paris: Editions sociales, 1976), 23.

[104] For examples of disregard for causes and concentration on tactics see D. Z. Manouilski, *Les Partis communistes et la crise du capitalisme* (Paris: Bureau d'éditions, 1931); O. Piatnitski, *Le Chômage et la crise: Précisons nos tâches* (Paris: Bureau d'éditions, n.d.);

The French Socialist Party (SFIO) shared the Marxist view that the crisis was a normal capitalist crisis of underconsumption. "The current economic crisis seems to me completely identical in nature to all the other crises . . . which the capitalist regime has traversed," Charles Spinasse told the Chamber of Deputies in 1931. "It is a question, once again, of an overproduction, not relative to needs, which are immense, but relative to the purchasing power of the consumer."[105] The greater scope and duration of this crisis were a result of the greater development of the capitalist system. Socialist solutions fixed on increasing purchasing power through public works, reducing indirect taxation, and introducing the forty-hour week without loss in pay.[106]

The Radical Party offered the widest-ranging, and on occasion the most original, analyses of the depression. These analyses yielded neither a unified view of the crisis nor a coherent program for recovery. Julian Jackson notes that "there were almost as many Radical analyses of the crisis as there were Radicals."[107] While analysts from the left wing of the party produced the most innovative approaches to the crisis of any group in France, Radical leaders and the bulk of the party held orthodox ideas in keeping with the "official view" already described. In leading the Radical governments from May 1932 to February 1934, such figures as Edouard Herriot and Edouard Daladier, with Louis Germain-Martin and Georges Bonnet as their ministers of finance, proved incapable of coping with the crisis. Belief in the need for a balanced budget led them to attempt deflationary policies characteristic of the Right. They did so without sufficient vigor to appease the Right, while alienating the support of the Left on which their coalition governments were based.[108]

Piatnitski, *La Crise économique mondiale, l'essor révolutionnaire et les tâches des sections de l'Internationale communiste* (Paris: Bureau d'éditions, 1933); and Parti communiste française, *Le Parti communiste français devant l'Internationale* (Paris: Bureau d'éditions, 1931).

105 Charles Spinasse, *La Crise économique* (Paris: Librairie populaire du Parti socialiste, 1931), reprinting a speech in the Chamber of Deputies of 27 Feb. 1931.

106 Ibid. See also Léon Blum, *Le Socialisme devant la crise* (Paris: Librairie populaire du Parti socialiste, 1933), from a lecture of 9 Dec. 1932.

107 Jackson, *Politics of Depression*, 47.

108 Serge Berstein, *Histoire du Parti radical*, vol. 2, *Crise du radicalisme, 1926–1939* (Paris: Presses de la Fondation nationale des sciences politiques, 1982), 219–36, 242. Also see Jackson, *Politics of Depression*, 46–9, 53–79. Peter Larmour mischievously titles his chapter on the dismal performance of Radical governments of the period "The Enjoyment of Power." During their term of office, he states, "less was accomplished than during any comparable period in the Third Republic. . . . In an extraordinary example of mass inconsequence, the nation's whole political effort was concentrated on reducing the pay of the fonctionnaires, with a tenacity that implied this was the crucial

Radicals found reason for the crisis in elements ranging from overindustrialization, overproduction of primary products, and abuse of credit, all characteristic of the official view, to such heterodox sources as insufficiency of credit and gold reserves, maldistribution of income, and the destruction of small enterprise in the anarchy of the capitalist market system. The nonconformist views of some Young Radicals, and a few Neo-Socialists and independent Left politicians, deserve attention for their vigor and acuity. These writers fell outside the bounds of the official view, but unlike the doctrinaire Left, they sought reform within the capitalist system.

Bertrand de Jouvenel, the economics columnist for the Radical daily *La République* in the early 1930s, had set himself apart from orthodox views in the 1920s by favoring wage increases and rising prices to promote economic growth. He saw the depression as a crisis of underconsumption, with initial French immunity owing to undervaluation of the franc, and he advocated increasing the purchasing power of the working classes. Jouvenel functioned more comfortably as analyst and critic than originator of policies, borrowing from other authors in favoring measures to increase world trade and world credit. But his awareness of the importance of exchange rates to trade made him an early advocate of devaluation of the franc, and he was a particularly harsh critic of the Radicals' attempts at deflation.[109]

Jouvenel's ideas on the world credit shortage were influenced by Georges Boris, editor of *La Lumière*, an independent weekly newspaper aimed at a Radical audience to which Jouvenel occasionally contributed. Boris likewise refused to accept overproduction as the reason for the crisis. At first he believed that overextension of credit in the United States was responsible, but in late 1930 his views shifted, and he saw a shortage of credit, causing deflation, as the fundamental problem.[110] British influences were apparent in his *Problème de l'or et crise mondiale*, in which he argued that the origin of the crisis was a shortage of gold reserves, which caused a shortage of credit and falling prices. He rec-

issue." Larmour, *The French Radical Party in the 1930's* (Stanford, Calif.: Stanford University Press, 1964), 116–17.

[109] On Jouvenel's economic thought, see John R. Braun, "Une Fidélité Difficile: The Early Life and Ideas of Bertrand de Jouvenel, 1903–1945" (Ph.D. diss., University of Waterloo, 1985), 257–68, 298–337.

[110] For the evolution of Boris's views, see Marc Nouschi, "Georges Boris, analyste de la crise économique: Le Réformisme et sa pratique dans les années 1930 en France," *Le Mouvement social* 115 (Apr.–June 1981): 53–8. Pierre Mendès France provides a brief biographical appreciation of Boris's life in his Preface to Boris, *Servir la République* (Paris: Julliard, 1963), 7–18.

ommended either an extension of the gold exchange standard or a reduction in gold reserve ratios.[111] But the most serious problem according to Boris was the instability of world prices, and he called for some form of monetary management to stabilize prices. The deflation imposed by the shortage of credit made gold, under the existing gold standard, an unacceptable "arbiter of our destiny."[112]

Raymond Patenôtre, owner and editor of *Le Petit Journal*, also saw the shortage of gold and underconsumption as the key to the crisis.[113] Gold production could not keep pace with the growth of productive capacity, so a credit shortage forced prices down. Britain's overvaluation of sterling in 1925, the change of India's monetary system from a silver to a gold base, and the accumulation of gold by the Bank of France had all contributed to an increase in demand for gold and contracted world credit. Patenôtre recommended a return to bimetallism to ensure sufficient metallic reserves for credit to increase proportionally to production.[114]

The Radical deputy Henri Clerc also saw the shortage of gold as the fundamental reason for the depression and advocated that gold reserves in excess of reserve requirements be redistributed by the Bank for International Settlements to reduce the maldistribution of existing reserves.[115] The economist Robert Eisler argued against the belief that the depression would cure itself through a decline in prices and costs. Falling prices and incomes would discourage economic activity. He proposed that economic activity be relaunched by public works programs on an international scale, particularly housing projects, with strict government controls to stabilize prices and exchange rates.[116] Jacques Duboin, one of the most popular economics writers of the 1930s, blamed the depression on mechanization, which reduced

[111] Georges Boris, *Problème de l'or et crise mondiale* (Paris: Librairie Valois, 1931). Nouschi stresses the influence of John Maynard Keynes. In *Problème de l'or* Boris also relies on the works of Henry Strakosch, G. D. H. Cole, Josiah Stamp, and Gustav Cassel.

[112] Boris, *Problème de l'or*, esp. 127–8.

[113] Patenôtre, too, was influenced by the English-speaking world. He was born in Atlantic City, his father a French diplomat and his mother an American newspaper heiress. He lived for several years in the United States after the First World War and was an admirer of Keynes. On Patenôtre's background see Jean-Claude Broustra, *Le Combat de Raymond Patenôtre* (Paris: Fayard, 1969), 17–22.

[114] Patenôtre, *La Crise et le drame monétaire*, and for a broader survey of his views of the crisis, Broustra, *Le Combat*, 36–44. Patenôtre became an advocate of devaluation in 1934.

[115] Henri Clerc, *Une solution monétaire à la crise mondiale* (Paris: Notre temps, n.d.).

[116] Robert Eisler, *La Monnaie, cause et remède de la crise économique mondiale* (Paris: Librairie Valois, 1932).

working-class purchasing power, and argued that the "right to work" was more important than the right to vote.[117] His solution was a social revolution that would equitably reallocate both employment and wealth by employing workers in their prime for a period of two to three years and providing for each thereafter according to his or her needs.[118]

Views on the crisis from the Left thus showed a great deal of variety and innovation. They stimulated the most interesting discussions of policy in France during the depression, but their variety and fragmentation worked against their having any serious impact on policy until the election of the Popular Front, and then obstructed the development and implementation of a coherent economic program. The hold of the "official view" was sufficient among policy makers, and widely enough held at the popular level, to relegate such views to the sidelines of economic debate. The Socialists and a few Radicals and Neo-Socialists held sufficient power to disrupt Radical efforts at deflation from 1932 to 1934,[119] but not enough to shift discussion from balancing the French budget to implementing policies to promote recovery. Since the origins of the crisis lay abroad and a contraction of economic activity was essential to solving overproduction, French governments confined their attention to putting their own house in order while awaiting recovery abroad. The result was paralysis. An adventurous policy to end the crisis could not be undertaken without a balanced budget, and the worsening of the crisis, due in part to reductions in government expenditure, reduced receipts and rendered a balanced budget impossible.

117 Jacques Duboin, *Ce qu'on appelle la crise!* (Paris: Editions Fustier, 1935), 18–23, 33–6. See also his *La Grande Relève des hommes par la machine*, 2d ed. (Paris: Editions Fustier, 1935 [first ed. 1932]), 13–14, and its sequel, *La Grande Révolution qui vient* (Paris: Editions nouvelle, 1934).

118 Duboin, *La Grande Révolution*, 151–63.

119 See the discussion of financial management by the Radicals in Jackson, *Politics of Depression*, 53–79.

2. French gold accumulation, 1928–1932

While observers in France believed the origins of the depression lay in the monetary policies of the Anglo-Saxon nations, observers abroad attacked France for deliberately drawing gold to exercise political leverage in Europe, aggravating the depression by forcing monetary contractions in the countries losing gold. From 1928 to 1932, French gold reserves increased by more than 50 billion francs, from 29 to 82 billion francs. During the same period, Bank of France note circulation increased by only 22 billion francs. This extraordinary gold accumulation and apparent sterilization attracted widespread criticism, particularly from Britain, where the pound sterling, backed by a comparatively small gold reserve, was threatened and eventually forced off the gold standard. Even moderate opinion judged French gold policy irresponsible, having insufficient regard for its repercussions abroad. In the Macmillan Committee's discussion of the international gold problem and means to relieve it, Keynes remarked, "It is very doubtful how far the Bank of France is aware either of the existence of the problem or of the nature of the solution."[1]

This chapter examines French gold accumulation and the international gold problem in two stages. After a brief explanation of the requirements of the monetary law of 25 June 1928 and initial French behavior under the new monetary regime, the first section examines Franco-British discussions of the gold flow from London to Paris and the attempts to ameliorate it in 1930 and 1931. The second section deals with French assistance to Britain during the sterling crisis in 1931 and the changes in Bank of France gold and foreign exchange policy after sterling went off gold. French understanding of how the gold standard should work and the role of the central bank in determining policy are key points of discussion. The rapid gold accumulation in France was important not just for its effects abroad and on short-term

[1] Donald Moggridge, ed., *The Collected Writings of John Maynard Keynes*, vol. 20, *Activities, 1929–1931: Rethinking Employment and Unemployment Policies* (London: Royal Economic Society, 1981), 154.

monetary policy in France, but for its psychological effects as well. The growth of French gold reserves confirmed the rationale and propriety of French policy and reinforced fidelity to the gold standard and the 1928 parity of the franc.

The monetary law of 25 June 1928 restored convertibility of the franc after fourteen years of the *cours forcé* making Bank of France notes legal tender without convertibility.[2] Article 1 repealed the law imposing the *cours forcé*. Article 2 defined the franc as equal to 65.5 milligrams of gold, 900/1,000 fine. The franc germinal had been defined in silver, so the franc Poincaré provided France with a currency defined solely in terms of gold for the first time.

The reform brought two important changes in French monetary management. From 1870 to 1928, Bank of France note circulation was limited by a ceiling set by the government. No new ceiling was imposed in 1928; article 4 required the Bank to maintain gold reserves (bullion and coin) equaling at least 35% of its sight liabilities (*total engagements à vue*; notes in circulation plus demand deposits). On 25 June the Bank's gold stock was revalued at 28,935 million francs, which gave a reserve ratio of 40.45%. The second change affected the foreign exchange that had been accumulated since 1926 in resisting upward pressure on the franc. The Bank's ability to purchase foreign exchange at market (rather than 1914 exchange) rate, granted by a law of 7 August 1926, was ended without any specification of what the Bank was to do with its foreign exchange reserves. On 25 June these stood at 26,530 million francs in current holdings and 9,777 million francs in forward purchases. As the *Revue d'économie politique* admitted, these foreign exchange holdings compromised the return to the gold standard, although the legislation plainly endorsed the return in principle.[3] While the Bank was entitled to hold foreign exchange, it could not make further purchases. The foreign exchange holdings did not count as reserves, but they did dilute France's gold standard. Were France on a gold exchange standard, its dollar and sterling holdings would have raised the reserve

[2] Convertibility had been suspended on 5 Aug. 1914. Governor Emile Moreau told Bank of France shareholders in January 1929, "After fourteen years of the *cours forcé*, the franc has become a true money, as solidly backed as the strongest currencies in the world" (*Annual Report, 1928*, 3). The texts of the monetary law and related conventions are reproduced in "La Réforme monétaire française," *REP* 42 (1928): 1239–45, and in translation as appendixes to Margaret G. Myers, *Paris as a Financial Centre* (London: King, 1936), 178–89.

[3] "La Réforme monétaire," 1224.

ratio to 62.80%.[4] Although nominally on the gold standard, the Bank could meet exchange pressure with foreign currencies rather than gold and convert these currencies to gold if it wished to increase its gold reserves.

Both alternatives were quickly exercised. Forty percent was considered the minimum reserve ratio in practice that would permit gold losses without endangering the 35% legal minimum.[5] When the ratio fell below 38% in November 1928, the Bank of France converted dollars and sterling to gold and sold dollars to ease pressure on the franc, explaining to the Bank of England that it was subject to a "good deal of criticism" in allowing the ratio to slip below 40%.[6] By the end of the year, 860 million francs in foreign exchange had been converted, and another 3,000 million sold for francs.[7] Foreign exchange holdings still rose, to 32,641 million francs, as forward purchases of foreign exchange were run off. These had been made before the reform law; the Bank of France explained them as guarantee against exchange losses on short-term placements by French financial institutions by purchasing forward the spot foreign exchange from such investors. Stephen Clarke agrees that the Bank of France used these swaps of spot for forward exchange to encourage investment abroad when France began to run a balance-of-payments surplus in August 1927.[8] In fact, these forward purchases were begun in late June to reduce market liquidity resulting from the inflow of capital. When foreign currencies were exchanged for francs, selling spot foreign exchange and repurchasing it forward took the franc notes off the market and disguised the extent of the Bank of France's exchange holdings.[9] This was no longer necessary with de jure

[4] Ibid., 1226.

[5] Ibid., 1227.

[6] See notes by H. A. Siepmann in November 1928, particularly those of 14 and 26 Nov. 1928, and relevant correspondence concerning the purchase of £3m. in gold from the Bank of England, in Archives of the Bank of England, OV45/80. The criticism was made because the 35% cover had been conceded (instead of 40%) on the understanding that it was unwise to have a 40% cover required by law, but that the Bank would maintain it in practice. Critics felt the Bank was taking advantage of the lower limit in order to profit from foreign exchange holdings. So Charles Cariguel, who was responsible for exchange management at the Bank of France, told Siepmann; see Siepmann, "Gold," 26 Nov. 1928, BoE OV45/80.

[7] Details of the gold and foreign exchange operations in *Annual Report, 1928*, 18–19.

[8] Stephen V. O. Clarke, *Central Bank Cooperation, 1924–31* (New York: Federal Reserve Bank of New York, 1967), 121–3, 167.

[9] On the origins of these purchases and their extension as the Bank realized their advantages, see Moreau, *Souvenirs*, 357–8, 371, 373, 389, 394. This motive is accurately interpreted by Charles P. Kindleberger in *A Financial History of Western Europe* (London: Allen & Unwin, 1984), 359.

stabilization. The Bank also purchased gold coins from the public, totaling 2,200 million francs in 1928, to end the year with nearly 32 billion francs in gold and a reserve ratio of 38.46%.

The international gold problem

In the first half of 1929 the Bank sold a further 7 billion francs in foreign exchange for gold.[10] Because capital was moving from Paris to New York to take advantage of high call money rates, gold reserves increased by less than 5 billion francs from January to June. The Bank's foreign exchange holdings were reduced to 26 billion francs, where they would be maintained until October 1931. The capital flow reversed in mid-1929 and sales of foreign exchange were suspended; from July to the end of December, gold reserves increased by 5 billion francs, explained by the Bank of France as the result of normal international capital movements. French banks were repatriating capital to meet the needs of their customers for currency and to transfer capital back to France as interest rates fell in London and New York. Governor Moreau stated in his annual report that the Bank had bought gold as offered, with no intervention to accelerate imports.[11]

The autumnal inflow was more pronounced in 1930. The timing was owing to the seasonal pattern of the French current account balance. The trade balance surplus was in the second half of the year, coinciding with the peak of tourist receipts; 1929 and 1930 were halcyon years for Paris as an international tourist center, with French tourism earning more than 8 billion francs each year.[12] The payment of direct taxes in the second half of the year, mainly September and October, aggravated the seasonal demand for francs, taking several billions off the market when they were most needed. Tax receipts for 1930, in combination with the floating of the Young loan, immobilized more than 13 billion francs in government accounts in October and November. Gold reserves climbed by more than 11 billion francs from May to December. The Bank of France went to some length in its annual report to insist that it had done nothing to encourage this inflow and that it would allow the gold to leave as freely as it had come. There was a measure of pride, too, in Governor Moret's explanation that the inflow was owing not just to low interest rates abroad, but to an inflow of foreign capital

[10] According to Albert Aftalion, the Bank was reconstituting its pre-1914 gold stock to achieve "a better balance in the world distribution of gold." Aftalion, "Les Causes et les effets des mouvements d'or vers la France," 9 Oct. 1930, MF B 32316.

[11] *Annual Report, 1929*, 6.

[12] *REP* 45 (1931), 513.

desiring to profit from the stability and security offered by the franc: "They are – why should we hesitate to recognize it? – a testimony to the great work of financial reconstruction accomplished by our country, which now has one of the most solidly guaranteed currencies in the world."[13]

The growth of French gold reserves was received with less enthusiasm abroad, particularly in Britain, where the *Financial News* and other papers accused France of amassing gold to obtain leverage against Britain and countries in Central Europe.[14] Paul Einzig, who wrote for both the *Financial News* and the *Banker*, charged that French policy was deliberately aggressive, aiming at a "financial dictatorship over Europe."[15] These criticisms were echoed in the United States and linked to cynicism about French repayment of war debts.[16] Even temperate critics blamed French gold accumulation for the fall of prices, which was seen by many as the main cause of the slump. Sir Henry Strakosch, a member of the Financial Committee of the League of Nations and chairman of the *Economist*, was representative of these views in arguing that the decline in world prices had its origins in an insufficiency of currency and credit, which in turn resulted from the accumulation of gold in the United States, Argentina, and France. World credit was forced to contract because gold reserves in these countries did not support as large a volume of currency and credit as they had in the

[13] *Annual Report, 1930*, 8–9. Similar pride was evident in the press, for example, in articles by Roger Nathan on the growth of Bank of France gold reserves in *L'Europe nouvelle*, 31 May 1930, 2 Aug. 1930, and particularly 20 Dec. 1930.

[14] See Robert W. D. Boyce, *British Capitalism at the Crossroads, 1919–1932* (Cambridge University Press, 1987), 291.

[15] Paul Einzig, *Behind the Scenes of International Finance* (London: Macmillan Press 1931). His introduction states: "The author's contention is that it is the French reparations policy which has prevented the financial consolidation of Europe since the war; that it was the French gold-hoarding policy which brought about the slump in commodity prices, which in turn was the main cause of the economic depression; that it is the unwillingness of France to co-operate with other nations which has aggravated the depression into a violent crisis; and that her unwillingness to co-operate is still the principal obstacle to an economic recovery" (vii). Emmanuel Mönick forwarded a copy of the book to Paris with the comment, "One sees in this pamphlet, as through a magnifying glass, all the reproaches addressed by Anglo-Saxon critics to our financial policy." Mönick to MF, 1 Feb. 1932, MF B 21830.

For more of Einzig's views on French disruption of the world economy for political advantage, see his earlier *The Fight for Financial Supremacy* (London: Macmillan Press 1931) and *Finance and Politics: Being a sequel to "Behind the Scenes of International Finance"* (London: Macmillan Press, 1932).

[16] Robert Boyce, "Montagu Norman and the Financial Crisis," Paper presented to Cambridge conference, *The 1931 Crisis and Its Aftermath*, 14–16 Apr. 1982.

countries the gold was drawn from.[17] A recent study by Barry Eichengreen substantiates these views, suggesting that had the United States and France held gold as reserves proportional to reserves elsewhere, the quantity of gold available to other countries would have been roughly doubled.[18]

The Bank of France was sensitive to these criticisms, particularly because the League of Nations had in 1929 appointed a gold delegation to investigate the "causes of fluctuations in the purchasing power of gold and their effect on the life of the nations."[19] The United States and France together held 60% of the world's gold reserves. Because the United States was a member of neither the League of Nations nor the Bank for International Settlements, the French feared becoming the target for any criticism of gold distribution.

Charles Rist defended French gold policy in 1930 in the *Revue d'économie politique*, explaining that international conditions of supply and demand for goods determined prices and that gold movements were the result of changes in prices.[20] The Bank of England had experienced a similar rise in its gold reserve without increasing domestic credit in the early 1890s, when increased Transvaal gold production had coincided with world depression. "The reason for this is simple: a bank of issue *normally limits itself to the requests for credit which come to*

[17] Sir Henry Strakosch, "Gold and the Price Level: A Memorandum on the Economic Consequences of Changes in the Value of Gold," Supplement to the *Economist*, 5 July 1930. Ian Drummond uses Strakosch to typify this argument in *The Floating Pound and the Sterling Area, 1931–1939* (Cambridge University Press, 1981), 127–33. Strakosch repeats the argument in "The Crisis," Supplement to the *Economist*, 9 Jan. 1932, and Gustav Cassel gives a similar explanation of the crisis in *The Crisis in the World's Monetary System* (Oxford: Clarendon Press, 1932). Pierre Quesnay, the French general manager of the Bank for International Settlements, was to argue along similar lines in proposals for gold redistribution in 1933 (see Chapter 3).

[18] Barry Eichengreen, "The Gold-Exchange Standard and the Great Depression," NBER Working Paper Paper no. 2198, Mar. 1987, reprinted in Eichengreen, *Elusive Stability*, 239–70.

[19] Strakosch contributed the essays "Monetary Stability and the Gold Standard" and "The Economic Consequences of Changes in the Value of Gold" in *Selected Documents Submitted to the Gold Delegation of the Financial Committee*, League of Nations Publication C.374.M.160.1930.II. (Geneva, 1930). With Albert Janssen and Sir Reginald Mant, he coauthored the "Note of Dissent" in the Gold Delegation's final report in 1932, arguing again that the fall in prices was caused by a maldistribution, rather than a shortage, of world gold reserves, owing to gold accumulation by the United States and, more problematically, France. *Report of the Gold Delegation of the Financial Committee*, League of Nations Publication C.502.M.243.1932.II.A. (Geneva, 1932), 61–73.

[20] Charles Rist, "La Question de l'or," *REP* 44 (1930): 1501–3. Rist made the same point in his 1931 lecture "The International Consequences of the Present Distribution of Gold Holdings," 194, apologizing that the title reversed cause and consequence.

it; in a period of depression, such requests are not made."[21] Such views were widely reproduced in the French press and in economic literature.[22]

The clearest statement of official views, however, came from the Bank of France itself, albeit unofficially. In September 1930, the Ministry of Foreign Affairs requested information to assist its diplomats abroad in defending French gold policy.[23] The Bank produced a pamphlet, "L'Afflux de l'or en France," which was distributed to embassies with instructions that its origins were not to be divulged and that it was to serve as a guide to embassy staff and to close contacts who would use it "either in conversation or for the drafting of articles to appear under their own signature."[24]

The pamphlet replied to foreign accusations that the Bank of France

[21] Rist, "La Question de l'or," 1493; Rist's emphasis.

[22] For an elaborate examination of the problem and defense of French policy, see Albert Aftalion, *L'Or et sa distribution mondiale* (Paris: Librairie Dalloz, 1932), and his submission to the League of Nations Gold Delegation, "Les Causes et les effets des mouvements d'or vers la France," 9 Oct. 1930, MF B 32316. Paul Reynaud maintained similar views in his defense of French gold policy to an American audience in the *New York Times* in 1932 (23 Oct. 1932): "Those who sterilize gold are those who flee the currency of their own country. They flee it on account of their apprehension based on conditions prevailing there. Who needs treatment and cure, the country whose health draws the gold, or the country whose ill-health frightens it away?" See also Paul Reynaud, "France and Gold," *Foreign Affairs* 11 (Jan. 1933): 253–67.

[23] Farnier to Moreau, 24 Sept. 1930, MF B 32316. This note pointed out that while it was natural that France's current situation would arouse jealousy abroad, "particularly in England, which has lost the control it once held over international gold movements," on the whole, such recriminations could only harm France in the long run.

[24] MF to Emmanuel Mönick, *attaché financier* in New York, 10 Nov. 1930, MF B 21848. In sending a copy to H. A. Siepmann of the Bank of England, Robert Lacour-Gayet advised, "This is by no means a document destined for public consumption, and even less a note intended to provoke a polemic in which, naturally, we do not wish to participate." He added, "As I have taken this decision as a friend, and as the note in question has not been communicated to any bank of issue, I would be much obliged if you would consider it strictly confidential, and under no circumstances mention how you have obtained a copy." Lacour-Gayet to Siepmann, 14 Nov. 1930, in BoE OV45/81. The Bank of England's copy of the pamphlet is in BoE OV5/3.

In November 1929, Keynes had asked if Jacques Rueff or some other knowledgeable person could write an article on Bank of France policy, particularly gold policy, for the March 1930 issue of the *Economic Journal*; Rueff passed the request on to the Bank of France, where Moreau disapproved of having Quesnay or any Bank staff write such a study. See the correspondence of Keynes to Rueff, 26 Nov. 1929; Rueff to Quesnay, 30 Nov. 1929; and Ricard to Rueff, 3 Dec. 1929; AN 374 AP 9. No such article appeared, although Thomas Balogh addressed the French gold problem in "The Import of Gold into France," *Economic Journal* 40 (Sept. 1930): 442–60.

had deliberately encouraged gold imports and sterilized the gold, thereby aggravating the world depression. The crisis, it argued, had begun in the United States, where there clearly had been no shortage of gold; thus, gold maldistribution had not caused the depression. Nor was the crisis due to a shortage of credit, for interest rates were low and capital abundant.[25] Finally, the decline in world prices had begun in 1926, while French gold imports had become significant only in 1929, so could not have been responsible. The gold inflow resulted from factors beyond the Bank's control. The decline of interest rates and investment opportunities abroad had led to the repatriation of French capital, while the security offered by the franc had attracted foreign capital. An unusually good harvest in 1929 and the fall in world prices had further improved the French balance of trade in 1930. The Bank had pressed the French government for tax changes to encourage capital export, but the depression, political unrest, and defaults on foreign debt had prevented these measures from having much effect.

"L'Afflux de l'or en France" concluded that the gold inflow was "completely normal," drawing excess liquidity (much of it previously exported French capital) from London and New York without significantly affecting those markets. Since French policy had not contributed to the crisis in the rest of the world, no change in policy was necessary. The flow of gold to France would cease, and eventually reverse, as conditions abroad improved.[26]

Despite the Bank's wish to conceal the existence and origins of the pamphlet, a detailed summary appeared in the *Times* in London, described as an official explanation of gold policy by the Bank of France.[27] It roused a quick response from the British Treasury, where the deputy controller of finance, Sir Frederick Leith-Ross, found that the Bank of France had failed to address the fundamental problem:

> The gold is not imported into France for commercial purposes; it is imported in order to be handed over to the Bank of France against francs. The movement of gold appears therefore to be due to a constantly recurring need for additional

[25] Bank records show no awareness of the difference between real and nominal interest rates; concern was entirely with nominal rates. See the discussion of interest rate policy in Chapter 4.

[26] "L'Afflux de l'or en France," MF B 21848. An earlier memorandum from the Bank of France responding to criticism in the British financial press concluded similarly that the inflow of gold resulted from the "free play of economic laws and the normal functioning of the gold standard." "Note sur les importations d'or," 28 July 1930, MF B 32316.

[27] The *Times*, 14 Nov. 1930.

franc resources and if the movement is to be prevented, it will be necessary to ascertain what causes this shortage of francs.[28]

Leith-Ross attributed the shortage to two factors. The first was a chronic shortage of currency since the stabilization of the franc in 1926. The decline in the velocity of circulation and the rise in prices that normally accompanied currency stabilization after a period of depreciation required an increase in the volume of currency, and this was still taking place. Because the Bank of France could issue currency only against short-term bills or gold, and the volume of bills discounted at the Bank could not be increased significantly, Leith-Ross believed commercial banks had to import gold "in order to obtain the increased cash resources absolutely essential for the conduct of their business." The second factor was the immobilization of funds in government accounts. The Treasury and the Caisse autonome d'amortissment stored up funds in the months of direct tax receipts and disbursed them gradually through the rest of the year (see the "Government balances" column in Table 2.1). Surpluses from the ordinary budget were also immobilized for long periods, being turned over to the Caisse d'amortissement for debt redemption "long after the end of the budget year." In September 1929, government balances at the Bank of France had risen to 14 billion francs, or nearly 20% of currency in circulation; in November 1930 these rose again to 13.5 billion francs. While discounts and advances provided "partial and imperfect" relief for the currency shortage, the link between the accumulation of government balances and the import of gold to obtain currency was "obvious and indisputable."[29]

This memorandum reflected the views of R. G. Hawtrey, who had studied the problem of French gold imports earlier in 1930.[30] Hawtrey's

[28] Memorandum by Frederick Leith-Ross; there is a copy of the final draft, dated 3 Dec. 1930, in Leith-Ross's papers, T 188/22. There are also copies in BoE OV45/3, MF B 31851, and the Bank of England's reaction to an early draft dated 17 Nov. 1930 in BoE OV45/81.

[29] Leith-Ross memorandum, 3 Dec. 1930, T 188/22. A perceptive note written in the Bank of France in late October similarly suggested that there were domestic causes of the import of gold; that the rise in domestic prices created new demand for currency, which could be met only by importing gold; and that the payment of direct taxes and the floating of the Young loan had taken several billion francs out of the marketplace. The note began by stating that the monetary policy of the government, in complete accord with the Bank, was aimed at neutralizing the effects of the gold inflow; it concluded that most of the reasons for the inflow were "accidental" and that it would reverse of its own accord, there being no need for government intervention. "La Politique monétaire du Gouvernement et l'augmentation de la circulation fiduciaire," 23 Oct. 1930, MF B 32316.

[30] See Susan Howson, "Hawtrey and the Real World," in G. C. Harcourt, ed. *Keynes*

Table 2.1. *Bank of France accounts, 1928–32 (millions of francs)*

Date	Gold reserve	Notes in circulation	Government balances[a]	Foreign exchange	Commercial discounts[b]	Reserve ratio (%)[c]
June 1928	28,935	58,772	7,013	26,530	4,856	40.45
July	29,918	60,436	9,354	29,435	5,300	39.54
Aug.	30,351	62,184	10,231	31,950	4,109	38.03
Sept.	30,623	62,654	10,960	31,142	6,196	38.87
Oct.	30,786	61,327	11,927	32,477	6,283	38.42
Nov.	31,600	62,660	12,576	32,185	5,540	38.84
Dec.	31,977	63,916	12,214	32,641	7,974	38.46
Jan. 1929	33,995	62,153	12,711	30,420	7,358	41.28
Feb.	34,038	62,506	12,299	29,822	7,625	41.52
Mar.	34,186	64,575	11,616	28,910	9,260	41.29
Apr.	35,788	62,848	11,876	27,025	8,803	43.64
May	36,596	64,316	11,431	26,192	8,285	44.13
June	36,625	64,921	11,041	25,732	10,515	44.11
July	37,300	64,135	12,179	25,803	10,827	44.54
Aug.	38,930	66,467	13,444	25,802	11,921	45.22
Sept.	39,411	66,639	13,630	25,814	11,594	45.71
Oct.	40,051	68,267	13,373	25,903	11,253	45.35
Nov.	40,808	68,159	13,871	25,825	13,178	45.78
Dec.	41,668	68,571	11,737	25,914	11,084	47.26
Jan. 1930	42,921	70,399	10,172	25,690	8,542	48.76
Feb.	42,855	71,116	8,767	25,670	8,009	49.25
Mar.	42,557	70,826	6,802	25,635	8,974	49.29
Apr.	42,351	70,770	6,554	25,609	8,325	49.64
May	43,809	73,079	5,363	25,527	10,230	49.50
June	44,052	72,594	4,937	25,602	9.015	50.19
July	45,283	72,110	9,131	26,056	8,937	50.54
Aug.	47,242	73,677	10,108	25,576	9,226	51.61
Sept.	48,431	73,053	10,509	25,570	9,009	52.45
Oct.	50,807	74,787	13,089	25,592	9,898	52.78
Nov.	51,967	75,951	13,354	25,867	11,675	52.42
Dec.	53,578	76,436	12,624	26,147	11,361	53.17
Jan. 1931	55,510	78,559	13,844	26,292	12,361	53.34
Feb.	55,924	78,947	13,339	26,285	11,082	54.16
Mar.	56,116	77,864	11,773	26,278	9,970	54.90
Apr.	55,616	77,231	11,679	26,279	9,323	55.08
May	55,634	78,185	9,940	26,134	9,021	55.20
June	56,426	76,927	8,513	26,187	8,376	56.07
July	58,407	79,861	9,303	26,162	8,162	56.21
Aug.	58,563	78,635	9,470	25,818	11,324	55.38
Sept.	59,346	78,173	7,356	22,706	12,166	57.02
Oct.	64,648	83,639	8,197	25,109	15,167	56.30
Nov.	67,844	82,543	7,170	23,374	12,646	59.57
Dec.	68,863	85,725	5,898	20,211	12,285	60.51

Table 2.1 (*continued*)

Date	Gold reserve	Notes in circulation	Government balances[a]	Foreign exchange	Commercial discounts[b]	Reserve ratio (%)[c]
Jan. 1932	71,625	84,723	4,722	17,847	11,559	63.39
Feb.	75,059	83,188	3,637	14,981	9,708	67.18
Mar.	76,831	81,782	3,526	12,425	9,056	69.67
Apr.	77,862	82,744	3,111	11,531	9,212	70.33
May	79,470	81,418	3,432	8,734	8,609	72.92
June	82,100	80,667	2,885	6,068	8,352	75.90
July	82,167	82,118	3,740	5,219	8,416	76.16
Aug.	82,239	79,912	3,981	5,128	7,998	76.63
Sept.	82,681	82,549	3,010	4,716	7,165	77.02
Oct.	82,909	82,205	4,553	4,721	8,176	76.78
Nov.	83,342	81,536	2,931	4,592	7,541	77.57
Dec.	83,017	85,028	2,311	4,222	7,682	77.29

[a]Combines the accounts of the Treasury and the Caisse autonome d'amortissement.
[b]Combines commercial discounts and advances.
[c]The ratio of gold reserves to currency in circulation plus demand deposits.
Source: Bank of France Annual reports, 1928–1932.

own response to the French explanation was caustic. "The writer of the note," he commented, "is presumably entirely unacquainted with the theory of credit and money." Both American credit restriction in the late 1920s and the "scramble for gold" since 1928 had played large roles in the depression. The abundance of cheap money without recovery was characteristic in the aftermath of a severe credit restriction:

> The general attitude of the memorandum is like that of a doctor who argues that a disease cannot possibly be measles because the patient has a rash and a high temperature. The writer describes all the symptoms of a "credit crisis," and concludes that the trouble must be something quite different.[31]

Leith-Ross concluded that neither a wider bill market nor a resumption of foreign lending would end French gold imports. The Bank of France required the ability and the will to increase the money supply when necessary through open market purchases of securities, and government

and His Contemporaries (London: Macmillan Press, 1985), 168–9. Hawtrey's exposition of the problem was published as "French Monetary Policy," *Proceedings of the Manchester Statistical Society* (14 Jan. 1931), and, with slight revision, in Hawtrey, *The Art of Central Banking* (London: Longmans, Green, 1932), 1–40. There is an incomplete draft of Hawtrey's response to Rist's "La Question de l'or" in T 208/150. See also Thomas Balogh, "The Import of Gold into France," *Economic Journal* 40 (Sept. 1930): 442–60.

[31] Hawtrey to Leith-Ross, 10 Dec. 1930, T 188/148.

accounts had to be managed so as to avoid the immobilization of large blocks of funds.[32]

The Bank of England agreed that the domestic demand for currency was responsible for French gold imports but did not believe the problem was easily solved. In the Bank of England's Central Banking Department, F. G. Conolly had argued similarly that the seasonal pattern of the French trade balance, the tourist season, and French direct taxation increased demand for gold in order to acquire currency from June to December each year. In January 1930 he had predicted that the Paris market would experience an acute currency shortage in the latter half of the year and draw gold from London.[33] This seasonal pattern was accentuated by two peculiarities of the Paris money market. First, the large holdings of foreign exchange accumulated by the Treasury and the Bank of France allowed the adverse balance of trade in the first half of the year to be met with foreign exchange rather than gold.[34] Second, the Paris market did not offer adequate facilities for short-term investment, so French banks placed capital abroad, particularly in London, during periods of market liquidity. As another clerk in the Central Banking Department, A. Grafftey Smith, put it, "London is the real money market of France, i.e., the market in which the French banks invest their surplus short-term funds."[35]

[32] Leith-Ross memorandum, 3 Dec. 1930, T 188/22. Barry Eichengreen has created a model to quantify the impact of Treasury and Bank of France policy on gold movements during this period. Testing for the effects of altering government accounts policy by eliminating Caisse d'amortissement balances at the Bank of France and depositing Treasury funds at commercial banks, reducing the discount rate to increase lending, and having the Bank of France engage in open market operations to purchase 2 francs worth of commercial paper for each franc's worth of gold imported, he found that only the last measure would have significantly reduced the import of gold into France. Barry Eichengreen, "The Bank of France and the Sterilization of Gold, 1926–1932," *Explorations in Economic History* 23 (1986): 56–84.

[33] F. G. Conolly, "French Gold Movements–Future Prospects," 29 Jan. 1930; "The Prospect of French Gold Movements," 2 May 1930; and "French Gold Movements," 20 May 1930, BoE OV45/3.

[34] Conolly believed that someone in Paris, presumably the French Treasury, was selling sterling at its gold point so that purchasers had no exchange risk, since francs could be repurchased on the market at the same or a better rate. It appeared that dollar and sterling holdings were being manipulated to hold the pound at $4.87 7/8 so that gold imported into France would be drawn from London rather than New York; he suspected this was being done to weaken confidence in sterling in order to facilitate development of the Paris money market. Conolly, "French Gold Movements," 29 Jan. 1930, and "French Exchange and the Gold Efflux," 24 Feb. 1930, BoE OV45/3.

[35] Grafftey Smith, "The Gold Flow from London to Paris," 4 July 1930, BoE OV45/3. See also the R. Kay note, "Bank of France," 3 Mar. 1930, BoE OV45/81. The problems of the Paris money market are discussed in Chapter 4.

In May, Conolly predicted that seasonal gold movements from London to Paris would continue indefinitely without the development of short-term investment facilities in Paris, greater French foreign lending, and open market operations by the Bank of France to reduce fluctuations in market liquidity.[36] But Leith-Ross's suggestion that the Bank of France engage in open market purchases would meet with the objections that there were no securities to purchase and that the Bank did not have the power to do so. And while more intelligent management of government accounts could reduce disturbances in the Paris money market, he remarked that "the Treasury and the Caisse are not intelligent and will hear no other view but their own." The Bank of France showed some disquiet at the growth of its gold reserves, but Conolly concluded:

> On the whole, France does not consider herself menaced by the gold imports and does not care very much what happens elsewhere.
>
> Very little hope can be entertained that the gold movements will cease as a result of any action by the French Authorities, but we must rather wait for events to take their course and the gold imports to produce their normal corrective of high prices and adverse trade balance.[37]

The Leith-Ross memorandum became the focal point for Franco-British Treasury talks on the gold problem in 1931. Neither treasury was willing to approach the other directly, and the central banks did not wish to participate in treasury talks. But concern for relations with Britain should Germany suspend reparation payments led Premier André Tardieu to suggest to V. Poliakoff, the *Times* correspondent in Paris, that France would welcome discussion of the gold flow from London to Paris.[38] Poliakoff urged Henri Pouyanne, director of the Anglo-French Banking Corporation, to approach officials on both sides

[36] Conolly, "French Gold Movements," 20 May 1930, BoE OV45/3.

[37] Conolly, "Bank of France and Gold – Enclosure to Sir Frederic Leith-Ross' Letter of 17th November 1930," BoE OV45/81. Conolly and Siepmann agreed that the Caisse autonome was largely to blame for money market problems in Paris. The Caisse resented interference in its operations; even though Governor Moret was on its board of directors, the Bank of France was not responsible for the problems created by the Caisse. Since 1926 it had followed a policy of leveling out short-term maturities through the year. While this had made sense with 50 billion francs in very short term securities meaning 7 or 8 billion in maturities each month, the short-term debt had fallen by half since then and was of longer maturity. Siepmann described the Caisse autonome's performance in 1930 as an "object lesson in bad management," increasing a liquid market in the first half of the year, then drawing funds off a tight market in the second half. See Siepmann to Waley, 23 Feb. 1931, which closely follows the analysis by Conolly in "Caisse d'amortissement," 19 Feb. 1931, BoE OV45/82.

[38] Boyce, *British Capitalism at the Crossroads*, 295.

of the Channel. Pouyanne had good connections with both treasuries; as financial attaché in London from 1920 to 1928 he had negotiated credit facilities for the French Treasury during the difficult years of 1924 to 1926.[39] Pouyanne told Leith-Ross that the Bank of France and persons "in the closest touch with Monsieur Tardieu" were concerned by the gold inflow and favored talks between the two treasuries.[40] Both Leith-Ross and the French director of the Treasury in Paris, Louis Escallier, welcomed the idea of such talks, but only if they were initiated on the opposite side of the Channel.[41]

The awkwardness of who was courting whom was avoided by having Pouyanne ask what points the British wished to consider. The reply would give Britain the appearance of having sought the talks and would allow the French to restrict the topics to be examined.[42] There was particular concern that the British would raise awkward questions about the operation of the Paris money market, which the French did not wish to discuss.[43] Such questions were bound to be raised. On 19 December Leith-Ross suggested four points for discussion.[44] These were (1) the causes of the gold flow to France and the measures appropriate to alleviate its effects; (2) means of stabilizing the French balances held in London; (3) the broader issue of the world gold situation; and (4) general international difficulties such as the need to revive long-term lending to countries short of capital. Pouyanne warned Leith-Ross that while rapid progress could be achieved on international matters, the first point concerned the organization of the Paris market, a domestic matter, and would therefore be delicate.[45]

Leith-Ross proposed meeting as soon as possible after Christmas, hinting that were Britain and France able to agree in bilateral talks, the League of Nations could then convene an international financial conference analogous to that in 1920 in Brussels, to deal with gold movements

[39] Pouyanne was *adjoint à l'attaché financier* from 1920 to 1923, *attaché financier* from 1923 to 1928. On his role in 1924–6, see correspondence in MF B 9681. Jean-Jacques Bizot recorded that Pouyanne's approaches to the two treasuries in December 1930 were Poliakoff's idea, but does not seem to have been aware of Tardieu's role; see Bizot's "Conversation avec M. Poliakoff," 20 Dec. 1930, MF B 31851.

[40] Hopkins to deputy governor of the Bank of England, 3 Dec. 1930; Leith-Ross to Fisher and Chamberlain, 3 Dec. 1930; Leith-Ross felt the French démarche opened a "very wide perspective"; Leith-Ross to Hopkins, 4 Dec. 1930, BoE OV45/3.

[41] Bizot, "Note sur conversations Pouyanne," 10 Dec. 1930, MF B 31851.

[42] Ibid.; also "Conversation avec Pouyanne," 12 Dec. 1930, MF B 31851.

[43] Bizot conversation with Rueff, 13 Dec. 1930, MF B 31851.

[44] Memorandum given to Pouyanne, 19 Dec. 1930, T 188/22. There is a French translation in MF B 31851.

[45] Pouyanne to Bizot, 19 Dec. 1930, MF B 31851.

and agricultural credits.[46] This idea aroused immediate suspicion in France. If the United States refused to participate, the other nations would be able to exert pressure against an isolated France for a redistribution of gold reserves. Rueff suspected this might be the whole purpose behind the British initiative.[47] The best grounds on which to oppose such a conference, it was decided, were that it would provide a forum in which the Germans could campaign for revision of the Young Plan and ultimately evade reparations.[48] The British agreed to limit the talks to matters involving strictly Anglo-French relations.[49]

The French thought it unwise politically to accept Leith-Ross's invitation to meet in London; they suggested that he come to Paris to "clarify" his proposal.[50] Leith-Ross and his Treasury colleague S. D. Waley met French officials on 2 and 3 January in Paris. The British explained their views on the shortage of francs in the French domestic market and handed the French a copy of the Leith-Ross memorandum. Leith-Ross himself found the French exceedingly cautious. On the first day Escallier briefly rebutted the British views and would not commit himself to future talks. The next day, after consultation with Minister of Finance Germain-Martin, Escallier admitted there were problems in the functioning of the Paris money market and promised to give serious consideration to the "striking" British figures on government account balances and gold movements.[51]

[46] See the memorandum given to Pouyanne, 19 Dec. 1930, T 188/22, and Rueff's account of a conversation with Leith-Ross on 16 Dec. 1930 in Rueff to Ministère des finances, 18 Dec. 1930, MF B 31851. The General Council of the League of Nations was due to meet in mid-January and was likely to raise the gold question. Leith-Ross suggested it would be useful for the French and British to reach agreement between themselves before then.

[47] See Rueff note of 18 Dec. 1930 on his conversation with Leith-Ross of 16 Dec. 1930 and a letter, Pouyanne to Bizot, 19 Dec. 1930, in which Pouyanne describes Rueff's suspicions. Pouyanne believed the English sought genuine cooperation. Bank of France opposition to an international conference was expressed by Assistant Governor Charles Farnier on 23 Dec. 1930, MF B 31851.

[48] Bizot note of 22 Dec. 1930 on a conversation with Escallier, Louis Germain-Martin, and Philippe Berthelot, MF B 31851.

[49] Pouyanne to Bizot, letter and record of telephone conversation, 23 Dec. 1930, MF B 31851.

[50] *Le Temps* used the fact that Escallier had just been appointed director of the Treasury to explain the presence of British Treasury representatives in Paris as "simply to establish contact with M. Escallier, the new director of the *mouvement général des fonds*, and his assistants." This was to contradict a report in the *Times* that gold movements between London and Paris were the subject of discussion; *Le Temps* claimed gold movements were a matter that concerned the central banks. *Le Temps*, 2 Jan. 1931.

[51] "Note on the Financial Discussions with the French Treasury on January 2nd and

French officials including Governor Clément Moret and Jean Tannery, director of the Caisse d'amortissement, met in Germain-Martin's office to discuss their position on 6 January.[52] They wished to give some satisfaction, lest the British ask the League of Nations to convene an international conference. It was judged appropriate that there be further study on whether inadequate discounting facilities in Paris caused gold imports, whether there was a sufficient difference between the discount rates in London and Paris, and what other remedies could ease the gold flow from London to Paris. Open market operations were rejected immediately. Governor Moret declared: "They would procure profits for the Bank of a questionable legitimacy: it is an error in principle to finance the purchase of bonds by the issue of currency."[53] Germain-Martin raised the more substantial political difficulty that any solution requiring alteration of the Bank's statutes, and thus parliamentary approval, was unacceptable to the government. Moret and Escallier recognized that the management of Treasury and Caisse accounts was deficient and offered some opportunity to give satisfaction to the British. The French response could also raise points neglected in the British analysis: the global nature of the movement of capital toward France and the insufficiency of measures taken in London to maintain international equilibrium (specifically the preservation of a low discount rate).[54]

The French reply, the "Escallier Memorandum,"[55] reproduced Bank of France arguments from "L'Afflux de l'or en France" that the gold flow resulted from a consistent French balance-of-payments surplus since 1926 and would cease when this surplus had disappeared through rising French prices. The purchase of foreign exchange by the Bank of France up to June 1928, and by the French Treasury in 1928 and 1929, had delayed the gold inflow from 1926 to 1929. The need for increased currency circulation was acknowledged, but the British estimate of currency needs was criticized as based on France's prewar currency circulation. Using prewar figures themselves, the French then argued

3rd 1931," 5 Jan. 1931, T 188/22. French notes on these talks, in MF B 31851, are sketchier.

52 The following is based on an unusually detailed record of this meeting, "Réunion chez Monsieur Germain-Martin," 6 Jan. 1931, MF B 31851.

53 "Elles procureraient à la Banque des bénéfices d'une légitimité contestable: il y a une erreur de principe à financer des achats de titres par l'émission de billets." The Bank of France's attitude toward open market operations will be discussed more fully in Chapter 4.

54 "Réunion chez Monsieur Germain-Martin," 6 Jan. 1931, MF B 31851.

55 It was written mainly by Rueff, with advice from the Bank of France and the Caisse d'amortissement; its construction can be followed from drafts and notes in MF B 31851.

that substantial rediscounting capacity remained available and attributed gold imports by French banks to an insufficient differential in interest rates between London and Paris. With a higher interest rate in London, French banks would make greater use of rediscount facilities in Paris.

While reluctant to admit the influence of government accounts on gold flows, the French promised that the Treasury and the Caisse d'amortissement would make a more systematic effort to reduce their impact on the money market. The Bank of France was studying measures to permit the acceptance of gold ingots of 916⅔ fine in order to facilitate gold transfers between Paris and London, and it had just lowered its discount rate to 2% in the interests of international cooperation, despite the fact that "at the present time this measure presents serious inconveniences for the French market." The note concluded with the expectation that the British would engage in an equally frank and impartial examination of their own monetary situation and urged a higher interest rate and open market sales to tighten the London market.[56]

Rueff returned to London having been instructed to insist that French efforts presupposed a parallel British effort to solve the gold problem.[57] In conversations on 14 and 15 January the British agreed not to press for an international conference and to have the Gold Delegation report published rather than sent to the Bank for International Settlements (BIS). The latter had been a subject of particular concern to the French, who feared they would be isolated at the BIS.[58] The French handed the British a copy of the Escallier Memorandum. The British admitted that Leith-Ross's note had been one-sided and acknowledged the French efforts to meet British criticisms of the management of government accounts.[59] Both sides were pleased with the talks. "It may seem that

[56] "Note pour le ministre," 13 Jan. 1931, MF B 31851.

[57] "Note pour le ministre," Escallier requesting that Germain-Martin approve his instructions to Rueff, who was to be accompanied by Jean-Jacques Bizot, n.d., MF B 31851. As well as insisting on a parallel British effort, they were to oppose having the report of the League of Nations Gold Delegation sent to the Bank for International Settlements and to repeat that the French government would refuse any demand for an international economic conference.

[58] This concern was expressed many times in the course of French discussion with regard to these conversations; the Bank of France had also expressed its worries to the Bank of England; see Siepmann, "Note of Conversations in Paris on Monday the 1st December 1930," 10 Dec. 1930, BoE OV45/81. Bank of France concerns regarding the Gold Delegation's *Interim Report* were detailed in a note of 9 Jan. 1931, MF B 31851.

[59] Bizot also requested British cooperation on the question of German reparations. Leith-Ross, while agreeing that consultation was desirable, was careful not to commit the British government to any specific course of action. Accounts of these conversations

these conversations produce little concrete result." Leith-Ross commented, "but I do not think their value should be underestimated."[60]

But closer study of the Escallier Memorandum did not encourage hopes for progress. R. G. Hawtrey believed it failed completely to address the problem: "We complain of the drain of gold because it tends to cause a monetary contraction here and in the rest of the world, and Monsieur Escallier's reply is that we can prevent the drain of gold if we choose to effect a monetary contraction!"[61] For Hawtrey, the only French proposal of any real value was that to moderate changes in government account balances, and there was no indication at what level these would be stabilized. The French denial of a currency shortage was belied by a 4 billion franc increase in the French circulation since early December. He doubted that discounts and advances in Paris could increase substantially; French estimates were based on prewar years of strong trade and rising prices. Claims that the gold flow was due to the trade surplus, which would disappear "in accordance with classical theory" by rising French prices, also seemed ill-founded. French prices were rising due to protective tariffs, and the trade surplus would be eliminated only by an increase in the money supply. If no other means were provided, this would take place through the import of gold. The French suggestion that higher interest rates in London would ease the gold flow was correct, but it was a poor substitute for increasing the availability of French bills by lowering interest rates in Paris.[62]

Treasury representatives met again in Paris on 20 and 21 February, but the limits of progress had been reached. The British promised to raise the Bank rate should a crisis arise, while the French stated that their government balances would fall as money was disbursed through the spring.[63] The second day was devoted to composing a press release,

can be found in "Note pour Monsieur Escallier: Conversations de Trésorerie de Londres des 14 et 15 janvier 1931," n.d., MF B 31851, and "Note of Conversations with Rueff and Bizot, 14th and 15th January 1931" (a summary approved by both sides), and Leith-Ross, "Conversations with French Treasury Representatives," 16 Jan. 1931, T 188/22.

60 "Conversation with French Treasury Representatives," 16 Jan. 1931, T 188/22.

61 "French Gold: Monsieur Escallier's Memorandum," 12 Feb. 1931, T 208/149.

62 "Gold movements: Points for Discussion with the French Treasury," 10 Feb. 1931, and "French Gold: Monsieur Escallier's Memorandum," 12 Feb. 1931, T 208/149.

63 Accounts of these conversations can be found in Bizot, "Entretien du 20 février 1931," MF B 31851; "Notes of Meeting with the French Treasury on February 20 and 21, 1931"; and Leith-Ross to Hopkins and Snowden, 23 Feb. 1931, T 188/22.

which the *Economist* termed "colourless and guarded."[64] Leith-Ross admitted as much, but noted, "Considering that the questions raised are largely ones of domestic French policy I do not think that we could expect them to go further."[65]

Government balances did decline as funds were disbursed through the year, and the deteriorating financial state of the French government ensured they would not rise again to extraordinary levels (see Table 2.1). The gold flow stabilized in February through the seasonal decline in demand for francs and through cooperation between the Bank of France and the Bank of England to reduce pressure on sterling. The two central banks had discussed the gold flow from London to Paris independently of the treasury talks. Moret had resisted lowering the Bank of France discount rate to discourage the gold flow when he met with George Harrison in November and Montagu Norman in December 1930, concerned that this would stimulate speculation and unhealthy borrowing in France. Both Harrison and Norman accepted his arguments.[66] In November the Bank of France bought sterling in Paris, reluctantly (claiming it violated the Bank's statutes), to keep the pound from falling below the gold export point.[67] When the Federal Reserve Bank of New York lowered its discount rate at the end of December, the Bank of France was compelled to follow suit, lowering its rate to 2½% after assurance from the Bank of England that its rate would remain unchanged at 3%.[68] The Bank of France's rate for advances was left unchanged at 4½%.[69] This would discourage recourse to Bank credit; Henri Pouyanne told the British that a great deal of business was done through advances, and a rate of 4½% at the Bank would mean a rate well over 5% at commercial banks. He believed the Bank

[64] *Economist*, 28 Feb. 1931, 436. But the article was positive, admitting that progress on international cooperation was bound to be slow and that the friendly contact was a fact of great importance.

[65] Leith-Ross to Snowden and Hopkins, 23 Feb. 1931, T 188/22.

[66] PV CG, 27 Nov. 1930 and 11 Dec. 1930.

[67] See the minutes of 12 Nov. 1930 and 21 Nov. 1930 by F. G. Conolly, clerk in the Banking Department of the Bank of England, who visited the Bank of France in mid-November, and the record of a phone conversation between Cariguel and Siepmann, 14 Nov. 1930, in BoE OV45/81. The FRBNY had also supported sterling at this time; Henry Clay, *Lord Norman* (London: Macmillan Press, 1957), 369, and Clarke, *Central Bank Cooperation*, 175–7.

[68] PV CG, 2 Jan. 1931, and Siepmann to Harvey, regarding the enquiry from the Bank of France, 31 Dec. 1930, BoE OV45/81.

[69] PV CG, 2 Jan. 1931. Moret told the Council of Regents there was no domestic reason for lowering the rate for advances: "The fact that we are lowering only the discount rate will indicate clearly that this measure is necessary because of international monetary conditions."

of England's discount rate would need to rise to 4 or 5% to keep French banks from repatriating capital.[70]

Further cooperative efforts were made by the Bank of France. In mid-January it agreed to accept gold ingots of 900/1,000 fine. This firmed the gold points between London and Paris. The Bank of France had previously accepted only gold of 995/1,000 fine; when the Bank of England ran low on such ingots the previous June and made payments with ingots of 916⅔ fine, the gold export point against the franc dropped to account for refining charges and gold shipments were delayed.[71] The French and British also reached agreement that the Bank of France would intervene in the Paris market to support sterling, the Bank of England providing the Bank of France with dollars in exchange for francs for these operations.[72]

The Bank of England's gold situation remained precarious into March, with Norman warning the Bank's Committee of Treasury that Britain might have to "slide off" gold. To avoid raising Bank rate, Norman used open market sales from late January onward in order to tighten the London market.[73] The situation stabilized, and the French concluded that the increased differential in interest rates between London and Paris had been crucial, justifying their position.

The fall of sterling and after

The financial crisis of 1931 in Central Europe spread to England in July and wrought havoc with "normal" capital and gold movements. From May to October, French gold reserves rose by 3,730 million francs. Notes in circulation increased by 6,408 million francs owing mainly to increased commercial discounting, which doubled from 5 to 10 billion francs. It is obviously not possible to distinguish hot money flows from legitimate demands for currency during this period. During the banking crisis in Germany, French banks were the first to withdraw gold from

[70] Leith-Ross, "Interview with Monsieur Pouyanne on 21st January 1931," 22 Jan. 1931, T 208/149.

[71] PV CG, 8 Jan. 1931, and Moret to Norman, 15 Jan. 1931 in BoE OV45/81; also Boyce, *British Capitalism at the Crossroads*, 297.

[72] Siepmann's account of conversations in Paris on 24 Jan. 1931, dated 26 Jan. 1931, and the exchange of letters, Norman to Moret, 26 Jan. 1931, and Moret to Norman, 29 Jan. 1931, BoE OV45/82. See also Clay, *Lord Norman*, 371.

[73] R. S. Sayers, *The Bank of England, 1891–1944* (Cambridge University Press, 1976), 1: 233–34, and see Moret's report of a conversation with Norman at Basle to the Council of Regents, PV CG, 22 Jan. 1931.

the Reichsbank, but their credits in Germany were not large.[74] The Bank of France participated without enthusiasm in providing credits to the Austrian National Bank and the Reichsbank to support their currencies, and the French government's acceptance of the Hoover moratorium on reparations and war debt payments in July was tardy and unwilling. Political tensions between France and Germany, and the sensitivity of the reparation and war debts question, made French support to Germany an extremely touchy political issue.[75]

When the monetary crisis shifted to London, French aid was more readily forthcoming. Discussing a new loan to Germany in mid-July, Baron Edouard de Rothschild had argued in the Council of Regents against further aid, saying France would do better to save its assistance for countries such as Britain. Governor Moret replied that he did not expect England to ask for aid; he knew Norman well enough to doubt that he would look to the Bank of France for any assistance.[76]

In spite of accusations in the British press that the Bank of France was directing French commercial bank withdrawals from London in order to influence the outcome of the reparation discussions,[77] Robert

[74] 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), 186.

[75] The year 1931 began badly for Franco-German relations, with Germany and Austria proposing a customs union in March 1931. France vehemently opposed the union and regarded the financial crises in Austria and Germany with a great deal of suspicion. See Edward W. Bennett, *Germany and the Diplomacy of the Financial Crisis, 1931* (Cambridge, Mass.: Harvard University Press, 1962), as well as the strongly anti-French views in John W. Wheeler-Bennett, *The Wreck of Reparations* (London: Allen & Unwin, 1933), 54–67, 109–14, 118–23, and Einzig, *Behind the Scenes of International Finance*, 75–90. Diane Kunz gives a balanced assessment of British and American difficulties in negotiating the Hoover moratorium and credits to Austria and Germany in *The Battle for Britain's Gold Standard in 1931* (London: Croom Helm, 1987), 53–71.

[76] PV CG, 18 July 1931. Barons de Wendel and Rothschild opposed aid to Germany and, at the renewal of credits granted through the Bank for International Settlements, insisted the credits were a political decision requiring the approval of the French government.

[77] PV CG, 16 and 18 July 1931. There was considerable French concern over the state of British opinion. The French ambassador in London reported that press and public opinion were constantly hostile to France. He felt that for the past two years the English had been trying to blame others for problems that were domestic, and while they tended to blame both America and France, they did not dare publicize their aversion to the Americans. He believed the volume of complaint against France, particularly in the press, could be explained only by encouragement from the Bank of England and the government, and he blamed Montagu Norman in particular: "a remarkable technician, completely disinterested, but he is both appalled by his heavy responsibilities and blinded by his hatreds. He is a complete francophobe, and he

Kindersley (a director of the Bank of England and chairman of Lazard Brothers of London) received a sympathetic reception at the Bank of France when he requested assistance on 25 July. Moret readily agreed to provide a 2,500 million franc credit (£20 million), telling Kindersley that "the Bank of England may rest assured that it will find here all the support it might require." In fact, the Bank of England seems to have found more support than it was looking for. Moret suggested that the United States be solicited for a joint credit and urged that the French and American money markets share in providing the credits to broaden the "psychological and moral effect"; in the French case this would also help dissipate misunderstanding by the British press of French banks' withdrawals from London. François de Wendel, while approving of the credit, regretted that no pressure was exerted to extract political concessions for the financial aid.[78] The credit, increased to £25 million, was duly opened on 1 August; half was provided by French commercial banks, and a parallel American credit of £25 million was supplied by the Federal Reserve Bank of New York.[79]

Moret was then alarmed when the Bank of England asked that he suspend purchases in support of sterling on the Paris market on 5 August. As Moret expected, sterling fell below the gold point and French gold withdrawals from London resumed. He had understood that the purpose of the French and American credits was to reinforce support for sterling to prevent gold losses. Moret made several calls to London to press his belief that market confusion would intensify if there were no intervention and that postponing such action would necessitate more energetic and costly intervention later. Failure to use the credits would weaken confidence in the pound on the Continent.

blames France for the obvious failure of his financial policy. . . . He has certainly contributed to the growth of anti-French sentiment among the Labour ministers in the past few days. His influence in the City seems to be waning, but it remains strong in the press, particularly the *Times*." De Fleuriau to Barthou (MAE), 30 July 1931, copy in MF B 31728. The main papers involved in the press campaign were the *Daily Mail*, the *Financial Times*, the *Daily Herald*, and the *Evening Standard*; see Boyce, *British Capitalism at the Crossroads*, 339.

78 PV CG, 27 July 1931.

79 The interest rate for the loan was originally negotiated at 2¾%, halfway between the French rate of 2% and the London rate of 3½%. A rise in Bank rate in London raised the halfway point to 3¼% during negotiations; French commercial banks wanted 3½%, and the Bank of France insisted, against British objection, on 3⅝% across the board. The credit from New York was at 2½%, halfway between London and New York rates as they stood when negotiations opened. See Kunz, *Britain's Gold Standard*, 81–90; Clarke, *Central Bank Cooperation*, 204–9; and Sayers, *Bank of England*, 392–4. The contracts are reproduced in Sayers, *Bank of England*, vol. 3, app. 22, 260–3.

The Bank of England replied that it wished to reestablish confidence through free play of the gold standard and that the credits would be used only as a last resort.[80]

Siepmann explained the Bank of England's logic in greater detail on 7 August, telling Moret that the Bank was worried by the state of public finances and wished to give both the government and the public a stern warning through gold losses in order to create the political will needed to balance the budget according to the May Committee recommendations.[81] (Siepmann did not explain that there was considerable animosity toward the Bank of France over the arrangements for the credit. Ernest Harvey criticized Moret for having "forced their hand" in the credit negotiations by having approached Paris commercial banks prematurely, thereby forcing the Bank of England to accept the credit. Moret had also insisted that Paris banks should share in each drawing under the credit. Since this would have made Bank of England exchange operations apparent to the banks in the Paris market, the Bank felt compelled to draw the entire credit at once.)[82] The Bank had considered a further Bank rate increase to 5½% on 6 August but had rejected it on grounds that the gravity of the situation should not be masked by "palliatives" and that gold losses of perhaps £50 million or more would be required to accomplish this. Moret protested that the credit had been undertaken in order to support sterling and avoid gold exports. Further losses would destroy confidence and lead to a flight from the pound. He later told the Council of Regents that his arguments had finally had some effect, for the Bank of England subsequently requested that the French resume purchases in support of sterling that afternoon. Since then the panic had abated.[83]

[80] PV CG, 6 Aug. 1931, and H. A. Siepmann, "Note of a Conversation (Telephone) with Moret at 7:10 p.m.," 5 Aug. 1931, BoE OV45/82. Siepmann thought the Bank of France might be hoping the Bank of England would become indebted to it, because it would have to buy francs to intervene in the market. See Kunz, *Britain's Gold Standard*, 90–2, and Boyce, *British Capitalism at the Crossroads*, 346.

[81] PV CG, 13 Aug. 1931. J. E. Crane reported that Deputy Governor Sir Ernest Harvey had told him the Bank of England believed that the "present plight of sterling is due primarily to unsound budgetary position and extravagant governmental policies." J. E. Crane to George Harrison, no. 5596, 10 Aug. 1931, in the George L. Harrison Papers, Butler Library, binder 34.

[82] Crane to Harrison, no. 5596, 10 Aug. 1931, Harrison Papers, binder 34.

[83] PV CG, 13 Aug. 1931, and Marcel Netter, *La Banque de France entre les deux guerres* (unpublished manuscript; I am grateful to the late Professor Jean Bouvier for use of his copy of the manuscript), ch. 4, 107–8.

That Moret's advice was influential is substantiated by Sayers, *Bank of England*, 395, and Philip Williamson, "A 'Bankers' Ramp'? Financiers and the British Political Crisis of August 1931," *English Historical Review* 99, no. 393 (1984): 786. Both Sayers and

The crisis was far from over. Prime Minister MacDonald's inability to resolve his budget problems and a leak to the press on 24 August that the foreign credits were nearly exhausted renewed the pressure on sterling.[84] On 26 August arrangements were concluded for a new £40 million loan provided by French banks against Treasury bonds, with a discount guarantee from the Caisse des dépôts et consignations. The Bank of France assumed the commercial banks' share of the earlier credit, and American banks provided a parallel loan of £40 million. The Bank of France continued to buy sterling in amounts averaging £1 million per day.[85]

The British were unable to resist the pressure on sterling, and as gold withdrawals mounted, convertibility of the pound was suspended on Monday, 21 September. For form's sake, the Bank had let gold go toward the end of the previous week and approached both the French and the Americans about further credits. Moret told Siepmann that a long-term loan could be negotiated on very short notice in Paris to support sterling against gold losses. He met with the director of the Crédit lyonnais on 19 September to plan a thirty-year loan at a nominal rate of 4¼%. Moret estimated he could raise 3 to 4 billion francs, at a cost to Britain of 5.65%. He would have approached directors of the other major banks, but Siepmann requested that for the time being only the Crédit lyonnais be made aware of the extent of British difficulties.

By his own account, Laval was awakened in the middle of the night and asked for assistance, and he promised to open a credit of 3 billion francs in gold from the French Treasury.[86] If so, he did not act on the promise. Late on the morning of 19 September, Moret learned that

Williamson give good accounts of these events and of how those in the Bank were of two minds as to the means of defense, one group advocating the use of the credits, the other favoring the "stern warning" through gold losses. (Otto Niemeyer believed that gold losses and a further rise in Bank rate, the "orthodox" defense measures, would have kept Britain on gold.) Little wonder that Moret was confused by the Bank's behavior. See also Kunz, *Britain's Gold Standard*, 92–2; Clarke, *Central Bank Cooperation*, 207–9; and Alec Cairncross and Barry Eichengreen, *Sterling in Decline: The Devaluations of 1931, 1949 and 1967* (London: Blackwell Publisher, 1983), 52–72.

84 Sayers, *Bank of England*, 399–400.

85 PV CG, 10 Sept. 1931. On negotiation of the credit, see Kunz, *Britain's Gold Standard*, 113–21; Clarke, *Central Bank Cooperation*, 209–13; and Clay, *Lord Norman*, 387–95.

86 Pierre Laval, *The Unpublished Diary of Pierre Laval* (London: Falcon Press, 1948), 26; also see letters from the British chargé d'affaires, Sir Ronald Campbell, of 18 and 19 Sept. 1931 in ibid., 187–99. Fred Kupferman makes uncritical use of Laval's claims in his *Laval, 1883–1945* (Paris: Balland, 1987), 96–7; Kupferman's account of the sterling crisis (92–7) and Laval's economic performance in 1935 (140–55) should be used with caution.

Laval had been warned that Britain might suspend gold exports. He then recognized that the British were resigned to the worst, that "the best solution was the easiest, that is, the devaluation of the currency." He received official notice on Sunday evening that the gold standard was to be suspended the next day.[87]

Moret realized that Britain's abandonment of the gold standard had been a measure imposed by circumstances and that future British policy would be unpredictable for some time. His own faith in the gold standard led him to suppose that British capitalists would favor a prompt appreciation of sterling, but he recognized that Britain could draw immediate advantages from sterling depreciation. It would stimulate exports, and by raising prices it would reduce the burden of government debt and the value of wages and unemployment benefits. Still, he hoped that an early general election would restore to power "reasonable elements" who, "imbued with the idea that no sacrifice was too great to restore sterling's gold value in order to maintain London as the center of international financial affairs, could have very salutary results."[88]

The most urgent problem was not any threat to the franc, which remained strong, but what the Bank of France would do with its sterling holdings, which totaled £62 million, or nearly 8 billion francs. The depreciation of sterling would mean a loss on these assets. Moret had to justify the Bank's sterling holdings, try to obtain compensation for the loss to be suffered on them, and decide whether the Bank's handling of foreign exchange should be altered. For the time being, sterling holdings would be recorded according to the legal definition of their value, so no loss would appear in the Bank's weekly statements. But to provide a true balance at year's end some estimation of the loss would be necessary, and Moret did not wish the Bank to bear the burden of the loss.

His first impulse seems to have been to appeal to the Treasury. The sterling had been acquired mainly for a Treasury account in stabilizing the franc from 1926 to 1928. As Moret told the Council of Regents on

[87] PV CG, 22 Sept. 1931. On 18 Sept., Minister of Finance Flandin generously, if imprudently, declared to the press in Geneva that he had faith in the solidity of sterling and that the French Treasury would not hesitate to provide any assistance necessary. Netter, *Banque de France*, ch. 4, 110. Sayers mistakenly claims Britain was turned down in both New York and Paris. *Bank of England*, 2: 412. Kunz credits the French with having been "clearly eager to do whatever they could to ensure that Britain remained on gold," attributing this to concern for losses on their large sterling reserves. *Britain's Gold Standard*, 137.

[88] PV CG, 22 Sept. 1931.

22 September, the Bank of France had been constrained by its international responsibilities as a central bank; otherwise, it would have been able to sell sterling in the summer of 1931 as had the commercial banks. But the Bank had set aside its own interests and faithfully held sterling in the interests of international solidarity and concern for general well-being; "to the extent that our situation as guardian of the currency would be compromised, it is only natural that the state, in the public interest, would re-establish our position."[89]

But compensation was sought first from Britain, the argument being that the Bank had been morally unable to sell its own sterling holdings on the market when buying sterling for the Bank of England. When the Bank of England replied that it would provide no compensation, Moret solicited Minister of Finance Flandin to approach the British government, arguing that sterling holdings had been maintained at a dangerous level in order to prevent disruption of the London money market. Moret requested an urgent appeal to the British government, insisting that "Great Britain must, in all justice, take account of the services rendered by the Bank of France and initiate special measures on its behalf."[90] The French case was obviously overstated. French sterling reserves were, as Governor Moreau had recognized in 1927, "a weapon too strong to use," and French policy, like British policy, had been determined by what was best for its own currency in keeping with responsible international behavior.[91]

Moret forwarded a copy of this letter to Ernest Harvey, deputy governor of the Bank of England, asking that the Bank consider "how it will best be possible to prevent the Bank of France from suffering a loss on account of the trusting and disinterested co-operation which it was pleased to afford and which it has the greatest desire to resume."[92] Unmoved by the appeal, or by the French account of central bank relations since 1926 as based on French forbearance of British policy errors, the Bank of England replied that no special measures would be accorded to any central bank holding sterling. The Bank of France should seek redress from the French Treasury.[93] Approaches to the

[89] Ibid.

[90] Moret to Flandin, 6 Oct. 1931, quoted in PV CG, 8 Oct. 1931.

[91] See Jean Bouvier's illuminating discussion of Bank of France foreign exchange policy in Jean Bouvier, "A propos de la stratégie d'encaisse (or et devises) de la Banque de France de juin 1928 à l'été 1932," *Recherches et travaux* 13 (Dec. 1984): 1–12.

[92] Moret to Harvey, 6 Oct. 1931, BoE OV45/82.

[93] Moret's appeal drew little sympathy in the Bank of England. A summary titled "M. Moret Forgets" blamed French fickleness over cooperation for the monetary crisis; unsigned note, BoE OV45/4. Sayers explains that "the decisive factor was the im-

British Treasury were equally unsuccessful. On 7 October Frederick Leith-Ross told Moret categorically that the government could not introduce a law to indemnify the Bank of France.[94]

The Council of Regents established a *commission spéciale* to determine whether the Bank of France should liquidate its sterling holdings. Moret favored this line of attack, but the commission scotched the idea, deciding instead that an approach be made to the French government.[95] Thus, Moret asked that the government take measures to remedy "a situation which calls into question such grave public interests," as it was unlikely there would be an official response from England before the fixing of the Bank's year-end balance on 24 December. The loss on sterling would disrupt the Bank's financial equilibrium and take years of interrupted dividends to repay. Given the nervous state of market opinion, this could damage not just share values, but confidence in the franc, which it was necessary to maintain "at any price."[96]

Agreement on compensation was reached in early December. The regents met on 5 December to approve the texts of conventions with the Treasury and the Caisse d'amortissement by which the state would provide the Bank of France with a Treasury bond maturing 31 December 1945[97] to cover the losses on sterling. The bond's value would be adjusted annually according to changes in the value of the Bank's sterling holdings.[98] The conventions had a rough passage through Parliament. The Finance Committees of both chambers objected to the compensation on two counts. First, they were reluctant to have the state assume losses on foreign exchange holdings from which the Bank had profited, requiring that the Bank provide figures to show that these

practicability of drawing any line between the fine gradations of 'moral commitment' that could be alleged in relation to a great variety of sterling balances." *Bank of England*, 2: 415. For Conolly, "the obvious way out" was for the Treasury to make up the Bank of France's losses with non-interest-bearing Treasury bills. "Bank of France's Loss on Its Sterling Holdings," 28 Sept. 1931 and 16 Oct. 1931, BoE OV45/82.

94 Moret threatened Leith-Ross on 7 Oct. and Lord Reading on 8 Oct. with an end to French financial cooperation over the compensation question. By his account to the Council of Regents, Moret told Leith-Ross: "Until now, we have given you the most ample and loyal collaboration possible, but it must be understood that the maintenance of this collaboration in future will depend on the decision taken with regard to our assets in pounds sterling. We are asking the British Government to weigh carefully the consequences of an intransigent attitude on this question." PV CG, 8 Oct. 1931.

95 PV CG, 29 Oct. 1931. The Commission spéciale consisted of Ernest Mallet, Baron de Rothschild, and Félix Vernes.

96 Moret to Flandin, 23 Oct. 1931, in PV CG, 29 Oct. 1931.

97 The date the Bank's current authorization to issue currency would expire.

98 The texts of the conventions are in PV CG, 5 Dec. 1931; and see Netter, *Banque de France*, ch. 4, 126.

profits had not been distributed as dividends to shareholders.[99] The Senate Finance Committee insisted that the Bank increase its share of the losses from 200 million to 250 million francs.[100] Second, there was concern that no precedent be set in case the dollar was devalued. Flandin stated categorically to the Senate Finance Committee that the existing conventions covered the period from June 1928 to the date of the conventions.[101] Though he could not promise that the Bank's dollar holdings would be converted immediately to gold without disrupting international gold movements, he told the Senate Finance Committee:

> At this time we are making every effort to pass from the *gold exchange standard*, the disastrous effects of which are now being felt, to a *gold bullion standard*. We wish to give the franc a coverture in gold, and so long as we have a part of our note issue backed by devisen, we will be under a bastard regime.[102]

France was under no such "bastard regime"; the Bank's gold reserve now amounted to 60% of its sight liabilities, and the monetary reform of 1928 had put France on a gold bullion standard. In the Chamber of Deputies Flandin blamed the gold exchange standard and open market operations for most of the difficulties since the war and for many current difficulties in France. He concluded that reality was avenging itself on those who had promoted innovations; only the gold standard, "pure and simple," could provide a durable international monetary system.[103]

Flandin did not accept the Bank's arguments in their entirety. Moret had claimed that the loss on sterling would imperil the franc and "would undoubtedly provide the basis for a campaign to depreciate the franc, of which the extent was unpredictable, and of which the repercussions

[99] Since June 1928 the Bank had earned 2,737 million francs in profit. Total dividends during the period were 285 million francs, while 1,351 million francs had been transferred to the state. See PV CFCh, 10 Dec. 1931, and PV CFSén, 21 Dec. 1931.

[100] This was a compromise reached on 23 Dec.; see PV CFSén, 22 and 23 Dec. 1931, and PV CG, 23 Dec. 1931.

[101] PV CFSén, 17 Dec. 1931.

[102] PV CFSén, 23 Dec. 1931. The 1928 law required that French currency be backed by gold, however; Bank of France foreign exchange holdings were not used to guarantee the note issue.

[103] "Depuis la guerre presque toutes les innovations qu'on a voulu nous faire adopter et auxquelles, malheureusement, trop de pays autour de nous se sont ralliés, avaient seulement pour objet de nous dissimuler la réalité. La réalité s'est vengée, et la tâche la plus urgente est maintenant de reconstituer dans le monde un système monétaire qui ne soit plus donneur d'illusions, mais qui permette de durer. Ce système est, pour nous, l'étalon or pur et simple." *J.O.Ch.*, 14 Dec. 1931, 4502. Moret had made similar claims to the Council of Regents in mid-October; PV CG, 15 Oct. 1931.

on the franc and public credit could prove irremediable."[104] Flandin replied that the franc could hardly be endangered by a loss on sterling that amounted to 2% of Bank assets.[105]

Although the government discounted the Bank's claims of a threat to the franc, neither the government nor the Bank was prepared to tolerate the risk of further losses on foreign exchange holdings. Sterling's departure from gold was a turning point in Bank of France management of its foreign exchange balances and was immediately recognized as such. Moret opened negotiations with Governor Harrison of the Federal Reserve Bank of New York (FRBNY) on 22 September to convert Bank of France dollar holdings to gold. Fifty million dollars were converted immediately, since the Belgian and Swiss national banks were converting francs in Paris and Moret wished to avoid a gold loss on the Bank's weekly statement.[106] Moret converted another $45 million in the next two weeks, after which the United States lost gold steadily to Europe and to Paris. When Baron de Rothschild questioned whether these gold imports would rekindle foreign criticism, Moret replied that for the time being it was more important to allay domestic fears by avoiding any loss of reserves.[107]

Rothschild also asked whether the Bank should raise its discount rate. Moret acknowledged that circumstances called for a rise, both at home and abroad, but he waited for the FRBNY to act first.[108] A week later, Deputy Governor Charles Farnier and Robert Lacour-Gayet pressed for a rise in the FRBNY discount rate, and when the rate was raised from 1½ to 2½% on 8 October, the Bank of France raised its

[104] Moret to Flandin, in PV CG, 5 Dec. 1931. But the Bank's arguments about the government's responsibility for losses on the sterling were improving with practice: "The large sterling holdings represent an irreducible balance that the Bank could not dispose of without causing serious disruption to the London market and aggravating, to the detriment of the franc, the difficulties of the world's exchange markets. In addition, from the moment the Bank of France, in complete accord with the government, agreed to act as the agent of the Bank of England for operations in defence of the pound sterling on the Paris market, it could not continue its sales of sterling without violating the most elementary rules of international collaboration."

[105] Flandin to Moret, 9 Dec. 1931, in the BN, Fonds Flandin, carton 62.

[106] PV CG, 22 Sept. 1931. Without this conversion, which brought in 1,275 million francs in gold, the Bank's balance for 25 Sept. would have shown a gold loss of 506 million francs. The Bank of France was not the only central bank to convert dollar holdings immediately; the central banks in Belgium, the Netherlands, and Switzerland reacted in the same way. See Lester V. Chandler, *American Monetary Policy, 1928–1941* (New York: Harper & Row, 1971), 167–8.

[107] PV CG, 1 Oct. 1931.

[108] Ibid.

rate to 2½% the next day.[109] Farnier and Lacour-Gayet urged a higher rate, and when the Federal Reserve raised its rate to 3½% Moret felt that Governor Harrison had rallied to French views, telling the Council of Regents:

He [Harrison] recognizes not only that the present situation no longer allows the maintenance of low interest rates, but that the policy followed in this respect in recent years by the United States, and in general the policy of managed currency, has been founded on a serious error in principle.[110]

Farnier confirmed this upon his return to France, informing Moret that Harrison had switched to a policy of credit restriction, selling Treasury bills to tighten credit. The Bank of France rate was held at 2½% to avoid giving the impression that the Bank was trying to force American gold losses.[111]

The weakness of the dollar made further conversions undesirable until late December. Gold reserves climbed to 68,863 million francs by the end of the year, while foreign exchange holdings dropped on 24 December due to the revaluation of sterling balances. From mid-October to April 1932, France also bought South African gold on the London market, purchased on behalf of the Bank of France by the Bank of England.[112]

This forbearance in exchange conversion was facilitated by the interest the Bank earned on foreign exchange holdings invested abroad. In the second half of 1931, the Bank of France earned 250 million francs on its foreign exchange holdings and 102 million francs on its own discounts; net profits totaled 157 million francs.[113] As interest rates dropped in 1932, Moret commented at weekly meetings of the Council of Regents on the reduction in earnings that would result. This played an important part in the French decision to accelerate foreign exchange conversion in 1932. But other factors were at work as well. The par-

[109] PV CG, 8 and 9 Oct. 1931. On 9 Oct. Moret justified raising the discount rate to the Council of Regents in saying that "given the aggravation of the economic crisis, this rate [2%] is clearly insufficient." Commercial discounting had doubled from 5 to 10 billion francs since June.

[110] PV CG, 22 Oct. 1931. Some contemporaries saw this as further evidence of French financial blackmail to gain a favorable war debt settlement; Premier Laval was going to Washington to discuss war debts later in October. See Wheeler-Bennett, *Wreck of Reparations*, 118–23; Einzig, *Behind the Scenes of International Finance*, 133–40; and Einzig, *Finance and Politics*, 20–1.

[111] PV CG, 5 Nov. 1931.

[112] The Bank of England had done this in 1925 for Holland rather than have Bank of England gold reserves drawn down. See Sayers, *Bank of England*, 2: 333–4.

[113] Bouvier, "A propos de la stratégie d'encaisse," 10.

liamentary Finance Committees had been clearly hostile to the Bank holding foreign exchange on which it could suffer further losses.[114] In his history of the Bank of France, Marcel Netter calls particular attention to American complaints that Bank of France dollar holdings were greater than the annuities France owed to the United States on war debts.[115] When the dollar strengthened at the end of December, the Bank began selling both dollars and sterling, and resumed dollar conversions at the FRBNY at a rate of $12.5 million per week. Sales of dollars in New York were accelerated in late February, and by 10 March $100 million had been converted directly to gold since 24 December, while $87 million had been sold on the market. Dollar holdings were down to $400 million, and sterling balances over the same period had been reduced from £61 to £30 million. French gold reserves had risen 10 billion francs.[116]

The Bank's weekly balances do not provide complete figures for this gold inflow, however. In February the Bank of France and Ministry of Finance agreed to set aside a part of the incoming gold in special accounts at the Caisse des dépôts et consignations and at a private bank in order to reduce the visible increase in French gold reserves and to provide the Bank with a reserve of gold out of public view,[117] a practice not uncommon among central banks.[118] The Bank was ill at ease with the practice, however, and it was discontinued when these reserves were exhausted during the monetary crisis of May 1935.

Sterling sales were suspended in the first week of March, at the request of the Bank of England,[119] and in late March when the dollar weakened, dollar sales were reduced. In mid-March, when Bank of France foreign exchange holdings fell below 13 billion francs, Governor Moret asked

[114] Thomas W. Lamont of J. P. Morgan and Co. reported from Paris that the Bank of France faced "irresistible political pressure gradually to withdraw its balances and gold from abroad." Cited in Chandler, *American Monetary Policy*, 172.

[115] Netter, *Banque de France*, ch. 4, 145–6.

[116] The figures are those given to the Council of Regents by Clément Moret, PV CG, 11 Feb. 1932 and 10 Mar. 1932.

[117] These begin to be reported in the deliberations of the Conseil général in early March; these show 2.5 billion being sequestered in these accounts in the spring of 1932.

[118] See the testimony of Banque nationale du Belgique Governor Louis Franck to the parliamentary commission investigating devaluation of the Belgian franc. Chambre des Représentants, *Commission d'enquête parlementaire de la dévaluation du franc* (Brussels: Goemaere, 1937).

[119] On Bank of England management of sterling at this time, before the creation of the Exchange Equalization Account, see Sayers, *Bank of England*, 2: 422–30, and Susan Howson, *Sterling's Managed Float: The Operations of the Exchange Equalization Account, 1932–39*, Princeton Studies in International Finance no. 46 (Princeton, N.J.: Princeton University Press, 1980), 7–9.

the Council of Regents to reflect on the Bank's foreign exchange policy, since it was estimated that a minimum of 7 billion francs in foreign exchange was necessary to keep the Bank's biannual dividends at 150 francs.[120] In late April the council decided to liquidate the Bank's dollar balances. The difficulty in selling dollars in New York produced an arrangement between the Bank of France and the FRBNY to convert $12.5 million to gold each week, leaving the timing of the conversions to Governor Harrison.[121] In both New York and London, declining interest rates and a reduced supply of bankers' acceptances were making the reinvestment of dollar and sterling balances difficult. The Bank of France was unable to place funds remuneratively in New York; in mid-April dollars had to be left in an account at the FRBNY that did not pay interest.[122] These difficulties fortified the regents' resolve to reduce foreign exchange holdings, accepting Moret's suggestion that dollar holdings be liquidated, regardless of the effect on the Bank's profits. According to Moret, this was "the only line of conduct appropriate for a monetary policy inspired by concern to maintain in all circumstances the normal operation of the gold standard."[123]

Moret envisaged a steady rate of conversions and market sales that would liquidate the dollar balances by the end of August. But in early June the dollar strengthened and the weekly rate of gold purchase at the FRBNY was doubled to $25 million, while dollar sales on the New York market were also increased. When these pushed the dollar below the gold export point and attracted public comment in the United States, a last $55 million was converted in one operation at Harrison's suggestion.[124] With this operation completed at the end of June, French gold reserves reached 82,317 million francs, and foreign exchange holdings were reduced to 6,045 million francs.[125]

Charles Kindleberger has described France's reaction to the losses on sterling as a conversion from acting as a "near-great" power accepting some responsibility for the impact of its actions on the international

[120] PV CG, 10 and 17 Mar. 1932.
[121] PV CG, 21 Apr. 1932, and Netter, *Banque de France*, ch. 4, 146.
[122] PV CG, 21 Apr. 1932.
[123] PV CG, 28 Apr. 1932.
[124] PV CG, 16 June 1932, and Netter, *Banque de France*, ch. 4, 146–7. Harrison had suggested that the operation be publicized to prevent market disorder, but Moret was opposed. The conversion shows up in two stages in the Bank's weekly balances, on 17 and 24 June 1932.
[125] This left the Bank with $30 million, of which $20 million was in an account at the Bank for International Settlements and $10 million in New York, mainly at the FRBNY.

monetary system to "cutting and running" in the manner of a small country in order to avoid losses on its dollar holdings.[126] This change in behavior did not reflect a great change in attitude; French thinking on gold and foreign exchange policy appears to have already been that of a "small country" in the sense Kindleberger describes, focusing narrowly on its own interests because unable to exert controlling influence internationally. The conversion of dollar and sterling holdings after sterling went off gold was the same protective reflex that had kept France from initiating positive action to deflect the gold inflows of the preceding three years. Foreign exchange holdings had been maintained until that time by a combination of concern for the stability of the international monetary system, fear of international criticism, and the desire to profit from short-term investment of foreign exchange holdings. France was less concerned with the influence of its actions on the international monetary system than with the potential for hostile world opinion to limit its freedom of action.

The reason for this, however, was not disregard for the stability of the international system, but rather belief in a self-regulating gold standard in which national interests would be harmonized if all countries played by the rules. This belief required a degree of willful ignorance of the problems generated abroad by gold withdrawals and the conversion of foreign exchange holdings. According to Moret, the conversion of more than $500 million into gold in the first half of 1932 was accomplished "without conflicting at any moment with American opinion."[127] This shaded the truth; for reasons of prestige, the FRBNY would refuse the Bank of France requests to convert dollars only in extreme circumstances. French behavior was based on a belief in an idealized international monetary system that did not exist.

When French gold reserves stabilized at more than 82 billion francs in mid-1932, the Bank of France was committed more firmly than ever to a freely operating gold bullion standard. The depreciation of sterling, the recent pressures on the dollar, and the strength of the franc all confirmed the value of adherence to the gold standard as superior to attempting to "manage" a currency. In his annual report to Bank of France shareholders in January 1933, Governor Clément Moret reaffirmed:

[126] Charles P. Kindleberger, "The International Monetary Politics of a Near-Great Power: Two French Episodes, 1926–1936 and 1960–1970," in *Keynesianism vs. Monetarism and Other Essays in Financial History* (London: Allen & Unwin, 1985), 122–3.

[127] PV CG, 16 June 1932. See the letters exchanged between Moret and Harrison, Moret to Harrison, 9 Mar. 1932, and Harrison to Moret, 9 Apr. 1932, MF B 21848.

In the work of recovery, in which the entire nation is duty bound to assist, the role of the Bank is traced in advance by a long tradition of service to the public welfare. To the illusions of a factitious prosperity, it prefers the reality of an equilibrium to which France, more than any other country, may hope to aspire. To the artifices which bring only temporary relief, it intends to oppose the truths which experience has verified.'[128]

In much the same way, French attitudes toward international co-operation to bring recovery from the slump would combine national self-interest with an idealistic view of a world that would recover of its own accord if only governments forsook intervention and allowed the unfettered play of market forces. French preparation for and performance at the World Economic Conference would reflect this belief, as would French leadership of the gold bloc when the monetary stabilization the French desired proved unattainable on a larger scale.

[128] *Annual Report, 1932*, 13.

3. The World Economic Conference and the gold bloc

In 1931 the French bluntly rejected British suggestions of an international conference to coordinate efforts to combat the world depression. In 1933 France played a central role in both the organization and the failure of the World Economic Conference in London. French participation came about after dramatic changes in the world economy and international politics following the financial crises of 1931. The French opposition to an international economic conference in 1931 was based on fears of isolation and international pressures to redistribute gold reserves and concern that Germany would exploit such a forum to repudiate reparations. This genre of international cooperation held little attraction for the French.[1]

By mid-1932 the French had less to fear from an international conference. The Gold Delegation's *Final Report* described uneven gold distribution as an "intermediate stage . . . which had its roots in war and inflationary disturbances of the economic system," rather than a result of deliberate French policy and a cause of the crisis.[2] Britain was less interested in a redistribution of gold reserves once the pound had gone off gold. The Lausanne conference in June 1932 effectively ended

[1] Jacques Reuff was particularly emphatic in rejecting such cooperation in "Sur les causes et les enseignements de la crise financière anglaise," 1 Oct. 1931, 299–320. Of recent plans for international financial cooperation Rueff commented: "They are a marvelous instrument for transferring the financial difficulties of those states which have caused them to those who have been wise enough or prudent enough to have avoided them. This, moreover, is the basic sense and the true object of all efforts to achieve international solidarity, a solidarity which is always invoked when one wishes to profit from the prosperity of one's neighbors, but never when one can come to their assistance" (319).

[2] League of Nations, *Report of the Gold Delegation of the Finance Committee* (Geneva, 1932), 23. The disintegration of the gold standard was credited to economic instability, and a prompt return to gold was recommended as of "vital importance," since gold remained the "best available monetary mechanism" (23–4). The measures proposed to assist restoration of the gold standard did not include a redistribution of gold reserves. Notes of dissent by Albert Janssen, Sir Reginald Mant, Sir Henry Strakosch, and Gustav Cassel objected to the report's analysis of the causes of the gold standard's breakdown, its views on the purposes and efficacy of monetary policy, and the remedies it proposed for the crisis (61–75).

German reparations. The French remained suspicious of international economic cooperation, however. Pressure for a redistribution of gold reserves was still possible, and French understanding of the crisis allowed little opportunity for an international solution to the depression because remedies lay primarily in the realm of domestic policy. This combination of skepticism and suspicion marked French preparation for the World Economic Conference.

The conference's origins lay in the financial crises of 1931, which made it clear that an end to the depression was both more distant and more difficult than had been apparent.[3] In June 1931 President Herbert Hoover proposed a one-year moratorium on reparation and commercial debt payments and obtained grudging French acceptance.[4] By the end of 1931 it was obvious that Germany would be unable to resume payments in 1932, and an international conference was called to deal with reparations and the "economic and financial difficulties which are responsible for, and may prolong, the present crisis." At the suggestion of the British, the reparations problem was dealt with at Lausanne, and the broader economic difficulties were left for a later conference, which the United States agreed to join provided that there was no discussion of reparations, war debts, disarmament, or tariffs.[5]

This chapter seeks to show how French policy makers' practical decisions in international monetary relations were influenced by their understanding of the depression. The first section examines French preparation for the London conference. The official view of the depression allowed neither motive for nor means of stimulating recovery; there was little French initiative, because recovery was expected to come from abroad when the causes of the slump had been corrected, and until then, French policy makers viewed efforts at economic cooperation with suspicion. With the American dollar's departure from gold in April 1933, French complacency was shaken. It crumbled as the potential

[3] For a detailed account of the origins of the conference see James Ray Moore, "A History of the World Economic Conference, London, 1933" (Ph.D. diss., State University of New York at Stony Brook, 1971), ch. 1, and Drummond, *The Floating Pound*, 120–7.

[4] Hopes that the moratorium would provide a favorable psychological shock were thwarted by the French delay in approving the moratorium. For contemporary accounts blaming the French for ruining a gesture that might have averted the crises in Germany and Britain, see Wheeler-Bennett, *The Wreck of Reparations*, 54–67, and Einzig, *Behind the Scenes*, 87–9. For a careful study of the crisis and the various national concerns, see Bennett, *Germany and the Diplomacy of the Financial Crisis, 1931*.

[5] Herriot to Germain-Martin, 3 June 1932, relating information gathered by Paul Claudel in a conversation with American Secretary of State Henry Stimson on 1 June 1932, MF B 32317.

consequences of a depreciation of the dollar became clear. The second section of the chapter follows the evolution of French policy as co-operation at the World Economic Conference became France's strongest card in trying to recover exchange-rate stability. The third section considers French behavior in London, where the failure to achieve a temporary stabilization of exchanges brought the collapse of the conference. The fourth section briefly treats the creation and maintenance of the gold bloc up to the devaluation of the Belgian franc in 1935.

Preparation for the World Economic Conference

The Lausanne convention proposed that a committee of experts be created to lay the groundwork for the World Economic Conference in order to maximize the results of the conference.[6] Particular importance was attached to ending exchange controls and currency instability and to increasing world trade.[7] The French committee members, appointed in September, were Charles Rist for financial matters and Jean Parmentier, honorary director of the Treasury, for economic matters.[8]

The first meeting of the Committee of Experts in Geneva from 31 October to 9 November accomplished little beyond staking out national positions. The financial committee divided between countries on and off the gold standard, leaving Britain rather than France in isolation. John Henry Williams, the American financial representative, supported the European view that sterling's return to the gold standard was necessary before progress on economic matters would be possible. The British delegates, Sir Frederick Leith-Ross and Frederick Phillips, depicted the gold countries' position as follows:

[6] The Committee of Experts was divided into economic and financial subsections. Germany, Belgium, France, Britain, Italy, and Japan each appointed one financial and one economic expert. American representatives were invited, the League of Nations appointed three financial and three economic experts, and the Bank for International Settlements nominated two financial experts.

[7] The Lausanne convention and its annexes are reproduced in Wheeler-Bennett, *Wreck of Reparations*, 259–71; on the World Economic and Financial Conference, 270–1. The most useful French memoir covering the Lausanne convention is Edouard Herriot's *Jadis* (Paris: Flammarion, 1948), 2: 307–49. There is a brief account in Jean-Baptiste Duroselle, *La Décadence, 1932–1939* (Paris: Imprimerie nationale, 1979), 32–6.

[8] Paul Elbel, director of commercial accords at the Ministry of Commerce and Industry, was appointed to assist Parmentier. See letters dated 27 Sept. 1932, MF B 32317. By this time most other delegates had been appointed. The British Embassy in Paris had asked more than two months earlier to be apprised of the identity of the French experts "as soon as possible." British embassy to MAE, 23 July 1932, MF B 32317.

The worst developments of the existing obstacles to world trade, whether they take the form of excessive tariff barriers, quota systems, exchange controls, clearing arrangements, &c., are subsequent in date to Great Britain's departure from the gold standard and in very large measure the direct consequences of a fluctuating sterling exchange. For these countries the one essential preliminary to recovery is the return of Great Britain to the gold standard.... They are entirely sceptical of monetary policy having any effect on prices.[9]

But the British would not return to gold without economic improvements to ensure monetary stability. A premature return would threaten the cheap money policy inaugurated in 1932. They stressed falling prices as the origin of international financial and economic troubles, as well as the need for a higher world price level and a recovery in world trade as prerequisites for monetary stabilization. To accomplish these goals, political, economic, and monetary reforms would be necessary. The monetary reforms included cheap money policies in creditor countries and positive actions by countries with large gold reserves to ensure that these would have their "normal effects," raising domestic prices.[10]

The French experts found the British remedies "vain and theoretical," and the British position "more and more turned in upon itself." The key issue was not world prices, but the restoration of confidence. The experts suggested that France revive an earlier plan for a common fund to assist central banks in ending exchange controls,[11] reaffirm willingness to lower trade barriers, and agree to an optional reduction in legal gold cover percentages. These were palliatives. Criticism of French policy

9 Leith-Ross and Phillips, "Report on the Work of the Preparatory Committee for the World Economic Conference," 10 Nov. 1932, CAB 58/183.

10 Ibid. On the evolution of the British position on sterling and the gold standard after sterling went off gold, with priority given to the maintenance of cheap money, see Howson, *Domestic Monetary Management in Britain*, 79–95, 173–9; Howson and Winch, *The Economic Advisory Council*, 100–21, 254–63; and Drummond, *The Floating Pound*, 127–37.

11 Note by Rist, Parmentier, and Elbel, 15 Nov. 1932, MF B 32317. The common-fund idea had been proposed by the French at international conferences in Geneva, Lausanne, and Stresa; it aimed at having governments rather than central banks provide credits, which would be administered by the Bank for International Settlements, in order to assist countries in returning to the gold standard or suppressing exchange controls. The fullest expression of the common-fund idea is in "Note au sujet de la constitution d'un fonds destiné à faciliter l'abolition des restrictions de change," 10 Oct. 1932, MF B 32318. The British had never shown any enthusiasm for the idea; they ignored the proposal at Stresa and, when it was brought up again in Geneva, dismissed it as a "small scheme for helping the Central Banks of countries in Eastern Europe by small loans – a pill to cure an earthquake." "Report on the Second Meeting of the Preparatory Committee," 23 Jan. 1933, CAB 58/183.

made a positive effort necessary, but the French had nothing of substance to propose.[12]

When the French experts met with Ministry of Finance officials in January, they saw France's role determined by two factors. First, the stability of the franc meant that "from a monetary point of view, France has no demand to formulate." Second, France was interested in any and all measures to restore currency stability and end exchange controls. The main concern was to defend French gold policy, on which criticism had been weaker than anticipated, and to defend the tariffs and import quotas with which France had countered currency depreciations abroad. Treasury director Jean-Jacques Bizot recommended avoiding any questions directed too narrowly at specific countries, such as the redistribution of gold reserves.[13]

The Committee of Experts kept clear of such questions when they met from 9 to 20 January to set the agenda for the conference. They built on the common ground between participants and avoided the controversial issues of the November meeting. The most immediate question, war debt payments, remained outside their terms of reference, but could not be ignored. The American representatives were sympathetic to the need for a war debt settlement, but could only guess that the Roosevelt administration's policy would follow lines "somewhat similar" to Hoover's.[14] The agenda referred to intergovernmental indebtedness as an "insuperable barrier to economic and financial reconstruction" that required settlement if progress was to be achieved on economic problems.[15]

The principal problems defined by the agenda were the restoration of an "effective monetary standard to which the countries which have abandoned the gold standard can easily adhere," an increase in world prices, the abolition of exchange controls, and the gradual elimination of barriers to international trade.[16] Countries disagreed over priorities. An early draft of the agenda put increased freedom of trade, an end to exchange controls, and free capital movements before the stabilization of currencies. But following rumors in the American press that tariff

[12] Note by Rist, Parmentier, and Elbel, 15 Nov. 1933, MF B 32317.

[13] See "Note des experts," 29 Dec. 1932, reprinted in Ministère des affaires étrangères, *Documents diplomatiques français, 1932–1939*, 1st ser., II: no. 143, 328–30, and "Compte rendu," 5 Jan. 1933, *DDF*, 1st ser., II: no. 163, 359–61.

[14] Leith-Ross and Phillips, "Report on the Second Meeting of the Preparatory Committee for the World Economic Conference," 23 Jan. 1933, CAB 58/183.

[15] League of Nations, *Monetary and Economic Conference Draft Annotated Agenda* (Geneva, C.48.M.18, 1933), 7.

[16] Ibid., 7–9.

reform had taken priority over restoration of the gold standard, the original order suggested at Lausanne was restored. This prompted the British to add a disclaimer that "no particular importance" should be attached to the order in which problems were set out, given the interconnectedness of financial and economic problems and the need for a comprehensive solution.[17]

The program was thus a compromise. The long series of appended annotations, as Ian Drummond has pointed out, "enshrined the [British] Treasury list of preconditions for the restoration of the gold standard."[18] It recommended free movement of capital and foreign exchange, balanced budgets, the independence of central banks from political influence, lower gold reserve ratios, and continued use of the gold exchange standard. Monetary stabilizations were to provide for a more balanced distribution of reserves and improved cooperation between central banks was to check "undue fluctuations in the purchasing power of gold." (This phrase came from the resolutions of the Genoa conference; its recurrence reflects the degree of compromise between French and British views.) Leith-Ross and Phillips reported that these conditions were "sufficiently sweeping to rule completely out of the picture any return to an unreformed gold standard or any return to an unsuitable rate of exchange."[19] The annotations also recommended low interest rates to encourage price increases, the adoption of liberal credit policies, and the use of open market operations by gold standard countries. They advocated the abolition of exchange controls, the settlement of international indebtedness, encouragement for international lending, and the creation of credit institutions to facilitate monetary stabilizations.

J. R. Moore has termed the agenda an "eclectic list of possibilities," acceptable because it resolved nothing, avoiding procedural questions and specific proposals.[20] Given the differing views on the depression presented in November, any acceptable compromise had to evade, rather than resolve, differences. Representatives left Geneva optimistic that progress had been made. The British considered the prospects for progress "distinctly more hopeful than they seemed last November."[21]

[17] "Report on the Second Meeting," 23 Jan. 1933, CAB 58/183. The first draft had been written by Leith-Ross and approved by Charles Rist and Day. Lack of support in the face of American pressures had caused the abandonment of this "more logical sequence which we would have preferred."

[18] Drummond, *The Floating Pound*, 137.

[19] "Report of the Second Meeting," 23 Jan. 1933, CAB 58/183.

[20] Moore, "World Economic Conference," 71.

[21] "Report on the Second Meeting," 23 Jan. 1933, CAB 53/183.

The French were pleased for different reasons. They noted Britain's isolation on gold policy, with sterling's return to gold having taken on the character of an Anglo-American duel in which France could play the part of mediator.[22] France could benefit from both sides in an Anglo-American trade-off of the settlement of war debts for stabilization of the pound. When the United States and Germany pressed for a de facto stabilization of sterling, France supported Britain in rejecting any public commitment to hold nongold currencies between fixed points and in avoiding reference to de facto stabilization in the agenda.[23]

French fears of isolation over gold redistribution were thus allayed. Although British views dominated the agenda and its annotations,[24] the agenda did not threaten French gold policy, credit policy, or tariff protection. While it recommended reflationary credit measures, the French experts remarked with satisfaction that a resolution put forward by Sir Cecil Kisch (secretary in the Financial Department of the India Office) on central bank independence proposed that "Governments in their economic and financial policy should avoid increasing the difficulties of Central Banks in the discharge of their responsibility."[25] Since any inflation would render maintenance of the gold standard more difficult, this resolution could deflect pressure for credit expansion in France. "Perhaps this is not exactly what Sir Cecil Kisch had in mind when he put forward his resolution," the French experts noted, "but it is in any case the most natural meaning to be drawn from it."[26]

Charles Rist had told the Committee of Experts in January that it would be difficult for any French government to take a firm position until the

[22] "Note des experts," n.d., covering the duration of meetings from 9 to 20 Jan. 1933, MF B 32317. This note is reproduced as an appendix to "Note de la sous-direction des relations commerciales," 11 Mar. 1933, *DDF*, 1st ser., II: no. 397, 792–4.

[23] "Report on the Second Meeting," 23 Jan. 1933, CAB 53/183, and "Note des experts," MF B 32317. The position of mediator was largely pretense. In the conflict between British desire for a return to gold as the final stage following economic reforms and American desire to take economic and monetary measures simultaneously, the French agreed with the Americans. But despite their conviction on the need for sterling's return to gold, they considered the timing and conditions of return to be a matter to be decided by the British government. Ibid., also in *DDF*, 1st ser., II: 793.

[24] Drummond, *The Floating Pound*, 137, and Moore, "World Economic Conference," 41, 74. Moore complains that the British dominated the preparations and that British policy "simply lacked international relevance," seeking selfishly to restore British prosperity (55); the explanations of British policy by Drummond and by Howson and Winch (see note 10) are much more accurate.

[25] League of Nations, *Agenda*, 15.

[26] "Note des experts," MF B 32317; and *DDF*, 1st ser., II: no. 397, 793.

agenda was completed.[27] With the agenda now in hand, the French could begin serious planning for the conference. J. R. Moore has claimed that "France neglected specific planning altogether." French policy was dominated by "an over-riding concern to defend domestic prosperity," which produced "smug, protective nationalism" rather than a program for recovery.[28] Although French behavior lends itself easily to such an interpretation, this characterization misses two important aspects of French policy making.

First, the French believed that the economic and monetary reforms needed to bring recovery were essentially national in character. International cooperation could facilitate monetary stabilizations, controls on the production of goods, and the reduction of trade barriers, but the essential problems were the abuse of credit, unbalanced budgets, and perversion of the gold standard, all of which required national solutions. Second, French governments were increasingly preoccupied with the depression in France and the need to balance the French budget. The governments of Edouard Herriot (3 June to 14 December 1932) and Joseph Paul-Boncour (18 December to 28 January 1933) both fell on financial issues.[29] The bulk of French planning for the World Economic Conference was accomplished under a Daladier government absorbed in preparation of the 1933 budget. Despite a nine-month term and exceptional receipts available only in 1932, the budget finished 4.5 billion francs in deficit. The 1933 budget should have been voted by 1 January, but became tangled in disputes over fiscal reform and deflation. It did not receive parliamentary approval until 1 June, with an estimated deficit of 4.5 billion francs, which no one believed accurate (it proved to be 11.5 billion francs).[30]

Rather than demonstrating "smug, protective nationalism," French policy makers were nervous and defensive in their preparation for the London conference. They were less assured, less coherent, and less narrowly selfish than Moore allows. With little hope for positive results from international cooperation, French policy makers put little effort into their preparations until the devaluation of the American dollar destroyed their complacency. The result was a sudden French initiative

[27] Rist's opening speech to the committee is summarized in "Report on the Second Meeting," 23 Jan. 1933, CAB 58/183.

[28] Moore, "World Economic Conference," 60–1.

[29] See Jackson, *Politics of Depression*, 57–65, and Serge Berstein, *Edouard Herriot ou la République en personne* (Paris: Presses de la Fondation nationales des sciences politiques, 1985), 192–4.

[30] Budget policy and fiscal reform are discussed in Chapter 5.

to restore exchange-rate stability, the rock on which the conference foundered.

The distance between French and British views on the crisis is obvious in the French Ministry of Finance's review of the agenda. The French agreed in principle on the need for "economic disarmament," continued use of the gold exchange standard (in countries other than France), closer central bank cooperation, and lower interest rates. They were wary of any redistribution of gold[31] and of plans to raise world prices by stimulating demand.[32] Preparation for the conference needed to focus on two tasks:

1. To prepare arguments in order to defend ourselves against any attempt to gain an *artificial* redistribution of gold.
2. To determine in what measure we can collaborate in a policy of cheap money and in the lowering of customs barriers.[33]

On the first point, the Ministry of Finance echoed Bank of France views that France had done nothing to attract gold, and would not interfere with its natural redistribution. Natural redistribution required improvement in conditions abroad rather than measures to reduce French interest rates or worsen the French trade balance. "If France is ready to collaborate on the same footing as the other countries in a policy of tariff reduction and cheap money, there is no reason to demand of her an exceptional effort."[34]

On cheap money and tariff reductions, the French found little to offer. Tariffs were the only question that could become the object of a general accord, and if the United States were to settle war debts and Britain to stabilize the pound, France would have to do its share by

[31] "Observations sur les recommendations des Experts de Genève," 23 Feb. 1933, MF B 32317.

[32] "Such demand is desirable only if it has a healthy basis, that is, if it is based on real needs likely to be sustained, and not on an artificially induced consumption." Note of 27 Feb. 1933, MF B 32317.

[33] "Note sur la situation de la France à la Conférence economique mondiale," 1 Mar. 1933, MF B 32317. The "artificial" was penned in after the note was typed.

[34] The quote is from "Note sur la position de la France," 1 Mar. 1933. Margin comments show that some readers in the French Treasury recognized that this failed to address the arguments for action put forward in the agenda. See also "Note sur le projet d'ordre du jour établie par la commission préparatoire des experts," 1 Mar. 1933, MF B 32317. The Bank of France summarized various notes from 1932 to justify the continued growth of French gold reserves and the liquidation of the Bank's foreign exchange holdings in "L'Afflux de l'or en France et sa prétendue 'stérilisation' sur le marché de Paris," 13 Feb. 1933, MF B 32318. (On the previous Bank of France explanations of its gold policy, see Chapter 2.)

making tariff concessions.[35] An official committee on France's position at the conference discussed the problem on 7 April. The members maintained that French tariffs offered only minimal protection, particularly to agriculture. Various means were discussed of raising tariffs before the conference in order to allow concessions in London, but all the suggestions raised were unsuitable owing to time constraints or the likelihood of reprisals.[36]

A policy of cheap money was acknowledged to be desirable, but was declared impossible in France because of the weak state of the budget. In order to avoid criticism at the conference, it was necessary to balance the budget and reduce the nation's floating debt.[37] The suggestion that open market operations be used to foster a liberal credit policy received a cold response. The French would have preferred to see them condemned, but admitted this hope was vain.[38]

The Bank of France found the agenda less congenial. In a long letter to Bonnet, Governor Clément Moret characterized the agenda as dominated by the double postulate that a rise in world prices was necessary

[35] "Note sur la situation de la France," 1 Mar. 1933, MF B 32317. On French use of tariffs and import quotas in this period see Frank Arnold Haight, *French Import Quotas; A New Instrument of Commercial Policy* (London: King, 1935), and Haight, *A History of French Commercial Policies* (New York: Macmillan, 1941), 141–79. On French protectionism in the 1920s, see Pierre Guillen, "La Politique douanière de la France dans les années vingt," *Relations internationales* 16 (1978): 315–31.

[36] "Rapport," 8 Apr. 1933, MF B 32317. The tariff issue would remain sensitive; the French were unwilling to surrender tariff freedom, since it was their main defense against currency depreciations. Although the conference would produce no tariff agreement, a tariff truce with extensive French reservations was negotiated to last for the duration of the conference. (*DDF*, 1st ser., III; see the exchanges between Edouard Herriot in Washington and Joseph Paul-Boncour, 19 to 28 Apr. 1933, and between Fleuriau, the French ambassador in London, and Paul-Boncour, 29 Apr. 1933 to 15 May 1933.) The French considered denouncing the truce shortly after the conference opened (MAE, Y Internationale 75; Coulondre to Paul-Boncour, 25 June 1933; this was due to concerns for French agricultural prices) and again in mid-August, when the suspension of the conference had left the tariff truce in effect indefinitely. On 14 Aug., telegrams were sent to the French ambassadors in London, Berlin, Brussels, and Rome, asking that they learn government intentions with regard to the truce, "in abstaining for the moment from making known our own intentions." The French were seriously considering giving their required one month's notice of withdrawal from the truce at the end of August and seem to have been dissuaded when responses received on 18, 19, and 21 Aug. showed that no other country was ready to denounce the truce (see the telegrams in MAE, Y Internationale 76). They finally withdrew in October; MAE to Massigli (in Geneva), 12 Oct. 1933, and Massigli to MAE, 16 Oct. 1933, in MAE, Y Internationale 76.

[37] Note of 1 Mar. 1933, MF B 32317.

[38] "Note sur le projet d'ordre de jour," 1 Mar. 1933, MF B 32317.

and that monetary policy could contribute to this rise; he disagreed with both.[39] The advocacy of cheap money and open market operations seemed to contradict claims elsewhere in the agenda that credit was abundant. Credit remained unused owing to a lack of confidence. In France a liberal credit policy from 1928 to 1932, with discount rates consistently lower than those in London and New York, had neither averted depression nor prevented a 37% fall in wholesale prices (which had been pulled down by the drop in world prices; retail prices in France had begun falling only in 1931). Similarly, in the United States credit expansion from 1924 to 1929 had not prevented falling prices, and open market purchases in 1932 had increased bank reserves and public hoarding without raising prices.[40]

Moret's most serious complaint concerned the object of monetary policy. Whereas the agenda encouraged monetary measures to raise prices and sought a restored gold standard, which would provide greater price stability, he saw monetary stabilization as the essential first step toward recovery and price fluctuations as the mechanism necessary to maintain equilibrium between supply and demand:

> In effect, nothing seems to me more contrary to the idea of progress than the arbitrary and prolonged stabilization of the level of prices. . . . The role of a bank of issue seems to me in no way to be to "guarantee price stability," which is hardly desirable, and impossible to achieve, but rather to maintain monetary stability, without which there can be neither planning nor security, and as a result, neither a spirit of enterprise nor the possibility of saving.[41]

Moret attacked the gold exchange standard in the same vein. Even with greater centralization and control, it led inevitably to artificial credit

[39] Clément Moret to Georges Bonnet, 8 Apr. 1933, MF B 32318. The Bank did not like international conferences. F. R. Rodd had reported with regard to the World Economic Conference: "The Bank of France hopes it will be the last. They have no intention of sending anybody themselves unless they are forced to." Rodd, "Notes on a Conversation with Farnier and Ricard," 8 Sept. 1932, BoE OV45/83.

[40] Moret to Bonnet, 8 Apr. 1933, MF B 32318. The conference agenda claimed that these open market purchases had arrested the monetary contraction in the United States. From April to August 1932, the Federal Reserve System had made 1 billion dollars in open market purchases; these were offset by an outflow of $500 million in gold, largely to France, and by a decline in the deposit/reserve ratio. Like the Bank of France, some Federal Reserve authorities believed this merely created excess reserves. Friedman and Schwartz see it as prudent action taken by the reserve banks, for which "neither legal reserves nor the presumed availability of a 'lender of the last resort' was of much avail in time of trouble." Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton, N.J.: Princeton University Press, 1963), 348. For their account of the open market operations, see 322–4, 347–9, 384–9.

[41] Moret to Bonnet, 8 Apr. 1933, MF B 32318.

creation.[42] Moret's views were thus more rigid than those of the Ministry of Finance, which was willing to concede continued existence of the gold exchange standard.[43]

On other issues, Moret agreed with the experts while depriving their suggestions of practical power. Surprisingly, he gave qualified endorsement to open market operations, but he rejected their use in France as illegal and of no practical value. He allowed that reserve ratios could be lowered, but only provided that this did not lead to an artificial expansion of credit. He approved central bank cooperation in principle, while insisting that "the policy of a bank of issue, guardian of monetary stability, must be determined by the needs of the domestic market." Finally, he specified that gold reserves should not be used in foreign loans or credits. "It is now, more than ever, indispensable that the gold reserves of the Bank must be used exclusively for the defense of the French currency."[44] Thus, each concession to the idea of cooperation was allowed no practical effect.

In early March Neville Chamberlain, chancellor of the exchequer, invited Georges Bonnet to London to discuss issues that would be raised at the World Economic Conference. In its brief for Bonnet, the Ministry of Finance was still vague about its plans for the conference, more curious as to British views than definite on French policy. In the United States, President Roosevelt had just taken office and declared a bank holiday to deal with the banking crisis. The French hoped that uncertainty with regard to the dollar would lead the British to abandon their advocacy of monetary action to raise prices.[45]

On 17 March Bonnet and Chamberlain quickly agreed on the need for a general increase in prices, closer central bank cooperation, the unworkability of Keynes's public works schemes,[46] and the need for a

[42] Ibid. "I can't help but be surprised that after the depreciation of sterling, and immediately after the American crisis, the dangers of this system are not universally recognized."

[43] "Observations sur les recommendations des Experts," MF B 32317.

[44] Moret to Bonnet, 8 Apr. 1933, MF B 32318.

[45] Note of 15 Mar. 1933, MF B 32317.

[46] Keynes's *The Means to Prosperity* (London: Macmillan Press, 1933) had just appeared in article form in the *Times*, 13 to 16 Mar. 1933. Keynes had long been urging large-scale public works spending, financed by borrowing, to increase employment and stimulate demand. In *The Means to Prosperity* he argued multiplier effects for the spending and also suggested the creation of an international authority that would issue gold notes to central banks to reflate money supplies and raise world prices. Chamberlain's claims of the impracticality of Keynes's plans came after having written to Keynes the previous day expressing interest in his *Times* articles, arranging to meet

war debt settlement. Bonnet was eager to support British views; regarding open market operations the British recorded that he "was anxious to find means to allow the Bank of France to associate itself with the action of other central banks on agreed principles." But this ready accord was on questions of secondary importance. The principal question was sterling policy. When Bonnet asked what Britain would do if the dollar went off gold, Chamberlain replied that this was unlikely and gave no commitment on sterling policy in the immediate future.[47] Bonnet nevertheless left London believing British and French views on the monetary aspects of the crisis were very close.[48]

The two treasuries went to some pains to ensure that their meeting would not arouse American suspicions of Franco-British collusion on war debts.[49] Roosevelt had seemed accommodating so far; in January he told French Ambassador Paul Claudel that he did not consider

and discuss them with him after his sessions with Bonnet. See Chamberlain to Keynes, 16 Mar. 1933, in Moggridge, ed., *JMK*, 21: 168. Peter Clarke provides a compelling account of the development of Keynes's thought in *The Keynesian Revolution in the Making, 1924–1936* (Oxford: Clarendon Press, 1988); on *The Means to Prosperity* and British reactions to it, see 288–96.

For a French criticism of *The Means to Prosperity* representative of official views on the crisis, see Pierre-Etienne Flandin, "Le Plan de M. Keynes pour rétablir la prospérité," *Revue politique et parlementaire*, no. 463 (June 1933): 441–50. Flandin found Keynes's arguments seductive but flawed. He did not believe governments could borrow cheaply for public works spending, and such work would either be unproductive (otherwise it would have been undertaken by the private sector), or else it would reduce prices, the opposite of Keynes's goal. As to an international authority issuing gold notes, Flandin thought such notes would be used by debtor nations to pay creditors, causing inflation and currency depreciation in creditor countries and thus functioning entirely to the benefit of debtors: "It is impossible to imagine a more injust, immoral system." This sort of piecemeal contradiction would later be typical of orthodox responses to arguments for devaluation. See also Flandin's attack on *The Means to Prosperity* titled "Le Rétablissement de l'étalon-or," n.d., in BN, Fonds Flandin, carton 61.

47 Accounts of the conversations can be found in "Notes of Meetings Held in the Board Room, Treasury, on Friday, March 17, 1933," FO 371/17304; and from the French side in *DDF*, 1st ser., III: no. 1, "Comptes rendus: Entretiens franco-britanniques du vendredi 17 mars 1933," 1–15. See also Drummond, *The Floating Pound*, 141–2.

48 This misunderstanding caused Bonnet major disappointment when Britain refused to join a declaration on the importance of exchange-rate stabilization at the London conference. In his memoirs Bonnet claimed: "We were fully in accord, my interlocutors and myself, on the need to reestablish the stability of the principal currencies. They consented all the more willingly because the economic crisis had now been overcome and the pound sterling experienced only feeble fluctuations in value." *Vingt ans de vie politique, 1918–1938: De Clemenceau à Daladier* (Paris: Fayard, 1969), 162.

49 See Rueff's account of Leith-Ross's concerns on this point in Rueff to Bonnet, 7 Mar. 1933, MF B 32317.

France to be in default on its payments and talked of reaching a modus vivendi before the next installment fell due in June.[50] He planned top-level talks with the French and British on war debts, but these were delayed by the banking crisis he faced upon taking office. By the time Roosevelt sent invitations in late March, his attention had shifted to the economic problems facing the World Economic Conference.[51]

Roosevelt suggested that Edouard Herriot lead the French delegation to Washington[52] and that the talks cover changes in the gold standard, central bank cooperation, concerted open market operations, public works, and the suppression of trade barriers.[53] The French were not enthusiastic. Discussion of war debts had vanished, and the monetary proposals were obscure. Emmanuel Mönick, the financial attaché in New York, cautioned that the Bank of France should not be represented in order to avoid discussion of gold and to leave French policy unrestricted for the London conference.[54]

The Ministry of Finance's notes for the Herriot mission repeated the same arguments that French policy had done its best to promote recovery and had reacted with moderation to disturbances abroad. France had lent more than 10 billion francs to assist the countries hardest hit by the slump and had maintained liberal credit policies at home. The Bank of France had done nothing to attract gold or interfere with its re-export. Tariffs were necessary to defend France against dumping and monetary depreciations. Even the budget deficit was presented as an act of virtue, the claim being made that "for as long as was possible, the French government delayed measures of budgetary deflation that would have accentuated the business depression."[55] No positive measures were proposed and no effort made at increased cooperation.

[50] *DDF*, 1st ser., II: no. 185, Claudel to Paul-Boncour, 11 Jan. 1933, 414–17.

[51] *DDF*, 1st ser., III: no. 54, Claudel to Paul-Boncour, 27 Mar. 1933, 94. On Roosevelt's policy during this period see Robert Dallek, *Franklin D. Roosevelt and American Foreign Policy, 1932–1945* (Oxford University Press, 1979), 31–7.

[52] Herriot's government had fallen in December 1932 in seeking parliamentary authorization to make the 15 Dec. war debt payment to the United States. Herriot was now president of the Chamber of Deputies' Foreign Affairs Committee.

[53] *DDF*, 1st ser., III: no. 86, Claudel to Paul-Boncour, 5 Apr. 1933, 148–9, and no. 106, Jules Henry to Paul-Boncour, 8 Apr. 1933, 192–4.

[54] "Observations sur le programme monétaire et financière soumis par le gouvernement des Etats-Unis," 10 Apr. 1933; and note on conversation with Mönick, 10 Apr. 1933, MF B 32317.

[55] See "Note sur l'attitude de la France au regard de la crise mondiale," 11 Apr. 1933; revised as "Eléments relatifs à la politique financière de la France au regard de la crise mondiale," 13 Apr. 1933, MF B 32317. The first version of this note concluded in threatening: "France thus finds herself nearly at the end of the effort she has exerted in isolation to battle the crisis, and if a general rise in the level of prices is not achieved

Two days after Herriot left France aboard the *Ile de France*, the United States suspended the gold standard. Roosevelt's acceptance of the Thomas Amendment to the Agricultural Adjustment Act empowered him to reduce the gold value of the dollar by up to 50%.[56] Until then, France had hoped to take advantage of the conflict between Britain and the United States over war debts and stabilization of the pound in order to avoid pressure for changes in French policy. With the dollar off gold, France could be isolated on gold while the United States and Britain engaged in competitive currency depreciation. Realizing the extent to which this altered France's position took several weeks. In the meantime, in a statement reflecting the centrality of monetary orthodoxy to France's position, Herriot told reporters on the *Ile de France*, "I am going to Washington to represent the franc."[57]

The quest for monetary stabilization

In Paris the Ministry of Finance recognized that the U.S. decision to go off gold had been taken to satisfy domestic demands for inflation and to disarm protest against deflation. The immediate effects were expected to be slight, although in the longer run monetary depreciations could make French industry and commerce even less competitive. Protection would have to be maintained, and perhaps increased, when the World Economic Conference sought to reduce trade barriers. The need for an international monetary accord was greater than ever, for tariff concessions would be possible only if French goods were competitive, and this depended on exchange rates.[58]

Herriot was optimistic that the chaos he found in Washington could lead to a sterling–dollar stabilization.[59] But American policy was too

by a concerted effort, she must resign herself to adapting to current conditions by giving free rein to the forces of deflation which have been painfully contained until now." The revised note laid more stress on the scale of French lending and the moderation of French policy and concluded more positively that France was "directly interested in a recovery of economic and financial activity in the context of a general agreement."

[56] This was an amendment by Elmer Thomas, a leading inflationist, authorizing Roosevelt to devalue the dollar by 50%, issue greenbacks, and remonetize silver. Roosevelt accepted it as a permissive inflationary measure in order to forestall the passage of measures that would require inflation.

[57] *La République*, 23 Apr. 1933.

[58] "Note pour le ministre," n.d. but obviously during the week after 19 Apr. 1933, MF 1 A 401.

[59] *DDF*, 1st ser., III, no. 173, Herriot to Paul-Boncour, n.d., 300–1.

disordered to permit stabilization,[60] and the Washington talks gained little ground. They focused on monetary stability, war debts, and a tariff truce. Discussions to settle war debts came to nothing.[61] On a tariff truce, which the Americans had hoped could be declared effective 1 May for the duration of the London conference, the French were unwilling to surrender their freedom of action without assurances of dollar stability.[62]

With regard to monetary stabilization, Charles Rist presented the French case against letting the dollar seek its "natural equilibrium" and urged prompt legal stabilization. The Americans countered by asking whether France would participate in a common fund to stabilize the dollar and sterling. Herriot reported to Paris that for the present the Americans were unable to commit themselves on monetary policy but that to facilitate the work of the London conference they would try to maintain de facto stability. They proposed to do so with a tripartite defense fund in which the United States, Britain, and France would contribute equally and bear an equal share of any losses. A 15% devaluation of the dollar was envisaged.[63]

Herriot advised against a negative response to the proposal, suggesting that judgment be reserved. The Americans were pressing for quick acceptance lest the favor with which Roosevelt and his advisers viewed de facto stabilization be lost. The French objected to sharing exchange losses without foreknowledge of American economic policy; neither the Ministry of Finance nor the Bank of France saw any reason for France to contribute to such a fund, and they knew that a 15% depreciation was unacceptable to the British, who believed the dollar could easily be maintained at par.[64] While they desired a prompt

[60] The confusion over policy in Washington at this time is portrayed well by two of Roosevelt's advisers, Herbert Feis, in *1933: Characters in Crisis* (Boston: Little Brown, 1966), 108–31, 144–52, and James P. Warburg, in *The Long Road Home: The Autobiography of a Maverick* (Garden City, N.Y.: Doubleday, 1964), 112–22. Neither approved of Roosevelt's cavalier attitude toward monetary policy.

[61] Details in Emmanuel Mönick's dispatches to Paris, MF B 32317.

[62] *DDF*, 1st ser., III: nos. 186–90, 194, 195, 202, 210, 211, telegrams between Herriot and Paul-Boncour, 26 to 28 Apr. 1933, and no. 264, Paul-Boncour to Cambon, 11 May 1933; no. 273 Cambon to Paul-Boncour, 13 May 1933, and no. 277, Paul-Boncour to London and Washington, 15 May 1933.

[63] *DDF*, 1st ser., III: no. 187, Herriot to Paul-Boncour, 26 May 1933, 323–4, and no. 190, Herriot to Paul-Boncour, 26 Apr. 1933, 328. See also no. 186, Herriot to Paul-Boncour, 26 Apr. 1933, 321–2. Further details in the telegrams collected in MF B 32318. French analysis of the American scheme and its motives are presented in "Projet américain de fonds de stabilisation tripartite," 12 May 1933, MF B 32318.

[64] *DDF*, 1st ser., III: no. 190, Herriot to Paul-Boncour, 26 April 1933, 328, and no. 194, Herriot to Paul-Boncour, 27 April 1933, 332–3. Leith-Ross had told the French

sterling–dollar stabilization, exchange-rate policy was a domestic affair concerning the British and American governments. Herriot was instructed to suggest closer examination of the proposal without making any commitment.[65]

Herriot returned to Paris and met with Ministry of Finance officials and Governor Moret on 12 May. They agreed that monetary stabilization was essential if the London conference was to have any hope of success and that Paris must make this known in advance in Washington and London.[66] In early May William Bullitt, an assistant to the secretary of state, had told French Ambassador André Lefebvre de Laboulaye that the White House thought prospects for success in London were slight. The British trend toward autarky was disquieting, while the lack of French support for the common-fund proposal made monetary stabilization unlikely.[67] Bonnet suggested that Laboulaye make it clear in Washington that exchange-rate instability would prevent any real progress at the London conference. At the same time, Neville Chamberlain's claim in March that further talks would be useful if the dollar went off gold could allow the French to urge stabilization on Britain in order to avoid an aggravation of world monetary disorder "with all its possible economic and social consequences." Immediate conversations were essential to gain currency stability, without which the World Economic Conference would certainly fail.[68]

Foreign Minister Joseph Paul-Boncour duly dispatched notes to Washington and London. He wrote to Laboulaye:

> As President Herriot and M. Rist have indicated, we are convinced that the conference can have no useful result if it takes place amidst complete uncertainty as to the future of the dollar and the pound. This eventuality prompts the most serious concern on the part of the French government, which cannot see how

that if the dollar were stabilized below par, sterling would be depreciated proportionately.

[65] Ministry of Finance to Herriot, 28 Apr. 1933, and record of telephone call between Mönick and Bonnet, 29 Apr. 1933, MF B 32318. Jeannette P. Nichols gives a curious account of these talks in "Roosevelt's Monetary Diplomacy in 1933," *American Historical Review* 56 (Jan. 1951): 301–2, according to which French political paralysis and fear of inflation kept the French from accepting Roosevelt's offer, even though the United States "would even contribute money to support a joint fund for this purpose."

[66] "Conditions dans lesquelles la délégation française a pris position à Londres sur les questions monétaires," 30 Sept. 1933, MF B 32320.

[67] *DDF*, 1st ser., III: no. 262, Laboulaye to Paul-Boncour, 10 May 1933, 465–6. See also "Conditions dans lesquelles," 30 Sept. 1933, MF B 32320.

[68] "Si cette proposition de réunion préparatoire ne reçoit pas de suite, la France aura en tout cas fait ce qu'elle pouvait pour éviter les graves répercussions d'un échec de la Conférence mondiale." Bonnet to Paul-Boncour, 13 May 1933, MF B 32318.

the aid it is resolved to bring to the conference can be effective under such circumstances.[69]

In London, where it was hoped instability of the pound could be brought to an end, Roger Cambon was told to indicate

with even greater clarity than is needed vis-à-vis the government in Washington, that if the monetary problem is not tackled immediately, in such a fashion that a solution is at least within sight on 12 June, we face certain failure of the conference, which we would very deeply regret, and we would be able to offer only nominal participation.[70]

Prospects for a stabilization seemed good. Roosevelt declared on 16 May, "The Conference must establish order in place of the present chaos by a stabilization of currencies, by freeing the flow of world trade, and by international action to raise price levels."[71] Emmanuel Mönick resumed discussion of a joint stabilization fund with James Warburg, in which France would agree to buy up to $500 million to support the dollar exchange, with the dollar stabilized at 15% below par.[72] Both the Americans and the British agreed to discuss stabilization in London, but American representatives would not arrive until just before the conference opened.[73] British and French central bank representatives met in Paris on 19 and 20 May and agreed on the need for tripartite stabilization talks, with the restoration of the gold standard as their ultimate goal. They were particularly anxious to know how far Roosevelt intended to depreciate the dollar, and they agreed that Warburg's common defense fund proposal was unacceptable.[74]

What little optimism there had been that the conference would yield results of substance was vanishing. French financial attachés sent gloomy reports from European capitals on government attitudes toward the conference. Germany hoped to obtain a reduction of its foreign debt

[69] *DDF*, 1st ser., III: no. 274, Paul-Boncour to Laboulaye, 14 May 1933, 483. The statement given by Laboulaye to the Americans is in U.S. Department of State, *Foreign Relations of the United States Diplomatic Papers, 1933* (Washington, D.C.: Government Printing Office, 1950), 1: 608–9.

[70] *DDF*, 1st ser., III: no. 275, Paul-Boncour to Cambon, 14 May 1933, 484–5.

[71] *FRUS 1933*, vol. 1, 144; President Roosevelt to Various Chiefs of State, 16 May 1933.

[72] See Feis, *1933*, 148–9, and Raymond Moley, *The First New Deal* (New York: Harcourt, Brace & World, 1966), 396–7.

[73] MAE to MF, 29 May 1933, and "Conditions dans lesquelles," 30 Sept. 1933, MF B 32320.

[74] There is a copy of this secret accord, dated 22 May 1933, in MF B 32318. On the Bank of England's participation in stabilization talks from April to June, see app. 27, Sayers, *Bank of England*, 3: 276–9. The British Treasury was understandably less eager than the Bank of England to undertake stabilization.

burden and had nothing positive to offer in return.[75] The Roosevelt administration, Senator Pittmann told Laboulaye, was preoccupied with the "monetary truce,"[76] meaning a temporary stabilization such as had been negotiated for tariffs. But Emmanuel Mönick reported that the U.S. delegation's position would be awkward as the nationalists among Roosevelt's counselors were gaining ground on the internationalists. International cooperation was proving too difficult to obtain, and Mönick reported that "a strong current is emerging in Washington which expects little from the conference in London and supports the development of the American economic recovery through domestic policy measures."[77]

The British position, misinterpreted by the French, was more complex. Leith-Ross told Rueff that Britain would be prepared to agree to a monetary truce for the duration of the conference, but only if the dollar were stabilized at an acceptable level, and he doubted that the conference would produce anything more than platitudinous resolutions.[78] While Britain had never ceased officially to recognize the desirability of monetary stabilization and an ultimate return to gold, it would not stabilize until certain preconditions had been met. These had been set out at meetings of the Committee of Experts, and the dollar's departure from gold altered British views only in adding stabilization of the dollar without significant depreciation to the preconditions necessary for sterling stabilization.[79] Dollar depreciation was seen as voluntary and unnecessary, given the U.S. trade surplus and strong gold reserves.[80]

[75] Reports from the financial attachés concerning attitudes toward the conference are collected in MF B 32319.

[76] MAE to MF, 24 May 1933, MF B 32320.

[77] Mönick to Bonnet, 29 May 1933, MF B 32319. Feis's account bears out this confusion. Monetary stabilization was beyond the jurisdiction of the official American delegation, and the representatives who were to discuss monetary stabilization were not given definite instructions. See Feis, *1933*, 150–2. Bonnet claims in his memoirs that he and Chamberlain wrote to Roosevelt suggesting the conference be postponed to allow the American economy time to adjust and the dollar to be stabilized. Roosevelt was categorically opposed and stated that stabilization could be achieved at the conference. Bonnet, *Vingt ans*, 162–3. I have found no evidence of this letter in other sources.

[78] Leith-Ross suggested that the conference's failure could be disguised by announcing a number of general principles and adjourning the conference pending a restoration of monetary stability. A committee of ministers of finance could oversee stabilization and reconvene the conference when conditions had improved. See two cables, Rueff to Bonnet, 24 May 1933, MF B 32319. The conference did end in a similar fashion, but Roosevelt's "bombshell" made the failure of the conference obvious to all.

[79] See Drummond, *The Floating Pound*, 132–7, 140–1, 153; Howson and Winch, *Economic Advisory Council*, 100–5.

[80] These British concerns show up clearly in Rueff's reports from London, particularly

The French noted British discomfiture at the depreciation of the dollar and believed it marked increased British interest in monetary stabilization.[81] The threat of erratic international currency depreciations caused the French to cling all the more doggedly to the gold standard. Observing the disquiet in London, Bonnet assumed the British shared his concern that further instability would lead to chaos. This was the reason he concentrated on Britain rather than the United States in trying to gain support for currency stabilization at the end of June. This also explains French exasperation at Britain's seeming indecision and deference to American views.

By the time the conference opened, the French had fixed their sights on exchange-rate stabilization, with little interest in looking further at how economic recovery might be obtained. Taking stock of France's position, a Ministry of Finance memorandum declared, "The French delegation must undertake to make it clear that it is necessary to choose between risks, and that the risk of monetary instability is that which can have the most serious consequences." The French sought not recovery, but security, in a world over which they exercised little control. They would support measures to stabilize the sterling–dollar exchange, but only if these measures entailed no risks for foreign participants and fell within the realm of normal central bank operations. They would reluctantly accept changes in the gold standard – for instance, a reduction in legal reserve ratios and cheap money – but only as long as these involved no "artificial" expansion of credit. Improved central bank cooperation and international lending to assist debt settlement and the suppression of exchange controls were acceptable, as long as they did not restrict the Bank of France's influence on its domestic market or place French capital and gold reserves under foreign control.[82] This was entirely in keeping with the official view that France itself was innocent of any actions causing or contributing to the slump.

More activist, heterodox views were advocated outside the Ministry of Finance and the Bank of France, but they failed to influence French policy. In the Chamber of Deputies, debate on policy for the conference clearly marked the division of attitudes between Left and Right on the crisis and the hesitancy with which French leaders approached the

in "La Position du gouvernement britannique à l'égard des questions financières qui seront discutées à la conférence mondiale," 31 May 1933, MF B 32319. On British views at this time see Howson and Winch, *Economic Advisory Council*, 116–21.

[81] Rueff, "La Position du gouvernement britannique," 31 May 1933, MF B 32319.

[82] "Position française à la Conférence de Londres," 8 June 1933, MF B 32319. With regard to reducing reserve ratios, Moret had approved this in principle because it was unlikely to affect central bank practice; Moret to Bonnet, 8 Apr. 1933, MF B 32318.

conference. Bertrand Nogaro, Pierre-Etienne Flandin, and Fernand Laurent congratulated the government on its defense of the franc and addressed the war debt problem; Flandin attacked the tariff truce as a "unilateral disarmament."[83]

The Socialist deputy Barthélemy Montagnon and the Radical Henri Clerc criticized French passivity in the face of the crisis and stressed the need for positive action. Montagnon attacked deflation as inequitable and incapable of solving the crisis as long as prices were sustained by protectionism. He suggested that devaluation would boost French exports, end currency hoarding, and aid the Treasury through the revaluation of French gold reserves, carefully terming it a "devaluation without inflation" in the hope of allaying the fears the suggestion was bound to raise. Montagnon did not push for an immediate decision; he agreed that monetary stabilization was the immediate goal.[84] He also supported the creation of an international fund, which Henri Clerc claimed could solve the monetary and trade stalemate by financing an international program of public works to reemploy idle capital. Even on purely national grounds, currency hoarding and excess gold reserves in France required international measures to ensure that gold losses would not produce panic.[85]

In reply, Premier Daladier spoke vaguely of the need for international organization and cooperation, but on monetary policy his views were strictly orthodox. Monetary stabilization and a restoration of the gold standard were essential; only a "fictitious and precarious" amelioration could be gained from managed currencies or an artificial redistribution of French gold reserves.[86]

From within Daladier's government Raymond Patenôtre, assistant secretary of state for the national economy, wrote to Daladier criticizing French passivity and urging, "We must act now, without further delay."[87] Patenôtre argued that countries still on the gold standard would suffer an increasing burden of debts and the contraction of government receipts, leading to banking crises, gold losses, and perhaps political unrest. He did not propose remedies; his own views on how to escape the crisis were evolving from bimetallism toward devaluation.

Pierre Quesnay, general manager of the Bank for International Set-

[83] *J.O.Ch.*, Nogaro and Flandin on 19 May 1933, 2482–92; Fernand Laurent on 26 May 1933, 2661–4. Discussion was spread over 19, 26, and 29 May and 9 June.

[84] *J.O.Ch.*, 29 May 1933, 2680–4.

[85] *J.O.Ch.*, 9 June 1933, 2819–23.

[86] Ibid., 2823–5.

[87] This letter from March 1933 is quoted in full in Raymond Patenôtre, *Voulons-nous sortir de la crise?* (Paris: Plon, 1934), 159–65.

tlements, discussed the conference agenda with Bonnet and developed his ideas in a memorandum written at Bonnet's request.[88] Quesnay, too, argued for an active French policy at the London conference. France had found it easier to blame expansionary credit policy abroad than to acknowledge the depression's origins in the fall of world prices and the disorganization of credit. Bank credit tended to serve producers rather than consumers, encouraging overproduction. The remedy was to restimulate consumption. Quesnay proposed reform of the gold standard to allow economy of gold reserves and the creation of credit by concentrating gold reserves at the BIS, which would provide gold guarantees for the currency reserves of central banks. This would obviate the need for a redistribution of gold reserves, avoid difficult discussions of bimetallism and reduced cover ratios, and, most important, prevent the flow of gold in times of crisis to those countries where it had the smallest effect on credit.[89] Quesnay proclaimed himself firmly in favor of the gold standard, but with gold as the basis for international credit growth rather than an object of counterproductive national hoarding. If the gold standard were to survive, the nations gathering in London would have to recognize that an isolationist attitude was equivalent, in the long run, to suicide.[90]

Quesnay's and Patenôtre's ideas left no visible mark on French preparations for or behavior in London. Patenôtre was a member of the French delegation to London, but when he criticized the gold standard for having lost its supreme virtue, stability, through the rise in the value of gold, he was sharply rebuked by the orthodox press.[91] Quesnay's position was no better; a considerable gulf separated his views from those of his colleagues at the Bank of France. In his covering letter

[88] Quesnay had distinguished himself as assistant to Governor Emile Moreau during the stabilization of the franc. Leith-Ross mused that Quesnay perhaps shared a common ancestry with John Maynard Keynes, the spelling of their family names having diverged over the years. Sir Frederick Leith-Ross, *Money Talks: Fifty Years of International Finance* (London: Hutchinson, 1968), 122–3.

[89] "Suggestions sur les problèmes à l'ordre du jour de la Conférence économique et monétaire," 14 Apr. 1933, and letter, Quesnay to Bonnet, 14 April 1933, in Quesnay Papers, AN 374 AP 24. Quesnay astutely argued this as a "conservative" solution that would allow economic recovery without devaluation and claimed that he rejected managed currencies as incapable of commanding sufficient confidence.

[90] Quesnay to Henri Lagarde, of the Services des études at the Bank of France, 17 May 1933, AN 374 AP 27.

[91] See *La Journée industrielle*, 20 June 1933. An article titled "Le Scandale va-t-il durer?" stated that "M. Patenôtre a le droit d'avoir les opinions qu'il veut, mais il n'a pas le droit d'exprimer publiquement des vues contraire à ce qui est jusqu'à nouvel advise la thèse, en une heure particulièrement délicate, de la délégation dont il fait partie."

to Bonnet, Quesnay stated that he was sending his views "in a private capacity, at your request: I would not wish that there be a Plan Quesnay in opposition to the metallist ideas of our friends." When asked to write on the conference for *Le Monde nouveau*, Quesnay declined. Divergent views within the BIS imposed "an excessive prudence, and we find ourselves obliged to respect a very strict rule of silence."[92]

The French delegation left for London on 11 June. Premier Daladier had asked Joseph Caillaux, president of the Senate Finance Committee, to join the French delegation; Caillaux refused.[93] He wrote to his close collaborator Emile Roche:

> As for the economic conference, my position remains that of which I notified Bonnet in writing. I have no wish to preside at an abortion. It seems to me, from my conversations these past few days with politicians in the region, that my attitude is understood perfectly, and approved.[94]

The World Economic Conference

As American delegate Herbert Feis recounted, "In any meaningful sense, the conference never really got underway."[95] Tripartite stabilization talks began at the British Treasury two days before the conference proper. As the talks encountered difficulties, the conference tempo slowed; by the end of June the conference had stalled completely, awaiting a "monetary truce" between France, Britain, and the United States. Roosevelt's rejection of currency stabilization set the conference in full disarray, and the failure was clear despite British success in guiding the conference to an orderly adjournment on 27 July.[96]

[92] Quesnay to Bonnet, 14 Apr. 1933, AN 374 AP 24, and Quesnay to Georges Potut, 8 Mar. 1933, AN 374 AP 28. See also Quesnay to Lagarde, 17 May 1933, AN 374 AP 27, on his reluctance to make his views public.

[93] Caillaux to Roche, 8 June 1933, in the Emile Roche–Joseph Caillaux Papers [FRJC]: FNSP, FRJC 9, Dr 1. Reprinted in Emile Roche, *Avec Joseph Caillaux* (Paris: Publications de la Sorbonne, 1980), 160–1.

[94] Caillaux to Roche, 13 June 1933, FRJC 9, Dr 1; also in Roche, *Avec Joseph Caillaux*, 162.

[95] Feis, *1933*, 178.

[96] There is an abundance of literature on the World Economic Conference. J. R. Moore's "A History of the World Economic Conference" and Henri Strohl's *L'Oeuvre monétaire de la Conférence de Londres (1933) et ses conséquences* (Paris: Librairie de droit et de jurisprudence, 1939) are devoted to the conference. Further secondary coverage includes Clarke, *The Reconstitution of the International Monetary System*, 19–39; Drummond, *The Floating Pound*, 162–80; Francis Delaisi, *La Bataille de l'or* (Paris: Payot, 1933), 65–110; Kindleberger, *World in Depression*, 199–231; H. V. Hodson, *Slump and Recovery, 1929–1937* (Oxford University Press, 1938), 172–206; and Jacques Néré, *La Crise de 1929*

The stabilization talks thus superseded the conference itself. Although the French had initiated these talks, they offered nothing beyond insistence that no progress was possible on economic matters without at least temporary stability of the dollar and the pound. The threat of the conference failing was their sole means of exerting pressure; stabilization was up to the United States and Britain. The Americans and British, however, were unwilling to make any formal commitment, even for a short time. At the first meeting of Treasury representatives on 10 June,[97] the one positive proposal came from James Warburg, who resuscitated his idea of tripartite exchange stabilization and suggested that central banks restrict forward exchange dealings to curb speculation.[98] They decided to ask the central bankers for their opinions on the prospects for exchange stability.[99] Frederick Phillips predicted the French would have to be satisfied with a vague statement that the British and American governments "expect and hope that exchanges will remain reasonably steady" and reassured the chancellor that there

(Paris: Colin, 1973), 129–39. There are several good detailed explorations from an American perspective: see Romasco, *The Politics of Recovery*, 67–90, which gives a particularly interesting argument on Roosevelt's contradictory behavior; also Moley, *The First New Deal*, 420–96; Dallek, *Franklin D. Roosevelt and American Foreign Policy*, 45–57; Frank Freidel, *Franklin D. Roosevelt Launching the New Deal* (Boston: Little, Brown, 1973), 454–89; and Arthur M. Schlesinger, *The Coming of the New Deal* (Boston: Houghton Mifflin, 1959), 195–232. Most memoir literature must be used with caution. The best is Feis, *1933*, 169–258; also useful is James P. Warburg's *The Money Muddle*, 107–27. Bonnet, *Vingt ans*, 161–80, and Raymond Moley, *After Seven Years* (New York: Harper Bros., 1939), 196–269 are colorful, but not entirely reliable; James M. Cox, *Journey Through My Years* (New York: Simon & Schuster, 1946), 351–83, is gossipy and unreliable. Leith-Ross, *Money Talks*, 152–70, and Cordell Hull, *The Memoirs of Cordell Hull*, vol. 1 (New York: Macmillan, 1948), 256–69, contain considerably less than one would wish from two prominent participants.

[97] Jean-Jacques Bizot and Jacques Rueff represented the French Treasury, Frederick Phillips and S. D. Waley the British, Oliver Sprague and James Warburg the American. Initially, representatives of the central banks met separately. The bank representatives were Governor Moret, Charles Farnier, and Robert Lacour-Gayet from the Bank of France; Governor Norman, Charles Hambro, and Professor Henry Clay from the Bank of England; and Governor Harrison and Jay Crane from the Federal Reserve Bank of New York.

[98] Like Warburg's plan of 16 May, this would have each central bank undertake to buy the other two currencies up to $500 million. "Note of a Meeting on Stabilisation of Currencies Held at the Treasury at 10:30 A.M. on 10th June, 1933," T 188/78. Frederick Phillips reported to Fergusson, Chamberlain's secretary, that "I do not think that the Chancellor need be troubled with the attached note of the first meeting with the French and Americans on stabilisation." Phillips to Fergusson, 10 June 1933, T 188/78.

[99] "Notes of Second Meeting on Stabilisation of Currencies Held in the Treasury at 5.30 p.m. on 10th June, 1933," T 188/78.

was no suggestion of, and certainly no possibility of British agreement to, the issue of a public statement to this effect.[100]

All three governors believed considerable exchange fluctuations likely if these talks produced no agreement; the attention given by the press to the talks required that some result be produced. Moret blamed uncertainty regarding American monetary policy for the instability of exchanges. When the Treasury representatives suggested that a joint statement by the three governments might be beneficial, Moret declared that such a statement would be worthless. He repeatedly stressed the need for a precise statement of the policy intentions of the American government, for a period longer than that of the conference. George Harrison believed a joint declaration would remove one source of instability, but he and Sprague insisted that the United States could not commit itself to any rigid or longer-term stabilization. Domestic recovery was their government's first priority, and recovery so far had been based on anticipation of inflationary measures that the government, while not anxious to use, might need in the future.

The governors saw little purpose in restricting forward exchange transactions. Moret pronounced it "absolutely impossible," while Harrison displayed mild interest, suggesting that they might come to some arrangement to keep spot exchanges between agreed-upon points. At a second meeting on 11 June the central bankers decided that a steadying of the exchanges was feasible.[101] They devised an arrangement whereby each bank would buy and sell gold up to a fixed limit in order to keep their currencies between agreed-upon gold points. The limit discussed initially was £20 million; they eventually agreed to a maximum of 3 million ounces of gold ($60 million). The agreement could be renewed, renegotiated, or terminated when one bank reached its limit.[102]

On 15 June both the technical arrangements between the banks and a joint declaration by the three governments were finalized. The American and British governments agreed to limit "as far as may be feasible" the fluctuations of their currencies during the conference. All three governments stated that they would not take measures incompatible with the maintenance or restoration of monetary stability, in the absence of "exceptional and unforeseen circumstances" that remained undefined. A separate statement announced, "The Governments and banks of issue

[100] Phillips to Fergusson, 10 June 1933, T 188/78.

[101] "Note of a Joint Meeting between Treasuries and Central Banks on Stabilising the Exchanges Held at the Treasury at 11 A.M. on Sunday June 11th, 1933," T 188/78.

[102] Henry Clay, "Note on Meeting of Representatives of the Banks of Issue at the Treasury, 3 p.m. 11th June 1933," and an untitled note on a meeting of the bank representatives on 12 June 1933, BoE G1/53.

of the United Kingdom and the United States have stated that the stabilization of their currencies on a gold basis under proper conditions forms the ultimate objective of their policy." The arrangements between the banks for exchange support were to be kept strictly secret. Each bank undertook to use up to 3 million ounces of gold to hold its currency between agreed-upon gold points (allowing a 3% variation either way). The British had very reluctantly agreed to a $4 pound with provision for a 10¢ revision downward at the end of two weeks.[103]

Matters had proceeded much further than Phillips had foreseen when the talks opened. The progress has been described as a "capitulation to French orthodoxy."[104] The declaration and technical agreement aimed at minimal currency stability during the conference without prejudicing subsequent policy; this had been the purpose of the talks. The initiative had come mainly from James Warburg, who had been advocating variations on tripartite stabilization since late April without strong objections from Roosevelt. The French role was remarkably passive, and grudging because the stabilization envisioned was so temporary. Moret believed stabilization was an Anglo-American responsibility: The franc was on the gold standard and would remain there. The French joined the agreement at Warburg's suggestion to gain a voice in determining rates of exchange.[105] The technical agreement, the work of Harrison and Norman, was to provide temporary exchange stability, a goal that all three parties had recognized as desirable even if they did not believe it attainable.

Final American approval rested with Roosevelt. James Warburg cabled, urging acceptance, saying that the agreement protected American freedom of action while providing "the assurance that can reasonably be asked of us as leaders in the monetary field to the effect that we are

[103] See "Note of a Meeting of Treasury Representatives on Exchange Stabilisation at 10.15 A.M. on 12th June, 1933," T 188/78, and *FRUS 1933*, I: Warburg to Roosevelt, 16 June 1933, 645. There are copies of the agreement in T 188/78 and MF B 32320, with the amounts of gold and the gold points left blank; details on rates are in *FRUS 1933*, I: Sprague to Woodin, 16 June 1933, 643.

[104] Moore, "World Economic Conference," 185. Moore attributes the capitulation to "inadequately instructed American negotiators," to Harrison and Norman negotiating in the interest of their banks, and to French threats of a collapse of the conference (185–6). This is unfair to the American representatives. No amount of instruction could have prepared them to anticipate Roosevelt's changing views. As central bankers, Harrison and Norman were of course interested in exchange stabilization; the French had been consistently arguing the necessity of exchange stabilization, which was the only reason these separate talks were taking place.

[105] "Note of a Meeting of Treasury Representatives on Exchange Stabilization at 10.15 a.m. on 12th June, 1933," T 188/78.

not going to be wilful and unnecessarily violent in our monetary policy."[106] But news of a currency stabilization was leaked to the press,[107] causing exchange movement in favor of the dollar, and American commodity and stock market prices fell. On 16 June Secretary of the Treasury William Woodin declared that no stabilization had been agreed upon. The next day Roosevelt rejected the agreement, objecting that the gold standard statement might cause pressure for a premature return to gold and that the government declaration, while appearing "general and permissive in scope," might be used to constrain American policy action. He declared that he was opposed in principle "to any agreements aimed at close stabilization of the pound and dollar . . . especially at present approximate levels." He preferred an informal statement that the United States would consider unilateral action if the dollar were to rise "to an excessive point, say $4.25."[108]

Roosevelt had no fixed idea where he wanted the dollar and was determined to preserve his freedom of action in domestic policy.[109] Cox, Sprague, and Warburg tried to allay his concerns, but Roosevelt was unmoved.[110] As Harrison had told Norman and Moret, no restrictions could be placed on American domestic policy action that might threaten the economic upswing based on expectations of inflation.[111]

Roosevelt's rejection was announced on 22 June, causing turmoil at

[106] *FRUS 1933*, I: Warburg to Roosevelt, 16 June 1933, 645. This was separated from the joint declaration because it was beyond Sprague's field of authority to speak for the government's "ultimate objective."

[107] The last paragraph of the bankers' technical agreement stated, "In order to ensure its effective operation all the terms of this agreement must be absolutely secret." Governments were to announce only that "temporary arrangements had been agreed . . . to ensure reasonable stability of currencies." The leak was almost certainly from the French. In his memoirs, Bonnet makes the rather suspicious claim with regard to the agreement, "Je recommandai à la presse le silence et la modestie" (Bonnet, *Vingt ans*, 166). Moore states that Bonnet was responsible for the leak, without giving any evidence, in "World Economic Conference," 187. In his memoirs James Warburg writes, "The tripartite discussions were enlivened by the mordant wit of Montagu Norman . . . and the utter impossibility of preventing the French from leaking information to their press." Of Bonnet, Warburg goes on to say, "When taxed with his continual leakage to the press, he explained quite shamelessly: 'I cannot offend Havas' (the French news monopoly) 'because if I do, they will not print my speeches.' " Warburg, *The Long Road Home*, 131.

[108] *FRUS 1933*, I: Phillips to Hull from Roosevelt, 17 June 1933, 645–6.

[109] Schlesinger, *Coming of the New Deal*, 215, and Romasco, *Politics of Recovery*, 84–5.

[110] *FRUS 1933*, I: Cox, Sprague, and Warburg to Roosevelt, 18 June 1933, 647–8; Roosevelt to Phillips, 19 June 1933, 649.

[111] Roosevelt wrote to Hull, "We must retain full freedom of action under the Thomas Amendment in order to hold up price level at home." *FRUS 1933*, I: Phillips to Hull from Roosevelt, 17 June 1933, 646.

the conference and rumors of collapse.[112] Halfhearted committee work crept forward for a few days, but ground to a halt as a new stabilization crisis developed.[113] The Dutch florin and Swiss franc had been under speculative pressure for some time, and the failed stabilization agreement increased speculation, raising fears that both currencies could be forced off gold. Governor Trip of the Nederlandsche Bank warned Bonnet this could happen to the florin within a week despite a technically sound reserve position.[114]

By this time the French had abandoned the possibility of a tripartite agreement and pinned their hopes on a joint declaration by the gold countries and Britain. Since March, Bonnet had believed Chamberlain shared his conviction that monetary stability was of primary importance. He now felt that British adherence to a common declaration in favor of currency stability would be decisive in calming European money markets.[115] Even before Roosevelt rejected the 15 June agreement, Bonnet had pressed Prime Minister Ramsay MacDonald on the need for British stabilization in the event of an American refusal. On 26 June he repeated his appeal to both MacDonald and Chamberlain. "In particular," he reported to Paul-Boncour,

> I emphasized that British hesitation would rapidly expose several currencies in the countries around us to irremediable catastrophe. This would open the door to monetary anarchy in Europe, which would not fail to have the most serious consequences, as much from a social as from a political perspective.[116]

Bonnet led gold country representatives to insist directly to MacDonald and Chamberlain that if they refused to act, Britain would be responsible for the certain failure of the conference and for the resulting

[112] *FRUS 1933*, I: Warburg to Roosevelt, 22 June 1933, 652–3, and *DDF*, 1st ser., III: no. 417, Coulondre to Paul-Boncour, 22 June 1933, 757–8.

[113] Moore, "World Economic Conference," 208, surveys how work on various committees had stalled.

[114] "Conditions dans lesquelles," 30 Sept. 1933, MF B 32320.

[115] Bonnet misunderstood Britain's renewed interest in stabilization when the dollar went off gold. He believed the British shared French fears that further exchange-rate instability would lead to chaos. In fact, the British were concerned primarily with the sterling–dollar exchange; they were quite content with the pound off gold. On Bonnet's views, see *DDF*, 1st ser., III: no. 426, Bonnet to Paul-Boncour, 27 and 28 June 1933, 776, and Bonnet, *Vingt ans*, 161–76; on the British position see Drummond, *The Floating Pound*, 162–73.

[116] *DDF*, 1st ser., III: no. 426, Bonnet to Paul-Boncour, 27 and 28 June 1933, 775. Bonnet had been approached by representatives from Holland and Belgium before the conference began; they threatened to impose gold embargoes if no measures were produced to aid the defense of their currencies. Reported by Grafftey Smith, "Impressions from Paris," 16 Nov. 1934, BoE OV45/84.

European monetary instability. Secretary of State Cordell Hull was present, and his explanation of the American position left no hope for dollar stabilization.

MacDonald requested that a currency declaration be composed that Britain could sign. This was quickly accomplished, approved by the gold countries, and submitted to the British. They promised an answer for the following day.[117] But again the British sought American participation, drawing in Raymond Moley, Roosevelt's closest adviser, who had just arrived in London amid great press fanfare. Moley was surprised to find the gold countries' declaration "brief, simple, and wholly innocuous." Already "toned down" by the British to become "completely harmless," the declaration was revised by Moley himself, "further devitalizing the limp document."[118] What remained of the declaration called for monetary stability as quickly as was practicable, recognized that all countries desired an eventual return to the gold standard "under proper conditions," and stated that each country would adopt "such measures as it may deem most effective to limit exchange speculations."[119] Moley and his fellow Brain-Truster Bernard Swope urged acceptance in order to save America from blame for breaking up the conference.[120] Secretary of the Treasury William Woodin, Under-Secretary of the Treasury Dean Acheson, and Moley's stand-in at the State Department, Bernard Baruch, all advised Roosevelt that "the declaration in itself seems entirely acceptable and goes no further than declaration already made in resolution introduced by our delegates."[121] In London, Bonnet continued to insist that Britain not subordinate its decision to that of the United States, but shoulder responsibility for the outcome of the conference. It was necessary to choose between adherence to the declaration and adjournment of the conference.[122]

As the French expected, Roosevelt was unmoved at the prospect of further devaluations in Europe.[123] Without waiting for a final draft of

[117] "Conditions dans lesquelles," 30 Sept. 1933, MF B 32320.

[118] Moley, *After Seven Years*, 247–49. Moley's description is colored by his indignation at Roosevelt's rejection of the declaration.

[119] The declaration appears in full in *FRUS 1933*, I: Moley to Roosevelt, 1 July 1933.

[120] *FRUS 1933*, I: Moley to Roosevelt, 1 July 1933, 671, and Swope to Baruch and Woodin, 1 July 1933, 671–2.

[121] *FRUS 1933*, I: Woodin, Baruch, and Acheson to Roosevelt, 30 June 1933, 667–8. The resolution referred to was by Senator Key Pittmann.

[122] "Conditions dans lesquelles," 30 Sept. 1933, MF B 32320, and *DDF*, 1st ser., III: no. 438, Coulondre to Paul-Boncour, 30 June 1933, 798.

[123] *FRUS 1933*, I: Roosevelt to Acheson, 28 June 1933, 660–1. Roosevelt said that the importance of the gold countries remaining on gold was debatable: "If France goes off gold it will be very difficult for her to finance her continuing deficits and this will

the declaration, Roosevelt sent a detailed rejection to London on 1 July.[124] The next day he sent his "bombshell" for release to the conference, condemning tripartite stabilization as a "specious fallacy" that had diverted the conference from serious effort to produce "real and permanent financial stability."[125] After the exaggerated efforts to render the declaration unobjectionable, Roosevelt's blunt rejection knocked the frail conference structure to pieces. The French were not alone in viewing Roosevelt's repudiation as capricious and irresponsible. Coulondre reported to Paris:

> As much by its form as by its substance, President Roosevelt's declaration has produced a veritable stupefaction among Conference personnel. The apology for monetary disorder, presented as an indispensable basis for any world economic recovery, has appeared to many as a challenge to good sense as well as to the gold standard countries.[126]

Even the British agreed that there was no point in prolonging the conference. MacDonald proposed that a text of adjournment be composed in order to close the conference on 6 July. Chamberlain, Bonnet, and Italian Minister of Finance Guido Jung set about writing it, but American intervention, with support from the British dominions, delayed adjournment of the conference.[127] Tempers were soothed by a more diplomatic American policy statement, and the conference continued committee work in areas that were not affected by monetary stability – chiefly tariff reduction and production controls. Committees wrapped up their work, and the conference adjourned on 27 July.

Aftermath: the gold bloc

In the meantime, the gold countries drew up a communiqué reaffirming their faith in monetary stability and the gold standard. Chamberlain proposed that Britain make a simultaneous declaration of its intentions, but gold country delegates found the statement drafted by Leith-Ross

result in realistic efforts to balance her budget... I do not greatly fear bad set-back to our domestic price level restoration even if all these nations go off gold."

[124] *FRUS 1933*, I: Roosevelt to Acheson for Hull, 1 July 1933, 669–70.

[125] *FRUS 1933*, I: Roosevelt to Acheson for Hull, 2 July 1933, 673–4.

[126] Coulondre to Paul-Boncour, 3 July 1933, MAE Y Internationale 75.

[127] *DDF*, 1st ser., III: no. 470, Bonnet to Paul-Boncour, 9 July 1933, 868–72.

too vague to make the necessary impression on public opinion.[128] After the release of Roosevelt's "bombshell" on 3 July, Bonnet and the gold country representatives announced the formation of the gold bloc. France, Belgium, Holland, Switzerland, Italy, and Poland declared their firm resolve to maintain a freely functioning gold standard and the stability of their currencies at existing gold parities, in order to assist economic and financial reconstruction and recovery in the world at large and to preserve social progress at home. They called upon their central banks to remain in close contact to maximize the influence of the declaration. On 8 July the central banks concluded arrangements in Paris to facilitate exchange support. Each would support member currencies in its own market, intervening when necessary without commission and reimbursing the others in either currency or gold on a daily basis. Each agreed to earmark gold for member banks, with their governments guaranteeing that this gold would remain free for export under all circumstances.[129] This was an extension of the arrangements the Bank of France had made in June with the Nederlandsche Bank in defense of the Dutch florin.[130]

The declaration had an immediate effect on speculation. Moret stated that speculative operations against the florin and the Swiss franc were quickly halted; Bonnet claimed that the declaration had saved Europe from monetary chaos.[131] But the agreement was entirely technical. Moret assured the Council of Regents that it was an agreement "which entails no commitment of financial support on the part of the Bank of France, but which regulates the forms of a technical collaboration."[132] As Charles Kindleberger has commented, the gold bloc had "little cohesion and no organization."[133] No progress was made beyond the central bank agreement of 8 July, and the defense of existing gold parities isolated the gold bloc from the economic recovery in the rest

[128] Bonnet claims that Chamberlain agreed to join the Gold Bloc declaration and then withdrew when the Canadian prime minister, R. B. Bennett, threatened to detach the Canadian dollar from sterling and link it to the American dollar, in *Vingt ans*, 176. As Ian Drummond has pointed out, the Canadian dollar was not pegged to sterling, and there is no evidence that Chamberlain made any such commitment; see Drummond, *The Floating Pound*, 170–1.

[129] The texts for the 3 and 8 July agreements are in MF B 32323. The declaration would have been made on 2 July had it not been necessary to wait for Guido Jung's signature; the Italian minister of finance was attending a salute to Italian aviators.

[130] PV CG, 29 June 1933.

[131] *Annual Report, 1933*, 15, and comments in PV CG, 13 July 1933; Bonnet, *Vingt ans*, 176.

[132] PV CG, 13 July 1933.

[133] Kindleberger, *World in Depression*, 247.

of the world. The deflationary policies imposed by defense of overvalued currencies ultimately proved too costly to sustain, both economically and politically. Italy imposed controls on capital export in 1934 and prohibited gold export in July 1935. Belgium brought in exchange controls, quickly followed by devaluation, in March 1935. Poland adopted exchange controls in April 1936, and the rest of the gold bloc dissolved when France devalued in September 1936.

Charles Rist wrote in 1933 that "France finds herself on an isolated rock, lashed by the waves, but the other countries are on floating islands. In the tempest a rock, even isolated, is preferable to a floating island."[134] Although France and the gold bloc had shared in the international economic recovery in the first half of 1933, stagnation in the gold bloc was apparent from late 1933 onward while recoveries abroad continued. Rist's preference for isolation would weaken.

Within the gold bloc, high prices did little to encourage trade among its members. French trade with Belgium fell 12.5% from 1933 to 1934, and French trade with Switzerland fell nearly 40%.[135] Dutch exports to France, Belgium, and Switzerland fell from 26.4% of total Dutch exports in 1933 to 20.2% in 1935.[136] Hopes that trade could be increased within the gold bloc led to a meeting of their representatives in Geneva in September 1934.[137] Poland was not invited, ostensibly because its economy differed too much from those of other members, but Maxime

134 Quoted in Edouard Bonnefous, *Histoire politique de la Troisième République*, vol. 5, *La République en danger: Des ligues au Front populaire (1930–1936)* (Paris: Presses universitaires de France, 1962), 160.

135 Strohl, *L'Oeuvre monétaire*, 223.

136 R. L. Hogg, "Belgium, France, Switzerland and the End of the Gold Standard," in *The Netherlands and the Gold Standard, 1931–1936*, ed. R. T. Griffiths (Amsterdam: NEHA, 1987), 194.

137 Paul Stoppani, director of economic relations at the League of Nations, approached Germain-Martin in March 1934 with the idea that the gold bloc offered a manageable unit for cooperation to increase trade (Stoppani note, 16 Mar. 1934, MF B 32323). In April he undertook conversations in Belgium, Holland, Italy, Switzerland, and France about the prospects for increased trade and found considerable enthusiasm for the idea, as well as a general conviction that restrictive trade policies by France were the greatest obstacle to increasing gold bloc trade (Stoppani to Germain-Martin, 18 May 1934).

In Switzerland, groups of businessmen from other Gold Bloc countries concentrated their efforts to create a "Comité de rapprochement économique des pays bloc-or," which urged increased trade and received benign attention from the French Ministry of Finance. It disbanded in October 1934, feeling its objectives had been achieved. See the Committee's letter to Germain-Martin, 6 Mar. 1934, MF B 32323, and Clauzel (French ambassador in Berne) to Laval, 15 Oct. 1934, MAE B 57/7, as well as Jackson, *Politics of Depression*, 193–4.

Robert noted that "in fact, the fear of finding ourselves in the company of a country likely to be seeking assistance on all fronts was not foreign to this decision."[138] Members agreed to try to increase trade and tourism, and Henri Jaspar was made chairman of a commission to discuss trade policy at a conference to meet in Brussels in October.

There was little enthusiasm for the conference. Ambassador Paul Claudel in Brussels reported widespread disbelief in the Belgian press that the gold bloc could gain any economic improvement without devaluation,[139] and the French *chargé d'affaires* in Holland noted Dutch reluctance to undertake preferential trade commitments to the gold bloc unless England and Germany were included.[140] The French were hardly more optimistic. On 29 September a committee appointed to propose measures to increase gold bloc trade found little to offer. A restoration of 1931 quotas had been suggested as one objective for gold bloc trade; this did not seem possible without lowering quotas for all countries with which France had most-favored-nation trade agreements. The best the committee could propose was a six-month truce on agricultural quotas and the reallocation of unused portions of other nations' industrial quotas to gold bloc members.[141] Minister of Agriculture Henri Queuille objected to the truce, insisting that freedom to impose quotas was essential to the defense of French agriculture.[142] A further difficulty was that other gold bloc nations could not match such concessions because only France had agricultural quotas.

Preparations abroad did not put the French effort to shame. Italy was opposed to the conference and suggested that a Polish request to participate be used as a pretext to postpone the conference.[143] When the French demurred, the Italians declared they would send only one delegate.[144] Dutch dependence on exports to Germany made them wary of any gold bloc action that might arouse German discontent.[145] And Belgium, as the host nation, presented the most alarming prospects for a conference failure. Open discussion of devaluation led Henry Bouchet, the French commercial attaché in Brussels, to warn that the

[138] Robert, "Compte-rendu" of meeting in Geneva, 26 Sept. 1934, MF B 32323.
[139] See reports sent by Claudel in MAE B 57/7.
[140] 24 Sept. 1934, MAE B 57/7.
[141] "Compte-rendu de la Commission reunie à la direction des accords commerciaux," 29 Sept. 1934, MAE B 57/7, and Boisanger note of 12 Oct. 1934, MF B 32323.
[142] Queuille to Lamoureux, 9 Oct. 1934, MAE B 57/7.
[143] Chambrun (French embassy in Rome) to MAE, 6 Oct. 1934, MAE B 57/7; Paris response in *DDF*, 1st ser., VII: no. 424, Barthou to French embassies in Rome and Brussels, 8 Oct. 1934, 668–9.
[144] MAE to Chambrun, 8 Oct. 1934, and MAE to MF, 13 Oct. 1934, MAE B 57/7.
[145] Vitroux to MAE, 16 Oct. 1934, MAE B 57/7.

Belgians wished the conference to fail in order to win public acceptance for devaluation:

At present, despite the proximity of the opening of the Brussels Conference, the press says nothing of it. In the ministries, they smile and prepare nothing. ... It is a matter of placing us in an impossible position in order to record a French failure. They will thus strike a final blow to the last utopians who wish to turn to France, and the government will be able to claim that it left no stone unturned in seeking recovery.[146]

Bouchet's analysis showed more animosity than insight, but other reports to the Ministry of Finance agreed that the likely failure of the conference would intensify pressure for a Belgian devaluation. Yves de Boisanger, the assistant director of the Treasury, warned the minister of finance of "the dangers implicit, from a monetary point of view, in the very limited scope of the projects the French delegation will bring to the gold bloc conference."[147] The Belgians proposed a 10 to 15% increase in gold bloc trade by value.[148] The French gave qualified endorsement and offered a six-month truce on wine and vegetable import quotas and a preferential reallocation of unused quota margins.[149]

The conference opened badly, with Italian and Dutch delegates balking at reaffirmation of their governments' commitments to maintain current gold parities.[150] Nonetheless, French leadership shepherded the conference to a superficially successful conclusion. Members agreed to undertake bilateral negotiations to increase the volume of gold bloc trade by 10% by 30 June 1935 and to create a general commission to monitor progress. The French minister of commerce, Lucien Lamoureux, told the press that the conference had "incontestably achieved the goals which had been set for it."[151] One can hardly disagree, since

[146] *DDF*, 1st ser., VII: no. 456, Henry Bouchet to Lucien Lamoureux, 11 Oct. 1934, 716.

[147] Boisanger note, 12 Oct. 1934, MF B 32323. Boisanger gave great weight to reports from Maxime Robert, an *inspecteur des finances* who had preceded the French delegation to Brussels.

[148] Belgian ambassador in France to Laval, 15 Oct. 1934, MAE B 57/7.

[149] Compte-rendu of meeting of French delegation, 15 Oct. 1934, MAE B 57/7, and *DDF*, 1st ser., VII: no. 477, "Note du Directeur politique adjoint," 758–61.

[150] The Italians and Dutch insisted that they needed instructions from their governments before they could agree to what amounted to a declaration that they still believed in the gold bloc. Approval was gained the following day. See *DDF*, 1st ser., VII: no. 494, Claudel to Laval, 19 Oct. 1934, 794–5.

[151] See note on Lamoureux interviews, 22 Oct. 1934, and *DDF*, 1st ser., VII: no. 508, Laval to French diplomatic representatives abroad, 23 Oct. 1934, 814–17. Lamoureux's account of the conference consists of reminiscences of Paul Claudel and King Leopold III: Lucien Lamoureux, *Souvenirs politiques, 1919–1940*, manuscript on

French goals extended no further than the preservation of a façade of unity.

Bilateral negotiations between France and Belgium opened in November amid general skepticism. In both Belgium and Holland, devaluationists renewed their efforts to gain public support and expressed increased hostility to France.[152] The General Commission did not meet in January as scheduled. A French progress report recorded one agreement with Italy to increase industrial quotas and concluded that the 10% increase in trade was unattainable.[153] Negotiations with Belgium eventually yielded an agreement in principle to increase Belgian quotas by 2%; Italian, Dutch, and Polish quotas could not be increased, because their exports were mainly agricultural.[154]

The real test of French convictions came in March 1935 when a Belgian devaluation threatened to break up the gold bloc. Belgium's economy was the most export oriented of the gold bloc, and most of its trade was with the sterling bloc, so currency overvaluation had hit Belgium harder than other members. Belgium had made a thorough deflationary effort, reducing its cost of living by 37% from 1929 to 1935, compared with a 21% reduction in France.[155] Since the dollar went off gold in 1933, the Institut des sciences économiques at the University of Louvain had advocated devaluation.[156] In September 1934 Fernand Baudhuin, an economist at the institute, was appointed adviser to Gustave Sap, the minister of finance, and pressed for devaluation. Baudhuin had previously favored devaluation; by March 1935 he believed that deflation could be pushed no further and devaluation was essential.

In the first months of 1935, sterling depreciation put new pressure on gold currencies, particularly the Belgian franc. From 175 francs to the pound in 1928, it rose to 126 in 1932 and 108 in 1934 and approached

microfilm at the Bibliothèque de documentation internationale contemporaine, 1458–65.

[152] See the reports to the MAE in MAE B 57/7, particularly that from Claudel to Laval of 29 Oct. 1934. On the Dutch devaluation campaign, see Griffiths, ed., *The Netherlands and the Gold Standard*; esp. R. T. Griffith and E. Schoorl, "The Single Issue Pressure Groups," 139–64; on Belgium, see below.

[153] Note of 26 Jan. 1935, MAE B 57/7.

[154] Marchandeau (new minister of commerce and industry replacing Lamoureux) to Laval, 29 Oct. 1935, MAE B 57/7.

[155] Sauvy, *Histoire économique*, 1: 199.

[156] Founded in 1928, the institute's key figures included Fernand Baudhuin, who was advising Belgian ministers of finance, Léon-Hugo Dupriez, who worked with the Service des études économiques at the Belgian National Bank and reported in favor of devaluation to the Bank's governor Louis Franck, and Paul Van Zeeland, who would take over as prime minister and devalue the franc at the end of March.

100 francs to the pound in the first three months of 1935; the Banque nationale de Belgique suffered accelerating gold losses. The devaluation campaign begun the previous summer culminated on 14 March with a widely reported speech by Fernand Baudhuin stressing the inevitability and urgency of devaluation. Gold losses climbed from 35 million francs on 11 March to 354 million on 15 March and 280 million during the two hours the bank was open on Saturday, 16 March.[157]

The Belgian prime minister, Georges Theunis, had dedicated his government formed in November 1934 to defense of the Belgian franc; he had declared that devaluation would be considered only when the franc reached 80 to the pound. But a renewed banking crisis, political and social resistance to deflation, and large gold losses forced him to reconsider. In early March he planned a visit to Paris to seek economic assistance. When the monetary crisis deepened in mid-March, the cabinet approved exchange controls in principle. Theunis met with the governor of the Banque nationale de Belgique, Louis Franck, and with Emile Franqui and Paul Van Zeeland on 16 March; they agreed that an extra 700 to 800 million francs (Belgian) in exports to France would be necessary to forestall the implementation of exchange controls and that there was no point in accepting credits from the Bank of France.[158]

The French fully appreciated the gravity of the Belgian crisis. When talks were requested on 8 March, the Ministry of Finance realized it was to request French aid before abandoning the gold standard and linking the Belgian franc to sterling. French observers expected that Belgium would be followed off gold by Holland and Switzerland and that France would inevitably follow. An immediate effort was necessary to keep the gold bloc from disintegrating.[159] Wilfrid Baumgartner pointed out that "the coming of M. Theunis to Paris obliges us to formulate a gold bloc policy which must consist, no longer of appear-

[157] Camille Gutt, *Pourquoi le franc belge est tombée* (Brussels: Nouvelle société d'éditions, 1935), 84.

[158] See testimony to the parliamentary commission of enquiry, Chambre des Représentants, *Commission d'enquête parlementaire*. Gutt told the commission the decision was all but made, and it was a question of nuances (Gutt testimony, 34; see also Theunis's views, 45, and Franqui, 50). For literature on the Belgian devaluation see Fernand Baudhuin, *La Dévaluation du franc belge: Une opération delicate parfaitement réussie* (Brussels: Edition universelle, 1935) and its revised edition, *La Dévaluation du franc belge: Un an après* (Brussels: Edition universelle, 1936), as well as his coverage in *Histoire économique de la Belgique, 1914–1939* (Brussels: Bruylant, 1946), 1: 320–3, and Gutt's *Pourquoi le franc belge est tombée*. Also important is the account in H. 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), 253–85.

[159] See the notes of 11, 12, and 13 Mar. 1935 in MF B 32323.

ances, but of realities."[160] He attacked French import quotas, which had been instituted in 1931 to protect against dumping and had not been intended to take a permanent place in French commercial policy. Baumgartner saw quotas as the "principal threat to the gold bloc" and argued that they took France off a true gold standard by stopping imports, which prevented debtor countries from earning the foreign exchange they needed for debt repayment.[161] To reinforce the gold bloc, he proposed that quotas be replaced by customs duties and that the bloc be expanded to include the United States and Britain.[162]

The Commission des accords commerciaux met on 15 March to determine what France could offer the Belgian mission. The answer was precious little. Most-favored-nation clauses would not allow exceptions for Belgium alone. Quotas that affected mainly Belgian goods were on sensitive items such as leather goods and glassware, on which French industry wanted further restriction. The replacement of quotas by customs duties was rejected because tariffs could not discriminate between countries with differing production costs.[163]

Although the French recognized that a Belgian devaluation would seriously weaken the gold bloc, they were unable to offer substantial assistance when the Belgian delegation arrived in Paris on 17 March. Prime Minister Theunis explained the Belgian situation and the need for exchange controls.[164] The French offered to increase Belgian quotas by about 100 million francs, which the Belgians later termed derisory.[165] The Bank of France offered a 2 billion franc credit and recommended the classic means of credit restriction and raising the discount rate to end gold losses. Camille Gutt replied that this was impossible: "If I

[160] Baumgartner to Germain-Martin, 11 Mar. 1935, MF B 32323.

[161] Notes of 11 and 12 Mar. 1935, MF B 32323.

[162] He suggested stalling the Belgians to allow time for an approach to Washington, and instructions were sent to Laboulaye in Washington to sound out Roosevelt on monetary stabilization and a program for the gradual elimination of trade barriers. See note to Laboulaye, 14 Mar. 1935, MF B 32323. Another proposal claimed that the gold standard itself posed the greatest threat to the gold bloc by concentrating exchange pressure on the weakest prey. To ease this pressure it suggested the central banks open current accounts with each other and use gold clearing arrangements to satisfy commercial demands for gold without alerting international speculation. "La France et le bloc or," n.d., and summary of same, 13 Mar. 1935, MF B 32323.

[163] Summary of meeting, 15 Mar. 1935, MF B 32323.

[164] Theunis told the parliamentary inquiry: "I asked nothing of the French. I told them our decree on exchange controls had been decided, and that it was the consequence of our general economic policy." *Commission d'enquête*, 45; see also Gutt's testimony, 35.

[165] Franqui testimony, *Commission d'enquête*, 50; Gutt, *Pourquoi le franc belge est tombée*, 90; and Baudhuin, *Histoire économique*, 1: 330.

were to suggest it in the middle of the Grande Place in Brussels . . . in five minutes there would not be a paving stone left in place; they would all have been used to stone me.'"[166] The Belgians left Paris empty-handed. Exchange controls were imposed the next day, and the Theunis government resigned. Paul Van Zeeland formed a new government on 25 March and devalued the Belgian franc on 30 March. The three remaining gold bloc members devalued in September 1936, led by France.

Founded in response to pressure on gold currencies after the dollar had gone off gold, the gold bloc was in no sense an economic unit.[167] As the natural leader of the group, France wished for solidarity only in defending its conception of the gold standard. No serious effort was made to develop the gold bloc as a unit beyond the coordination of central bank defenses in July 1933. French views on economic cooperation remained nationalist with protectionism, determined by domestic politics, overriding concerns for international cooperation. When it was suggested that gold bloc nations extract themselves from most-favored-nation clauses with nonmembers to strengthen their trade with one another, France rejected the idea because commercial relations were better with nonmember than with member states.[168]

The disintegration of the World Economic Conference over monetary stabilization confirmed the belief of the French in their official view of the causes of and remedies for the world depression. Roosevelt's repudiation of orthodox stabilization beliefs had placed him so clearly in the wrong that Bonnet had no doubts about French policy. The Americans had embarked on a course of monetary adventurism. France had successfully anchored the gold bloc to preserve an element of stability in the world monetary system, providing a fixed point of reference for future stabilizations. The notion of the gold standard as an anchor providing security and stability would stay with the French; later arguments against devaluation were often based on fears that with the disappearance of the gold standard, the world would collapse into complete monetary anarchy. As a Ministry of Finance note recorded in October 1933, "The position adopted by France and its associates is based on principles of which the value and certainty are incontestable.

[166] Gutt, *Pourquoi le franc belge est tombée*, 88.

[167] Camille Gutt wrote in *Pourquoi le franc belge est tombée*: "The gold bloc. If ever there was an expression of concentrated irony, that was it. The gold bloc was anything but a bloc. It was a conglomeration of countries with their currencies attached to the gold standard. They had that in common – and nothing else" (81).

[168] Marchandeau to Laval, 29 Jan. 1935, MAE B 57/7.

Its doctrines are those of secular common sense, of the moral and physical health of nations."[169]

Premier Daladier's opening statement to the conference had encapsulated the economic history of the years since the war in a form typical of the French "official view":

> During and after the war mankind, attracted by false miracles of credit, seized by the fever of mass production, and unconcerned with real faculties of consumption, has hurled itself blindly after profit, until the day that the gigantic pyramids of inflation, built with no concern for reality, collapsed.[170]

The "abuse of credit," primarily in Britain and the United States, had caused the depression; requisite solutions lay in the realm of domestic policy, not international cooperation, which at best could only assist a recovery based on sound domestic policy.

French hostility to an international conference in 1930 and 1931 had been based on fears of a redistribution of French gold. The devaluation of the American dollar in April 1933 transformed the problem. The major issue was no longer how to guard French gold reserves, but how to arrest the breakup of the monetary foundations of economic and social order, which now threatened to carry the few remaining gold-based currencies into chaos. The franc and the other gold bloc currencies held, for the time being, and the French retired from London with their gold reserves, their tariff barriers, and their moral principles intact. A Ministry of Foreign Affairs report recorded in November that "from the French point of view the London Conference can, in its consequences, be considered a useful event. Not only did our representatives there play a role of the first order, but on all points of importance, they forced others to admit the logic of their views."[171] In contrast to the American reversal in policy on stabilization between April and July 1933, and the apparent indecision of the British, who subordinated their actions to American policy leads, the French had maintained a clear and consistent policy of fidelity to the international gold standard and monetary stability. This would have been more commendable had it not been the product of an unyielding dogmatism that frustrated both the Americans and the British. In a situation where orthodox principles were no longer yielding acceptable answers to essentially new economic questions, the French persisted in promoting policies that predated the war. After the meetings of the Committee

[169] "Expédients et solutions," 5 Oct. 1933, MF B 32320.
[170] *Journal officiel de la Conférence*, 13 June 1933, MF B 32322.
[171] "Conférence monétaire et économique internationale de Londres," 14 Nov. 1933, MF B 32321.

of Experts in November, Sir Frederick Leith-Ross remarked sardonically that Charles Rist "continues to produce the economic theories of Sir Robert Peel with a completely maddening logic."[172]

French conviction on the need for monetary stability and preservation of the gold standard was reinforced by the failure of the London conference. The "official view" of the crisis was at its zenith, and French gold reserves rose through the summer to peak at over 86 billion francs.[173] It would weaken subsequently as the gold bloc suffered stagnation amid world recovery, and more particularly through the failure of its policy prescriptions in France.

[172] Cited in Drummond, *The Floating Pound*, 135.

[173] This is the total of gold reserves at the Bank of France and those sequestered at two other banks that do not appear on the Bank's weekly statements; Netter, *Banque de France*, ch. 4, 170.

4. The Bank of France: market control and interest-rate policy

In normal circumstances with the franc on gold, the Bank of France was supposed to function as a reserve bank to concentrate the nation's gold reserves (monetary gold in circulation was less than 5% of French gold holdings) and to defend them with changes in its discount rate.[1] A change in the Bank's discount rate in response to gold movements would contract or expand domestic credit as necessary to correct an external payments disequilibrium. The gold standard, however, was not as automatic as its apostles imagined and certainly had not worked in this way in France before 1914. The Bank of France kept its discount rate remarkably stable; between 1880 and 1913 it was raised only three times to defend against gold losses, and from 1900 to 1907 it remained unchanged at 3% for nearly seven years. Harry D. White concludes that during the thirty years before 1914, "in normal times the Bank of France exercised no influence on the contraction or expansion of credit." Gold reserves were defended by charging a premium on gold delivered and redeeming notes with silver; this worked effectively against external gold losses without penalizing the domestic market.[2]

[1] For a contemporary French explanation of how the central bank should operate, relying on discount rate and avoiding open market operations, see Charles Rist's account of the evolution of central banks, vaunting the Bank of France's superiority to the Bank of England, in his *History of Monetary and Credit Theory from John Law to the Present Day*, trans. Jane Degras (London: Allen & Unwin, 1940), 380–430.

[2] Harry D. White, *The French International Accounts, 1880–1913* (Cambridge, Mass.: Harvard University Press, 1933), 172–200, 303–4 (quote from 200). See also Alain Plessis, "La Banque de France et les relations monétaires internationales jusqu'en 1914," *Relations internationales* 29 (Spring 1982): 3–23.

The classic statement of the gold standard automaticity believed to have operated before the war is the First Interim Report of the Cunliffe Committee on Currency and Foreign Exchange after the War, which can be found in abridged form in Barry Eichengreen, ed., *The Gold Standard in Theory and History* (New York: Methuen, 1985), 169–83. No equivalent study was undertaken in France; there was no doubt that France would return to its prewar monetary system. Debate on renewal of the Bank of France's note-issuing privilege immediately after the war showed almost complete unanimity of views among government, industry, commerce, and the public, and the renewal bill

In the interwar period the French economy saw few "normal" years. While the Bank remained responsible for defending the franc, the state was responsible for the national economy and, ultimately, for the currency. Relations between the state and the central bank had been strained in the 1920s by conflict over state borrowing from the Bank and the need for currency stabilization. Under Emile Moreau's governorship (1926–30), the Bank of France reached the peak of its power in the interwar years, obtaining the restoration of state finances and the stabilization of the franc it desired. This strength was not destined to last; the Bank's tenuous control of the French money market, the international gold problem, the disintegration of the international gold standard, and the worsening depression in France narrowed the Bank's attention to defense of the franc. The chief danger to the franc was believed to be a budget deficit, and state financial difficulties gave the Bank both the occasion and the means to try to discipline state fiscal management. Policy directed to this end brought the Bank under heavy public attack by 1936, leading to its de facto nationalization in July 1936, ending what Jean Bouvier has called *l'ère des imprudences.*[3]

was passed by a large majority in the Chamber of Deputies and unanimously in the Senate. See the discussion in Netter, *Banque de France*, ch. 1, 4–14, and ch. 2, 4–10. Jacques Rueff presents an idyllic view of the prewar economy in "La Crise du capitalisme," *Séances et travaux de l'Académie des sciences morales et politiques* (Nov.–Dec. 1935): 393–5; in the discussion that followed, Charles Rist pointed out the "enormous gulf" separating the world Rueff portrayed from prewar reality.

On how the gold standard actually worked until 1914, see the historical analyses in Eichengreen, Editor's introduction to *The Gold Standard in Theory and History*, 1–35, and Arthur Irving Bloomfield, *Monetary Policy Under the International Gold Standard, 1880–1914* (New York: Federal Reserve Bank of New York, 1959); Peter H. Lindert, *Key Currencies and Gold, 1900–1913*, Princeton Studies in International Finance no. 24 (Princeton, N.J.: Princeton University Press, 1969); Robert Triffin, *The Evolution of the International Monetary System: Historical Reappraisal and Future Perspectives*, Princeton Studies in International Finance no. 12 (Princeton, N.J.: Princeton University Press, 1964), 2–20; White, *The French International Accounts*, 172–200; and Sayers, *Bank of England*, 1: 28–53. For French reconsiderations of their faith in the gold standard after their turbulent experiences in the 1930s, see Bertrand Nogaro, "L'Etalon d'or a-t-il existé?" *REP* 54 (1940): 161–84, and François Perroux, "Les Banques d'émission et l'Etat," *REP* 55 (1945): 485–98.

[3] This section has benefited from Jean Bouvier's studies of French state–bank relations, particularly *Un siècle de banque française* (Paris: Hachette, 1973), 155–92; "La Banque de France et l'Etat des années 1850 à nos jours," Paper presented at the Colloque Fondazione Olivetti, Rome, 1985; and "Les Relations entre l'Etat et la Banque de France depuis les années 1950," *Vingtième siècle* 13 (Jan.–Mar. 1987): 23–33. See also Bouvier's Presentazione to Emile Moreau, *Memorie di un governatore della Banca di Francia* (Bari: Cariplo-Laterza, 1986), xx–xxiii; and "Les Banques," in Alfred Sauvy, *Histoire écono-*

The Bank of France's preeminent task was to maintain the franc on a freely operating gold standard. Asked by Sir Arthur Salter what he believed to be the fundamental role of a bank of issue, Moreau replied: "It is the monetary function: to assure at all times the convertibility of the bank note into gold – the common base of all credit. The other roles are, to my mind, of secondary importance."[4] Just how far the Bank's responsibilities and powers extended if state actions endangered the stability of the currency could be determined only in practice. The relative strengths of successive governments, ministers of finance, and governors of the Bank decided where the limits to the Bank's power would be drawn, with budget deficits and state borrowing the main points of conflict. The Bank's influence increased when the government of the day was weak,[5] and in the mid-1920s and the 1930s a series of weak governments, unable to balance state budgets, provoked Bank efforts to restore fiscal control.

But the government had the last word in any conflict with the Bank through its power to appoint and dismiss governors and assistant governors. Joseph Caillaux exercised this power in June 1926 in dismissing Governor Georges Robineau,[6] Louis Germain-Martin and Vincent Auriol in the mid-1930s in replacing Clément Moret and Jean Tannery. Yet dismissal of a respected governor could damage public confidence; Moreau successfully used the threat of resignation to get his way in disputes with Raymond Poincaré over stabilization of the franc. With the return of chronic budget deficits and the need for higher interest rates to defend the franc, the depression increased the potential for disagreement between the Bank and the state. State–Bank relations are taken up more fully in the following chapter on Treasury management; this chapter is concerned with the Bank's management of monetary affairs from 1928 to 1936 and the evolution this involved from nineteenth-century practice toward modern central banking.

The evolution was complex, for the Bank of France played conflicting roles in French monetary management. The first section of this chapter outlines the historical development of the Bank of France and its place in the French money market. The second section examines

mique de la France entre les deux guerres, vol. 3 (Paris: Fayard, 1972), 204–33. More recently, stressing the importance of Bank independence, see Prate, *La France et sa monnaie*.

4 Moreau, *Souvenirs*, 170.

5 As pointed out by Jean Bouvier, "The powers of the governor are always inverse to the political stability of the government in office." "La Banque de France et l'Etat."

6 The best account of Caillaux's conflicts with Robineau is Jeanneney, *François de Wendel*, 239–69.

the Bank's attempts to increase its influence in the money market and to expand the international role of the Paris market following the return to gold. The third and fourth sections deal more specifically with monetary management, focusing on the Bank's use of its two main policy instruments: open market operations and the discount rate. The Bank disapproved of open market operations, refusing to undertake them on more than an incidental basis, so market control and defense of the franc depended on the use of the discount rate. But the combination of market anarchy, rivalry with the commercial banks, and a tradition of discount-rate stability restricted the capacity of discount-rate policy to influence domestic credit and gold movements. In effect, as before 1914, the Bank tied both its hands with regard to monetary management.

The Bank of France and the money market

The Bank of France was founded by Napoleon in 1800 as a private bank intended to provide cheap credit to the public, and was granted monopoly rights to issue currency notes in Paris when the franc germinal was legally defined in 1803 as 5 grams of silver .900 fine.[7] By midcentury it was the nation's exclusive bank of issue, a privilege granted for limited periods, with renewals requiring the extension of Bank services by opening new branches. The Bank also became banker to the state, holding many government accounts. It was governed by a council of fifteen regents and three *censeurs*, elected by its two hundred largest shareholders.[8] Bankers dominated the Council of Regents; after banking crises in 1803 and 1806, Napoleon reduced banking influence by requiring that five regents and the three *censeurs* represent industry and commerce (a representative of agriculture was added later), and assumed the power to appoint the governor and assistant governors. The *statuts fondamentaux* of 1808 enshrined in law the rules of operation developed over the previous eight years and governed the Bank until 1936 (in the interim, changes were by amendment to the statutes).

[7] On the monetary anarchy brought to an end by the currency reform, see Guy Thuillier, *La Monnaie en France au début du XIX^e^ siècle* (Genève: Librairie Droz, 1983), 63–106.

[8] Thus, the origin of the "two hundred families" who were reputed to control France through their financial power and who were a target in the campaign against the Bank of France in the 1930s. See esp. Francis Delaisi, *La Banque de France aux mains des 200 familles* (Paris: Comité de vigilance des intellectuels antifascistes, 1936), 18–33, for banker domination of the Council of Regents at the expense of commerce, industry, and agriculture.

The Council of Regents remained dominated by representatives of the older *haute banque* houses until 1936.[9] The key position was that of the governor, who directed day-to-day management of the Bank and presided over the Council of Regents.[10] This centralization of power made relations between the governor and the minister of finance crucial to Bank independence. In 1930 Clément Moret (governor 1930–5) told the parliamentary commission investigating the Oustric scandal, "I am a civil servant; I view the function of the governor as implying that he maintain the character of a civil servant."[11] But Emile Moreau, exceptional for his independence from both governments and the regents, responded differently when the commission asked if he considered the governor to be a *fonctionnaire*:

> Oh, it's a terrible question! I have always argued "no," but others have said the contrary.
>
> I have often discussed the question with ministers, and I have told them: I am here to keep watch over the Bank's statutes and to defend them against you, Minister, as well as against the Council of Regents, and at the same time to follow the general policy that I consider appropriate. You have only one right, that of dismissing me, and no other.[12]

Although Bank governors were often drawn from Ministry of Finance personnel, ministers of finance did not exercise direct influence over them, and even after de facto nationalization in 1936 the Bank remained able to resist government influence. In the words of a subsequent governor, Wilfrid Baumgartner, "The Bank of France remains on the whole what it has always been, because the Bank of France cannot not be the Bank of France."[13]

[9] Bouvier, *Un siècle*, 160; Delaisi, *Banque de France*, 22–31; Achille Dauphin-Meunier, *La Banque de France* (Paris: Gallimard, 1936), 204–5.

[10] Marcel Netter, *Les Institutions monétaires en France* (Paris: Presses Universitaires de France, 1973), 32–3. In Abel Gardey's description, "It is the governor, and the governor alone, because the assistant governors are merely his deputies, who is responsible for direction of the Bank." *J.O.Sén.*, 23 July 1936, 806. A new assistant governor who asked Georges Pallain about his responsibilities was told: "You have read the article of the statutes which concerns you: the assistant governors, by order of seniority, replace the governor when he is absent, on vacation, or ill. I can tell you now that I am never ill, and I am never absent." Cited in Wilfrid Baumgartner, "La Banque de France, tradition & progrès," Conférence prononcé à l'Université des annales, 3 Nov. 1955, 9. Measures proposed by the governor to the regents were virtually never rejected, and controversy between the governor and the regents was not recorded in the council's *procès-verbaux*, as will be seen.

[11] Quoted in Netter, *Institutions monétaires*, 32.

[12] Cited in ibid., 32–3.

[13] Baumgartner, "La Banque de France, tradition & progrès," 16.

This ambiguity in the degree of the Bank's independence could strain relations between the Bank and the Ministry of Finance over monetary policy, but the schizophrenic character of the Bank's role in the money market had even more serious repercussions. The Bank was both lender of last resort to private banks and itself a privately owned bank competing for commercial business at its 360 branches. The "system" it supervised was divided loosely into two categories according to function – commercial banks and investment banks – with a third, hybrid category – the regional banks – meeting investment needs in the provinces.[14]

The commercial banks, or *banques de dépôt*, were dominated by four Paris-based banks, three of which had branches throughout France: the Crédit lyonnais, the Société générale, the Comptoir national d'escompte de Paris, and the Crédit industriel et commercial. Founded in the mid-nineteenth century, they mixed deposit banking with both short-term lending and long-term industrial investment, but retreated from investment banking after the failure of the Union générale in the banking crisis of 1882.[15] The banks that continued to develop as investment banks became known as *banques d'affaires*; the two most important in the 1930s were the Banque de Paris et des Pays Bas ("Paribas") and the Banque de l'Union parisienne ("Parunion"). While the *banques de dépôt* extended branches throughout France, the *banques d'affaires* were centered in Paris and sought international and large-scale industrial lending. They arranged consortia for security issues, placing securities with the commercial banks, which then sold them to the public through their branches. A smaller class, the *hautes banques*, distinguished by their international and personal connections, were owned by the great banking families of France – Rothschild, de Neuflize, Lazard, Hottinguer, Mallet, Vernes – and conducted business for an elite clientèle of governments, big business, and established wealth. Although their influence was declining, they played a large role in governing the Bank of France; in contrast, no representative of the *banques de dépôt* gained a seat on the Council of Regents.[16]

The regional banks such as the Crédit du Nord, the Charpenay bank

[14] See Henry Laufenburger, *Les Banques françaises* (Paris: Librairie de Recueil Sirey, 1940), 18–30; Myers, *Paris as a Financial Centre*, 100–34; Alfred Pose, "Structure et méthodes bancaires," *REP* 53 (1939); and Bouvier, *Un siècle*, 39–44.

[15] Bouvier, *Un siècle*, 42–3; Myers, *Paris as a Financial Centre*, 102–5. On the Union générale and the 1882 crisis see Jean Bouvier, *Le Krach de l'Union générale (1878–1885)* (Paris: Presses universitaires de France, 1960).

[16] Myers, *Paris as a Financial Centre*, 112; Bouvier, *Un siècle*, 41, 160; and Prate, *La France et sa monnaie*, 87–8.

of Grenoble, and the Société nancéienne, were closely tied to local industries; their competition with both the *grandes banques* and the Bank of France made them highly vulnerable in the credit crises of the early 1930s.[17] Their part in assisting small regional business and industry was supplemented by the *banques populaires* begun by the government in 1917 to provide credit to small enterprise. At the end of 1935 there were seventy-seven such *banques populaires*, with 594 million francs in loans outstanding to 27,000 small businesses.[18] Adding further variety were agricultural banks, municipal banks, and deposit facilities offered by government institutions such as the Caisse des dépôts et consignations, the Caisses d'epargne, and the PTT.[19]

In discounting commercial paper for industry and commerce, the Bank of France competed directly with the commercial and regional banks. Renewals of its note-issuing privileges had required that it open new branches to extend credit on an equal basis throughout the nation, and the cost of maintaining local branches required that these branches actively seek discount customers. Commercial bank discounting developed in competition with, and at the expense of, the Bank of France in the late nineteenth century. By 1900 the four largest commercial banks were discounting more, and better quality, paper than the Bank.[20] Under Governor Georges Pallain (1897–1920) the Bank sought to recover lost ground and succeeded mainly at the expense of local and regional banks.[21] This push continued after the war, and competition became bitter in the early 1930s when the economic crisis reduced the volume of commercial business while the Bank increased its efforts to attract clients as other sources of income declined.[22]

Joseph Caillaux called attention to the problems this created during Senate discussion of the reform of the Bank of France in July 1936. In theory, the Bank should engage only in rediscounting, not in direct discounting in competition with other banks, he argued. By the mul-

[17] Myers, *Paris as a Financial Centre*, 114; and Guy Charpenay, *Les Banques régionalistes* (Paris: Nouvelle revue critique, 1939).

[18] See Crédit populaire director Montfajon's report to the Brunet Commission published in *Revue banque et bourse* 6 (Jan. 1938): 291–6, and Pose, "Structure et méthodes bancaires," 341–4.

[19] See the description of French banking structure in the report of Hubert Devillez, auditor of the Cour des comptes, to the Brunet Commission, in *Revue banque et bourse* 1 (Aug. 1937): 205–7, and Pose, "Structure et méthodes bancaires."

[20] Bouvier, *Un siècle*, 157.

[21] Dauphin-Meunier, *Banque de France*, 130; Bouvier, "La Banque de France et l'Etat."

[22] Bouvier, Presentazione, xxvi. According to Moreau's testimony to the Oustric Commission, this push was made on the initiative of department directors rather than the governor and regents. See Dauphin-Meunier, *Banque de France*, 163–4.

tiplication of its branches, the Bank was competing for clients with private banks at a local level, and these banks dared not rediscount paper for fear of losing their clients to the Bank of France.[23] The truth in this was widely acknowledged. The *grandes banques de dépôt* considered it a matter of pride to avoid rediscounting at the Bank of France (Paribas, Parunion, and the Crédit lyonnais made it a point of honor never to rediscount at the Bank) as well as a matter of sound business practice.[24] H. A. Siepmann similarly recorded in 1929 that the commercial banks feared the Bank of France would "filch" their customers:

> In the Banque de France itself this competitive spirit – which is the natural result of the efforts made during the last century to popularise banking by making the Banque de France lead the way in giving bank credit through its agencies . . . is not dead yet, and among the great private banks the prejudice against allowing their signature to circulate is still strong. In fact the Banque de France has never yet completed the transition from competitive commercial banking to central banking proper.[25]

The last point was more than condescension on the part of a rival central bank. Direct competition with the commercial banks produced conflict between the Bank of France's immediate financial interests and its leadership role in the money market. French commercial banks generally placed short-term funds in London and found it both easier and cheaper to draw on short-term credits abroad when they required increased liquidity. This increased international capital movements and was a major source of pressure on sterling in 1930 and 1931. The Bank of France's discount rate proved weak in influencing both domestic credit conditions and international gold movements.

Caillaux's criticisms of the Bank of France in July 1936 were influenced by Emile Moreau and Pierre Quesnay, who urged suppression of competition with the commercial banks as essential to the Bank of France's transition from passive discounting to true central banking.[26] Defenders of direct discounting insisted that it was necessary in order to regulate and discipline the discount market; without competition from the Bank of France, commercial banks would raise their discount rates and discriminate against small and medium enterprises.[27] This defense was

[23] *J.O.Sén.*, 23 July 1936, 815.

[24] See Moreau testimony to the Oustric Commission in F[7] 13979.

[25] Siepmann, "Note of Conversations in Paris on 26th July 1929," BoE OV45/80.

[26] "Adaptation du rôle de la Banque de France à la situation de 1936," 1 Mar. 1936, FNSP, ERJC 6, Dr 2.

[27] See the views expressed in A. Leyrie (controller at the Bank of France) to Caillaux, 27 July 1936, and Jean Tannery to Caillaux, 25 July 1936, in FNSP, ERJC 6, Dr 2. Direct discounting was considered the soundest basis for credit expansion; Moret told

not convincing. Small enterprise complained of difficulty obtaining credit from the large commercial banks and tended to see the Bank of France as one with them.[28] Local and regional banks believed the Bank of France was deliberately driving them out of business in order to profit from their customers, particularly in its failure to provide rediscount facilities during the banking crisis of 1930–1.[29] But with no legislation governing bank charges and the large French banks cooperating to maintain a floor price for discounting, competition from the Bank of France was one means, however inadequate, to keep down commercial discount rates.[30]

The Bank's push to increase direct discounting in the early 1930s was revenue driven.[31] Much of the Bank's revenue at the end of the 1920s came from its foreign exchange holdings in New York and London, and this income fell sharply with interest rates abroad. In the second half of 1931, the Bank earned 102 million francs from discounting, as compared with 250 million on its foreign exchange.[32] Discount earnings were unusually high in autumn 1931;[33] they fell off in early 1932 and remained low until spring 1935 (Table 4.1): In the spring of 1932 the Bank's two most profitable sources of revenue were in sharp decline. Bank half-yearly dividends, which had peaked at 335 francs in June 1930 and stood at 285 in December 1929 and 1930, dropped in June 1932 to the 100 francs considered minimally acceptable. When the dividend held at 100 francs in December 1932, Bank of England officials commented, "On the face of it, it seems unlikely that they have balanced their yearly account by regular methods," speculating that the Bank might have obtained a reduction in the state's share of total Bank profits or drawn on reserves in order to maintain the dividend.[34]

Bank shareholders that the trade bill "has always been, and remains, in our eyes, the most important instrument for a sound distribution of banking credit; it helps prevent both a shortage of credit and its oversupply." *Annual Report, 1933*, 21.

28 See the concerns of M. le Duigou, vice-president of the Syndicat de la petite et moyenne industrie, to the Brunet Commission, reprinted in *Revue banque et bourse* 1 (Aug. 1937): 203–5.

29 See esp. Charpenay, *Banques régionalistes*, 95–114, 131–4; also, more critical of the regional banks, Alfred Pose, *La Monnaie et ses institutions* (Paris: Presses universitaires de France, 1942), 2: 698–702.

30 Netter, *Banque de France*, ch. 4, 186.

31 Ibid., 189.

32 Bouvier, "La Banque de France et l'Etat."

33 Dauphin-Meunier notes that the Bank opened 26,614 new accounts in 1931 compared with 7,800 in 1930; *Banque de France*, 163.

34 A. Grafftey Smith, "Bank of France Dividend," 28 Dec. 1932, BoE OV45/83. The Bank of England noted repeated complaints by Bank of France officials that it was having difficulty paying its running costs, with many branches operating at a loss, and

Table 4.1. *Bank of France commercial discounts, 1931–5 (monthly averages, millions of francs)*

Month	1931	1932	1933	1934	1935
January	8,056	6,679	2,960	4,343	3,734
February	7,581	5,157	2,942	5,209	3,951
March	6,378	4,660	3,538	5,536	3,969
April	5,815	4,322	3,611	5,398	4,287
May	5,349	3,889	3,306	4,915	5,157
June	4,763	3,682	2,951	4,247	8,721
July	4,506	3,426	3,099	4,056	8,075
August	6,288	3,356	3,018	3,691	7,525
Septemer	7,000	3,295	3,078	3,675	7,665
October	9,861	3,182	3,227	3,816	8,356
November	7,961	3,016	3,618	3,581	10,001
December	7,411	3,090	3,991	3,544	10,826
Annual average	6,915	4,119	3,414	4,463	6,688

Source: Revue d'économie politique, 1932–6. The annual average for 1929 was 6,996 million francs; for 1930, 6,066 million francs.

Marcel Netter notes that direct discounts at the Bank of France were less than 10% of the discounts by the major commercial banks: "Statistically, the direct aid from the Bank of France to commerce, industry and agriculture remained modest, and it was difficult to maintain that its activity was seriously prejudicial to the private banking sector."[35] It is difficult to assess the Bank's efforts to increase discounting since its records do not distinguish between discounts and rediscounts in its commercial portfolio.[36] Furthermore, the liquidity of both the domestic and international money markets was such that recourse to Bank fa-

that it was pushing discount competition by its branches. See Grafftey Smith, "Information from Bank of France," 18 Mar. 1932, and "Bank of France Profits," 29 Mar. 1932; F. R. Rodd, "Comment on the Analysis of the Bank of France Profits," 30 Mar. 1932; Siepmann, "Banque de France," 22 Sept. 1932; Grafftey Smith, "Estimate of Bank of France Profits," 30 Sept. 1932, and "Memorandum," on a visit by Lacour-Gayet, 2 Mar. 1933, BoE OV45/83. One year later Cobbold reported that the Bank continued to encourage branch managers to compete for business and that efforts to increase rediscounting met with no success. Cobbold, "Paris Visit," 27 Dec. 1933, BoE OV45/84.

[35] Netter, *Banque de France*, ch. 4, 187–8.

[36] An exception is Félix Vernes's "Rapport sur l'examen des portefeuilles," PV CG, 17 Mar. 1932, which provides a "snapshot" of the composition of the Bank's commercial portfolio. See Bouvier's analysis in "The French Banks, Inflation and the Economic Crisis, 1919–1939," *Journal of European Economic History* 13 (Fall 1984): 50–3; one-third of 4.2 billion francs were direct discounts.

cilities was not needed by the large French commercial banks through most of the 1930s. More important was the effect on the Bank's leadership in the marketplace, and here it is noteworthy that the Bank began its retreat from direct discounting in 1935 in order to increase its authority over the commercial banks.[37] In 1930, half the Bank's portfolio was discounts for nonbank customers. By 1939 this had fallen to one-quarter; between 1945 and 1954 it would fall from 10% to less than 1%.[38] Experience in the early 1930s, with open market operations disdainfully rejected and the discount rate exercising only weak influence on the French money market, required the Bank of France to move toward more effective market control. As Moreau and Quesnay argued in 1928 and again in 1936, passive discounting and the stockpiling of gold would no longer suffice; the Bank needed to engage in active management of French domestic credit.

Development of the Paris money market

With the franc securely back on gold, the Bank of France could aspire to a greater role in directing the Paris money market and to Paris playing a larger part in international finance. On 28 June 1928, Governor Emile Moreau set down his agenda in his journal:

> To defend the results achieved against the improvidence and the demagogy of the politicians, to reorganize the Paris market in order to make it one of the primary world markets, to coordinate and extend the action of our banks abroad; these will be the essential tasks after the stabilization.[39]

Since the war, London's financial preeminence had been challenged by the growing New York market, and Paris coveted a share of London's former prestige. From 1928 to 1930 Moreau tried to develop the Paris money market in order to improve its position as a center for international finance. He elaborated his plans to the Council of Regents in August 1928:

> Thanks to the mass of foreign exchange it possesses, the Bank of France can exercise a considerable influence on the London and New York markets, but it is impotent in the Paris market. In order to fulfill its role, it is not sufficient that a bank of issue assure the convertibility of its notes into gold; it is equally

[37] See the section in this chapter on defense of the franc.

[38] Bank for International Settlements, *Eight European Central Banks* (New York: Praeger, 1963), 145.

[39] Moreau, *Souvenirs*, 603.

necessary that it be in a position to act on the national money market. On the other hand, opinion is unanimous that we profit from present circumstances in order to make the Paris market a major international credit market.[40]

In an issue of *L'Europe nouvelle* devoted to the Paris money market, Charles Rist agreed that reform and reorganization were necessary if France was to take full advantage of its prosperity and prestige in the European economy. Action was needed on two fronts: a relaxation of fiscal legislation controlling foreign lending – a return to prewar practice would suffice – and a reorganization of the Paris market to broaden the long-term market and to develop a short-term market comparable to that in London.[41]

The first stage in Moreau's plans called for the development of an acceptance market, which would give the Bank a means to act within the domestic market and would help organize the market to play a larger role internationally.[42] In August 1928 Moreau called a combined meeting of the Comité des livres et portefeuilles and the Comité des succursales to discuss Bank of France action appropriate to the development of an acceptance market. The regents on the two committees did not share Moreau's vision. At the end of August Moreau told the regents that action had been postponed because some members of the committee had refused, in the absence of colleagues, to make a final decision on the matter.[43] Instead they drew up regulations for the purchase and sale of short-term securities on behalf of other central banks, one of the routes by which the Bank would acquire experience in open market operations.[44] The Bank also encouraged the founding of the Compagnie parisienne de réescompte, the first discount house in

[40] PV CG, 23 Aug. 1928.

[41] Charles Rist, "Le Marché de Paris se doit de jouer un rôle international," *L'Europe nouvelle*, 11 Jan. 1930, 38–9.

[42] PV CG, 23 Aug. 1928; the Committee of Experts that had set the program for stabilization of the franc recognized the need for an acceptance market in 1926. Myers, *Paris as a Financial Centre*, 162–3.

[43] PV CG, 30 Aug. 1928. Though not recorded in the *procès-verbal* of the Council of Regents, Moreau had already met with representatives of the larger Paris banks to discuss the organization of the Paris market in mid-July. Georges Potut, *La Banque de France, du franc de germinal au crédit contrôlé* (Paris: Plon, 1961), 164.

[44] These allowed for purchase of bills due in forty-five to ninety days, for amounts of at minimum 50,000 francs. According to Netter there were seven banks with accounts from which such operations could now be effected; *Banque de France*, ch. 4, 14–15; the FRBNY and the Bank of England did not have such accounts at this time. (Moreau to Norman, 30 Aug. 1928, BoE OV45/80, offers these services to the Bank of England.)

Paris, through which the Bank of France made open market purchases for other central banks.[45]

In 1929 the Bank of France adopted three measures to encourage development of the Paris market. In April it ceased discounting paper denominated in foreign currencies in order to foster transactions in francs.[46] In November it extended the hours during which requests for rediscounting would be accepted from an 11 a.m. to a 3 p.m. closing. With no call market in Paris, the innovation was an important source of short-term credit allowing banks to reduce their balances at the Bank of France.[47] The third measure, implemented in December, allowed the rediscounting of commercial paper for a limited period – seven days, with possible renewal for another five – after which the paper would be repurchased. This would increase short-term liquidity and reduce demand for funds on days of large bill maturities. It aimed at reducing French reliance on the London market for short-term placements. The French market, Moreau explained, did not offer the flexibility necessary to rival London. In addition to rediscount facilities at the Bank of France, French industrialists and bankers needed immediately accessible short-term funds, for which suitable investment facilities were not available in the Paris market. A large volume of this capital was sent to London, depriving the French economy of such activity and causing undue fluctuation in the exchange market.[48] The facilities were modeled on those offered in London, and they were much appreciated and utilized by French banks.[49]

The Bank also prompted government measures to increase foreign lending. The stamp duty on foreign loans was reduced from 4% to 2% in 1929 and to 1% in 1930; the tax on revenue from foreign placements was reduced from 25% to 18%. But psychological obstacles to foreign lending remained, chief of which was the losses on loans to Imperial Russia, and with the onset of depression, economic and political instability abroad further discouraged capital exports.[50]

[45] Myers, *Paris as a Financial Centre*, 172, and Netter, *Banque de France*, ch. 4, 25. Two regents, the Barons Mallet and de Neuflize, were among its founders.

[46] Netter, *Banque de France*, ch. 4, 17–18.

[47] PV CG, 24 Oct. 1929. The discount committee sat daily from noon to 1 p.m. Rather than move the committee's meeting time, it was decided to grant credits between 11 p.m. and 3 p.m. subject to approval the following day. The facility became available 5 Nov., offered initially to a few banks and extended to a wider circle three weeks later.

[48] PV CG, 28 Nov. 1929.

[49] Netter, *Banque de France*, ch. 4, 22.

[50] Myers comments, "It is doubtful if such feeble efforts could have been successful in

The event with the greatest potential for the Paris market, however, was the creation of the Banque française d'acceptation at the end of 1929, supported by the Bank of France and the large Paris banks.[51] Acceptance business in Paris was one-tenth of that in London in 1913 and had fallen off sharply since the war; it was only beginning to recover after de jure stabilization of the franc. (Acceptances at the four main deposit banks totaled less than 250 million francs at the end of 1926, climbing to 884 million in 1928 and 1,274 million in 1929.)[52] It was hoped that by pooling resources, the Banque française d'acceptation would facilitate discounting acceptances too large for individual banks to undertake and thus supplement the acceptance business of the Paris banks. The bank started well, its acceptances totaling 565 million francs at the end of 1930. But it had caught the last breath of the expansionary period, and its acceptances declined thereafter to less than 54 million in 1934. It did not share in the market revival in 1935 and led a marginal existence until its disappearance after the Second World War.[53]

The depression ended aspirations to develop the Paris money market as an international financial center. The *Revue d'économie politique* recorded:

> Generally speaking, it must be admitted that the fiscal measures taken by the government in 1929–1930, as well as the facilities accorded by the Bank of France at the end of 1929, have not succeeded in developing French investment abroad, nor in any notable extension of the use of international credits in francs. These initiatives, although opportune, have collided with the world economic crisis.[54]

If its development was choked off by the depression, the success of the Paris market was by no means otherwise assured. Several difficulties with the market itself made development problematic.

First, the cleanup of government debt since 1926 had left little short-

any case, but they were completely useless in the face of the unwillingness of the average investor to risk any more money abroad." *Paris as a Financial Centre*, 141.

[51] A "banker's acceptance" is a bill of exchange that has been guaranteed by a bank; acceptance banks specialize in guaranteeing such paper for a commission. The bank was founded with a capital of 100 million francs; Paribas, Parunion, the Crédit lyonnais, the Société générale, the Crédit commercial and the Banque nationale du crédit each took 10% of the shares. See Myers, *Paris as a Financial Centre*, 166. Its president was former Bank of France Assistant Governor Charles Sergent, and its directors were drawn from the boards of the founding banks.

[52] *REP* 45 (1931): 588.

[53] Myers, *Paris as a Financial Centre*, 168; Gilbert Guenser, *Le Marché monétaire et son contrôle par le Banque de France* (Nancy: Imprimerie Vagner, 1938), 77; and Laufenburger, *Les Banques françaises*, 59–60, 318.

[54] "Le Marché monétaire et les changes," *REP* 45 (1931): 564.

term government paper in the market. (The Caisse d'amortissement had been created in 1926 to reduce the large volume of Treasury bills and national defense notes, many of which were for three months to a year; the latter were gradually refunded with notes of at least two years' duration; Treasury bill issue fell off to nothing by the end of 1928.) The new Compagnie parisienne de réescompte was the only discount house in Paris, and business was not sufficient to attract a second such house until 1938.[55] Second, Moreau's desire to improve Bank control of the market was not shared by the other regents. They frustrated both his initiative to develop an acceptance market in August 1928 and his efforts to increase Bank control of the money market in 1930.[56] Third, French international banking connections were weaker than those of Britain or the United States, making it more difficult to attract international customers.[57]

Last, and most important, was what Moreau called the "anarchy of the Paris market." F. G. Conolly introduced a list of reasons that Paris would not develop a short-term capital market with the claim that the major Parisian banks "would rather cut each other's throats than cooperate in an organised market."[58] The situation was not that desperate, but the attitudes of the major French banks were inimical to market development. They preferred to manage their own acceptances (banks in Paris, unlike those in London and New York, purchased their own acceptances) rather than pay a commission to brokers to allow an organized market. When the Bank of France tried to have information on market acceptance rates published in 1927 and 1929, the banks refused to cooperate, and the Bank itself had difficulty getting precise information on commercial bank discount rates.[59] Furthermore, the banks were not consistent in extending credits. After buying bills from the Banque française d'acceptation, the banks could request that it take them back, "a situation fatal to the firm foundation of a bill market."[60] Siepmann believed French banks were too easily alarmed, withdrawing

55 Netter, *Banque de France*, ch. 4, 28.

56 See the next section in this chapter, on control of the market.

57 Myers, *Paris as a Financial Centre*, 174–5. Myers thought substantial expansion was possible, however, particularly in trade with the French empire.

58 Conolly to Siepmann, 27 Oct. 1930, BoE OV45/81. See Myers, *Paris as a Financial Centre*, 170–3, on the differences in the way brokers and banks functioned in Paris.

59 Moreau, *Souvenirs*, 204; on the Bank's 1929 effort, see Netter, *Banque de France*, ch. 4, 25–6, 186.

60 Brown, *The International Gold Standard Reinterpreted*, 993–4. See also Myers, *Paris as a Financial Centre*, 172–3.

credits without sufficient regard for their customers.[61] With these drawbacks, development of the Paris market was bound to be a very slow process.[62]

When Emile Moreau resigned as governor of the Bank of France in September 1930, failure to develop the Paris market was one of the reasons he gave in his farewell address to the regents and, six months later, to the Oustric Commission.[63] Even without the world depression, Paris was not ready to become a world financial center, which required greater confidence, increased central control, and improved cooperation both internally and in relations with markets abroad. As the depression arrived in France in 1930, none of these elements were forthcoming.

Control of the market

Moreau's disappointments included his failure to increase Bank of France control of the volume and terms of credit in the Paris market. The Bank relied on movements in the discount rate to accomplish two goals: maintenance of the franc on gold and management of the domestic money market. Not surprisingly, when these goals conflicted, changes in the discount rate could not accomplish both. The Bank was unwilling to use open market operations to control market liquidity, believing they were responsible for the world depression and the disintegration of the gold standard. When domestic objectives for discount-rate policy came into conflict with defense of the franc, the latter took precedence, but changes in the discount rate were slowed by concern for domestic credit conditions and the desire to keep the rate as stable as possible. During the first years of the franc Poincaré, the strength of French gold reserves allowed discount-rate stability, but from May 1935 the weak-

[61] Siepmann, "Conversation between Prof. Sprague and M. Lacour-Gayet: Acceptance Market in Paris," 7 Oct. 1930, BoE OV45/81.

[62] In a 1932 examination of whether Paris could replace London as an international financial center, René Jacques found that the Paris market's lack of cohesion and collaboration, its limited facilities for short-term credit, and its inexperience with international financial affairs meant that Paris had a great deal of ground to cover if it were ever to rival London. René Jacques, "Paris peut-il remplacer Londres comme marché financier international?" *REP* 46 (1932): 201–11.

[63] PV CG, 25 Sept. 1930; the farewell address is reprinted as an appendix to Moreau's *Souvenirs*, 610–12. He told the Oustric Commission, "I tried, without succeeding completely – and it is in part this deception which brought me to leave the Bank of France – to transform Paris into a major international market." Cited in Netter, *Banque de France*, ch. 4, 27.

ening of confidence in the franc brought large movements to protect gold reserves (Figure 4.1).

Moreau, with strong support from Pierre Quesnay, the Bank's director of economic studies, tried to develop open market operations as a supplementary policy instrument. On the Bank's recommendation, the monetary reforms of June 1928 included provision for two sorts of open market operations. Short-term securities could be purchased for the accounts of foreign central banks and repurchased by the Bank if requested. According to Moreau, "This new power . . . will provide the Bank with the opportunity and the means to intervene directly in the short-term capital market by the purchase or sale of securities, and in this way will improve its control of monetary conditions, which is one of its fundamental duties."[64] The Bank was also authorized to sell and, if necessary, repurchase bonds of the Caisse d'amortissement representing the Bank's losses on loans to Russia, "if it judges that to be of service in influencing the volume of credit and retaining control of its circulation."[65] Moreau described this to Bank shareholders as a "particularly effective instrument, in view of the power that it gives to the bank to control the volume of francs in circulation."[66]

Pierre Quesnay hoped the Bank would avail itself of these facilities to increase its market control, developing its discounts, advances, and open market operations to balance its holdings of gold and foreign exchange. He envisaged the growth of intermediary broker facilities to buy and sell bonds and securities on behalf of the Bank at market rates.[67] No such development took place, however. Three years later F. G. Conolly concluded that the influence of the Bank of France on its domestic market had declined. Quesnay had sketched out an ideal distribution of Bank assets in 1928 (Table 4.2); Conolly surmised that it would take twenty years to achieve rather than the two forecast by Quesnay, if in fact it could be accomplished at all.[68]

Within the Bank, Quesnay and Charles Rist disputed whether the

[64] *Annual Report, 1928*, 16–17. The *REP* was more explicit: "The purpose of this measure, in imitation of practice in the United States, is . . . to permit the Bank to reduce market liquidity when it believes there is an overabundance of credit and wishes to avoid raising the discount rate." "La Réforme monétaire française," *REP* 42 (1928): 1234.

[65] Myers, *Paris as a Financial Centre*, 184.

[66] *Annual Report, 1928*, 15.

[67] H. A. 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.

[68] Conolly, "Bank of France," 22 July 1931, BoE OV45/82. By July 1932 the differences from Quesnay's plan were greater still; gold reserves were more than 82 billion francs, foreign exchange reserves were down to 5 billion, discounts and advances were at 4 billion each, and there were no open market operations.

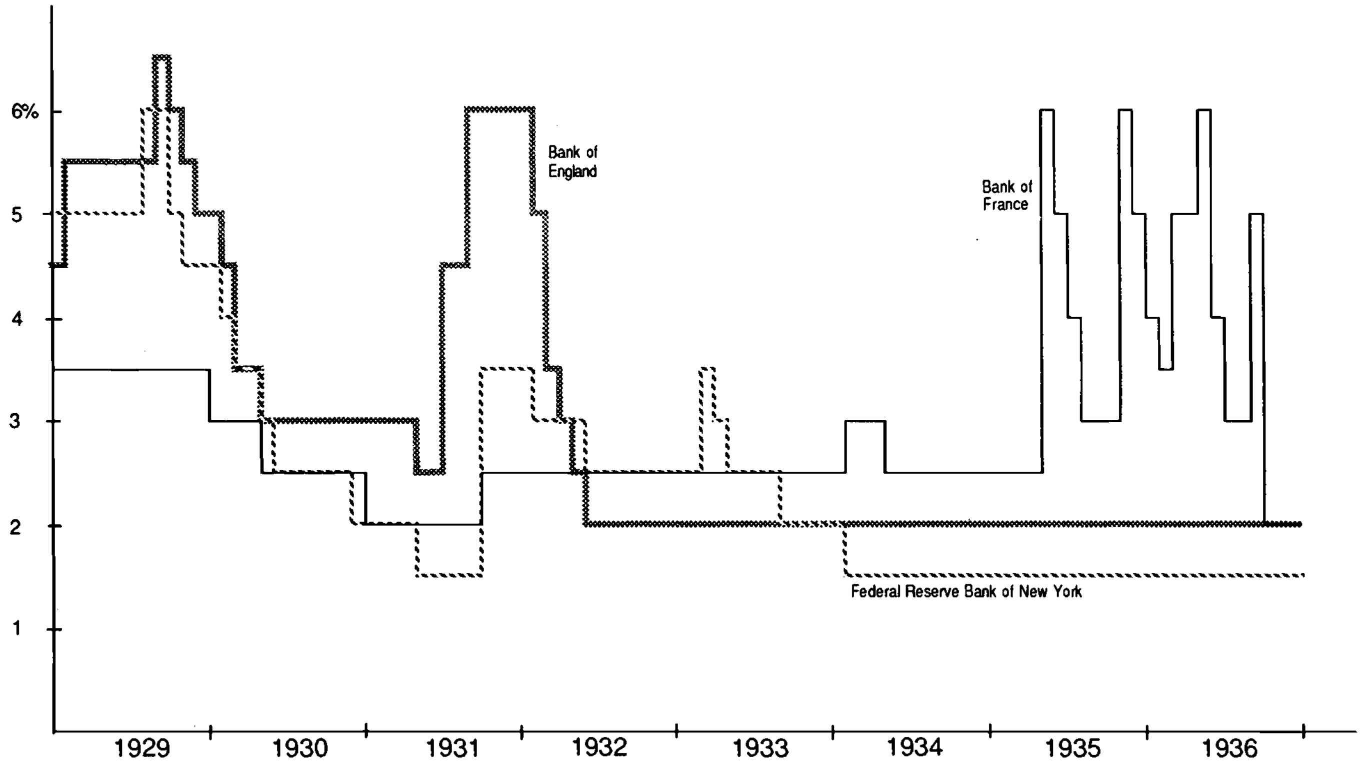

Figure 4.1. Central bank discount rates, 1929–36.

Table 4.2. *Bank of France assets (billions of francs; July of each year)*

Assets	1928	1929	1930	1931	1930 (Quesnay plan)
Metallic reserves	30	37	45	56	30
Foreign exchange	36	26	26	26	10
Discounts	2	8	6	5	10
Advances	2	2	3	3	10
Open market operations	0	0	0	0	10
Total	70	73	80	90	70

Source: F. G. Conolly, "Bank of France," 22 July 1931, BoE OV45/82.

Bank of France should engage in open market operations. Rist wanted a return to prewar conditions, including the circulation of gold coin, with central bank action limited to changes in the discount rate. Quesnay agreed that this was desirable in theory, but believed that central bank interventions abroad made similar French action essential:

> If we limit ourselves to acting through the discount rate when other central banks are engaged in active management, we would provoke unduly large movements of international capital, and far from contributing to the restoration of normalcy, I believe we would disrupt the functioning of international credit.[69]

Both Rist and Quesnay sought details on the conduct of open market operations from the Bank of England and received informative and encouraging replies.[70] But Rist grew increasingly skeptical, viewing open market purchases in New York and London as inflationary and a fundamental cause of the world depression.[71]

[69] Quesnay to Siepmann, 16 Aug. 1928, BoE OV45/80.

[70] Rist to Siepmann, 16 Aug. 1928; Quesnay to Siepmann, 16 Aug. 1928; "Market Control," a summary of Siepmann's explanations to Quesnay in conversations in London, 24 Aug. 1928, sent subsequently to both Quesnay and Rist; and Rist to Siepmann, 30 Aug. 1928; Siepmann to Rist, 7 Sept. 1928; in BoE OV45/80.

[71] In October 1928 Rist was "shocked" that Britain had not restricted credit to control gold losses. When Siepmann explained that credit restriction would force a rise in Bank rate, Rist agreed, "and said that in Paris the problem of control need not arise in this form, because there is no market intervening as a buffer between the Central Bank and the private banks, so that no initiative is required of the Banque de France; when money is scarce, the banks are driven into the Banque de France, as was seen recently when discounts rose very sharply; the impulse comes from the circumstances themselves and the Banque de France can remain passive. [He] prefers this and is opposed more strongly than ever to Monsieur Quesnay's schemes for 'creating a money market' in Paris." Siepmann, "Note of Conversations Held in Paris on Saturday the 6th October, 1928," 9 Oct. 1928; BoE OV45/80. See also *REP* 47 (1933): 598–600, and "Caractère et origine de la crise," 333–5.

Quesnay saw *bons de caisse* from the Caisse d'amortissement as the main instrument for open market operations. Bank of France loans on which Russia had defaulted in 1917 were being amortized by the Caisse d'amortissement; the Bank of France held Treasury bonds maturing in 1945 at the Caisse so the loss would not appear on its balance sheet. To mobilize these bonds, the Caisse gave the Bank an equivalent amount of its own three-month bonds that did not bear interest. Any losses incurred in the sale of these bonds would be borne by the Bank, and any interest earned if they were repurchased would be subject to an 18% tax on profits. In 1928 the Ministry of Finance refused to grant the Bank exemption from this tax; the Bank decided it would make use of the bonds only when clearly required by the market.[72]

Such a need arose in 1930. In the last six months of 1929, a consistently favorable balance of payments drew 6 billions of gold into France, paralleled by a strong rise in note circulation and commercial discounting. Moreau fretted that this would raise French prices and production costs. Government payments would keep the market liquid through the spring. Moreau wanted to reduce market liquidity, but an increase in the discount rate would attract capital and gold from abroad. He therefore suggested on 23 January that the Bank sell *bons de caisse* to tighten the market, following the example of central banks abroad. He told the Council of Regents that if this enabled the Bank to regulate credit conditions "and to regain control of the market which tends to escape us, the resulting advantages would amply compensate the Bank for the temporary sacrifice of paying interest on the bonds."[73] The regents approved the sale of bonds up to 2,500 million francs as Moreau thought necessary, but the faculty was not exercised; the discount rate was lowered to 3% the following week. Moreau explained that the Ministry of Finance had refused to exempt the Bank from the 18% tax on interest.[74] As Marcel Netter has pointed out, the ½% drop in the discount rate and the simultaneous 1% drop in *avances sur titres* would have cost more than paying the 18% interest tax (which Moreau had in any case thought worthwhile to improve Bank control of the market). The council authorization on 23 January *après discussion* (rather than the normal *après en avoir délibéré*) led Netter to conclude that approval was gained with difficulty and that subsequent pressure from dissenting regents

[72] Siepmann, "Note of Conversations in Paris on Saturday the 6th October, 1928," 9 Oct. 1928, BoE OV45/80.

[73] PV CG, 23 Jan. 1930. Myers errs in attributing the Bank's retreat from this policy to a refusal to pay the interest charges that Moreau here accepted; *Paris as a Financial Centre*, 30.

[74] PV CG, 30 Jan. 1930.

dissuaded Moreau. He concluded that the Bank of France abstained from mobilization of the bonds and rejected all forms of "managed currency" because it did not consider such policies to be in the national interest; the path toward monetary *dirigisme* was judged contrary to the Bank's traditional vocation.[75] They would rely on changes in the discount rate to defend the franc and to meet the credit needs of the domestic market.

Subsequent discount-rate reductions in May 1930 and January 1931 responded to falling interest rates abroad, to slow the gold inflow. On 1 May the discount rate was dropped to 2½% following a ½% drop in the Bank of England's rediscount rate. Moreau advised the regents that failing to maintain a differential between discount conditions at the central banks in London and Paris could provoke a large inflow of gold, which would produce an excessive increase in the note circulation in France.[76] In the autumn the new governor, Clément Moret, claimed that domestic credit conditions called for an increase in the discount rate. When George Harrison recommended a rate reduction to promote acceptance business in Paris and discourage gold imports, Moret replied that this would have little effect on capital flows to France, because these were attracted for psychological rather than technical reasons. Domestically, he feared that a reduction in the discount rate would result in speculation and excessive recourse to discounting; the inflation produced by gold imports was preferred to an inflation of credit that stimulated unhealthy business activity: "Far from entailing a reduction of the discount rate, the current situation, from our point of view, calls for an increase, in the form of a warning, if it were not necessary to take account of the inflow of foreign capital and gold."[77] When the FRBNY reduced its rate to 2% in December, Moret worried that this would increase the flow of gold to France and on 2 January recommended that the discount rate be lowered to 2% "after mature reflection, and not without a great deal of hesitation."[78] The rates for advances against securities and gold were kept steady, to indicate that the discount rate reduction was due to international monetary conditions and was not meant to stimulate domestic credit creation.[79]

[75] Netter, *Banque de France*, ch. 4, 60–1.

[76] PV CG, 1 May 1930.

[77] Moret's account to the regents in PV CG, 27 Nov. 1930.

[78] PV CG, 26 Dec. 1930 and 2 Jan. 1931.

[79] PV CG, 2 Jan. 1931. Moret stated this explicitly to the regents. When Charles Rist was asked about the failure to lower the rate for advances by Hartley Withers, who suggested that the Bank did not intend the reduction of its discount rate to be effective, Rist professed himself unable to speak on behalf of the Bank of France and dismissed

When discount rates dropped further in New York and London in May 1931, the Bank of France did not follow. Moret explained that too large a gap between short- and long-term rates in France would cause excessive short-term borrowing and that "in the presence of the burdens weighing on the banking system, and the need for liquidity imposed by the nervousness of depositors, it seemed contrary to the interests of the Paris market to rally to a systematic policy of cheap money, the serious dangers of which we saw clearly."[80] Two percent was the bottom rate, reached only with great reluctance, below which the Bank of France would not go; 2½% was preferable as "cheap" money. Market conditions clearly would have allowed such a drop; from May through July market discount rates averaged 0.82% lower than the Bank rate (Table 4.3). But as Jay Crane of the FRBNY explained after meeting with Moret in August 1931:

> During a period of economic depression Moret feels that the Bank of France should keep its rate fairly high to prevent improper use of its credit and to hasten a healthy liquidation and return to prosperity. To maintain a very low rate does, in his opinion, merely put off the evil day of settlement, foster unsound positions and prolong the depression, while when improved conditions appear to be just around the corner and the necessary liquidation has been accomplished his rate should be lowered.[81]

In January 1931 the British urged open market purchases when the Paris market was tight in order to prevent French commercial banks from pulling in deposits from abroad. The Bank of England had predicted that little progress was likely on this matter: The French would reply that even if legislation forbidding open market operations were altered, which it would not be, there were no securities available for purchase.[82] If legislation did permit open market purchases, the distribution of *rentes* among a public given to hoarding currency rather than bank deposits would reduce the effects of credit expansion. "This is the case set out by the Bank of France," Conolly stated. "It appears to indicate complete impotence not only to affect at will the credit structure but even to take the initiative in supplying credit."[83]

the influence of the rate on advances as insignificant. Rist, "International Consequences," 218–19.

80 *Annual Report, 1931*, 11–12.

81 Memorandum by Jay Crane, 28 Aug. 1931, cited in Chandler, *American Monetary Policy*, 169. Crane added that Lacour-Gayet favored even higher rates and deflation to end the crisis.

82 Siepmann to Leith-Ross, 19 Nov. 1930. Leith-Ross acknowledged the validity of the point in a note back to Siepmann, 25 Nov. 1930, BoE OV45/81.

83 Conolly, "Open Market Operations in Paris," 13 Jan. 1931, BoE OV45/4.

Table 4.3. *Interest rates in France, 1928–36*

	1928		1929		1930		1931		1932		1933		1934		1935		1936	
Month	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b	a	b
January	4.00	2.81	3.50	3.50	3.50	3.38	2.50	1.89	2.50	1.75	2.50	1.12	2.50	2.12	2.50	1.79	6.00	4.26
February	3.50	2.75	3.50	3.39	3.00	2.91	2.00	1.77	2.50	1.75	2.50	1.89	2.50	2.59	2.50	2.12	4.00	3.81
March	3.50	2.72	3.50	3.37	3.00	2.70	2.00	1.57	2.50	1.80	2.50	2.04	3.00	2.75	2.50	2.12	3.50	3.74
April	3.50	2.62	3.50	3.44	3.00	2.57	2.00	1.47	2.50	1.66	2.50	1.87	3.00	2.70	2.50	2.14	5.00	5.03
May	3.50	2.62	3.50	3.49	3.00	2.36	2.00	1.28	2.50	1.50	2.50	1.76	3.00	2.60	2.50	2.56	5.00	5.60
June	3.50	2.90	3.50	3.50	2.50	2.11	2.00	1.06	2.50	1.22	2.50	1.50	2.50	2.09	6.00	5.72	6.00	5.60
July	3.50	3.12	3.50	3.50	2.50	2.08	2.00	1.20	2.50	0.99	2.50	1.39	2.50	1.78	5.00	4.06	4.00	3.30
August	3.50	3.23	3.50	3.50	2.50	2.10	2.00	1.50	2.50	1.02	2.50	1.45	2.50	1.75	3.50	3.06	3.00	3.00
September	3.50	3.26	3.50	3.50	2.50	1.99	2.00	1.50	2.50	1.00	2.50	1.13	2.50	1.50	3.00	2.85	3.00	3.38
October	3.50	3.37	3.50	3.50	2.50	2.00	2.00	1.80	2.50	1.01	2.50	1.25	2.50	1.45	3.00	2.71	5.00	2.52
November	3.50	3.37	3.50	3.50	2.50	2.00	2.50	1.90	2.50	1.00	2.50	1.85	2.50	1.44	3.00	3.89	2.00	1.96
December	3.50	3.41	3.50	3.50	2.50	2.03	2.50	1.75	2.50	0.91	2.50	2.26	2.50	1.50	6.00	5.89	2.00	1.99

Note: Column a, Bank of France discount rate; column b, the private bank discount rate.
Source: United States Federal Reserve System, *Banking and Monetary Statistics* (Washington, D.C.: National Capital Press, 1943), 657–61.

The Treasury did not press the issue of open market policy, concentrating instead on obtaining a reduction in government balances immobilized at the Bank of France. The political problem of gaining legislative approval for a change in Bank statutes was a serious obstacle, but the legal need was not clear. Although the Bank claimed that its 1808 statutes forbade open market operations, this was not literally correct: Article 8 forbade transactions not specifically sanctioned by law. The 1928 reform had given the Bank, at its own request, two means to effect open market operations. The statutes were an obstacle when the Bank wished them to be. Siepmann described the statutes as an elaborate code that left substantial room for maneuver:

> The fact is that the elaborations of the jurists themselves destroy the efficacy of the material with which they work – with the result that, in practice, almost anything might be done and brought somehow within the four corners of the rules. . . . In order to overcome or circumvent the rules and regulations nothing more is needed than goodwill and an agreed plan.[84]

As seen with Moreau's proposals in 1928 and 1930, the Bank did not wish to engage in conventional open market operations. When British Treasury arguments were discussed in January 1931, Moret objected that open market operations were inflationary and procured profits of "questionable legitimacy"; it was an error in principle to purchase bonds by the issue of currency notes.[85] In preparation for the World Economic Conference, the Bank of France maintained its claim that open market operations were forbidden by statute. It argued that while in theory such operations were supposed to control credit in order to stabilize prices, in practice they were used for artificial credit expansion, disrupting the normal operation of the gold standard. Though they could be used either to accentuate or to neutralize gold movements, in recent years they had always been used for the latter. In France, direct discounting through Bank of France branch offices made the Bank's discount rate effective throughout France, allowing direct action on currency volume through the discount rate. The Bank concluded, "Ineffective in their results, useless in principle, condemned by the experience of foreign money markets where they benefit from technically more favorable conditions, open market operations in France correspond nei-

[84] Siepmann, "Note on a Visit of B.G.C. and H.A.S. to Paris on the 31st July 1930," 15 Aug. 1930; BoE OV45/81. Grafftey Smith made the same point three years later in "Bank of France Policy," 22 June 1933, BoE OV45/83.

[85] "Réunion chez Monsieur Germain-Martin," 6 Jan. 1931, MF B 31851.

ther to the economic structure of the country nor to the organization of its system of credit."[86]

The Bank did undertake open market operations, however. Charles Cariguel, drawn into the Bank in 1927 to manage its foreign exchange transactions, directed the purchase of bills for other central banks; with their permission, he used their idle balances at the Bank of France to manage the Paris market. F. R. Rodd supposed the funds involved amounted to only a few hundred million francs; Cariguel agreed but pointed out that "if judiciously used, a few hundred million francs on the Paris market could have considerable effect."[87] In this way the Bank gained some experience in the open market, useful when open market operations were approved on a restricted basis in June 1938.[88]

After the fall of sterling in September 1931, the discount rate was raised to 2½% and apart from four months at 3% in 1934, it remained there until May 1935. In 1934 Moret boasted in his annual report, "We congratulate ourselves on having succeeded in maintaining an exceptional stability of credit conditions, in contrast to the changes in discount rates to which some foreign markets have been forced to have recourse." This followed on the heels of an admission that the decline in economic activity in France had left the discount rate ineffective, far above market rates. Moret hoped the rise in the Bank's commercial portfolio in December 1933 (see Table 4.1) could be interpreted as "the sign of a durable *rapprochement* between the Bank and the discount market, which have been too long out of touch as a result of the economic depression and an equally abnormal abundance of funds."[89]

As shown in Table 4.3, the Bank's discount rate averaged 1.5% higher than commercial bank discount rates in the last six months of 1932 and 0.87% higher through 1933. Open market sales to reduce liquidity were ruled out by the Bank, which admitted it had no means to make Bank rate effective when market rates fell substantially in 1932. This was

[86] Bank of France, "Note relative aux opérations sur le marché libre et à la politique de la Banque de France," 25 Oct. 1932; see also "Note sur l'open market policy," 23 May 1933, MF B 32323.

[87] Rodd, "Conversations," 29 Nov. 1932. In the spring of 1933, the use of these funds attracted Bank of England attention, and when questioned, the Bank of France admitted it was using them for open market operations. See Conolly to Michael McGrath, 13 May 1933, and Grafftey Smith, "Bank of France Policy," 22 June 1933; BoE OV45/83.

[88] The decree granting the powers stated that they would make discount-rate policy more effective; Marcel Netter states, "In its spirit it aimed first, incontestably, at aiding the Treasury." See Netter, *Banque de France*, ch. 6, 162–82; quote from 169, and Bouvier, "French Banks," 76–80.

[89] *Annual Report, 1933*, 21.

not particularly disconcerting; the Bank's role was expected to be passive, and stable credit conditions were more important than control of the market. In January 1933 Moret pointed out that market liquidity meant that commercial banks had little recourse to rediscounting at the Bank of France and stated, "The reduction of their obligations at the Bank of France, temporarily depriving the Bank of its control of the market, reflects an extremely easy monetary situation which will assist the recovery of economic activity when the time comes."[90]

A limited appreciation for open market operations was nonetheless developing in the Bank in order to increase control over the Paris market and to ameliorate the Bank's budget difficulties. In October 1932, F. R. Rodd reported that the permanent staff in the Bank would welcome the ability to make open market purchases and that they criticized Moreau for having failed to obtain powers to do so in 1928. Such powers were unattainable in 1932. Public opinion would suspect a resumption of Bank advances to the state now that the budget was again in deficit. The Caisse des dépôts and the Caisse d'amortissement, whose relations with the Bank were "extremely poor," would resist any interference with their own open market powers. The Bank feared criticism if proposals were made to modify its powers "in any direction whatsoever."[91]

Defense of the franc

The discount rate was the instrument with which the Bank defended its gold reserves as confidence in the franc declined from late 1933 onward. From 15 September to 22 December 1933, gold reserves fell by 5,317 million and foreign exchange by 1,457 million francs. This tightened the Paris market, creating difficulties in the renewal of Treasury bills; rediscounting was encouraged, with little result as the deposit banks continued to avoid the Bank. Cobbold anticipated some form of gold embargo to prevent gold losses from creating further difficulties for the Treasury, since there was no technical remedy to ease market conditions.[92]

[90] *Annual Report, 1932*, 11.

[91] F. R. Rodd, "Bank of France and Market Securities," 28 Oct. 1932, BoE OV45/83. See also Rodd, "Bank of France," 28 Oct. 1932, BoE OV45/83, on the Bank's budget difficulties and the Caisse des dépôts. Both *caisses* had substantial power to influence the money market; although the governor of the Bank of France sat on the Board of Directors for both, they functioned independently of the Bank. Their composition and functions are summarized in the appendix, and see Myers, *Paris as a Financial Centre*, 51–73, 77–82.

[92] Cobbold, "Paris Visit," 27 Dec. 1933, and note of 28 Dec. 1933; BoE OV45/84. He

The Bank of France was less troubled; gold losses and tightening of the market were welcome after the gold inflow. The Bank let gold go freely, opening two extra counters to accommodate the public demand for gold when the Stavisky scandal erupted in January 1934. This was a municipal bond scandal in Bayonne, which widened to inculpate ministers in the Radical government of Camille Chautemps; a press campaign against the government and unrest by disaffected right-wing leagues turned a minor financial scandal into a major parliamentary crisis. Chautemps was forced to resign at the end of January, and his successor, Edouard Daladier, likewise resigned after street riots and attempts to attack the Chamber of Deputies on 6 February. This crisis brought an end to the left-wing coalitions that had governed since May 1932, replaced by a government of National Union under Gaston Doumergue.[93]

As the crisis developed, the Bank continued to let gold go; in the last week of January losses totaled only 195 million. Moret attributed the outflow to American stabilization of the dollar on 31 January, and waited until 8 February to propose an increase in the discount rate, allowing increased discounting to restore Bank contact with the market. He expected losses that week to exceed 2 billion francs, and proposed a ½% increase in the discount rate to defend the gold reserve. Although some regents had pressed him to call an earlier meeting, he waited until their weekly session on 8 February to avoid alarming the public. The Bank, he told the regents, "must, in present conditions more than ever, give an example of calm and of *sang froid*." Several regents thought the ½% increase insufficient, but yielded to Moret's belief that pressure was easing and that tighter money would create difficulties for the Treasury in renewal of bonds.[94]

was sufficiently concerned to write to the chief cashier asking whether the Bank of England could assist the Bank of France by selling it gold and buying the gold back forward: Cobbold to chief cashier, 3 Jan. 1934, BoE OV45/84. The capital flight from France between 1933 and 1936 is surveyed in Brendan Brown, *The Flight of International Capital: A Contemporary History* (London: Croom Helm, 1987), 41–80.

[93] On the riots and crisis of 6 Feb., see Serge Berstein, *Le 6 février 1934* (Paris: Gallimard, 1975); Max Beloff, "The Sixth of February," in *The Decline of the Third Republic*, ed. James Joll (London: Chatto & Windus, 1959), 9–35; and Philippe Bernard and Henri Dubief, *The Decline of the Third Republic, 1914–1938*, trans. Anthony Forster (Cambridge University Press, 1985), 224–8. For a firsthand account see Alexander Werth, *France in Ferment* (London: Jarrolds, 1934).

[94] PV CG, 8 Feb. 1934. De Wendel had asked if it would not be better to give a "brutal warning" to foreigners, and to avoid disquieting the French public with successive measures, by a sharp rise in the discount rate. In reply Moret invoked the need to

Bringing the discount rate back down was more difficult. Discounts fell off gradually from a peak of 6,458 million francs in February to 5 billion in mid-April, and market discount rates remained close to the Bank rate (see Table 4.3). Moret finally broached the question of lowering the discount rate in late May, after Minister of Finance Louis Germain-Martin requested that the Bank second government efforts to lower interest rates. The rates on Treasury bills and national defense bonds had been lowered in mid-May, but on 24 May Moret spoke against lowering the discount rate, arguing that there was no need for close association between government and Bank rates and that "the traditional policy of the Bank of France, unlike that practiced elsewhere, aims at stability of conditions of discount. The Bank has always endeavored to render changes in its discount rate as rare as possible and to proceed with them only when the need has made itself clearly felt."[95] He described the discount rate as influenced by three factors: gold movements, contact with the money market, and money rates. While the first two indicated that the discount rate could fall, the Bank's rate was neither significantly different from, nor more onerous than, market rates. For this reason Moret opposed lowering the discount rate; the Bank policy should remain passive, following rather than leading the market. As in January 1931, Moret believed a rate reduction would divert capital from long-term investment. R.-P. Duchemin objected to the logic that long-term rates had to fall first to allow short-term rates to come down.[96] But only a further drop in bond rates the following week convinced Moret to lower the discount rate to 2½%.[97]

It then remained at 2½% for one year. The Belgian devaluation in March 1935 shifted exchange pressure to other gold currencies, particularly the Swiss franc and the Dutch florin. France lost gold as well – more than 1,700 million francs in April, mainly to Belgium and England. The reported loss would have been larger but for gains from Switzerland and Holland and the export of 450 million francs in gold sequestered at the Caisse des dépôts.[98] Pressure eased in late April, then revived when French municipal elections on 5 and 12 May pro-

safeguard the independence of the Bank by taking care not to cause the Treasury unnecessary difficulties.

95 PV CG, 24 May 1934.

96 Ibid.

97 PV CG, 31 May 1934.

98 PV CG, 11, 18, and 25 Apr. 1935 and 2 May 1935. This was resold to the Bank at the Caisse's request and exhausted by mid-May; the Bank and government agreed that these secret reserves would not be reconstituted.

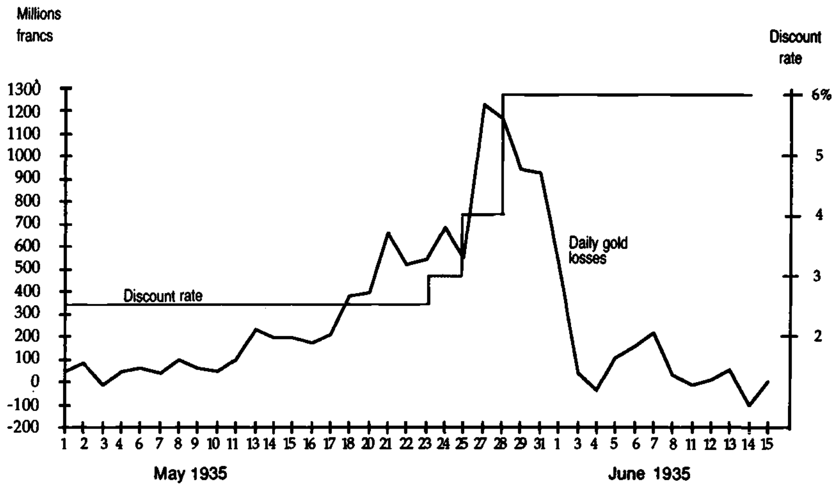

Figure 4.2. Gold losses and the discount rate, May–June 1935. *Source*: MF B 33193.

duced strong gains for the Communist Party and the Front commun. Gold losses jumped immediately and continued to rise until the Bank raised its discount rate to 6% on 28 May (Figure 4.2).

The Bank kept its discount rate at 2½% until 23 May; by then, gold losses exceeded 3,500 million francs. The rate was raised to 3% on 23 May, to 4% on 25 May, and finally to 6% on 28 May; in the week from 23 to 30 May the Bank lost 5 billion francs in gold. The monetary aspects of the crisis were compounded by financial and political crises; the Treasury was reaching the end of its resources, and on 30 May Flandin was defeated in an attempt to gain decree powers in order to impose the deflationary policies he had long rejected. On 7 June a government led by Pierre Laval took office dedicated to an intensified deflationary effort. The Bank's delay in raising its discount rate brought charges that the Bank had directed a conspiracy of capital and the press against the Flandin government in order to defeat Flandin's attempt at reflation.[99] Jean-Noël Jeanneney has authoritatively demonstrated that

[99] See Delaisi, *La Banque de France aux mains des 200 familles*, esp. 7–10, 51–2, 57–9. He attacked the pursuit of narrow interests by a banking oligarchy here and in *Vu*, 26 June 1935; there was a surge of attacks on the Bank of France and the regents after the fall of the Flandin government; see Rowe-Dutton to Waley, 28 June 1935, BoE OV45/85. Jeanneney surveys this literature in *François de Wendel*, 507–10. See also Malcolm Anderson, "The Myth of the Two Hundred Families," *Political Studies* 13, no. 2 (1965): 162–78.

while the Bank disliked the Flandin government, afforded it little cooperation, and pressed for a deflationary program when the government sought a guarantee of rediscount for commercial bank subscriptions to Treasury bills, it did not force the defeat of the Flandin government.[100] The Bank's delay in raising the discount rate was consistent with its behavior in February 1934 and its belief in free gold movements. When Governor Tannery proposed the ½% rise on 23 May, he told regents that while technically the market did not require it, "from a moral point of view, this now seems necessary as a demonstration of the Bank's firm will to preserve the value of the franc."[101] The ½% rise was hardly a demonstration of firm will, however, and Tannery cannot be credited with having had quick reflexes when he remarked on 25 May that reimbursements of national defense bonds corroborated the evidence of gold losses for a further increase in the discount rate.[102] It was only when the rate reached 6% that the Bank's will to defend the franc was demonstrated sufficiently to end the gold losses[103] (see Table 4.2). Gold losses from 29 March to 7 June totaled 13,160 million francs.[104]

The formation of the Laval government and its tough deflationary stance helped restore calm to gold movements in early June, but interest rates and commercial discounts remained high for several weeks. Governor Tannery exercised caution in bringing the discount rate back down and was not averse to using his interest-rate policy to pressure the government. When Laval's minister of finance, Marcel Régnier, suggested lowering the discount rate on 13 June, Tannery replied that he would not propose such a measure to the regents until the market showed real improvement, which depended upon the government taking strong measures to balance the budget.[105] The discount rate was lowered by 1% a week later, Tannery commenting that improvement so far would be consolidated only when the government made public its budgetary reforms;[106] on 4 July it was lowered to 4%. Two weeks later it was reduced to 3½% following the announcement of the first wave of deflationary decree laws. Tannery told the regents that the measure was

[100] Jeanneney, *François de Wendel*, 507–39, esp. 531–6. See also Chapter 5, this volume, for the Treasury's appeal to the Bank.
[101] PV CG, 23 May 1935.
[102] PV CG, 25 May 1935.
[103] As Moret noted the next day; PV CG, 29 May 1935.
[104] Labeyrie, "Influences des mesures de contrôle monétaire ou fiscal sur les mouvements de capitaux," 16 Feb. 1937, FNSP 2 AU 4, Dr 4.
[105] PV CG, 13 June 1935.
[106] PV CG, 20 June 1935.

favorable to commerce and strongly desired by the government and that it would assist in the sought-after restoration of confidence.[107] On 8 August the discount rate was returned to 3%, Tannery mentioning the Bank's duty to second, as far as possible, the government's efforts to ameliorate economic conditions[108] and indicating the Bank's approval of the second set of Laval decrees.

The severity of the crisis brought two new Bank interventions in the money market. The first was the suspension of advances against bar gold on 12 June. It was a symbolic gesture; the terms for such loans were already prohibitive, and they had never been a major source of funds for speculation.[109] Of greater practical import was an effort by the Bank to use moral suasion to tighten credit conditions. Tannery asked the directors of private banks to maintain credit restriction in order to avoid capital exports when the discount rate was dropped on 20 June, calling their representatives into the Bank to ensure that the reduction was not misinterpreted.[110] He addressed a letter to this effect to the Union syndicale des banquiers when the rate was dropped again on 4 July, stating that "in the present circumstances, all forward exchange operations lacking a commercial justification, all advances against bar gold or foreign exchange, and all forward purchases of gold must be rigorously prohibited."[111] This unusual intervention obliged the Bank to relax its competition for direct discounts with the private banks. Tannery later explained that the Bank was now deliberately limiting its direct discounting: "It would have been inadmissible if, when the Bank asked commercial banks to limit the credit they made available, the Bank of France at the same time showed itself more liberal than in the past in granting credit directly to enterprise."[112]

By this point, the Bank and the government were of necessity working closely; the Treasury required Bank assistance, explained in the next chapter, and the Laval government had the Bank's support in its efforts to cut state spending. The 3% discount rate remained in effect from July until mid-November, when renewed gold losses brought a 1% rise as the "normal means of defense" and Tannery again asked both French and foreign banks to restrict credits to genuine commercial

[107] PV CG, 18 July 1935.
[108] PV CG, 8 Aug. 1935.
[109] Netter, *Banque de France*, ch. 4, 243.
[110] PV CG, 20 June 1935, and Netter, *Banque de France*, ch. 4, 255.
[111] Quoted in Netter, *Banque de France*, ch. 4, 255.
[112] "Rapport sur l'examen du portefeuille de la Banque centrale et des succursales," app. to PV CG, 2 Apr. 1936. See also Netter, *Banque de France*, ch. 4, 256, and Tannery's allusion to the change in *Annual Report, 1935*, 11.

transactions.[113] Continuing gold losses forced Tannery to raise the discount rate to 6% on 25 November; increased discounting at the Bank prevented contraction of the money supply.[114] When gold losses eased, the franc remained weak against the dollar, stalling a reduction in the discount rate until the end of December. Tannery called the regents to a *séance extraordinaire* on 31 December to lower the discount rate to 5%, not wishing to wait two days for their regular Thursday meeting because he wished to reassure the public, ease money conditions for end-of-month commercial payments, and improve conditions for a Treasury loan issue.[115]

The next two stages in lowering the discount rate are of particular interest, because Tannery raised the issue in the Council of Regents without having decided himself, leading to unusually frank discussions. The key issue was whether to relinquish stability of the discount rate to aid the economy without being certain that a lower rate could be maintained. Baron de Rothschild opposed reducing the discount rate when Tannery raised the matter on 9 January; international pressures had eased only that morning, the decline in discounting proved the efficacy of the 5% rate, and domestic politics and finance did not inspire confidence. Under these circumstances, Rothschild cautioned prudence. The Bank must not spark illusions about the state of affairs; it would be a disservice to lower the discount rate and be forced to raise it again several days later. R.-P. Duchemin and D. David-Weill disagreed, arguing that lower interest rates would benefit the Treasury and the economy. Duchemin insisted that it was the Bank's duty to come to the assistance of business, which had been maintained under difficult conditions thus far, by moderating its interest rates, even if a new increase might prove necessary later. Tannery believed the move was technically sound, and while not wishing to foster "dangerous illusions," he noted that the maintenance of high rates for the business community "could lead some to doubt the efficacy of this defense, and ask themselves if the sacrifice was not out of proportion to the benefit. Would we not risk discouraging some of those who until now have remained firmly loyal to sound monetary doctrines?"[116]

They agreed to lower the rate to 4%. Four weeks later Tannery

[113] Tannery believed it was mainly foreign banks that were responsible for the pressure on the franc. See PV CG, 14 Nov. 1935, and the report on the Bank's commercial portfolio in PV CG, 2 Apr. 1936.

[114] PV CG, 21 and 25 Nov. 1935.

[115] PV CG, 31 Dec. 1935.

[116] PV CG, 9 Jan. 1936. The last phrase refers to the controversy over devaluation of the franc.

broached the same question, proposing a reduction to 3%; Duchemin once again supported the move, but the council hesitated and adopted a suggestion by François de Wendel that the discount rate be lowered by ½%.[117]

Political difficulties permitted no further relaxation of credit conditions. The German remilitarization of the Rhineland and the political uncertainty as France approached the 1936 general elections brought renewed gold losses in March. The Bank raised its discount rate to 5% on 28 March, after rumors that the Treasury was bankrupt and that the Bank had ceased to support the franc.[118] The discount rate was kept at 5% as gold losses continued through April, totaling nearly 5 billion francs. Tannery stated that there was no technical reason to raise it. Commercial rediscounting was stable, and the increase in the Bank's commercial portfolio was owing to the rediscounting of Treasury bills. An increase in the discount rate would raise the cost of Treasury borrowing without effect on its volume. He pointed out the concordance between Bank aid to the Treasury and the gold losses: For each million francs in discounted Treasury bills, the Bank lost 1 million in gold. Raising the discount rate would signal that conditions were deteriorating when in fact they were stable, and it would encourage pressure for devaluation.[119]

The Popular Front election victory accelerated gold losses and tightened money market conditions in the first week of May. Tannery hesitated to raise the discount rate until 6 May, when an increase was needed to demonstrate the Bank's determination to defend the franc.[120] He also reminded the commercial banks of their duty to restrict credit to commercial transactions and not to provide funds for currency speculation.[121]

The Bank held the discount rate at 6% through increased gold losses

117 PV CG, 6 Feb. 1936.

118 PV CG, 28 Mar. 1936.

119 Tannery stated that "in increasing the charges to commerce, obliged to have recourse to credit, such a move would risk furnishing an argument to devaluationists, particularly unfortunate on the eve of elections. They like to claim that one of the results of a devaluation would be cheaper money." PV CG, 23 Apr. 1936. Earlier in April Charles Fournier, the deputy governor, had assured François de Wendel that the regents would be called to take immediate action should the situation require a rate increase. PV CG, 16 Apr. 1936.

120 PV CG, 4 and 6 May 1936.

121 Representatives of the main Paris banks met with Tannery, Premier Albert Sarraut, and Minister of Finance Marcel Régnier, and Tannery sent a letter to the Union syndicale des banquiers urging credit restrictions, which he reported were scrupulously observed. PV CG, 14 May 1936.

during the sit-in strikes in late May and early June. Its commercial portfolio rose from 15 billion in early May to 21 billion francs in mid-June, owing almost entirely to the discounting of Treasury bills. When the situation eased in late June after Vincent Auriol had made it clear that the Popular Front was not about to devalue the franc and regularized Bank advances to the government, the discount rate was dropped with unprecedented haste. The Bank's new governor, Emile Labeyrie, was attuned to Popular Front desires for lower interest rates to benefit the economy; the rate was lowered to 5% on 23 June, to 4% two days later (with some protest from François de Wendel), and to 3% on 9 July.[122] Rowe-Dutton reported to London that these reductions did not, as had been French tradition, reflect market conditions, "but represent a very active support of the political activities of the Government, which is determined to enlist the support of cheap credit to initiate and facilitate its social programme."[123]

Popular Front pressure for nationalization of the Bank of France led to reforms in July 1936 that suppressed the Council of Regents and opened the annual General Assembly to all Bank shareholders. These measures subordinated the Bank more directly to the wishes of the government, which now appointed nine members of a twenty-member *conseil général* to replace the regents; with the governor and deputy governors, this gave the government twelve representatives out of twenty-three. In practical terms little changed, however, in the Bank's place in the Paris market or in the organization of credit.[124]

The 3% discount rate was maintained until the eve of the devaluation, when the Comité permanent[125] forced Labeyrie to raise the discount rate in defense of the franc. The gold losses in late September prompted Georges Gaussel to suggest that the Bank take measures to protect its gold reserves. When Labeyrie, the only Comité member privy to ne-

[122] On 9 July, Labeyrie initially proposed a rate of 3¼%; the regents objected to breaking the tradition that the discount rate move by half-points, and Labeyrie chose 3% over 3½%. PV CG, 9 July 1936.

[123] Rowe-Dutton, "Reductions in Bank of France Rate, 23rd and 25th June, 1936," BoE OV45/86.

[124] On reform of the Bank see Bouvier, "The French Banks," 71–6 and *Un siècle de banque française*, 184–92; Netter, *Banque de France*, ch. 5; Dauphin-Meunier, *Banque de France*, 189–226; Lucile Dromer, "La Réforme de la Banque de France du 24 juillet 1936," Mémoire de maitrise, Sorbonne, 1978; Prate, *La France et sa monnaie*, 133–42; and Georges Boris, "Reforming the Bank of France," *Foreign Affairs* 15 (Oct. 1936): 155–64.

[125] The Conseil général now met on the first Thursday of each month and delegated responsibility for day-to-day management to the five-member Comité permanent, which met on Thursdays, as had the earlier Council of Regents.

gotiations for the devaluation, tried to avoid the question by stating the discount rate would have no effect on the movement of hot money, Gaussel replied that Bank action depended on the monetary policy that the government intended to follow: "That which it has declared itself committed to until now has been maintenance of the gold standard. Insofar as this has not been renounced, has not the Bank the responsibility to continue this policy, in using the classic means of an increase in the discount rate?" Labeyrie had to admit, when asked to state the government's policy, that he was not in a position to make known the government's intentions. The committee insisted that even if a rise in the discount rate could not curb the gold losses, it was essential to demonstrate that the Bank had not abandoned defense of the franc. The meeting was suspended while Labeyrie consulted with the Ministry of Finance. When it resumed, the discount rate was raised to 5%.[126] The government remained committed to cheap money, and the discount rate was dropped to 3% on 1 October and, by ½% steps, to reach 2% on 15 October.[127]

Throughout these years the Bank of France remained true to its policy, "first, to assure the stability of the franc; second, to guarantee to agriculture, commerce and industry all the credit facilities compatible with the defense of the currency."[128] However, although defense of the franc dominated discount-rate policy, the state of the economy became increasingly difficult to ignore as the depression dragged on. From concern that cheap money would generate unhealthy credit expansion and speculation in 1930 and 1931, the Bank developed some appreciation of the difficulties high interest rates imposed on business and the Treasury and gave increasing attention to credit conditions. The personalities of different governors played a role; Tannery showed greater concern than Moret for lowering the discount rate after crises, while Labeyrie clearly followed Popular Front cheap money policy. But the Bank rate was seldom used to control credit in the marketplace; for long periods it was ineffective and was acknowledged to be so. In 1932–3, the 2½% discount rate, far above market rates, was seen as a minimum below

[126] Procès-verbal de la Comité permanent de la Banque de France, 24 Sept. 1936.

[127] PV CP, 1 Oct. 1936. Against the view that a high rate would encourage a capital reflux, Labeyrie countered that a low rate would demonstrate the Bank's faith in the success of the monetary reform and that the devaluation obviated the need for defense of the gold reserves, permitting a reduction of a discount rate onerous for commerce. For subsequent reductions, see PV CP, 15 Oct. 1936.

[128] *Annual Report, 1935*, 9. More concisely, "Defense of the franc first; economic development after that," quoted in Bouvier, *Un siècle de banque française*, 172.

which the Bank should not descend. Open market operations were ruled out as a means to reduce market liquidity. The Bank's role, by tradition, was to follow rather than to direct the market. In the mid-1930s, with declining economic activity, chronic budget deficits, and higher interest rates necessary to defend the overvalued franc, the Bank's passive attitude was becoming increasingly difficult to sustain. Government and business alike were demanding more active management by the Bank, but the Bank could not simultaneously defend the franc and promote economic recovery with only discount-rate policy to attain both ends.

The passive stance from which the Bank faced the monetary problems of the 1930s increased the importance of public confidence and the balancing of state budgets. A balanced budget was essential to control the threat that declining public confidence posed to the franc. Having denied itself the means to manage domestic monetary conditions, the Bank of France found itself compelled to interfere in government policy to obtain the conditions it considered necessary for defense of the franc.

5. The Treasury and government finance

In 1928, with the franc securely back on gold, gold reserves rising, and the budget nearly 4 billion francs in surplus, the Treasury was "in the most prosperous position it has ever known."[1] In such circumstances, there was little reason for conflict between the Treasury and the Bank of France. Their responsibilities conflicted when government financial needs disrupted money markets or made excessive demands on the Bank as the state's lender of last resort (through either direct advances to the state or by discounting Treasury bills for the commercial banks). With the budget in surplus, they coexisted happily. In 1930–1 the budget slipped back into deficit. This was not immediately threatening after several years of surplus, but it became so as the deficit persisted. The financial crises of the 1920s had taught that budget deficits were the root of all financial evil. Deficits resulted from financial mismanagement, from governments living beyond their means, and the 1926 Poincaré recovery had shown that resolute leadership would restore budget equilibrium. A budget deficit, by increasing Treasury borrowing, would open the way for central bank advances to the state, inflation, currency depreciation, and economic collapse. In 1926 Raymond Poincaré had rescued France from the brink of financial disaster by restoring a strictly balanced budget.

In his annual report delivered in January 1933, Clément Moret warned the government of the urgency of fiscal reform: The Bank of France would tolerate neither half-measures in balancing the budget, nor a resumption of advances to the state. Moret had no doubt that the public would accept the measures necessary to restore budget equilibrium and stated that the Bank "refuses to admit that difficulties of a financial character can compromise a monetary stability so dearly won and so strongly guaranteed. In the domain entrusted to it, the Bank is resolved to consent to no measure whatsoever that could again endanger

[1] Georges Lachapelle, *Les finances de la III^ème République* (Paris: Flammarion, 1937), 159. On Poincaré's restoration of state finances see ibid., 140–50; Sauvy, *L'Histoire économique*, 1: 59–62; and Pierre Miquel, *Poincaré* (Paris: Fayard, 1961), 561–6.

the stability of the franc."[2] The Treasury agreed, but neither the Bank nor the Treasury would have much room for maneuver as revenue fell, expenses climbed, and the unstable governments of the 1930s proved unequal to the task of balancing the budget. In 1935 the Bank reluctantly resumed indirect lending to the state (thereby slowing contraction of the monetary base); by the spring of 1936 this was the only means of covering the budget deficit.

This chapter examines the evolution of Treasury difficulties, and of tensions between the Treasury and the central bank, as confidence in the franc weakened. These tensions, and the failure of the Bank to provide cheaper credit to meet the needs of business and the Treasury, weakened political and administrative support for the Bank, which might otherwise have resisted de facto nationalization in July 1936. The first section covers the Treasury's passage from prosperity to depression and from financial ease to stringency between 1928 and 1934, with attention focused on the budget deficits and the reduction of government expenditure. The second section follows the deterioration of government finance from 1934 to the election of the Popular Front, with increasing conflict over the need for cheap money and for spending cuts to balance the budget, as well as Bank acquiescence in indirect advances to the state. The concluding section covers the legal regulation of these advances in June 1936 and reflects on the importance of Treasury difficulties in French monetary management.

Prosperity to depression

Poincaré's immediate successors inherited healthy budget surpluses (Table 5.1) in what Bertrand Nogaro called "the most favorable financial situation of the Third Republic."[3] The budget surplus in 1926 was the first since 1913; that of 1929–30 exceeded 5 billion francs. The budget deficit the following year was principally owing to increased spending; receipts had risen by 2,617 million over 1928 (the previous twelve-month budget year),[4] while expenditure had climbed by more than 11 billion francs.

[2] *Annual Report, 1932*, 10.

[3] Quoted by Paul Reynaud in his speech at Epinal, 3 Aug. 1930; Reynaud Papers, AN 74 AP 13.

[4] In 1929 André Tardieu altered the fiscal year, shifting its commencement date from 1 Jan. to 1 Apr.; the 1929 fiscal year was thus extended by three months to 31 Mar. 1930. Tardieu became premier in November 1929, too late to pass the 1930 budget by the end of the year, and shifted the fiscal year rather than resort to *douzièmes provisoires* (provisional monthly allowances) to cover spending until the budget was passed; he

Table 5.1. *French budgets, 1926–36 (millions of francs)*

Date	Receipts voted	Expenses voted	Receipts	Expenditures	Balance	Debt retirement[a]
1926			43,064	41,976	+ 1,088	
1927			46,086	45,361	+ 725	3,316
1928			48,177	44,248	+ 3,929	4,107
1929–30			64,268	58,849	+ 5,419	6,080
1930–1	51,465	50,398	50,794	55,712	− 4,918	4,479
1931–2	50,643	50,640	47,944	53,428	− 5,484	5,632
1932	41,101	41,098	36,038	40,666	− 4,628	7,581
1933	45,646	50,487	43,436	54,945	−11,509	2,791
1934	48,281	50,163	41,070	49,883	− 8,813	2,646
1935	46,992	47,817	39,485	49,868	−10,383	3,531
1936	40,450	46,572	38,893	55,789	−16,896	3,560

[a]By the Caisse d'amortissement.
Source: Sauvy, *Histoire économique*, 3: 9, 380, 381, and undated note in MF B 33184. Owing to changes in the length of the budget year, the 1929–30 year is fifteen months, from 1 Jan. 1929 to 31 Mar. 1930; the 1932 year is only nine months, from 1 Apr. to 31 Dec. 1932.

Poincaré's last act before his resignation owing to ill health in July 1929 was ratification of the Mellon–Béranger and Caillaux–Churchill accords signed in 1926, which consolidated French war debts to the United States and Britain. The ratification was approved in the Chamber of Deputies by a slim majority (300–292), since the Young Plan had not yet been ratified.[5] Approving the accords was a matter of urgency because war materiel ceded by the United States to France in 1919, worth $400 million, would have to be paid for on 1 August 1929 if the Mellon–Bérenger accord was not ratified. Ratification would integrate

ended up needing one anyway, passing the budget in late April. See *REP* 44 (1930): 487, and Rudolph Binion, *Defeated Leaders: The Political Fate of Caillaux, Jouvenel, and Tardieu* (New York: Columbia University Press, 1960), 293.

5 The chief obstacle to ratification was the absence of a safeguard clause that would make repayment dependent on capacity to pay; the Chamber of Deputies passed a resolution, in ratifying the debt accords, that linked payments to German fulfillment of its reparation obligations under the Young Plan. On French negotiation of these agreements in 1926 and their ratification see Denise Artaud, *La Question des dettes interalliées et la reconstruction de l'Europe (1917–1929)* (Lille: Atelier reproduction des thèse, Université de Lille III, 1978), 774–807, and Ellen Schrecker, *The Hired Money: The French Debt to the United States, 1917–1929* (New York: Arno Press, 1978), 219–34, 344–66. On the debt negotiations see also Melvyn P. Leffler, *The Elusive Quest: America's Pursuit of European Stability and French Security, 1919–1933* (Chapel Hill: University of North Carolina Press, 1979), 138–42; on the ratification see Jeanneney, *François de Wendel*, 415–24.

this commercial debt with the "political" war debts. In 1928 and 1929 the Treasury had accumulated in excess of 10 billion francs in foreign exchange for the 1 August payment; ratification liberated these funds for domestic use.

Poincaré was succeeded as premier by Aristide Briand and then, from November 1929 to December 1930 (with the exception of a few days in February), by André Tardieu. Tardieu announced that his government would inaugurate *une politique de prospérité*.[6] On 1 December the Treasury held more than 19 billion francs, which could be used to cut taxes, to amortize the public debt, or to finance new spending programs.[7] All three alternatives were employed in 1930–1. In April 1930 taxes were reduced by 2 billion francs, mainly on *valeurs mobilières*, and an increased effort was made to reduce the national debt (the $75 million "Kreuger loan" was repaid in full, and the Caisse d'amortissement retired 5,632 million francs of the national debt). In addition, Tardieu appropriated the program of the Left, committing his government to a broad plan for national requirement that aimed to invest 5 billion francs over five years;[8] he also increased pensions, army wages, social insurance, and defense spending (including funds for the Maginot Line),[9] paid out 1 billion francs in flood relief, and increased debt repayment. Rudolph Binion has claimed that Tardieu understood the crash on Wall Street "better than any of his colleagues" and that, "the Treasury having a surplus, he had thought to invest it in the national economy and so forestall a depression."[10] Monique Clague has demonstrated that Tardieu was less sagacious,[11] but neither she nor Binion has realized the eagerness of the Treasury itself to spend this surplus accumulated to pay for the American war materiel.

[6] *J.O.Ch.*, 7 Nov. 1929, 3001.

[7] See *REP* 44 (1930): 493, and 45 (1931): 533–5, and the retrospective note, "Considérations sur la Trésorerie en 1930," 6 Aug. 1931, in MF B 33181.

[8] The first 670 million was not approved, however, until March 1931; public works spending was 97 million lower in 1930–1 than the previous year, since spending was reduced in expectation that the Tardieu Plan would fill the gap; see Saly, *La Politique des grands travaux en France*, 323. Saly's is the most thorough study of the Tardieu Plan; he judges Tardieu's policy to have been quite orthodox, "based on the reduction of state expenditure rather than on the concept of deficit spending" (305). See also his "La Politique française des grands travaux 1929–1939 fut-elle keynésienne?" *Revue économique* 31 (July 1980): 706–42.

[9] The bulk of the payments were made in 1932 and 1933; see Frankenstein, *Prix du réarmement*, 46–9.

[10] Binion, *Defeated Leaders*, 308.

[11] Monique Clague, "Vision and Myopia in the New Politics of André Tardieu," *French Historical Studies* 8, no. 1 (1972): 110–13.

In the spring of 1930 the Treasury perceived no real cause for concern with rising expenses. The *Revue d'économie politique* reported that while the government was committing itself to expenditures that would stretch over several years, unless there was a "sharp reversal in the budget situation," there was no reason to anticipate Treasury difficulties or the issue of the 5 billion francs in Treasury bills that the budget authorized each year.[12] One year later the budget was in deficit, although the Treasury, according to the *Revue d'économie politique*, "has not ceased to experience, in the past year, an exceptional degree of affluence."[13] The growth of government spending and the tax reductions since 1928 were the apparent causes of the deficit. Government receipts began to fall short of budget estimates only late in 1931; in the same year the Hoover moratorium deprived the Treasury of 2 billion francs in reparation receipts, and the depression brought a number of exceptional expenditures: 2,900 million francs were provided to keep the floundering Banque d'Alsace-Lorraine and Banque nationale de crédit afloat; another 604 million was lent to Hungary and Yugoslavia; and unemployment and social insurance costs rose as the depression worsened. Table 5.1 shows a surge in receipts in 1929–30 because that budget year covered a fifteen-month period. Comparing 1928 with 1930–1, the next twelve-month budget year, receipts increased by 2.6 billion francs while expenses climbed by 11.5 billion. It is noteworthy that debt retirement by the Caisse d'amortissement, independently funded from the state tobacco monopoly, often exceeded the budget deficit until 1933.[14]

In early 1932, the accumulated surplus was exhausted and the Treasury began a scramble for funds that would continue throughout the decade. In February it borrowed from the Caisse des dépôts et consignations and the Caisse d'amortissement in order to meet weekly payments, and it expected further difficulties in May and June, the *période des basses eaux* for tax receipts.[15] Treasury director Louis Escallier cautioned against new charges to the budget; they would require new

[12] *REP* 44 (1930): 495.

[13] *REP* 45 (1931): 532.

[14] The Caisse had been created in 1926 to fund the large volume of floating debt and took on responsibility for managing long-term debt. As well as revenue from the tobacco monopoly, it received funds from inheritance and some sales taxes and a part of budget surpluses. See Myers, *Paris as a Financial Centre*, 77–82.

[15] Escallier notes for the minister of finance, Flandin, of 2 Feb. 1932 and 13 Feb. 1932, MF B 33190. In the latter he warned that "the situation promises to be very difficult toward the months of May and June, and in consequence the government must continue to demonstrate the greatest prudence in accepting projects that could compromise the security of our finances."

borrowing, increase debt servicing, and possibly compromise debt conversion.[16] He repeated his warnings in April, when the Treasury again had to borrow from the Caisse des dépots and the Caisse d'amortissement. (The *caisses* transferred funds into their accounts at the Treasury.) Jean Tannery, director of the two *caisses*, cooperated until *caisse* accounts at the Treasury were far above normal, then refused to transfer further funds. Escallier advised the minister of finance that the Treasury would have to issue Treasury bills; this had not been done since 1928, and Flandin wished to leave the 5 billion franc Treasury bill capacity intact for the government that would follow national elections on 10 May. The Treasury therefore discounted the funds it expected from a national reequipment loan, which had been ready for issue in early May.[17]

The 5 billion franc Treasury bill capacity was thus kept intact "in spirit": On 11 May, 3 billion francs in Treasury bills were authorized by decree. The Treasury attributed the exhaustion of its resources to the economic crisis and concluded that the problem was essentially budgetary: "If a strong effort is made to balance the budget, from the start of the new legislature, the Treasury will be preserved from the grave difficulties that are being experienced by almost all the nations abroad as a result of the crisis."[18] The 1932 budget did not attempt substantial economies on the eve of the national elections. Minister of the Budget François Piétri, admitting the gravity of the crisis in France and the need to balance the budget, told the Chamber of Deputies: "I recognize that this is a budget of transition, a budget of respite, and that it adjourns heroic solutions to 1933. But, whatever the measures brought forward by the men who form the next government, will we not have prepared their task in acknowledging its necessity?"[19] He balanced the budget on paper with a number of expedients. The reform of the fiscal year was abandoned, thereby allowing the 1932 budget year to be cut to nine months, which included the period of direct tax receipts; the budget included 3 billion francs in *ressources exceptionnelles*,

[16] Escallier note of 15 Feb. 1932, MF B 33190.

[17] The operation was a bit unusual, but the Treasury was to use it frequently in the 1930s. The proceeds of a future loan were discounted as an asset. In this case, the Caisse des dépôts et consignations was issued a 1 billion franc Treasury bond payable 31 May, which the Caisse would hold to maturity, depositing 1 billion in the Treasury's account at the Bank of France. Escallier note, 2 Apr. 1932, and note of 12 May 1932, MF B 33190. Tannery insisted the Treasury pay 1¾% interest, the current Treasury bill rate being 1½%.

[18] Note of 12 May 1932, MF B 33190.

[19] *J.O.Ch.*, 11 Feb. 1932, 605.

which would not recur in 1933, and thus significant cuts in expenditure were avoided. As the *Revue d'économie politique* noted, the "transition budget" implied the return to a balanced budget in 1933:

It is urgent, today, to accomplish the cleanup of government expenditure that was accomplished in 1926 with regard to receipts: it was a question then of liquidating the disorder born of the war; today it is a question of the disorder caused by the years of budgetary facility which should now be remedied.[20]

The new government of Edouard Herriot attempted a fiscal reform in July to reduce expenditures by 1 billion francs in 1932 and 4 billion in 1933 (estimating that the 1933 budget would otherwise be in deficit by at least 6.5 billion).[21] But the government's plans to cut personnel expenses by 5%, to raise taxes, and to cut defense spending were crippled by Socialist and Radical opposition in the Finance Committee.[22] In the meantime, funds from Treasury bills issued in mid-May were quickly exhausted and market conditions too tight to issue the national reequipment loan. Treasury payments in June were met by selling 400 million francs in Treasury bills to the Bank of England on 3 and 10 June and by "discounting" expected receipts on the national reequipment loan.[23] In July the ceiling on Treasury bills was raised to 7 and then 8.5 billion francs to carry the Treasury through the summer.

The Herriot government's major financial achievement was a debt conversion in September 1932. Since spring 1930, more than 70 billion francs borrowed at 5, 6, and 7% had been convertible, and *rente* prices had risen above par anticipating the conversion.[24] In September 1930, amortization of the funded debt in the budget had been transferred to the Caisse d'amortissement (saving the Treasury 1,900 million to vote the 1931–2 budget in balance) on condition that the government carry out a debt conversion as soon as possible.[25] In the spring of 1931 the market expected a conversion, and the Caisse d'amortissement was in a strong position to assist, with more than 9 billion francs in its account at the Bank of France.[26] Encouraged by Escallier, Flandin planned a 4% conversion of the 5, 6, and 7% bonds in 1931, but it was rejected

[20] *REP* 46 (1932): 604–6.
[21] Minister of the Budget Palmade's estimate, PV CFCh, 30 June 1932.
[22] See PV CFCh, 1, 2 and 4 July 1932; Jackson, *Politics of Depression*, 58–60; Lachapelle, *Finances de la III^{ème} République*, 189.
[23] For amounts of 750 million on 17 June, 600 million on 30 June, and 250 million on 1 July; see notes of 24 June 1932 and 2 July 1932, MF B 33190.
[24] *REP* 44 (1930): 498.
[25] *REP* 45 (1931): 528, 542; Louis Germain-Martin, *Le Problème financier, 1930–1936* (Paris: Domat-Montchrestien, 1936), 72–8.
[26] *REP* 45 (1931): 540–1.

by the Laval cabinet.[27] Flandin ran up against the legacy of the 1928 devaluation. Valuable political points could be gained from defense of the *petits rentiers* said to have suffered a four-fifths loss of revenue by the devaluation.[28] Since 1928 there had been repeated proposals for a *revalorisation* of government bonds to restore their gold value at time of purchase. The Treasury found no shortage of arguments to deflect these proposals,[29] but a conversion would be a new blow to the rentiers, and the proximity of the 1932 elections meant politicians were unwilling to risk political support on the issue.

When Herriot took office in June 1932, conditions for the conversion had deteriorated, but financial necessity and the success of the British War Loan conversion announced on 30 June pushed the Herriot cabinet to act.[30] *Rentes* prices had been falling since the start of the year, and it was decided to convert to 4½% rather than 4%. Approved by Parliament on 17 September, the conversion affected 85,500 million francs of government debt;[31] repayment was possible during the first six days of the operation, and only 4,500 million was repaid.[32] Article 74 of the 1932 budget required that the conversion compensate the "*petits rentiers* hurt by the monetary depreciation": Provisions were made to allow tax exemptions on bond interest for persons more than sixty years of age,

[27] Flandin in *J.O.Ch.*, 16 Sept. 1932, 2750; Lachapelle, *Finances de la IIIème République*, 179; Germain-Martin, *Problème financier*, 156–9, and Louis Germain-Martin, "Contribution à l'histoire nationale de la France: Histoire de mon temps et d'une vie (1890–1947)," Unpublished memoir, AN 443 AP 1, 2: 65, and Frédéric Jenny in *Revue politique et parlementaire*, 153, no. 455 (1932): 157.

[28] See Louis Marin's defense of *petits rentiers* in the debate on the conversion operation; he argued that they were forced to bear an unfair proportion of costs of the war and had not yet been compensated for their losses due to the devaluation in 1928. *J.O.Ch.*, 16 Sept. 1932, 2739–45.

[29] See "Note pour le Ministre," 23 June 1931, and "Note sur une proposition d'unification de la dette publique par la revalorisation ou la conversion des rentes," Fonds Flandin, carton 57. There are similar notes from December 1929, June 1928, and December 1927.

[30] Germain-Martin, *Problème financier*, 160, 166. See also the notes from Le Norcy and Rueff in London reporting on the British conversion, particularly the publicity for it, in MF B 33217.

[31] Details can be found in Germain-Martin, *Problème financier*, 168, and *REP* 47 (1933): 689. The latter thought a 4% conversion would have been possible. *Rentes* converted were 5% 1915–16, 6% 1920, 5% 1928, obligations 6% 1927, and bonds 7% 1927.

[32] Of the *rentes* convertible, 55% were held by banks and government institutions, and the conversion was undertaken after extensive consultation with French banks, Clément Moret, and Jean Tannery (director of the Caisse des dépôts and the Caisse-d'amortissement). See Germain-Martin, "Histoire," 2: 70–7, and PV CFCh., 16 Sept. 1932. According to Germain-Martin, repayments were demanded only in the final three days of the conversion.

and bonds purchased before 1920 were exchanged for 110% of face value.[33]

The government acknowledged the cooperation and support of the Bank of France in the conversion operation, but the Bank had been reluctant to assist in two respects. First, the Bank refused to provide the Treasury with an advance to meet repayment demands; such advances had been given for conversions effected in 1894 and 1902, but Moret resisted on the grounds that the 1928 monetary reform had closed all Bank advances to the state. The government had to ask Parliament to raise the ceiling on Treasury bills by 2 billion francs in case there were large repayment demands. Second, the Bank refused to lower its rate on advances against securities to facilitate the conversion. Moret doubted the utility of such a measure, which would lower Bank income.[34] This cooperation and support were insignificant compared with the vital role the Bank of England played in the 1932 British War Loan conversion.[35]

The conversion saved the government 1,407 million francs in debt servicing on the 1933 budget.[36] A 4% conversion would have been possible,[37] but the need to convince holders of government debt to convert was an appreciable hurdle, and by September 1932 the budget deficit had increased distrust of conversion. In 1931 the *Revue d'économie politique* had claimed that a debt conversion would crown the work of

[33] Germain-Martin, *Problème financier*, 170. In the debate in the Chamber of Deputies, Louis Marin termed these measures "derisory" and called, unsuccessfully, for greater measures of compensation. *J.O.Ch.*, 16 Sept. 1932, 2744.

[34] Moret had consulted branch directors on the matter earlier; PV CG, 15 Sept. 1932. A second survey of branch directors in September 1932 showed them divided on the matter. Eighty-four directors favored a rate reduction; seventy-nine were opposed. Those in favor directed smaller branches with small, bourgeois clientèles. They believed reducing the rate would encourage conversion and allow them to compete more effectively with the commercial banks, increasing their volume of advances. Those opposed were directors of *grandes succursales*, whose advances went mainly to large commercial and industrial enterprises and to other banks that were less sensitive to variations in interest rate. Their clients had already decided about conversion, and their borrowing was little influenced by the rate on advances. A reduced rate would thus mean an uncompensated loss in revenue for the Bank. On 22 Sept. Moret decided a reduction in the rate on advances could assist the conversion without significant loss of income, but it was too late for a change to have any effect; the rate was left unchanged. PV CG, 22 Sept. 1932.

[35] See Sayers, *Bank of England*, 430–47.

[36] Germain-Martin, *Problème financier*, 180; this is the net saving, having subtracted loss in tax revenue.

[37] A 4% conversion was widely expected, as noted by Joseph Caillaux, François Milan, and Auguste Hirschauer in the Senate Finance Committee, PV CFSén, 17 Sept. 1935, and Germain-Martin, "Contribution," 2: 77.

financial retrenchment;[38] in 1933 it lamented that "in lieu of crowning a continuous effort at financial retrenchment, the conversion merely constitutes the beginning of a new *assainissement*."[39] The deficit persisted, and the Herriot government tried to cut administrative expenditure; as historians of the Radical Party have shown, it was unable to retain support from the Left when pursuing a deflationary fiscal program characteristic of the Right. The Socialists had emasculated the *redressement* project passed in July; in October and November they crippled budget discussion. Doomed by his government's financial policy, Herriot chose to fall honorably in December in advocating payment of the year-end installment of the French war debt to the United States.[40]

Joseph Paul-Boncour succeeded Herriot in December 1932, with wild rumors circulating as to the size of the 1933 budget deficit. Henry Chéron, his minister of finance, appointed a committee of experts led by Charles Farnier, assistant governor of the Bank of France, to determine the size of the deficit and the means to eliminate it. In mid-January Farnier reported that the deficit would be 10,541 million francs and that its remedy was dictated by its origins. Since the last surplus budget in 1929, state expenditure had increased by nearly 10 billion francs, and taxes had been reduced by nearly 6 billion:

> These are the real causes of the current budget deficit, to which the crisis has brought only a temporary, and limited, aggravation. It would thus be vain to count on an economic recovery as the easy solution to the current difficulties; their gravity and their permanence require harsher remedies and more rigorous sacrifices.[41]

Chéron proposed a program of spending cuts, tax increases, and reduced tax allowances, declaring that "it is not the crisis that, for the most part, has caused the present situation; it is our faults."[42] He called for economies of 5,326 million francs, mainly on pension and personnel costs, and 5,453 million in new taxes. Led by the Socialists, the Chamber of Deputies' Finance Committee again whittled the effort down,

[38] *REP* 45 (1931): 543.
[39] *REP* 47 (1933): 688. Germain-Martin judged in 1936 that while the conversion was a technical success, "morally, the failure to carry through the program of expenditure reduction solemnly promised to the rentiers in September 1932 amounted to an act of despoilment." *Problème financier*, 147.
[40] Berstein, *Histoire du Parti radical*, 2: 219–36, 242; Larmour, *French Radical Party*, 116–25; Jackson, *Politics of Depression*, 60–3.
[41] The committee's report was leaked to *Le Temps*, 19 Jan. 1933.
[42] Introduction to *projet*, quoted in Bonnefous, *Histoire politique de la Troisième République*, vol. 5, *La République en danger: Des ligues au Front populaire (1930–1936)* (Paris: Presses Universitaires de France, 1962), 139.

and the Chamber itself obliged Chéron to borrow rather than balance the budget. He refused to abandon a 5% increase in direct taxes, and the government fell on 28 January.[43] Chéron's successor, Georges Bonnet, passed a *projet de redressement* in February that tried more modestly to reduce spending by 2,178 million and create 2,112 million francs in new revenue. The 1933 budget was passed at the end of May, after five *douzièmes provisoires* (provisional allocations of funds to last one month), with the deficit seriously underestimated at 4,841 million francs.

Meanwhile the repayment of unconverted *rentes* had tightened Treasury resources, requiring an increase in the ceiling on Treasury bills to 15 billion francs.[44] Early in 1933, the Treasury's account at the Bank of France was kept liquid only by transferring funds from the Caisse d'amortissement, by discounting loans, and by arranging for the three largest Paris commercial banks to subscribe to 500 million francs in one-month bills.[45] The Treasury was reluctant to issue new Treasury bills because it was having trouble renewing defense bonds, and the market wanted a rise in the bill rate; the commercial banks warned the Treasury that they would renew the securities they held only if the rate rose, their cash reserves having been reduced as low as was practicable. The previous October, French banks had tried to take advantage of heavy maturities in both Treasury bills and national defense bonds to force up interest rates by refusing to renew their Treasury bill holdings. However, two enterprising Paris brokers had bid for the maturing bills and managed to resell most of them before the banks realized what had gone wrong.[46] The problem, Escallier advised Bonnet, was not interest rates, but that the floating debt had reached its limit. The only solution was to cut expenses in order to restore confidence, draw hoarded currency back into circulation, and allow a consolidation of the floating debt.[47]

[43] See PV CFCh, 18–24 Jan. 1933, and Jackson, *Politics of Depression*, 63–5.

[44] Requested by the Treasury in a note of 22 Dec. 1932, MF B 33190, and passed on 30 Dec. in a law requiring that the volume be reduced to 10 billion by the end of 1933.

[45] "Note intérieure sur les difficultés de trésorerie de la fin du mois de janvier," 31 Jan. 1933, MF B 33191. Subscriptions to Treasury bills by the three largest Paris commercial banks, the Société générale, the Crédit lyonnais, and the Comptoir national d'escompte, negotiated with the Ministry of Finance, were to become a regular means to acquire funds.

[46] Charles Cariguel had assisted the brokers in guaranteeing that they would be able to discount bills they could not sell at the Bank of France. F. R. Rodd, "Conversations at the Bank of France," 29 Nov. 1932, BoE OV45/83.

[47] Note of 1 Feb. 1933, MF B 33191. The banks held about two-thirds of the 4,100 million francs in Treasury bills maturing in February.

In February Bonnet asked the Bank of France to discount Treasury bills in order to enable the commercial banks to take up new bills without further reducing their cash reserves. Moret replied that while this had been done in the past to remedy seasonal Treasury difficulties,[48] it could not discount bills resulting from a chronic budget deficit. Discounting Treasury bills at the beginning of the *période des basses eaux* would place the Bank in a difficult position if the bills were not repaid on reaching maturity. By statute, the Bank could not continue to hold them in its commercial portfolio, since this would amount to an inflationary advance to the state, in violation of the monetary reform law of 1928.[49] When Bonnet requested clarification of Bank policy on the discounting of Treasury bills, Moret refused to commit the Bank in advance, insisting on the need for freedom to evaluate conditions as they developed.[50]

The Treasury managed a long-term loan in March, which gained barely half the 10 billion francs authorized, and conditions remained tight through the spring of 1933. In April the Treasury borrowed £30 million from British banks at 2½% for a period of six months, the Bank of France guaranteeing repayment at the end of October.[51] In approaching the British, Jacques Rueff, then French financial attaché in London, told Neville Chamberlain that the loan was needed because of the Bank of France's legal inability to discount Treasury bills, legislation that could not be amended when the Treasury was known to be short of funds.[52] The British Treasury was unimpressed, but the Foreign Office thought it important to make a gesture of goodwill.[53] The

[48] For example, in May 1932, for the 3 billion francs bill issue begun 11 May. The Conseil général minutes record, "Given the absolutely normal character of the subscription, in which no public body has taken part, M. le Gouverneur believes there is no reason to exclude a category of bills the Bank has constantly admitted for discount." PV CG, 12 May 1932.

[49] PV CG, 6 Feb. 1933. Moret had already made this point to Escallier at the Treasury; see note of 1 Feb. 1933, MF B 33191.

[50] Moret to Bonnet, 23 Feb. 1933; this and Bonnet's letter to Moret are quoted in full in PV CG, 23 Feb. 1933. See also Bonnet's account in *La République*, 7 Feb. 1935. Moreau had refused to rediscount Treasury bills in this fashion for Raymond Poincaré in July 1926. When Poincaré, furious, said that Robineau had done this many times in 1923 and 1924, Moreau replied, "Recall M. Robineau." Moreau, *Souvenirs*, 45.

[51] See Baumgartner, "Evolution de la Trésorerie depuis le début de 1933," 27 Apr. 1933, MF B 33191, and PV CG, 27 Apr. 1933 and 4 May 1933.

[52] Phillips's minute of Rueff meeting with Chamberlain, 22 Apr. 1933, T 160/497/F.13413.

[53] The Foreign Office wanted to use the loan as a means to induce French cooperation at the disarmament conference. See Hopkins to Fergusson, 20 Apr. 1933 and minute by "J. S." of the Foreign Office, 21 Apr. 1933, in T 160/497/F.13413.

loan required lifting an embargo on loans to France, which the Treasury and Board of Trade negotiated in exchange for a French promise to remove a 6% turnover tax on British goods and a 15% ad valorem tax that had been imposed to compensate for sterling depreciation.[54] The 15% tax was not lifted, however, which the British remembered as a "piece of very sharp practice on the part of the French Treasury" when the French sought funds in London under more desperate circumstances in February 1936.[55]

The British loan carried the Treasury through the spring, and the French stand at the World Economic Conference attracted international capital to France through the summer; the Treasury estimated that 2 billion of the 13.5 billion francs in Treasury bills outstanding in October were held by foreigners. In October the Daladier government presented a budget seeking 2.7 billion francs in new taxes and cutting 2 billion francs in expenditure, including a 6% reduction in state salaries and pensions. The Socialists refused their support, and the government was defeated on 24 October. The Treasury, concerned that confidence would swiftly desert the franc if France showed any financial weakness, insisted on the need for an immediate effort to balance the budget. Long-term interest rates had been climbing steadily, making borrowing long-term prohibitively expensive (note the rising interest rates and declining issue prices for Treasury loans in Table 5.2). The new Sarraut government was warned that

> the functioning of the Treasury depends uniquely on the maintenance of public credit, which depends in turn on a balanced budget. The sooner this is accomplished, the sooner we will be out of danger. . . . a country like ours must understand that in order to safeguard its credit and its currency, it must commit itself without delay to a definitive rehabilitation of its finances.[56]

By the end of the year the Treasury was again in difficulty. Treasury bills issued at a rate of 1 billion francs per month during the summer were not being fully renewed, and the issue of four-month bills in August meant 2 billion would mature in December. From late October to the end of December, bill subscriptions fell off from 13.5 to 10 billion francs, and gold reserves declined by 5 billion. The Treasury discounted medium-term bonds, transferred Caisse funds to the Trea-

[54] See H. Fountain (of the Board of Trade) minute, 22 Apr. 1933, and Phillips minute, 22 Apr. 1933, and the record of subsequent negotiations in T 160/497/F.13413.
[55] R. F. Wigram, 4 Feb. 1936, FO 371/19861.
[56] Baumgartner note of 26 Oct. 1933, arguing for the need to consolidate floating debt; see also note of 28 Oct. 1933, MF B 33191.

Table 5.2. *Medium- and long-term loans, 1932–6*

Date	Loan[a]	Issue price	Amount (millions of francs)
September 1932	4.5% Conversion		
	4.5% National reequipment	94	3,765
	4.5% PTT	99.3	2,600
March 1933	4.5% 60-year	98.5	5,176
July	4.5% 10-year	96.25	3,349
December	5% 5-year	97	1,594
	4.5% PTT	91	2,307
January 1934	5% 5-, 10-, and 15-year	97.5	4,066
July	4%	95	5,099
September	4.5% 3-, 6-, and 10-year	97.6	8,768
	5% PTT		1,192
March 1935	4% 3-, 6-, and 12-year	98	3,300
December	5% 30-year	91	2,086
	5% PTT	91	1,500
July 1936	Auriol bonds, 6-month, 1-year		4,455
	5% PTT	91	794

[a]PTT, Postes, Télégraphes, et Téléphones Loan.
Source: Revue d'économie politique, 1933–7.

sury, and arranged an early renewal of bills held by the three main Paris banks to cover payments at the end of December.[57]

The Treasury situation deteriorated as the Stavisky scandal and the riots of 6 February disrupted French political life. A medium-term bond issue in late January garnered 3.5 billion francs, but the Treasury had to discount its expected receipts at the main Paris banks, exhausting half the loan by month's end and anticipating that the remainder would last but a few days.[58] Louis Germain-Martin returned as minister of finance in Gaston Doumergue's government of National Union, with his first duty "to avoid Treasury insolvency."[59] Treasury needs to the end of June were estimated to be 6 to 7 billion francs on the unlikely supposition of a balanced budget and no further decline in Treasury bill subscriptions. The Treasury had a large margin of bills available for issue; 5 billion francs had been repaid since the Daladier government fell on 20 October. The question was whether the government could

[57] "Note sur la Trésorerie, 8/12/33–2/1/34," 4 Jan. 1934, MF B 33192.
[58] Notes of 31 Jan. 1934, 1 Feb. 1934, and 2 Feb. 1934, MF B 33192.
[59] Germain-Martin, *Problème financier*, 249. For details on the Treasury situation see notes of 9 and 10 Feb. 1934, MF B 33192.

make longer-term issues. Germain-Martin promised to balance the budget and restrict spending in order to permit borrowing at reasonable rates and to lower interest rates to assist economic recovery.[60]

Meeting immediate payments was the Treasury's main concern. Issuing Treasury bills was possible only at a much higher rate than the Treasury was willing to pay. In early March the three largest Paris banks were asked to take up 1,500 million francs in Treasury bills to allow the government's economies program to take effect before it appealed to the market. The banks refused to commit themselves, since their deposit levels were depleted by withdrawals during the political crisis, and the Bank of France would not commit itself to rediscounting Treasury bills.[61] It did agree to take up more bonds on a temporary basis if necessary; the Treasury arranged to borrow 1,350 million francs from the Banque Mendelsohn in Holland. Germain-Martin also considered borrowing in London, but this proved unnecessary when monetary conditions eased in April.[62] Balancing the budget, the Treasury insisted, was the essential first step to escaping financial and monetary crises:

> The complete elimination of the budget deficit constitutes, from the point of view of the pubic credit, a minimum program on which one cannot compromise. . . . it is no exaggeration to state that the realization of massive cuts in spending is the basis not just for balancing the budget, but for the preservation of the currency, which, after a long period of recourse to loans, finds itself doubly menaced by the incessant growth of debt arrears and by the uncertainty that affects the floating of new loans.[63]

Deflation

The Doumergue government opened a new phase in the battle for a balanced budget, which would end in 1936 with regular Treasury recourse to central bank advances. The 1934 budget was rushed through Parliament with each ministry's budget voted en bloc rather than by chapter. The deficit was reduced on paper to 737 million francs, with a commitment to balance the budget through economies effected by de-

[60] Note of 15 Feb. 1934, MF B 33192.

[61] "Souscriptions par les trois grandes Etablissements d'un contingent supplementaire de bons ordinaires du Trésor," Mar. 1934, MF B 33192. On 14 Mar. the banks took up 200 million francs.

[62] Notes of 13 Mar. 1934 and 20 Apr. 1934, MF B 33192; also Germain-Martin, *Problème financier*, 249–52, idem, "Histoire," 2:94–100, and *REP* 49 (1935): 670.

[63] Note of 13 Mar. 1934, MF B 33192.

cree before the end of June.[64] Decrees issued on 4 and 15 April aimed to reduce expenditure by 4 billion francs (2.6 billion in the 1934 budget) through cuts in civil service employment, salaries (5 to 10%), and pensions. The decree laws eased Treasury difficulties by demonstrating the government's determination to balance the budget,[65] but the deficit remained.

The improvement allowed Germain-Martin to attempt to reduce interest rates. Treasury bill rates were lowered by ½% on 19 May to inaugurate a period of cheaper money and to stimulate recovery.[66] Germain-Martin asked the Bank of France to lower its rates as well, "thus to associate itself with the government's policy aiming to reduce interest rates." Moret refused; only after the rate on Treasury bills was lowered a further ½% on 30 May did the Bank lower its discount rate to 2½%. Moret claimed disingenuously that this was "to usefully assist the policy of rehabilitation and deflation practiced by the government."[67]

The Bank and the Ministry of Finance differed on interest-rate policy again in September. Moret reported to the Council of Regents that Doumergue, "seduced" by the idea of cheaper money, had sent Germain-Martin to discuss this with him. Since the spring, French gold reserves had increased from 76 to 82 billion francs. Germain-Martin suggested that a lower rate on discounts and advances would reduce gold imports and stimulate domestic business. Moret replied that a drop in interest rates would have little influence on gold flows, would reduce Bank profits, and would encourage speculation. Relating this conversation to the regents on 6 September, Moret claimed that Germain-Martin had not insisted.[68]

But the minister of finance wrote to Moret the same day to argue his reasons for seeing a reduction in interest rates as an "imperious necessity." It would reduce gold imports, since the Bank of France's discount

[64] Germain-Martin, *Problème financier*, 258–60. Abel Gardey estimated the deficit would be 6 to 7 billion; Paul Reynaud commented to the Chamber of Deputies Finance Committee, "As for balancing the budget, that has no importance because no matter how it is done, it will be accomplished only on paper, not in fact." PV CFCh, 21 Feb. 1934.

[65] *REP* 48 (1934): 542; note of 18 May 1934, MF B 33192; Germain-Martin, *Problème financier*, 260–6.

[66] Note of 18 May 1934, MF B 33192.

[67] PV CG, 1 June 1934. See Chapter 4, this volume.

[68] PV CG, 6 Sept. 1934. The tone of Moret's report, given that Germain-Martin was a professor of economics and had his own program to stimulate recovery through cheaper money and incentives to producers, is suggestive of the differences between the governor and the minister that would result in Moret's dismissal in January 1935.

rate of 2½% compared with rates of 2% at the Bank of England and 1½% at the FRBNY; market rates were 1.78% in Paris, 0.86% in London, and 0.22% in New York. The decline in the Bank's commercial portfolio indicated that its credit was too expensive domestically: A reduction in interest rates would stimulate economic activity by encouraging investment and reduce the danger of depreciation of the pound. It would also facilitate Treasury borrowing, reduce the long-term rate of interest, increase tax revenue, and slow the fall in prices. These arguments, he concluded, showed that "the maintenance of the discount rate at its present level is in absolute contradiction with the financial policy followed by the Union Nationale government."[69]

Although there is no record of his response, Moret obviously did not share these views. The matter was not raised again in the Council of Regents, and the discount rate remained unchanged at 2½% until May 1935. The Bank seems to have believed that 2½% was already "cheap money" and that its role was to provide stable credit conditions (despite market rates having fallen off considerably; in the last six months of 1934 they averaged nearly a full percentage point lower than Bank rate); in addition, a reduction in interest rates would mean a drop in Bank income, already sharply reduced by the crisis.[70]

By November 1934, when the Doumergue government fell, state finances showed considerable improvement. Medium-term loans in July and September allowed the Treasury bill total to be kept near 10 billion francs and made possible the repayment of 7.5 billion francs in maturing bonds in October (mostly *bons Clémentel* issued in 1924). No major loans would mature for another two years. Long-term interest rates remained high; the July 4% and September 4½% loans had been issued below par, bringing their yields to 5.12 and 5.32%. The Treasury now pressed for a *redressement* of state credit to lower long-term rates, "the recovery of economic activity depending, in large part, on this reduction."[71]

The Flandin government that took power on 8 November planned to stimulate recovery with cheap money, hoping that rising world prices would obviate the need for deflation and that economic recovery would restore government receipts to balance the budget.[72] The Treasury

[69] Germain-Martin to Moret, 6 Sept. 1934, BN, Flandin Papers, carton 65.

[70] See Chapter 4, this volume. The commercial banks were also opposed to a reduction in the interest rate; Emile Roche wrote to Joseph Caillaux at this time that "they [the banks] have mobilized all the financial papers in Paris, notably yesterday's *L'Agence économique* and *L'Information*, to protest against the idea of a reduction in the rate of interest," Roche to Caillaux, 13 Sept. 1934, FNSP ERJC 9 Dr 1.

[71] Note of 17 Oct. 1934, MF B 33192.

[72] See Pierre-Etienne Flandin, *Discours* (Paris: Gallimard, 1937), 21–30, 42, 48–52, 91–

planned to rely on short-term borrowing in order to allow long-term rates to fall. Shortfalls in receipts made continued borrowing essential; the Treasury estimated it would need to borrow 10 billion francs in the first half of 1935.[73] If this were not to obstruct the lowering of long-term rates, the capacity for short-term borrowing would have to be increased, and in December it was rumored that the government would require that the Bank of France discount Treasury bills and develop an open market policy.[74]

On 1 January 1935, Germain-Martin removed Clément Moret as governor of the Bank of France, appointing Jean Tannery in his place. The government had decided to raise the ceiling on Treasury bills to 15 billion francs and to provide discount facilities at the Bank to ensure that these would be taken up by the market. Germain-Martin's frustrations with the Bank in the past year were apparent in his presentation of the legislation to Parliament. He argued that changes in the nature of credit operations, particularly the increasing role of government paper in the money market, had not been accommodated by the Bank:

> If the central bank claims itself unable, in principle, to accept the signature of the state when presented by a third party, no more serious blow could be struck not just to the credit of the state, but to credit in general.
>
> It is the duty of the Minister of Finance to remind the Council of Regents of the Bank of France of this point, and I personally take responsibility for doing so.[75]

2, 116–17. For a critical overall assessment of the Flandin experience, see Sauvy, *Histoire économique* (1984), 1: 161–72. Flandin's program was unlikely from the start; he underestimated both the importance of the disparity between French and world prices and the resistance his expansionary credit policy would encounter in the Bank of France. He believed the 13% gap between French and U.S. prices would be closed with little difficulty by rising world prices and that further deflation would inflict unnecessary suffering. This 13% was the gap between wholesale prices, which had to adjust to international competition. French retail prices were 35% higher than U.S. prices; see Margairaz, "Histoire d'une conversion," 1: 102 and 158, n. 2.

[73] See notes of 5 Nov. 1934 and 21 Dec. 1934, MF B 33192.

[74] On hearing these rumors, Cobbold noted that this "looks to me like the beginning of a campaign by the Government against the Bank of France or, more accurately, against the persons at present in charge of the Bank of France." On a Reuters report that spurred speculation, see "The French Financial Situation: Proposed Cheap Money Drive," 26 Dec. 1934, BoE OV45/84.

[75] *J.O.Cb.*, 25 Jan. 1935, 221. In his letter to Moret arguing for a reduction in the discount rate in September 1934, Germain-Martin had warned: "In this domain, moreover, the lowering of the rate of discount is not sufficient; it is also necessary that Treasury bills benefit from *undisputed* admission for discounting to the credit limit of their holders. It would be inadmissible that there be any discrimination between Treasury bills and commercial paper." Germain-Martin to Moret, 6 Sept. 1934, BN, Flandin Papers, carton 65.

He told the Senate Finance Committee that when he had asked the Bank to discount Treasury bills the previous March, the Bank had refused, and had he not been able to borrow in Holland, it would have meant the bankruptcy of the Treasury. On the eve of such a catastrophe, he had not been able to obtain assistance from the Bank: "I said nothing. I was patient. But when I was able to, I did what was necessary to ensure that the state would not find itself again in such a position."[76]

Jean Tannery, director of the Caisse d'amortissement and the Caisse des dépôts, was appointed governor in the expectation that he would prove more accommodating. His management of Caisse operations had aimed at reducing the interest rate on medium-term bonds using measures that Germain-Martin described to the Senate Finance Committee as "open market operations."[77] The changes in discount policy at the Bank were not intended to facilitate direct advances to the state or to benefit the banks. Germain-Martin explained to the Chamber of Deputies that the legislation sought to increase the flexibility of discount practice so that in times of difficulty, secondary banks would be able to present Treasury bills for rediscounting at the Bank without meeting a systematic refusal.[78] He stressed again, before the Senate Finance Committee, that rediscount facilities for Treasury bills would facilitate subscriptions by the smaller, regional banks.[79]

Moret's abrupt dismissal and the fanfare accompanying the government's new financial policy sharpened the sensitivity of the regents to any interference with Bank independence. Hearing of Moret's dismissal and the government's new financial policy, François de Wendel wrote to Louis Marin that if the government wished to adopt Paul Reynaud's policies, they had only to call him to power.[80] C. F. Cobbold reported at the end of January that the regents were "irritable and nervous. They are suspicious of everything, and Tannery has not yet proposed anything at all, as he was sure of a refusal."[81]

Tannery broached the subject of discount facilities for Treasury bills on 14 February, after having discussed the issue with some regents privately. He explained that the inability to mobilize *effets publics* was detrimental to control of the market by the Bank of France, to the

[76] PV CFSén., 28 Jan. 1935.
[77] Ibid.
[78] *J.O.Ch.*, 25 Jan. 1935, 221.
[79] PV CFSén., 28 Jan. 1935.
[80] De Wendel to Marin, 3 Jan. 1935, cited in Jeanneney, *François de Wendel*, 514.
[81] Cobbold, note of 31 Jan. 1935, BoE OV45/84. Baron de Rothschild insisted on changes in the phrasing of the Bank's annual report that he felt indicated changes in the Bank's policy. PV CG, 17 Jan. 1935.

banks who held government paper, and to their clients. The minutes of the Conseil général record a discussion of how the Bank could control the quantity of paper presented for discount and read as though Tannery's proposal was accepted the following week. The minutes were altered, however, to conceal the degree to which Tannery was forced to yield to the regents.[82] The plan approved on 21 February had been suggested by Wendel;[83] it created a special category of "advances against public bonds," rather than discounting Treasury bills in the commercial portfolio. This facility would provide advances against government securities of less than two years, for a period of from five to thirty days without renewal, to a maximum of 2,500 million francs. The rate for these advances could not be lower than the discount rate, and they would appear in a separate column of the Bank's weekly balance, titled "Avances à trente jours au maximum sur effets publics."[84] Their rate was set at 2⅝%.[85]

Although the regents conceded the acceptance of short-term government securities, they restricted it so thoroughly that the effect on credit conditions was negligible; these advances rarely rose above 1 billion francs. Germain-Martin's claims for the reform had not been large; the facilities provided fell far short of his wishes. Debt repayments that were to require Bank of France assistance to the Treasury in May 1935 began with demands from the secondary banks, for whom the credit facilities sought by Germain-Martin remained unavailable.[86] Indirect advances to the state were resumed by discounting Treasury bills for commercial banks in the Bank's commercial portfolio.

[82] See Jeanneney's account in *François de Wendel*, 510–24, esp. 522, n. 48, for revision of the minutes in PV CG, 14 Feb. 1935. Also useful is Netter, *Banque de France*, ch. 4, 213–21. Germain-Martin was bitter about Tannery's failure to press the government's case: "Once named, in lieu of firmly supporting the policy of lowering interest rates by having the Caisse des dépôts discount Treasury bills at the Bank of France, he took the side of the regents, showing a great deal of reserve regarding the operations we sought in order to ease market conditions and facilitate industrial recovery, through both the reduction in the rate of interest, and the creation of credit facilities easily available to business." Germain-Martin, "Contribution," 2: 140.

[83] Jeanneney, *François de Wendel*, 522–4.

[84] See PV CG, 21 Feb. 1935.

[85] Tannery had proposed a rate of 2½%, as for discounts. Baron de Rothschild wanted 2¾%, and the regents agreed to a Wendel compromise of 2⅝%, to drop to 2½% the following week if there were no problems. But on 28 Feb. the regents refused to lower the rate, insisting that a change without apparent reason would be misinterpreted by the public. It was left at 2⅝% until the monetary crisis in May and moved with the discount rate thereafter. See PV CG, 21 and 28 Feb. 1935.

[86] See the note of 9 Apr. 1935, MF B 33193, and Margairaz, "L'histoire d'une conversion," 1: 109.

The issue was not the Treasury need for funds – no one thought to deny the Treasury the increase in Treasury bills – but the independence of the Bank, whether the Bank would remain "mistress of the discount." In the Senate, Wendel accepted the higher bill ceiling, but cautioned that the accompanying debate had threatened the Bank's independence in a disquieting fashion for all those who believed

> that the relations between the Bank and the state could be altered only with a great deal of prudence; that the statutes regulating the Bank had proven their worth for more than a century and constituted the best safeguard of our currency, that is to say, the value of the franc.

He also warned against Bank interference in politics.[87] The Bank's discount policy in May 1935 would appear to do just that, fueling the campaign that resulted in de facto nationalization of the Bank in July 1936.

The Treasury had obtained little breathing space since February 1934. No serious crises developed in the early months of 1935, but Baumgartner warned Germain-Martin on 1 April that the Treasury would be able to meet its payments in May and June only if public confidence was maintained and all new expenditure was avoided that did not have a character of "indispensable urgency."[88] The Belgian devaluation raised market interest rates in Paris and increased demands for repayment of maturing government debt;[89] in early May the Treasury had to borrow from other government accounts and discount a Postes, Télégraphes, et Téléphones (PTT) loan to meet immediate payments. At month's end it would need 1,500 million francs to repay maturing bills. As the monetary crisis developed in May, indirect advances from the Bank of France were the only means to meet these payments.

The Treasury had seen the crisis coming. Flandin's hope that recovery abroad would render deflation in France unnecessary had been

[87] *J.O. Sén.*, 29 Jan. 1935, 57. Wendel acknowledged that approving government paper for discount placed the Bank in a difficult position: "The statutes of the Bank never foresaw that we would have to judge, in sovereign fashion, the credit of the state. That, however, is what we have come to."

[88] "The fact that the spending required by circumstances abroad will not be able to be compressed as much as had been desired renders indispensable new efforts in the domain of the normal budget.... There is scarcely need to repeat that the continuous borrowing of the state, the result of successive budget deficits, constitutes the most serious of the threats which endanger our currency." Baumgartner note, 1 Apr. 1935, MF B 33193.

[89] Baumgartner note of 9 Apr. 1935, MF B 33193.

disappointed, and he was forced to resume the deflationary policies of his predecessors.[90] Treasury bill subscriptions and *rente* prices had been falling since the end of March, and a loan to consolidate national defense bonds was postponed because market rates were too high. Instead, PTT and Algerian loans intended for later in the year were issued early. On 23 May, Baumgartner's estimate of the Treasury's end-of-month needs had risen to 2 billion francs, and he pressed for budget cuts in order to end the monetary crisis: "In order to remedy such a threatening situation, it is essential that we attack the very source of the ill from which we are suffering. It is indisputable that the monetary fears have their origins in the deficit in public finance." The provisioning of the Treasury required a restoration of public credit and public confidence, for which the first step was as radical as possible a reduction in expenditure. Though it was not his place to specify how this was to be done, Baumgartner stressed that the task was "indispensable and urgent."[91]

Germain-Martin asked the Bank to accept Treasury bills for discount to enable commercial banks to increase their subscriptions. Tannery replied that any Bank commitment on this matter would depend on the government obtaining *pleins pouvoirs* to effect spending reductions.[92] Under pressure from both the Bank and the Treasury, Flandin requested decree powers on 28 May, giving little indication that he knew what he would do if he received them; he was refused first by the Finance Committee, then in the Chamber itself. Passing the Ministry of Finance on to Joseph Caillaux, his successor in the short-lived Bouisson cabinet, Germain-Martin stated that "one can only conclude that a budget retrenchment able to restore public credit is necessary and urgent."[93]

Flandin's commitment to further deflation had been sufficient for the Bank to guarantee the rediscount of 2 billion francs in Treasury bills.[94]

[90] Germain-Martin accepted the need for decree powers to effect economies at the beginning of May; Flandin would have preferred to wait until September, but had little choice. Jeanneney, *François de Wendel*, 534.

[91] Baumgartner note, 23 May 1935, MF B 33193. The *REP* likewise saw the continuing budget deficits as the source of the problem, with events in May forcing the government back to the budget problem it believed it had solved at the beginning of the year; 49 (1935): 639.

[92] PV CG,23 May 1935.

[93] Germain-Martin to Caillaux, 5 June 1935, BN, Flandin Papers, carton 64. The letter was, not surprisingly, written by Baumgartner; there is a copy dated 3 June 1935 in MF B 33193.

[94] The three main Paris banks, the Société générale, the Crédit lyonnais and the Comptoir national d'escompte, together took up 1 billion in Treasury bills, which were im-

This indirect advance from the central bank was intended to be of short duration, to survive the monetary crisis. Baumgartner hoped these funds would tide the Treasury through June, but they were nearly exhausted by the time Pierre Laval took office on 7 June. Eight hundred million francs were borrowed from a railroad loan in mid-June, and the three Paris banks subscribed to a further 500 million francs in Treasury bills before the month ended.[95]

When Pierre Laval assembled a new cabinet on 5 June, he met with Baumgartner, Tannery, and Yves Bouthillier (director of the budget) to ask advice on defense of the franc. Both Tannery and Baumgartner insisted on the need for a "prompt and energetic compression of budget expenditure."[96] Laval embarked on the most serious deflationary effort of the depression in France. He had been granted decree powers "in order to fight against speculation and to defend the franc"; the purpose was narrower than those of the powers requested by Flandin and Bouisson, but it allowed Laval a broader scope for action.[97] Laval appointed a committee of experts – Jacques Rueff from the Treasury, C.-J. Gignoux, editor of *La Journée industrielle* and president of the Fédération des industriels et commerçants français, and Raoul Dautry, head of the French railways – to advise the government. With devaluation ruled out and the franc overvalued, the urgent task to be accomplished with the decree powers granted for the next four months was to balance the budget.[98] They recommended a broad program to cut spending, reduce

mediately discounted; the Caisse des dépôts took up another billion, which the Bank would discount should the Caisse require their mobilization. Note of 1 June 1935, MF B 33193.

[95] Notes of 8 June 1935 and 28 June 1935 in MF B 33193.

[96] The phrase is Tannery's from his account of the meeting of PV CG, 6 June 1935. Baumgartner's advice was the same in a note to Régnier on 8 June 1935, MF B 33193.

[97] As Jacques Barety told the Chamber of Deputies in reviewing the decree powers requested since 1926, Laval's law gave powers "incontestably of an extremely large breadth permitting the government to carry out extensive and diverse plans [expériences]." *J.O.Doc.Ch.*, 1300. Flandin, in contrast, had requested decree powers "to accomplish the setting-right [*assainissement*] of public finances, the recovery of economic activity, the defense of public credit, and the maintenance of the currency."

[98] "Pour la mise en ordre du pays," 24 June 1935, Raoul Dautry Papers, AN 307 AP 15. The notion of a choice between devaluation and deflation was explicit in the report, which concluded: "It seems to us that there is only a choice between devaluation and its consequences, and a balanced budget *very largely assured* by means to be employed immediately, simultaneously, which strike at all interests without taking account of their bitterness, habits, routines, prejudices and even their rights. The government, the parliament and the country have opted for the second method. We have tried to specify the plan and the means of applying it which will only prove worthwhile for

unemployment, reform government administration, and lower the cost of living; they also suggested that political and judicial reforms be undertaken to complement the economic and financial program.

Laval adopted the economic and financial proposals in three series of decree laws. The first series of 29 decrees, issued on 16 July, aimed at balancing the budget by cutting 5,870 million francs from expenditures and adding 1,200 million francs in new receipts. The centerpiece was an effort to cut all state expenses by 10%, including salaries, pensions, and payments on *rentes*. The effort was chaotic and aroused vociferous opposition from the Left; *Le Populaire* greeted the first decrees with the headline "Le gouvernement Laval contre la Nation."[99] Laval was forced to retreat on salary cuts, grading them according to salary levels, and the Left campaigned with great effect for a "humanization" of the decree laws, which would be one of the first measures of the Popular Front government in June 1936. Two further series of decrees were issued, 83 on 8 August to stimulate economic activity and reduce the cost of living, and 317 at the end of October, to complete earlier decrees and accomplish administrative reforms.[100] The economic incoherence of the program increased with the new decrees aimed at economic expansion contradicting efforts to lower prices; after the decrees were issued in

the country in the certitude of a future different from today." In his autobiography Rueff describes his own position as being duty-bound to follow the route traced by the government, although he felt that the attempt at deflation violated the logic of the 1928 stabilization; he thought that the French were repeating the errors the English had made in restoring sterling at its prewar parity, and made two approaches, to Laval and to his confidant Pierre Cathala, the minister of agriculture, to warn of the social discontent the deflation would engender. He was told that the decision of Parliament was *sans appel* (Rueff, *De l'aube au crépuscule*, 124–5). The press certainly regarded Rueff as at one with Dautry and Gignoux in representing orthodoxy; the *Economist* described them as all "staunch supporters of budgetary deflation" (22 June 1935, 1422). But Rowe-Dutton ranked French attitudes toward devaluation at this time as follows: "In aptitude for regarding devalorisation in a not too unfavorable light Mönick is well ahead of Rueff, Rueff well ahead of Baumgartner, and Baumgartner well ahead of Tannery" (Phillips to Hopkins, 19 May 1935, T 160/840/F.13427/2). In his not altogether reliable memoirs, Georges Bonnet claims he advocated a devaluation as minister of commerce and industry; Laval refused categorically and rejected Bonnet's suggestion (which Rueff and Gignoux supported) that the 1936 election be delayed two years to allow the deflationary program to produce results (Bonnet, *Vingt ans*, 232–3.)

[99] *Le Populaire*, 17 July 1935. *L'Humanité* also attacked them immediately.

[100] On the Laval deflation see the chapter in Sauvy, *Histoire économique*, 2: 209–20, and Margairaz, "Histoire d'une conversion," 1: 124–45; for a categorization of the decrees see Barèty's report on the 1936 budget, *J.O.Doc.Ch.*, 1301ff.

August, the *Economist* acknowledged the "stupendous efforts" of the Laval government, but observed that

M. Laval might have set himself the task of defending the franc *à tout prix*, or of increasing foreign trade, or of stimulating internal trade by public works, or of reducing the cost of living, or of balancing the budget. But to attempt all five at once is not a policy at all – it is a desperate muddle.[101]

A justification of the Laval deflation written in the Ministry of Finance in March 1936 claimed that although unfavorable external events had prevented complete success, Laval had achieved his three goals: balancing the *budget ordinaire*, defending the franc, and reanimating the economy, "the reward and the justification for the energetic effort of retrenchment effected in July 1935."[102] Laval balanced the *budget ordinaire* by creating a *budget extraordinaire* of 6,230 million francs for armaments and civil expenditure to be covered by borrowing. The 1936 budget was voted with a surplus on paper of 12 million francs. The franc was preserved at parity, but only in aggravating the disparity between French and world prices that would eventually require devaluation. Finally, the reanimation of the French economy, which Sauvy has termed the "paradoxical and logical recovery of 1935–1936,"[103] appears to have owed at least as much to accident as to design, through the failure to lower prices and increased government spending.

This revival is commonly attributed to three sources: rising agricultural prices (which increased demand for manufactured goods, particularly textiles), the restocking of depleted inventories, and an increase in domestic purchasing power.[104] External trade was not a factor; the value of French exports fell from the spring of 1935 through early 1936, recovering only after the devaluation in 1936.[105] Improvements in agricultural prices were slow in 1935; the *Revue d'économie politique* judged that the year would leave "less unpleasant memories" than preceding years only because the decline in prices had been arrested in the second

[101] The *Economist*, 17 Aug. 1935, 314; cited in Geoffrey Warner, *Pierre Laval and the Eclipse of France* (London: Eyre & Spottiswoode, 1968), 91. The article went on to point out a few of the contradictions, including the paucity of the effort to liberate foreign trade: Of twenty-three quotas removed, the most important were for mustard, telescopes, and traction engines! See also Germain-Martin, *Problème financier*, 324–8.

[102] "L'oeuvre financière du Gouvernement Laval," n.d., probably Mar. 1936, in MF B 33455.

[103] Sauvy, *Histoire économique*, 1: 221.

[104] See ibid., 221–4; Jackson, *Politics of Depression*, 109; and Wolikow, "La crise des années trente," 38–9.

[105] SGIC, *Mouvement économique*, 166.

Table 5.3. *Recovery, 1935–6*

Date	Industrial production (1928 = 100)	Textiles index (1928 = 100)	Construction index (1928 = 100)	Wagons loaded (1,000/day)	Metalworks (1928 = 100)	Wholesale prices (1913 = 100)	Wheat (francs/ quintal)	Exports (millions of francs)	BFR commercial portfolio (millions of francs)	BFR sight deposits (millions of francs)
Apr. 1935	76	74	66	35.7	69	335	80	1,343	8,780	15,145
May	78	78	66	36.1	71	340	82	1,267	12,847	12,315
June	79	81	71	36.2	71	330	79	1,238	13,425	10,969
July	80	84	76	34.3	72	322	69	1,155	12,584	11,090
Aug.	80	82	75	33.3	72	330	83	1,176	12,654	10,666
Sept.	81	84	31	37.3	72	332	84	1,193	12,777	10,848
Oct.	82	86	76	40.2	72	342	81	1,352	13,311	10,647
Nov.	82	85	75	38.8	73	348	79	1,426	16,766	9,361
Dec.	83	86	75	35.7	75	354	78	1,290	14,949	8,716
Jan. 1936	86	88	75	33.9	76	359	86	1,203	14,936	8,088
Feb.	86	88	76	37.1	76	372	94	1,229	15,355	8,706
Mar.	88	91	76	38.2	77	376	99	1,245	17,463	8,434
Apr.	88	87	75	35.9	79	371	97	1,200	19,361	7,895
May	87	86	76	35.4	78	374	92	1,172	24,919	6,909
June	80	75	73	34.6	73	378	97	1,155	27,336	6,527

Sources: Statistique générale et Institut de conjoncture, *Mouvement économique*, 147, 161, 166, 178, 208. The Bank of France (BFR) commercial portfolio and sight deposit figures are averages of the weekly balances. Wheat prices from *Revue d'économie politique*, 1936, 1937.

half.[106] Restocking of inventories played a role, but its weight is difficult to determine because data are lacking; it was considered important for the recovery in textile production in the *Revue d'économie politique*'s annual review.[107] Increased purchasing power may also have played a part, indirect Bank of France advances to the Laval and Sarraut governments helping recovery along. Retail prices rose 7% from August 1935 to May 1936; wholesale prices 16%.[108] Industrial production recovered from 70 (1929 = 100) in April 1935 to 80 one year later.[109] Notes in circulation increased only slightly, but current accounts at the Bank of France declined by more than 50% from May 1935 to May 1936, and the commercial portfolio rose from 4 billion to 17 billion francs, owing almost entirely to discounting of Treasury bills.[110] Sight deposits at the main commercial banks fell over the same period; much of this may have been hoarded rather than used to purchase goods.

Laval's deflationary effort failed to clear a number of hurdles: its own contradictions, public acceptance, and control of extraordinary expenditure. Public confidence deteriorated and the budget remained unbalanced. After indirect advances in May and June, the Bank agreed to provide the government with "all possible assistance" in July to allow the Laval decrees to take effect and restore confidence.[111] At the end of July, the bills taken up by the banks were renewed, as were the discounts for the 1,250 million francs in bills discounted at the Bank of France. To meet Treasury payments until mid-September, the Caisse des dépôts took up 1 billion francs in Treasury bills with assurance that they could be discounted at the Bank if necessary, and the three

[106] *REP* 50 (1936): 782. The role of agriculture is given excessive credit in ibid., 818–19 (the *REP*'s report on industrial production, claiming a greater agricultural recovery than did the report on agricultural production by P. Fromont), and Jackson, *Politics of Depression*, 109. Jackson cites a rise in the price of wheat from 69 francs per quintal in July to 78 in December; the *REP* found the low price in July "inexplicable" (50 [1936]: 793); the price had been 79 in June and rose again to 83 in September and 84 in October, falling thereafter to the end of the year. The rise in agricultural prices was much stronger in spring 1936.

[107] *REP* 50 (1936): 920, 923.

[108] From statistics in Sauvy, *Histoire économique* 3: 351, 355. Statistics in SGIC, *Mouvement économique*, 181, show a rise of 10.3% in retail prices over the same period and 14% in wholesale prices.

[109] Sauvy, "*Histoire économique*, 3: 315; textile production rose from 73 in Mar. 1935 to 91 one year later (319).

[110] From 10 May 1935 to 8 May 1936, current accounts fell from 14, 213 million to 6,773 million; the commercial portfolio rose from 3,949 million to 17,222 million. SGIC, *Mouvement économique*, 127–8, credited the recovery to this increased discounting.

[111] Note of 15 July 1935, MF B 33193.

Paris banks subscribed to a further 1,200 million francs in Treasury bills.[112]

The Treasury bill volume rose to 14,500 million francs in September, just short of the ceiling set by the law of 31 January 1935, and end of September payments were met by "discounting" receipts from railroad and Bank of Morocco loans, which would be issued when conditions permitted.[113] The regents, in approving the unusual procedure, recognized that "the Bank must aid the state with all possible means to meet the temporary insufficiencies of the Treasury, within the limits set by its statutes."[114] Autumn was normally the Treasury's easiest time of year, but tax receipts were down a further 6.6% in the last quarter of 1935,[115] and the exhaustion of railroad and city of Paris treasuries increased state borrowing. In September, Baumgartner called Régnier's attention to the fact that the government's deflationary efforts had not yet produced a dishoarding of capital and a reflux of exported capital, "that is, the double movement that seems so essential for the amelioration of our financial market."[116] Although Treasury bill renewals declined during the monetary crisis in November, the Treasury reached the end of the year without recourse to further exceptional measures. A national defense loan in December carried Treasury resources into January, although the target of 2 billion francs was achieved only by extending the loan in "an effort disproportionate to the importance of the operation."[117] The Treasury bill volume could not be reduced below its legal limit at the end of 1935, and the 15 billion franc ceiling was prolonged into 1936.[118]

Treasury prospects for 1936 were bleak. Baumgartner estimated the Treasury would have to borrow 10 billion francs by the end of June, and as the limit for floating debt had been reached, this would require recourse to *opérations de caractère exceptionnel*, of which Baumgartner

[112] Note of 15 July 1935 in MF B 33193; PV CG, 18 July 1935; and Régnier to Deroy, 30 July 1935, Deroy to Régnier, 31 July 1935, in MF B 33193.

[113] Six hundred million from the railroad loan and 650 million from the Bank of Morocco loan were discounted; these were to repay previous Treasury loans.

[114] PV CG, 19 Sept. 1935; see also Treasury minute to Tannery, 19 Sept. 1935, MF B 33193.

[115] SGIC, *Mouvement économique*, 203–4.

[116] Baumgartner to Régnier, 16 Sept. 1935, MF B 33193.

[117] The evolution of the Treasury stituation can be followed in notes of 20 Nov. 1935, 3 Dec. 1935, and 15 Jan. 1936, MF B 33194.

[118] Note of 23 Dec. 1935, MF B 33194. The issue of 3.3 billion in medium-term bonds to consolidate the floating debt counted in the 15 billion limit, exceeding it by 1 billion francs. See Jackson, *Politics of Depression*, 253, n. 221.

suggested four types. The first, drawing on Caisse des dépôts and Caisse d'amortissement funds, had already been overused and should be kept for real emergencies; the second, advances from the Bank of France, would alarm public opinion. This left the third, borrowing abroad, and, fourth, an appeal for broader public support by reducing the minimum amounts for Treasury bills to 1,000 or 500 francs. Baumgartner doubted the efficacy of the latter, which could draw down deposits and increase the cashing in of defense bonds: "It is only in the measure that hoarded funds are reinvested in Treasury bills that the *Caisses publiques* would draw a real benefit."[119] When the Sarraut government was formed in late January, after Laval was deserted by the Radical Party, the *opérations de caractère exceptionnel* had become essential.[120]

January payments were met by discounting a number of small loans and borrowing several hundred million francs beyond the limits considered acceptable from the Caisse des dépôts.[121] In February the Treasury borrowed £40 million at 3% from banks in London. The Bank of France disapproved of the loan, as did the French commercial banks;[122] but Bank cooperation was needed to prevent disruption of exchange markets when the funds were transferred. Tannery objected that the Bank could not, by its statutes, buy sterling and that it would in effect be advancing funds to the state. The £40 million (3 billion francs) would put Treasury bills well over their legal limit; the Treasury had the Caisse des dépôts exchange the 2 billion francs it held in Treasury bills for two-year bonds, which the Bank would buy should the need arise. The Bank agreed to make advances to the Treasury without interest should the English loan, to be transferred in six weekly installments, not arrive fast enough to meet Treasury needs (already paying interest in London, the Treasury would otherwise be paying double interest on the advances from the Bank). Finally, the Bank agreed to deposit gold in its account at the Bank of England in proportion to the sterling funds transferred. Tannery explained to the regents that he had cate-

[119] The national defense bonds were normally of two-year terms. See notes of 3 Dec. 1935 and 15 Jan. 1936, MF B 33194.

[120] "Exposé remis à Marcel Régnier en vue du premier Conseil de Cabinet du Ministère Sarraut le 26 janvier 1936," 26 Jan. 1936, MF B 33194.

[121] Note of 31 Jan. 1936, MF B 33194.

[122] The loan would weaken Bank pressure on the government for economies, and the commercial banks would obtain no commission on issue of the loan. See Rowe-Dutton to Charles Peake, 25 Jan. 1936 (the loan had been rumored since mid-January), T 160/630/F.14443, the minute by Ashton Gwatkin, 17 Jan. 1936, and Peake to Baxter, 27 Jan. 1936 in FO 371/19861.

gorically refused to guarantee the loan with Bank of France gold reserves; the deposit of gold in London was instead a "measure destined to give peace of mind to the English banking group."[123]

The English loan was exhausted as quickly as it arrived, and the Treasury drew on Caisse des dépôts deposits, railroad loans, and renewed bank subscriptions to Treasury bills, discounted immediately at the Bank, to meet March payments. An issue of short-term bonds planned for mid-March was canceled, and negotiations were undertaken to borrow 1 billion francs in Holland, but the loan was not taken up. The German reoccupation of the Rhineland aggravated Treasury difficulties: Bond renewals declined and deposits were drawn down by a nervous public.[124] On 18 March, Baumgartner advised that only one resource remained: advances, direct or indirect, from the Bank of France. Aid from the Bank by the means used since May 1935 could no longer assume that consolidation loans would reabsorb discounted bills. Advances would be for an indefinite period, and for large amounts: "In consequence, I cannot disguise the fact that it will very likely be a question of a quasi-definitive measure of inflation."[125]

Further advances through discounted bank subscriptions to Treasury bills would require an increase in the Treasury bill ceiling and changes in article 8 of the 1928 monetary reform that had closed Bank advances to the state. Baumgartner advised that such a reform would further damage public confidence. The ceiling was raised by reintroducing the government's original plan for the *fonds d'outillage et d'armement* created in the Laval government's 1936 *budget extraordinaire*. The Finance Committee of the Chamber had restricted funding for rearmament to medium- and long-term loans; the government reintroduced the original text allowing use of Treasury bills as well (allowing funding by "*émissions* du Trésor," rather than the more restrictive "*valeurs* du Trésor").[126] This permitted the issue of another 5,885 million francs in Treasury bills. Payments at the end of March were met by selling 2 billion francs in Treasury bills to the Crédit national, the Banque de

[123] PV GC, 17 Feb. 1936.

[124] For a dramatic reassessment of French capacity to act in March, see Stephen A. Schuker, "France and the Remilitarization of the Rhineland, 1936," *French Historical Studies* 14 (Spring 1986): 299–338. Schuker stresses financial and military constraints. The impact of the Rhineland invasion on French financial problems is reviewed in Frankenstein, *Prix du réarmement*, 126–8. Bank of France notes in circulation jumped by 3.5 billion in March; these were mainly bills of 1,000 francs, destined for hoarding. See Tannery's comments in PV CG, 19 and 26 Mar. 1936.

[125] Baumgartner note of 18 Mar. 1936, MF B 33194.

[126] See explanation in Baumgartner note of 22 May 1936, MF B 33194, and Frankenstein, *Prix du réarmement*, 99–100.

l'Indochine, and the Banque de l'Algérie; another 2,125 million francs were sold to meet April payments, again to smaller banks.[127] The Bank of France agreed to discount the bills for the banks, "conscious of the gravity of the situation and the urgent needs of national defense."[128]

The Bank had initially discounted Treasury bills in the commercial portfolio as a "temporary and exceptional measure," and it was naturally disturbed at the recurrence of central bank advances to the state. In April Tannery warned that the Bank's support would continue because of the exceptional character and circumstances of the needs, particularly with regard to national defense, provided that the Treasury bills issued did not exceed the legal limit; after the elections the government would have to restore its finances and repay the bills.[129] He proposed technical measures to ensure liquidation of the advances, which included enabling the Bank to sell discounted bills back to the market and using any surplus at the Caisse d'amortissement to buy back discounted bills.[130]

Regularization of the advances

On 1 May 1936, the Bank of France's gold reserve had fallen 20 billion francs in the previous twelve months; 2 billion had been lost in March 1936, 3 billion in April. Tannery attributed recent losses to the continuous discounting of Treasury bills. Baumgartner believed they were owing to speculation against the franc and that without the discounting of Treasury bills the Bank would have faced increased discounting by its regular clients.[131] Tannery wished to limit further discounting to the 1,800 million francs remaining from the March increase in the Treasury bill ceiling. Baumgartner wanted the Bank to discount a further 1 billion francs in bills that, having been repaid to regular subscribers since the end of March, would be sold to commercial banks if they could be discounted. Tannery's restrictive interpretation, he argued, "would lead in effect to the Bank taking from the Treasury with one hand that which it had given with the other."[132]

The Bank was caught between its responsibility for safeguarding the

[127] Notes of 6 Apr. 1936 and 5 May 1936, MF B 33194.

[128] PV CG, 26 Mar. 1936.

[129] See the letters between Régnier and Tannery and the council discussion in PV CG, 23 Apr. 1936; this letter may not have been sent, since there are two letters to the same effect dated 24 Apr. 1936, cited in the minutes of the following week, in PV CG, 30 Apr. 1936.

[130] Tannery to Régnier, 24 Apr. 1936, quoted in PV CG, 30 Apr. 1936.

[131] PV CG, 6 May 1936. Baumgartner's views expressed at this meeting are in a note of 7 May 1936, MF B 33194.

[132] Baumgartner note of 7 May 1936, MF B 33194. He wrote to Régnier again on 19 May to the same effect.

currency, which required an end to these irregular advances, and its responsibility to assist the government in a situation of extreme financial distress. On 22 May Gaston Bassot, representing the Collège de censure, expressed the concern of many regents over the volume of Treasury bills in the Bank's commercial portfolio, stating: "It is not in keeping with the clarity worthy of the Bank of France, which must ensure the publication of its balance is characterized by accuracy and sincerity, to include in its portfolio as commercial operations veritable advances made indirectly to the Treasury." Bassot proposed separating the advances from commercial discounts in a new account in the Bank's weekly balance. Tannery agreed in principle, but in practice a new rubric for these advances would require legislation and adversely affect public opinion.[133]

Even with full Bank cooperation, the Treasury had difficulty arranging funds to tide it over the transfer of power to the Popular Front. Baumgartner proposed taking 322 million francs of unused bill capacity from the Caisse des dépôts for Treasury use and retroactively applying the law of 23 March to military spending in 1934 and 1935 to allow the issue of a further 1,898 million francs in "exceptional subscriptions." The Bank agreed to discount 1,500 million francs; it had no real choice. The government's arguments, Tannery told the regents, had been accompanied by considerations that he received with the "most express reserve" and to which he had been unable to agree. But he did not believe it possible, given the "imperious needs" of the Treasury, to limit himself to a negative attitude.[134] On 5 June the Bank agreed to discount a further 1,500 million francs in Treasury bills, with incoming minister of finance Vincent Auriol promising to create a new rubric for such operations under the title "Avances temporaires à l'Etat."[135] On 15 June the Bank approved the discounting of another 750 million francs; Auriol assured Labeyrie that the government was about to introduce legislation to regulate the aid given so far.[136]

This legislation, introduced on 19 June, converted the 14 billion

[133] PV CG, 22 May 1936. In any case, the legislation would have to await the installation of the Popular Front government.

[134] PV CG, 22 May 1936, and see notes of 22 May 1936 and 2 June 1936, MF B 33194. Régnier's letter to the Bank explaining the need for the increased rediscounting facilities and Tannery's acquiescence without agreement are quoted in PV CG, 28 May 1936.

[135] PV CG, 5 June 1936. The agreement was repeated in letters between Auriol and the Bank, with Auriol insisting on the independence of the new government's undertaking. See Tannery to Auriol, 5 June 1936, and Auriol to Labeyrie (newly appointed governor), 9 June 1936, in PV CG, 11 June 1936.

[136] Repayment of bills held by the public allowed this further issue to commercial banks. PV CG, 15 June 1936.

francs in Treasury bills discounted at the Bank into "Avances temporaires à l'Etat"; a further 10 billion francs in direct advances would be allowed, and the Treasury bill ceiling was rounded off at 20 billion francs (of which less than 10 billion had been issued). This was expected to provide amply for Treasury needs, estimated to be 10 billion francs for the rest of the year.[137]

Treasury needs were not met so easily and were an important factor in the decision to devalue. Popular Front finances and the devaluation are treated in Chapter 7; for the moment, some remarks can be made regarding relations between the Treasury and the Bank of France and the influence of Treasury difficulties from 1931 to 1936.

Both institutions were dedicated to the preservation of the franc Poincaré; both believed a balanced budget necessary to this end, and pressed governments to cut spending. But the budget deficits were determined by political decisions and economic performance; both were beyond the control of Bank and Treasury policy, the former determined in parliamentary contests that even the governments in office had difficulty controlling, the latter because an illusory noninterventionism kept both institutions shy of overt management and even of admitting that their policies affected the economy whether they wished or not. Both institutions had to adapt to the inability of French governments to balance the budget. Dealing on a day-to-day basis with the immediate problems of government finance, the Treasury was the first to retreat from the financial *idées fixes* of the 1920s and seek cheaper money to ease the financing of government debt and to promote economic recovery. As guardian of the currency, the Bank was able to maintain a degree of indifference to Treasury difficulties; it gave only limited cooperation to debt conversion in 1932 and refused to give more than token assistance to Treasury efforts to reduce interest rates in 1934 and 1935. But as the Treasury progressively exhausted all other means of finance, both institutions had to resign themselves to recourse to advances from the Bank, which had been "definitively closed" by the 1928 monetary reform.

Germain-Martin sought cheap money as a means to recovery when he resumed the finance portfolio in February 1934, as part of what Michel Margairaz has described as a coherent *politique de l'offre* that aimed to stimulate a supply-side recovery by lowering interest rates and cutting taxes. These measures would complement budget deflation, which was

[137] Baumgartner plans for this in note of 11 June 1936, MF B 33194.

necessary if interest rates were to be lowered.[138] The policy fell short of coherence: Cutting taxes made a balanced budget more difficult without the aid of economic recovery, and the defense of the overvalued franc reduced the likelihood of recovery. But the attitude of the Bank of France was perhaps Germain-Martin's greatest obstacle, and one can sympathize with his frustrations on this count. The Bank's obdurate policies on interest rates and acceptance of government paper hindered the adaptation of government finance and economic recovery. The passage of governors from Moret to Tannery increased Bank sensitivity to the burden of high interest rates, apparent in the growing concern to lower interest rates quickly after monetary crises, but there was no fundamental change in Bank policy until the advent of the Popular Front, Tannery's replacement by Labeyrie, and the de facto nationalization of the Bank. The tensions between the central bank and the Treasury in 1934 and 1935 were significant in leading to these changes.

Chronic Treasury difficulties from 1932 to 1936 were important in three respects. First, their apparent origin in Tardieu's *politique de prospérité* convinced policy makers that budget deflation was the only remedy. To a point this was true; tighter control on spending was needed. But when combined with the fears of a recurrence of 1920s inflation, it produced a fixation on budget cutting that precluded any countercyclical spending. Second, the exhaustion of normal means of finance and the incapacity to balance the budget forced an evolution in policy in both the Treasury and the Bank. The creation of a *budget extraordinaire* for 1936 was a belated recognition that government spending need not be covered by taxation. The resumption of advances from the Bank of France to the state in May 1935, and their legalization one year later, marked Bank acceptance that governments could not meet necessary expenses by budget resources alone. Financial constraints required a more flexible approach to policy. Third, as well as imposing a conservative policy of expenditure reduction, Treasury difficulties fostered suspicion of any innovations that might lead to evasion of budget *redressement*. Reforming the Bank of France statutes to improve control of the money market was ruled out for this reason, and only in 1935 was the method of estimating budget receipts revised to allow that they might fall from one year to the next.[139]

The government's best deflationary efforts cut budget expenditure by

[138] Margairaz, "Histoire d'une conversion," 1: 25, 54–8, 91, and "Direction et directeurs du Trésor: De l'orthodoxie à la réforme (1930–1950)," in *Le Capitalisme français*, 52.

[139] The "penultimate year" rule estimated receipts according to those of the previous year; in the slump, budgets were voted with illusory balances, and confidence was sapped by the predictable failure of receipts to meet expenses.

nearly 6 billion francs from 1931 to 1935. They failed to balance the budget, to bring recovery, or to maintain public confidence. By the end of 1934, long-term interest rates had risen to such an extent that the Treasury chose to resort to short-term borrowing; in 1935, continued borrowing and monetary and political crises choked off this source too. Treasury bill figures do not reflect the further decline in confidence; bills cashed by the public in 1936 were reissued to commercial banks and discounted at the Bank of France, maintaining the Treasury bill issue close to its legal ceiling. (The *Revue d'économie politique* commented, "Pursuing a policy that we doubt is favorable to the maintenance of public confidence, the administration continues to impart a mysterious character to the floating debt.")[140] Treasury bill rates give some indication; they rose from 2% in 1933 to rates from 4 to 6% for most of the period from June 1935 to the devaluation. The clearest evidence, however, is the Treasury's struggle to obtain funding as one means after another was exhausted. By March 1936 advances from the Bank of France were the only means left to avert Treasury bankruptcy. Cooperation between the Treasury and the Bank to this end was unhappy on both sides. French governments were trapped in a vicious circle in which budget deficits damaged confidence, leading to gold losses and higher interest rates, further aggravating Treasury difficulties. Escape was impossible as long as they remained committed to defense of the franc Poincaré.

[140] *REP* 50 (1936): 686.

6. The devaluation debate

In 1934 the disparity between French and world prices became a key issue in policy discussion. As indicated in the preceding chapter, French policy makers preferred deflation to devaluation as the means of lowering prices. There were two main reasons for this. The currency was considered a fundamental factor in economic and social order to be kept stable at all cost, and the budget deficit was believed to be the source of French economic difficulties, its elimination the necessary first step to recovery. Until 1933, devaluations abroad had little impact on French opinion. The depreciation of sterling in 1931 immediately affected the relation between French and British prices; Sauvy's statistics show French wholesale prices roughly 12% lower than British prices through the first eight months of 1931, with the ratio then switching in Britain's favor, French prices averaging 20% higher from 1931 to 1936.[1] French governments were certainly not unaware of the difficulties created by this price disparity,[2] but they were interested primarily in the reasons for devaluations, rather than their effects, in order to draw lessons for defense of the franc. The results of such inquiry were encouraging; Britain had been forced off gold for reasons that France, with strong gold reserves and little foreign lending, had no need to fear (see Chapter 2).

The depreciation of the U.S. dollar raised concern that French goods would be unable to compete with those priced in depreciated currencies. Devaluation was then suggested by several economic commentators on the moderate left of French politics. It remained a fringe option, however, without serious support, until Paul Reynaud advocated devaluation in 1934. Debate then developed quickly, even though the Treasury, the Bank of France, and most politicians rejected devaluation as unthinkable.

[1] Sauvy, *Histoire économique*, 3: 366.

[2] See Margairaz, "Historie d'une conversion," 62–3, 163, for a strong critique of Sauvy's view that policy makers were unaware of this price differential and the consequences of their decision to defend the franc through deflation.

After a brief review of early support for devaluation, which led to its misleading characterization as a "socialist" solution, this chapter examines the evolution of the devaluation debate from 1933 to the election of the Popular Front in 1936. The first section looks at Paul Reynaud's entry into the debate and the development of his views. The second section analyzes the arguments against devaluation, and the third follows the evolution of the debate from 1934 to 1936. The fourth section appraises French views of the international context for currency stabilization and a French devaluation.

In 1931 it was widely accepted in the French press that sterling depreciation would make British goods more competitive both in France and in markets abroad. Since the franc was in no danger, it was expected that the deflationary measures made necessary by sterling depreciation would be salutary, albeit painful. The principal concern was the budget deficit. Frédéric Jenny predicted that sterling depreciation would mark the end of the gold exchange standard and contract international credit, imposing a "period of aggravated penance, not renewed prosperity" on countries with stable currencies, in order to reduce production costs to the level England would obtain by depreciating sterling. This would require a "massive deflation that will permit world economic activity to resume on a much healthier basis. The liquidation of the crisis will be hastened, but it will be rendered more brutal and harsh."[3]

The American devaluation in April 1933 raised the question of French policy response in both the press and Parliament. In *La République*, the Radical economics columnist Bertrand de Jouvenel approved Roosevelt's action and suggested that the presence of Edouard Herriot and British Prime Minister Ramsay MacDonald in Washington (to discuss the forthcoming World Economic Conference) could be exploited to revalue the dollar and the franc at the level of the pound in a "monetary pact that would furnish a solid base for international action to raise world prices." For Jouvenel, the course of events was clear should France fail to devalue: France would become an island of high

[3] *Le Temps*, 28 Sept. 1931. See also Pertinax, *L'Echo de Paris*, 22 Sept. 1931; A.-L. Jeune, *Paris-Midi*, 21 and 22 Sept. 1931; *Le Quotidien*, 25 Sept. 1931; Joseph Caillaux, *La République*, 26 Sept. 1931; Edouard Daladier, *La République*, 27 Sept. 1931; and Jenny, *Le Temps*, 5 Oct. 1931. In *Je suis partout* Jean Decrais commented on 26 Sept. 1931 that France risked isolation as devaluations spread and that from an economic point of view France was more directly menaced: "Our exports will lose beginning tomorrow all that England gains... little is needed for the decline in our exports, already in constant regression, to become brutal." Press reactions to sterling's departure from gold have been collected in the archives of the Bank of France in the carton Angleterre VI.

prices from which exports would be impossible and which tourists would take care to avoid. "In the end even capital would flee, seeking employment where devaluation and the reduction in debt burdens would have promoted economic recovery, allowing capital to find more remunerative placement."[4]

Georges Boris, editor of *La Lumière* and a supporter of the American New Deal, was also quick to congratulate Roosevelt.[5] Boris had been a consistent critic of the "balanced budget mystique" in France, arguing it was senseless to cut expenditure in the midst of a crisis caused by a contraction of purchasing power.[6] Like Jouvenel, he urged that France coordinate its monetary policy with that of Britain and the United States. He believed France could adapt to a dollar depreciation of up to 15% *if world prices were rising* and proposed that France warn that it would support efforts to raise prices only as long as dollar depreciation did not exceed 15%. Beyond that point, France should suspend the export of gold.[7]

The rigidity of French monetary principles prevented any such bargaining. Georges Bonnet told the press:

> All the experts have unceasingly affirmed that one of the essential causes of the crisis is monetary instability. One of the principal objectives of the world conference must be to remedy this. Hence, the position of France is very clear. She desires that all countries return as soon as possible to the gold standard.
>
> I have no need to add that there can be no question, not even for a single instant, of our renouncing the gold standard on our own account.[8]

[4] *La République*, 21 Apr. 1933. Jouvenel's enthusiasm for concerted international monetary policy waned as the World Economic Conference made it clear that national economic interests would take precedence over international cooperation. But his revulsion against the economic damage caused by deflation convinced him that devaluation was necessary in the autumn of 1933: "You are in favor of deflation? All right, put your money in a drawer; it will be worth more a year from now. But where will the capital come from to maintain economic activity and employment?" Bertrand de Jouvenel, *Un Voyageur dans le siècle 1903–1945* (Paris: Editions Robert Laffont, 1979), 173. On the development of Jouvenel's economic thought see Braun, "Une Fidélité difficile," chs. 6 and 7.

[5] "En abandonnant l'étalon-or les Etats-Unis mettent fin à la crise mondiale," *La Lumière*, 29 Apr. 1933; Boris warned that if France maintained a passive attitude, it risked severe economic consequences.

[6] See his attack on Chéron's Committee of Experts in *La Lumière*, 14 Jan. 1933. Boris's analysis of the crisis is well surveyed in Nouschi, "Georges Boris," 51–76.

[7] *La Lumière*, 29 Apr. 1933.

[8] Reported in *La République*, 23 Apr. 1933. Jouvenel quickly pointed out that this declaration narrowed French freedom of action in the Washington talks, forbidding participation in a program of international price inflation as advocated by Roosevelt and MacDonald; *La République*, 25 Apr. 1933.

The matter was raised by the Socialist Barthélemy Montagnon in the Chamber of Deputies. In the debate on French policy for the World Economic Conference, Montagnon attacked deflation as destined to aggravate the crisis, which was a result of underconsumption, and advocated a "devaluation without inflation, like that in England." Deflation encouraged currency hoarding ("One must take account of the great law of commerce which seems a paradox, yet is true: one never buys when prices are falling") and was in contradiction to government price support for agriculture. A rigorous deflation would require dictatorship and was impossible in France. In contrast, devaluation would increase Treasury resources (through revaluation of the gold supply), eliminate the exchange advantage of depreciated currencies, and discourage hoarding. The English example showed that the main danger of devaluation, price inflation, could be controlled by the government.[9]

Premier Daladier replied that international exchange stability was essential for economic recovery; Pierre Forgeot, Republican-Socialist deputy from the Marne, formerly minister of public works under Poincaré and Briand, attacked devaluation as the "most serious monetary malady."[10] Louis Germain-Martin commented in *L'Illustration* that devaluation was always a voluntary act of the state to reduce its debts, and there was no technical reason to justify it. The suspension of gold convertibility would be the "surest way of provoking currency depreciation and rising prices."[11]

The Bank of France was sufficiently alarmed by Montagnon's speech to have Robert Lacour-Gayet, its director of economic studies, write to Flandin elaborating the arguments against devaluation. Devaluation, Lacour-Gayet explained, led almost inevitably to inflation; the English case was unique. A government could not arbitrarily alter the value of its currency, for stability was determined by economic actions, including those of the state, rather than by decree: A devaluation would mean an indefinite period of currency instability, aggravating international economic disorder.[12]

Georges Boris and Raymond Patenôtre would become prominent as advocates of devaluation. Boris had called for devaluation since 1932, protesting that it made no sense to try to balance the budget during a depression. The state was not an individual who needed to keep his or her accounts in balance: "The role of the state is that of a counterweight

[9] *J.O.Ch.*, 29 May 1933, 2680–3.
[10] *J.O.Ch.*, 9 June 1933, 2823, 2830.
[11] *L'Illustration*, 9 June 1933.
[12] Lacour-Gayet to Flandin, 1 June 1933, BN, Flandin Papers, carton 61.

that prevents brusk increases and precipitous declines, and NOT A MOTOR THAT ACCELERATES THEM."[13] Boris found British spending cuts in 1931, which critics stressed as the source of the British recovery, insignificant compared with the devaluation and cheaper credit: These were the real causes of the economic recovery and the financial *redressement* in England.[14] Boris supported deficit spending and the expansion of credit through open market operations. He promoted the "Roosevelt revolution" when many French commentators believed it doomed to failure; returning to France from the United States in March 1934, Boris observed that while recovery was evident wherever the gold standard had been abandoned, France and the gold bloc continued with *la folie déflationniste.*

Raymond Patenôtre made his newspaper, *Le Petit Journal*, an important vehicle for devaluationist views. He arrived at devaluation as the simplest method of reviving commerce and increasing the money supply. Patenôtre believed the gold standard had prevented sufficient credit expansion in a growing world economy;[15] in 1932 he had promoted bimetallism as a means to increase credit.[16] He favored devaluation in order to lower the purchasing power of gold and encourage economic activity, and as the necessary first step to provide capital at low interest for large-scale public works spending on defense, transportation, and rural electrification.[17]

These were the lines along which the early stages of the devaluation debate were drawn. Early advocates believed that cuts in government spending would intensify a depression caused by underconsumption. The budget deficit was a product rather than a cause of the depression, and deflation would aggravate the shortfall in government revenue. They also reacted against government inaction in the face of the deepening crisis. "Il faut agir!" Montagnon entreated, and the cry was echoed by others who foresaw that government action limited to cutting expenditures would trap France in a contractionary downward spiral.[18] Just

[13] Nouschi, "Georges Boris," 60; and *La Lumière*, 14 Jan. 1933.

[14] *La Lumière*, 21 Apr. 1934. Léon Blum also saw devaluation as the point of departure for the British recovery. *Le Populaire*, 4 Apr. 1934.

[15] In a column protesting plans for the World Economic Conference, he criticized attention to protectionism as a confusion between cause and effect: "The major reason for the current distress is an insufficient capacity for consumption, and this insufficiency is the result of an inadequate monetary system." *Le Petit Journal*, 26 Mar. 1933, reprinted in Patenôtre, *Voulons-nous sortir*, 165–72.

[16] Patenôtre, *La Crise et le drame monétaire*; see discussion in Chapter 1, this volume.

[17] Patenôtre, *Voulons-nous sortir*.

[18] Montagnon in *J.O.Cb.*, 29 May 1933, 2680; the worst danger, he continued, was to leave the crisis to resolve itself. Patenôtre, not yet an advocate of devaluation in early

as a rough division could be drawn between Left and Right in attributing the crisis to underconsumption or overproduction, devaluation came to be considered a province of the Left, for it aimed at stimulating rather than restricting production.

This led to the misleading characterization of devaluation as a "socialist solution" by the Right. Early advocates came more often from the left wing of the Radical Party, where a striking ferment of economic ideas produced a good deal of intelligent economic analysis without much effect on the policy of Radical-led governments. In contrast most members of the Socialist and Communist parties opposed devaluation, fearing inflation and a fall in workers' standard of living.[19] Fears of inflation and a return to the monetary instability of the 1920s were potent weapons against devaluation, exploited by those opposed to it. The Treasury's argument in November 1933, in reaction to increased discussion of devaluation, was that it would amount to bankruptcy, pure and simple, and that it must be avoided at any cost. Rather than ending a period of inflation and exchange instability, as had the 1928 devaluation, a decreed devaluation would suddenly alter prices and wages (in terms of gold), destroy public confidence, and open a period of monetary instability: "Far from coinciding with the recovery of the economy and state finances of a country, it can lead to total ruin."[20]

These lines of battle were drawn in the spring of 1933 in a period of economic recovery. In the second half of 1933 France parted company with the recovering world economy, and the devaluation debate developed in conditions of deepening depression, which required ever harsher deflationary measures to control the budget deficit and lower prices if the parity of the franc was to be preserved.

Reynaud enters the debate

The division of forces for and against deflation, with devaluation attracting only scattered support from the Left, was disrupted by Paul Reynaud's advocacy of devaluation in 1934. Up to that point, devaluation had been more useful for harassment of government financial policy than as a serious policy option. Reynaud, however, a former minister of finance, a stalwart of the moderate-Right Alliance démocratique, had been an outspoken advocate of deflation. He had defended

1933, similarly urged action in a letter to Daladier: "We must act now, without further delay." Reprinted in *Voulons-nous sortir*, 161.

[19] See the discussion of their views below, and Jackson, *Politics of Depression*, 191–3.

[20] Note by Baumgartner, 22 Nov. 1933, MF B 33191.

the Bank of France against charges of hoarding and sterilizing gold,[21] and through 1933 he had been a forceful critic of the inadequate deflationary efforts of Radical governments, demanding budget deflation as essential to French recovery. In October 1933, attacking the Daladier government's proposed 1934 budget, he met Socialist arguments that deflation destroyed purchasing power, worsening the slump, with the claim:

> We know very well that deflation is painful, but it is necessary, and this is why. When a state lives beyond its means, the same thing happens as when an individual lives beyond his means: he spends his capital. . . . In consuming its capital, the state destroys it, and one day it must reckon the balance of this destruction, which is called the devaluation of the currency.[22]

In his memoirs, Reynaud dates his realization that only devaluation could save the French economy to early 1933 and gives the impression that he fought a lonely battle, single-handedly, against French ignorance and prejudice regarding devaluation.[23] His conversion was neither so early nor so isolated, but Reynaud was incontestably the central figure in the devaluation debate. The evolution of his thought on remedies for the slump in France warrants careful exploration.

Unlike most observers of the Right, Reynaud emphasized underconsumption rather than overproduction as the cause of the world economic crisis. He called attention to the decline in purchasing power of half the world owing to the collapse of commodity prices and attributed the crisis to the reduction of trade, the "life-blood of industry," by increased tariff barriers.[24] He harassed the Radical-led governments after May 1932 for their failure to balance the budget and was greatly concerned over the French trade deficit. He advocated stricter deflationary measures to balance the budget and linked budget deflation to the reduction of prices in order to make French goods competitive and decrease the trade deficit.[25] He also realized that French policy was

[21] See his speech at Epinal, 4 Aug. 1930, text in AN 74 AP 13; *New York Times*, 23 Oct. 1932; "France and Gold," *Foreign Affairs* 11 (Jan. 1933): 253–67.

[22] *J.O.Cb.*, 22 Oct. 1933, 3889.

[23] Reynaud, *Mémoires*, 1: 363. Michael Brandstadter uncritically accepts Reynaud as the first French politician to advocate devaluation in "Paul Reynaud and the Third French Republic, 1919–1939: French Political Conservatism in the Interwar Years," Ph.D. diss., Duke University, 1971, 118.

[24] See, e.g., his speech of 16 Nov. 1932 in AN 74 AP 18; his remarks on the severity of the world crisis that aroused criticism in March 1930 (see Chapter 1) had noted that "in a world where the prices of raw materials have fallen significantly, the purchasing power of producers has diminished proportionately."

[25] He argued that high prices were the root of export difficulties and gold losses and thus the chief threat to the franc: "It is necessary to deflate government spending because

contradictory and ineffectual in attempting a halfhearted deflation that would wound as few voters as possible while maintaining prices in sensitive sectors such as agriculture. In 1933 Reynaud argued repeatedly that Socialist obstruction of deflation would lead to increased borrowing, inflation, and, ultimately, devaluation.[26] In December 1933 he criticized the budget introduced by the Chautemps government for its failure to decide between two policy alternatives:

One can prefer deflation, which is our policy and that, I believe, of the great majority of our Radical colleagues. One can favor an antideflationary policy, as do our Socialist colleagues, who defend it with extremely brilliant and logical arguments. But it is necessary to choose, and the drama is that, not wishing to tackle this political problem, neither your predecessors nor you have dared to choose.[27]

Although Reynaud claimed in his memoirs that he dared not speak of devaluation in 1933 because "to speak of touching the franc was then considered sacrilegious,"[28] he pressed for deflation to solve the price problem with a vigor inconsistent with a belief that only devaluation could save the economy. But Reynaud was sensitive to the deterioration of economic conditions in France while the rest of the world revived in early 1934.[29] In a speech in Lyons he blamed this relapse on the failure to balance the budget, due in turn to the structure of the current majority in which Radicals pushed for deflation but depended on the support of Socialists who rejected it.[30] Reynaud wanted to split the Cartel majority to constitute a government of National Union capable of effective deflation:

If the Radical-Socialist party retreats before this political necessity, it will deliberately imperil the franc. In rejecting the Union nationale, it will reject the only solution of authority compatible, in the present circumstances, with liberty.

In the end, it is the franc, and the regime itself, which are in question.[31]

the state cannot live the same style of life in a ruined country as in a prosperous country. It is necessary, moreover, because only this deflation can lead to the deflation of production costs without which the French economy will continue to suffocate." *Le Capital*, 1 Feb. 1934.

[26] See *J.O.Ch.*, 27 Jan. 1933, 313–14; 22 Oct. 1933, 3889–90; 7 Dec. 1933, 4426–7, 4431.

[27] *J.O.Ch.*, 7 Dec. 1933, 4427.

[28] Reynaud, *Mémoires*, 1: 363.

[29] It was in May 1934 that Reynaud first contacted Alfred Sauvy for statistics on French economic conditions; Alfred Sauvy, *De Paul Reynaud à Charles de Gaulle* (Paris: Casterman, 1972), 9–10; on his relations with Reynaud during this period, see 13–20.

[30] Speech in Lyons, 21 Jan. 1934, reported in *Les Débats*, 22 Jan. 1934.

[31] *Le Capital*, 1 Feb. 1934.

France was granted a government of National Union, not to balance the budget, but to restore public order and confidence after the riots on 6 February.[32] Budget *redressement* was clearly necessary to restore confidence, and the efforts of the Doumergue government did not satisfy Reynaud. In February, in debate on the 1934 budget, Reynaud rebuked the government for its failure, now that the Socialists were excluded from its majority, to alter the budget radically in order to undertake a resolute deflationary effort. The budget was admitted to be in deficit; Reynaud warned that if the government did not balance the budget and lower prices in France, it would have to devalue the franc. His speech was noteworthy in two respects. First, he recognized the importance of the French price problem and posed the alternatives for solving it as a choice between deflation and devaluation. The problem had already been so posed;[33] the downturn in the French economy allowed Reynaud to present a much more striking contrast of stagnation in France with recovery in countries that had devalued. Second, Reynaud insisted that spending cuts were necessary in either case. If France failed to reduce its costs of production through deflation, devaluation would be necessary. But the important thing was not to arrive at devaluation via inflation: "If you do not balance the budget, you will arrive at devaluation by the sinister channel of inflation; that is, by a route doubly injurious."[34] In Finance Committee discussions of the government's request for decree powers to eliminate the budget deficit the next day, Reynaud repeated that "devaluation will be imposed by the facts, by inflation, if we do not immediately engage in a policy of vigorous deflation."[35]

Comparing the continued slump in France to recoveries abroad, Rey-

[32] See Berstein, *Le 6 Février 1934*; Beloff, "The Sixth of February"; and Werth, *France in Ferment*.

[33] In January 1933, the Radical deputy Henri Clerc claimed that the franc had been overvalued since 1930 and that it was necessary either to deflate or to devalue. At that point Clerc had preferred deflation; he would come to favor devaluation in 1935. See *J.O.Ch.*, 26 Jan. 1933, 275–6, and *La République*, 21 Feb. 1933; on his changes of opinion see Jackson, *Politics of Depression*, 183–4. Barthélemy Montagnon likewise asked the government to choose between deflation and devaluation and went one step further in preferring devaluation.

[34] *J.O.Ch.*, 20 Feb. 1934, 544; Reynaud's speech is on 541–5. Reynaud began his defense of devaluation by way of Walter Lippmann having advocated in the *New York Herald Tribune* that, with a strong National government, France now devalue the franc. Reynaud also wrote positively of the Lippmann suggestion in *Le Capital*, 26 Feb. 1934, but said it was first necessary to use the decree powers granted to Doumergue to restore French finances, reduce production costs, and balance the budget.

[35] PV CFCh, 21 Feb. 1934.

naud accepted devaluation as a rational measure to reduce French prices. In *Le Capital* in April, he attributed Britain's economic recovery to a threefold program of budget cuts, credit inflation, and devaluation (described as a deflation of producer prices in terms of gold).[36] The key element was not devaluation, however, but the balanced budget: "*This deflation of government spending is the foundation of the English renaissance.* Without it, England would not have been able to profit from the second deflation, that of prices, nor from the inflation [of credit] of which we are going to speak."[37]

Reynaud hoped the Doumergue government would undertake a rigorous deflationary effort, but the political difficulty involved was apparent. Deflationary measures were too easily frustrated by parliamentary pressures and popular discontent; effective deflation required a reform of the state to increase the executive power of the government.[38] The Doumergue government would be defeated in November 1934 in its attempt to reform the state; Reynaud had called for such reform as early as March 1934.[39] In May 1934 Reynaud suggested that Doumergue exploit his current popularity and the Treasury recovery to dissolve the legislature and call new elections, consolidating public support before constituents felt the effects of the "sound but painful policy of deflation." He emphasized that no serious deflation would be possible without cutting agricultural prices, adding peasant discontents to those of *fonctionnaires* and *commerçants*.[40]

Finally, in the debate on a fiscal reform law intended to reduce and simplify taxes and suppress tax fraud in June 1934, Reynaud again attacked the incoherent combination of halfhearted deflation with price support and urged that the government make its program consistent

[36] *Le Capital*, 28 Apr. 1934. "This painless deflation of production costs permits English industry to face anew competition in world markets. The results are increased exports, greater domestic economic activity, and a reduction in the taxes which weigh on production."

[37] Ibid.; Reynaud's emphasis.

[38] See Michel Margairaz, "La Droite et l'Etat en France dans les années trente," *CHIMT* no. 20–1 (1977): 91–136; also Margaraiz, "Histoire d'une conversion," 1: 74–99, and Jackson, *Politics of Depression*, 88–92.

[39] In his comments on a lecture by C.-J. Gignoux at the Ecole libre des sciences politiques, 23 Mar. 1934. Société des anciens élèves et élèves de l'Ecole libre des sciences politiques, *L'Economie dirigée* (Paris: Librairie Félix Alcan, 1934), 295–302.

[40] Reynaud to Doumergue, 19 May 1934, AN 74 AP 20. Parliament had just resumed sitting on 16 May, and the Radicals were proving restive, many voting against the government or abstaining. Reynaud's letter went on to state that deflation under a strong government could also be complemented by an appropriate monetary policy; he did not specifically recommend devaluation.

by either deflating French prices or devaluing the franc. His prognosis for deflation by itself was gloomy; this was the policy of Mussolini, and sterling and dollar depreciation was widening the gap between French and world prices. His view of devaluation was optimistic, based on its success in bringing recoveries abroad. Reynaud refused to choose between the two. The choice, he said, was up to the government:

> This is in no way a question of a policy of the Right or a policy of the Left; there is only one thing that is impossible for the government, and that is to persevere in the contradictions of its current policy. . . . I say to the government: change your economic policy, or change your monetary policy.[41]

There are two significant elements in the evolution of Reynaud's thought to this point. The first concerns the relationship between budget and price deflation. Léon Blum accused Reynaud of reversing his previous position, shared with Tardieu, Flandin, and Germain-Martin, advocating the deflation of prices by budgetary deflation.[42] Reynaud's response begged the question, drawing a distinction between budget cuts, which he had always supported, and the deflation of prices, which he stated was a separate issue. In December 1933, he had reminded the Chamber of Deputies of the link between government expenditure, prices, and economic well-being:

> This trade deficit, of which one always speaks as a problem foreign to the budget problem, is on the contrary intimately bound to it . . . if you do not balance the budget by a deflation of state spending that entrains a general deflation of prices, you will have accomplished nothing and you will not have saved the franc.[43]

In *Le Capital* in February (quoted in note 25), Reynaud advocated budget cuts as the sole means to effect a reduction of French prices. He seems to have separated budget deflation from price deflation only in the spring of 1934, when he realized that French prices could be lowered more easily by devaluation, thereby limiting the extent of the budget deflation necessary.

In June 1934, Reynaud still maintained that price deflation was a "perfectly defensible policy."[44] But where earlier he had blamed the failure to deflate on the composition of the Radical majority, in 1934 the

[41] *J.O.Cb*, 28 June 1934, 1841–6; quote from 1846. Reynaud is frequently, and inaccurately, believed to have called "frankly and openly . . . for a devaluation of the franc." Brandstadter, "Paul Reynaud," 147.

[42] *J.O.Cb.*, 28 June 1934, 1845.

[43] *J.O.Cb.*, 7 Dec. 1933, 4425.

[44] *J.O.Cb.*, 28 June 1934, 1844.

success of devaluations abroad and the political obstacles to deflation even by Doumergue's National government convinced him that a French devaluation was not just logical, but inescapable.[45]

This raises the second point – the character of the devaluation Reynaud proposed. He advocated devaluation as complementary to the necessary task of budget deflation. Unlike figures of the Left such as Boris and Patenôtre, who sought to escape deflation by devaluation, Reynaud continued to insist that a balanced budget was essential to restore public confidence and to ensure that the benefits of devaluation were not squandered by government overspending. As in Britain, devaluation could facilitate and complement, but it could not replace, a balanced budget.[46]

Public opinion would have to be educated to accept devaluation, and Reynaud attempted this in 1934. His February and June speeches in the Chamber of Deputies sought to demonstrate that most arguments against devaluation were specious. To combat confusion with the monetary experience of the 1920s, he distinguished between the *dévaluation d'après-guerre* that had been necessary in 1928 to end the inflation with which France had paid for the war and reconstruction, and the *dévaluation d'après-crise* needed to restore price parity with countries that had devalued. He proposed a *dévaluation à froid*, undertaken as a technical adjustment in a period of exchange calm, for which conditions were suitable in June 1934.[47]

Reynaud's refusal to choose between deflation and devaluation left considerable confusion as to what he believed. Minister of Finance Germain-Martin rejected Reynaud's argumentation from start to finish, telling the Chamber, "There would be no greater error for France than to devalue and to discover afterward that we had worsened our own difficulties and those with which the world now struggles."[48] To the staid orthodoxy of *Le Temps*, Reynaud's refusal to draw a conclusion after so powerful an exposition of the reasons for a devaluation left the impression of a "plea for a policy of monetary artifice."[49] *Le Figaro* found Reynaud's speech a "hard blow to the policy of the Doumergue cabi-

[45] Julian Jackson also dates Reynaud's conversion to devaluation to the spring of 1934; his review of Reynaud's arguments stresses Reynaud's consistency and does not try to discern how Reynaud moved from deflation in 1933 to devaluation, nor does he point out the importance that deflation retained in Reynaud's thinking (Jackson, *Politics of Depression*, 182–4); Michael Brandstadter dates Reynaud's conversion to the aftermath of the political crisis in February, with his speech of 20 Feb. a "trial balloon" for his devaluationist ideas. Brandstadter, "Paul Reynaud," 141–9.

[46] *J.O.Ch.*, 20 Feb. 1934, 544.

[47] *J.O.Ch.*, 28 June 1934, 1844.

[48] *J.O.Ch.*, 28 June 1934, 1851.

[49] *Le Temps*, 30 June 1934.

net."[50] But farther to the right, *L'Ami du peuple*[51] and *L'Agence économique et financière*[52] lauded the clarity of Reynaud's exposition of the contradictions in government policy and the need for coherent action. C.-J. Gignoux, representative of French employers and industry as editor of *La Journée industrielle*, praised Reynaud for a "tremendous speech," concluding that "we share M. Paul Reynaud's views entirely, except that we escape the dilemma in declaring a change in monetary policy strictly impossible."[53] On the left, Georges Boris welcomed Reynaud to the devaluationist camp.[54] These mixed reactions reflect both uncertainty as to what Reynaud himself believed and dissatisfaction with the Doumergue government's deflationary efforts.

The strength of press reaction forced Reynaud to clarify his position in the weeks that followed. On 5 July he denied having recommended devaluation, insisting that "between the lowering of prices and the devaluation of the franc, I have not announced a choice. It is up to the government, and to it alone, to make this choice." He discounted fears of inflation, the ruin of *rentiers*, and increased currency instability and concluded that "precisely because the franc today is impregnable, and public credit reestablished, the government has complete freedom of choice in order to act. But it is necessary that it act."[55] As the summer progressed he became more outspoken against the economic costs of deflation and supported devaluation to end the downward spiral of deflation, budget deficits, and economic stagnation.[56] He insisted that his policy recommendations were not just consistent, but completely orthodox. Asked about his speech in the Chamber, he claimed, "I remained . . . in the purest orthodoxy when I said that it is necessary to harmonize our economic policy with our monetary policy."[57] He con-

50 *Le Figaro*, 29 June 1934.

51 *L'Ami du peuple*, 29 and 30 June 1934.

52 Cited by Reynaud in *Mémoires*, 1: 376.

53 *La Journée industrielle*, 29 June 1934.

54 In *La Lumière*, 14 July 1934, announcing that since Reynaud's speech, "one no longer runs the same risks in declaring himself a partisan of devaluation. If accused of criminal intentions, he can respond that he is in good company, and that he has a distinguished accomplice."

55 *Paris-Soir*, 5 July 1934.

56 See especially the interview with Reynaud in *Gringoire*, 3 Aug. 1934, in which he attacked deflation, and his letter to *Le Temps*, 29 Aug, 1934, in which he continued this attack and specifically advocated devaluation.

57 *Gringoire*, 3 Aug. 1934. In his letter to *Le Temps*, 29 Aug. 1934, Reynaud explained further: "The desire for stability which animates our governments is laudable in itself, but I believe myself to be the true defender of stability and order, and of all that remains of economic liberalism. Nothing is more contrary to the return to order and

tinued to affirm that restoration of the gold standard was essential for economic recovery and condemned managed currencies. But a restored gold standard would have to take account of the depreciations of sterling, the dollar, and the currencies that had followed them, requiring a realignment of the gold bloc currencies. He did not advocate following Britain and the United States in adopting floating exchange rates;[58] he proposed a devaluation on gold to lower the parity of the franc, leading to a restabilization of world currencies.[59]

To clarify the range of criticisms leveled against Reynaud, we can summarize Reynaud's views as a four-step argument. The first step was identification of the disparity between French and world prices as a cause of continuing depression in France. The second was the assertion that French prices could be made competitive by either domestic deflation or devaluation. The third was the recognition that deflation produced economic stagnation: "The deflation of prices, pushed beyond certain limits, produces grave complications in the patient."[60] The fourth step was acceptance of devaluation as a rational alternative that had proved successful abroad and should not be presented to the French public in apocalyptic terms, as France could well be driven to it by force of circumstance if it was not accepted by choice.

The devaluation debate

Opposition developed quickly as Reynaud clarified his own position. In the barrage of criticism to which he was subjected, he was often accused of conducting a campaign against the franc; there is some truth in his reply that he was merely responding to critics.[61] It was in his replies to critics that he moved from presenting devaluation as an alternative to deflation in June to open advocacy in August 1934. Thereafter, misrepresentations of his arguments gave him ample opportunity to elaborate his views. In the sense of engaging in a systematic effort to produce a desired end, Reynaud indeed campaigned for devaluation, but there is more truth in his countercharge that a campaign was led, particularly

stability than the vast manipulation of prices, relying on quotas and subsidies, in which we are now engaged."

58 Because Roosevelt retained the right to depreciate the dollar, many French observers refused to consider the dollar stabilized.

59 Frédéric Jenny had difficulty reconciling Reynaud's support for devaluation with his condemnation of managed currency; see *Le Temps*, 29 Aug. 1934.

60 Ibid.

61 *L'Agence economique et financière*, 4 Sept. 1934, responding to criticism by the Gauche Démocratique senator Marcel Régnier.

in the *grande presse*, against devaluation. Devaluationists were a heterogeneous lot, with no leader as such and no political coherence. The campaign against devaluation gathered together a larger crowd, more homogeneous within political groupings, permitting greater coordination and political influence. Talk of devaluation touched nerves still raw from the monetary experience of the 1920s, and Reynaud had to defend his views against many counterarguments and misrepresentations. Invited to address X-Crise, the economic study group of the Centre polytechnicien d'etudes economiques, in November 1934, Reynaud thanked them in stating:

Only men devoted as you are to the scientific disciplines have dared to invite me to come and speak freely, this evening, on a subject that has taken on a religious character in France. The monetary theologians propagate a new faith in an incredulous world.... Since it is a faith, the heretics must be burned, and I fear that I am one of them.[62]

Reynaud complained of a press campaign, "orchestrated with a touching synchronization such that one finds on the same day the same phrases in diverse newspapers," which weakened confidence in the franc, provoked gold losses, and rendered more dangerous the eventual devaluation.[63] Much of the right-wing press that had been accessible to Reynaud, including *La Liberté*, *L'Echo de Paris*,[64] and *Le Capital*, closed its doors to him as his devaluationist views became clear. The precise degree of press orchestration cannot be determined, partly because the arguments on such a matter were limited in number and a few hackneyed phrases were bound to be overused, but there is little doubt that such orchestration took place. André Thiers wrote in 1934:

Each time that one speaks of the franc, one has the impression that an invisible orchestra conductor makes the official tune resonate for the public at large; for each event that can have some repercussion on the stature of our franc, the same note appears in most of the newspapers and the phrases are scarcely modified over the signatures of the various financial oracles.[65]

Marcel Netter noted that both Clément Moret and Jean Tannery strengthened Bank of France ties with the press in order to combat devaluationist views:

[62] Reynaud's address is reprinted in X-Crise, *De la récurrence des crises économiques* (Paris: Economica, 1982), 99–108.

[63] PV CFCh, 12 Nov. 1935; see also Jackson, *Politics of Depression*, 187.

[64] See Hadelin de la Tour-du-Pin, "La Presse de droite contre la dévaluation: Sa campagne contre Paul Reynaud," Mémoire de maîtrise (Sorbonne, 1972), 79.

[65] *Ni inflation, ni déflation*, 7–8.

As in 1928, the financial chroniclers found at the Bank all the documentation and arguments they needed to attack the arguments of Paul Reynaud. The outlines of articles were established for their benefit. By means of the same intermediaries as in 1928, the dailies in the provinces were regularly supplied with articles for a popular audience written by Bank staff.[66]

Those opposed to devaluation were stronger in terms of organization, numbers, means of influencing opinion, and finance; in resting their case on traditional values and exploiting the fears of inflation wakened in the 1920s, they mounted a persuasive campaign.

Opponents of devaluation disputed all four elements of Reynaud's argument, but the real force of argument was directed at the last point, the nature of devaluation and the results one could expect in France. The relative dearness of French goods was generally acknowledged, though not as the fundamental cause of French difficulties.[67] The choice between devaluation and deflation was rejected for two reasons: For some, devaluation was unthinkable.[68] Others, including Flandin and his government of 1934–5, and the Socialist Party with its slogan "Neither deflation nor devaluation," sought a third alternative that would allow them escape from a choice between deflation and devaluation. On the third point, the costs of deflation, no one denied that deflation was painful; it was a necessary penance to atone for the profligacy of the years of "artificial prosperity." The question was whether these costs would be recovered in future benefits.

To argue that devaluation was acceptable, devaluationists had to show that it was morally and financially responsible and would solve the price problem without causing inflation, a collapse of confidence, or social disorder. They relied heavily on the examples of devaluations abroad.[69] Devaluation in France, they claimed, would revive economic activity by making French exports competitive, reducing the incentive to hoard currency, and ending the decline in French wholesale prices that was bankrupting French producers.[70] Reynaud insisted upon the

[66] Netter, *Banque de France*, ch. 4, 225; also see Robert Wolff, *Economie et finances de la France, passé et avenir* (New York: Brentano's, 1943), 192. The 1928 system for propagating Bank views in the press is detailed in Emile Moreau's *Souvenirs*.

[67] Germain-Martin, e.g., stated that he did not believe that the disparity between French domestic prices and world prices had a monetary cause, seeing the cause in the burden of taxation on French production costs. *J.O.Cb.*, 28 June 1934, 1851.

[68] Frédéric Jenny, e.g., wrote in December 1934 that "devaluation is an eventuality that must be excluded absolutely, unless imposed by *force majeure*." *Revue politique et parlementaire*, 161, no. 481 (1934): 559.

[69] As well as Reynaud's constant examples, see Patenôtre, *Voulons-nous sortir*, 28–49.

[70] See Reynaud's letter in *Le Temps*, 29 Aug. 1934.

need for a devaluation *à froid*, a calm, technical adjustment, rather than *à chaud* during a monetary or financial crisis. Those opposed to devaluation found something to quarrel with on each of these points.[71] Their objections can be grouped in three categories: (1) the legitimacy of foreign examples, (2) the nature of devaluation, and (3) its likely effects in France.

Many opponents of devaluation seem to have been loath to learn anything from experience abroad that ran contrary to their beliefs. They disputed the benefits of devaluations abroad, claiming that the country in question – usually Britain or the United States – was not recovering at all or that its recovery was due to factors other than devaluation. In 1934 a number of writers declared that the American experience proved that devaluation produced economic chaos; the New Deal was regarded with considerable misgiving, particularly by the Right.[72] In Britain, where economic improvement was indisputable, the recovery was attributed to protectionism, the balanced budget, and the low rates of interest (it was not recognized that a floating exchange rate had made this possible).[73] Britain's 2 million unemployed were compared unfavorably with the fewer than half million registered unemployed in France. The price stability in Britain despite currency depreciation was explained by falling world prices and by Britain's major trading partners having followed Britain off gold. There were also attempts to show that gold bloc trade was doing better than British trade through studies of exports in gold prices according to which currency depreciation showed up as export losses for a constant volume of goods.[74] In Czechoslovakia, the 16.7% devaluation of the crown had been insufficient to

[71] The principal tract against devaluation was René-Paul Duchemin's *Y aurait-il intérêt à dévaluer le franc?* (Paris: Oct. 1934), printed and distributed by the Bank of France. Other important polemics include Edouard Duhem, "La Dévaluation? Expédient facile, mais redoutable illusion" (Paris: Confédération des groupements commerciaux et industriels de France, June 1935) and Henri Garnier, "L'Heure de choisir et d'agir," address to the Assemblée des présidents de Chambres de Commerce, 7 May 1935 (Paris: Lib.-Imp. réunies, 1935). The main controversy took place in the newspapers, as well as in public lectures and debates.

[72] See Maurice Vaïsse, "Le Mythe de l'or en France: Des aspects monétaires du New Deal vus par les français," *Revue d'histoire moderne et contemporaine* 16 (Jan.–Mar. 1969): 472–3; Duchemin (*Y aurait-il*, 41) believed the Roosevelt experiment had led to an *économie dirigée*, feared in France.

[73] See, e.g., Duchèmin, *Y aurait-il*, 33–40; Germain-Martin, *Sommes-nous sur la bonne route?* 26–8; and Jean Lescure, "L'Expérience britannique," *Le Capital*, 10 Aug. 1934.

[74] The best example of this is in Duchemin, *Y aurait-il*, 50–1. See Bertrand Nogaro's meticulous destruction of Duchemin's statistics in "Le Problème de la dévaluation en France," *Revue économique internationale* 27, no. 1 (1935): 54–75.

restore price parity and promote recovery, and critics cited this as proof that devaluation could bring no improvement.[75]

A final reason for disqualifying the American and British experiences was that these two countries had avoided devaluation in the 1920s. Refusing to recognize Reynaud's distinction between *dévaluations d'après-guerre* and the need for *dévaluations d'après crise*, critics argued that the American and British devaluations in the 1930s restored the exchange parity of the franc. René-Paul Duchemin declared that "France, whose currency has already submitted to a reduction of 80% in relation to its value before the war . . . has no lesson to learn from the experience of countries where the sacrifice has been smaller: 40% in England and the United States, 60% in Japan."[76]

The second category of arguments was objections of principle. To opponents of devaluation, the distinction between the 1928 devaluation, which recognized that currency depreciation had taken place, and a devaluation in the 1930s in order to end reappreciation of the franc was sophistry. Germain-Martin rejected the distinction in the Chamber of Deputies: In 1928 France had had no choice but to acknowledge the national impoverishment owing to the war and reconstruction, while in 1934 the only threat to the franc was the state of the Treasury.[77] According to Lucien Romier, all devaluations had but one cause: "the incapacity of a nation or a state to meet its obligations, be they interior or exterior, other than in altering the real value of the currency in which its debts have been undertaken."[78]

This single, absolute character of devaluation was an important component of antidevaluationist views. The value of the currency was a moral and legal contract between the government and the people, upon which public confidence, economic activity, and ultimately social order were founded. Currency instability was associated with periods of social upheaval and revolution. Money was a tangible value that not only should not, but could not, be altered; it was a measure of value just as the meter was a measure of length and the kilogram a measure of weight;

[75] See *Le Temps*, 27 Aug. 1934; *Le Capital*, 5 Oct. 1934 (Joseph Barthélemy, "Claires leçons d'un expérience concluante"); and Duchemin, *Y aurait-il*, 44–9.

[76] Duchemin, *Y aurait-il*, 31. Reynaud comments in his memoirs that "our leaders had, in inaction, a sledgehammer argument: 'we have already devalued.' I still see M. Lebrun [then president of France], in his office at the Elysée, striking the flat of his hand forcefully on the table and telling me: 'But we have already done it, our devaluation!' " *Mémoires*, 1: 361.

[77] *J.O.Ch.*, 28 June 1934, 1851.

[78] *Le Figaro*, 14 Sept. 1934.

it would lose all purpose if it became a *monnaie de caoutchouc*.[79] To alter that measure would inevitably damage credit and confidence, and reduce the incomes of *rentiers* and pensioners, holders of capital denominated in francs, and all creditors. It would benefit speculators and borrowers, the least estimable elements of economic life. Externally, it would increase uncertainty as to exchange rates and further damage international trade. Critics derided the idea of an alignment with currencies not on gold; keeping the franc on gold would maintain an essential element of stability to which the dollar and the pound could return when they chose.[80]

Devaluation was doubly reprehensible. The government would not only unilaterally break its contract with the people, but do so principally to its own advantage. Government debts would be reduced in terms of gold, and the Treasury would draw windfall gains from revaluation of the nation's gold reserve. The government would thus escape the consequences of its own mismanagement at the expense of those who had entrusted it with their confidence. Compulsion was the only justification for breaking this contract between the government and the people; a *dévaluation à froid* was unthinkable. Frédéric Jenny repeated this tirelessly: "In reality, the dilemma 'deflation of prices or devaluation of the currency' does not exist... the true dilemma is this: deflation of prices or continuing paralysis of our trade, resulting in unemployment, commercial depression, and a reduced standard of living."[81] After the 1928 devaluation, with some 10 million *épargnants* in France for whom state bonds were the favored form of investment, no French government would ever assume responsibility for a devaluation "unless it were absolutely forced to it by events."[82]

The benefit from revaluation of the gold reserve was expected to be

79 This argument was widespread; see, e.g., Reynaud's debate with Georges Dovime in *Gringoire*, 6 Dec. 1935, and Dovime's argument repeated, word for word, that "to modify the gold value of a money is equivalent to modifying the weight of a kilo, the length of a meter, and the capacity of a liter," by Communist Jean Fréville in *Cahiers du bolchévisme*, 15 Dec. 1935, 1511–12.

80 Marcel Régnier wrote just before his appointment as Laval's minister of finance in 1935, "Our franc, linked to gold, guaranteed by an imposing metallic reserve, is the healthy currency on which England and America must align theirs, without expecting of us a new and impossible devaluation." *L'Oeuvre*, 13 June 1935. Duchemin asked rhetorically whether it was necessary to align the franc with floating currencies when it was already stable on gold, and replied, "This proposition, in its mere statement, sounds absurd." *Y aurait-il*, 56–7.

81 *Le Temps*, 2 July 1934.

82 *Le Temps*, 3 Sept. 1934.

of short duration and to generate worse problems if the budget was not balanced. Reynaud acknowledged that the assistance revaluation would give to the Treasury needed to be part of a coherent program of government economies to balance the budget. The Lille Chamber of Commerce echoed widespread concern that "this benefit would only be nominal and would inevitably increase government spending, speculation and inflation."[83] Devaluation would provide a reprieve from, not a solution to, the more fundamental problem of the budget deficit.[84]

Rather than stimulate recovery, devaluation would strike at the essential foundation of economic activity – the stability of the currency and respect for contracts. To quote again from the resolutions voted by the Chamber of Commerce in Lille:

> The profound immorality of such a measure would destroy the confidence indispensable for budgetary reform and it would strike a fatal blow to the national economy, based on the continuity and the security of saving, in causing new losses to creditors and rentiers . . . ;
> Considering, finally, that the durable return to economic order in the world and to a normal exchange of merchandise depends on the firm stability of currencies based on the gold standard and not on their fluctuation according to circumstances and the will of governments;
> [The Lille Chamber of Commerce] Affirms that the devaluation of the franc would constitute an iniquity with regard to saving and a dangerous national mistake without appreciable profit for exports.[85]

The idea that a psychological shock would destroy the last shred of confidence was easily conjured, but invoking fears of instability and economic collapse did not demonstrate that such a collapse must take place. The case against devaluation relied above all on the dread of inflation.

The third category of objections – dispute as to the effects of a devaluation in France – was easily the largest. Critics did not believe any lasting benefits would accrue; any benefit to French exports would be temporary. In one of the most striking examples of opposition solidarity, chambers of commerce across France voted resolutions against

[83] This declaration by the Lille Chamber of Commerce was the best known of a series of antidevaluation tracts voted by chambers of commerce across France in the autumn of 1934; it was reprinted in Nogaro, "Le Problème," 48–50 (quote from p. 50).

[84] See, e.g., Edouard Duhem, *La Dévaluation?* 15: "Devaluation would be a despoilment of individuals and a bankruptcy of the state. It would make good the current deficits, but it would not suppress their cause, which is overspending by the state."

[85] Cited in Nogaro, "Le Problème," 49–50. See also Garnier, "L'Heure de choisir," 14; Duchemin, *Y aurait-il*; and Joseph Barthélemy in *Le Capital*, 14 June 1935.

the "ruinous and dishonorable plans for devaluation of the franc that would return us to the disastrous times of the *assignats*" in the autumn of 1934; they argued that trade barriers were a greater obstacle to French exports than the overvalued franc.[86] The Chamber of Commerce of Lille complained that monetary manipulations could no longer promote economic growth because foreign countries would immediately raise customs barriers, impose quotas, and restrict means of payment for imports. The devaluation of the franc would produce further depreciation of the pound, the dollar, and the currencies linked to them, aggravating rather than attenuating the disparity between French and world prices.[87] This criticism surfaced early in the debate, and Reynaud acknowledged its force in shifting ground to argue that devaluation would permit wholesale prices to rise, restoring profitability to producers, without substantially affecting retail prices.

The price question was the most bitterly argued, giving rise to a great deal of confusion between devaluation and inflation and the relationship between the two. The perplexity of Louis Rollin, a Gauche républicain deputy who had been minister of industry and commerce in 1931–2, was typical: Devaluation would either raise prices, beginning the "infernal circle" of inflation, or else it would have no effect on prices, as its proponents assured, in which case, what improvement would it bring?[88] Germain-Martin stated that devaluation could not adjust French prices to world prices: "In a country where the currency has

[86] This quote is from the declaration voted by the Chamber of Commerce of Moulins-Lapalisse, sent to Premier Doumergue on 30 Oct. 1934; there is a copy in AN 74 AP 14. Copies of many of these declarations, reprinted in newspapers, can be found in AN 74 AP 14, in MF B 18675, and in AN F[60] 447.

[87] Cited in Nogaro, "Le Problème," 49. Charles Farnier, who had just been transferred from his post as assistant governor of the Bank of France, similarly stated in 1934 that a devaluation of the franc was out of the question; it would cause further devaluations abroad and was "singularly illusory" as a means of lowering domestic prices. Farnier to Leith-Ross, 10 Apr. 1934, T 188/287.

There are hints that officials ignored complaints of overvaluation of the franc. When businessmen in Malo-les-Bains and Bray-Dunes complained that they were losing tourist business to Belgium in June 1935, the subprefect of Dunkerque wrote to Laval that they were eternal malcontents and that while the Belgian coast had more visitors since the devaluation, the lack of tourists at Malo-les-Bains was due to bad weather. This correspondence is in AN F[60] 445.

[88] *Le Capital*, 31 July 1934. Jacques Bainville commented to Reynaud on the incoherence of the debate, "You will never succeed in making the French understand the problem. You are one of only four or five people in the world who can speak of devaluation." Quoted by Louis Germain-Martin, *Le Problème de la dévaluation du franc en 1934* (Paris: Ecrits de Paris, 1948), 23.

already been amputated by 4/5, a devaluation would certainly provoke an increase in domestic prices."[89] Reynaud believed that import prices played only a small part in French production costs, while his opponents argued otherwise.[90]

More important than import prices was the concern that psychological factors would unleash uncontrollable inflation. Devaluation would create expectations of inflation; producers would raise prices, consumers would accelerate purchases, speculation would increase, and workers would demand higher wages. The state's profit on revaluation of gold reserves would increase the money supply, which was understood in itself to be inflation, and hoarded currency would flood back into circulation. All these factors, once set in motion, would open an era of monetary instability leading to further devaluations. According to Henri Garnier, president of the Paris Chamber of Commerce and the Assembly of Presidents of Chambers of Commerce,

> In truth, devaluation is the larva of inflation, hypocritical and progressive, which, while enriching speculators and skinning workers and savers, in reality profits the state only momentarily and dangerously, thanks to the new notes placed at its disposal by the revaluation of the gold reserves of the Bank of France.[91]

Inflation, destruction of confidence, and a further cut in *rentier* wealth would endanger the social and political order. Devaluation, Duchemin warned, would be "the cause and the signal for economic and social troubles of which one cannot in advance guess the repercussions, of which it would be impossible to control the consequences, and which would set at risk the very existence of French society."[92] In this apocalyptic vision, the fate of the franc was linked to that of France itself; the franc was to be defended as patriotically as any national territory against external aggression. Military terms (comparing defense of the franc to the Marne and Verdun) and religious terms were invoked. *Le Matin* responded to attacks on the "religion of the franc" by stating, "The unfortunates do not understand that in this case, the religion of the franc is none other than the religion of France."[93] In a radio address

[89] Quoted by Sauvy, "Histoire économique, 1: 155.

[90] Duchemin, *Y-auriat-il*, 19, and see the declaration by leaders of French economic interest groups in *La Journée industrielle*, 23 May 1935.

[91] Garnier, "L'Heure de choisir," 13. See also Duchemin, *Y aurait-il*, 17–30, and Joseph Barthélemy in *Le Capital*, 23 July 1934.

[92] Duchemin, *Y aurait-il*, 59. Marguerite Perrot appropriately titles her chapter on French press reaction to devaluation in the 1930s "Dévaluation et préservation de l'ordre social"; Perrot, *La Monnaie et l'opinion publique en France et en Angleterre de 1924 à 1936* (Paris: Colin, 1955), 221–40.

[93] *Le Matin*, 19 Apr. 1935.

in September 1934, Premier Doumergue spoke of Socialist and Communist cooperation in a campaign for devaluation that aimed at reducing the value of the franc to "zero." "By the ruin of the franc, the newly unified Communist and Socialist Party is certain to lead us to general ruin. They are convinced, with reason, that this general ruin will offer them the best chance of establishing their dictatorship."[94] Listeners in one town turned off their radios at the first mention of devaluation and rushed to withdraw deposits, creating a run on local banks until the news spread that Doumergue was opposed to devaluation.[95] The volatility of public opinion gave a self-fulfilling character to the perils conjured by opponents of devaluation. Reynaud was reproved for having raised matters that would disquiet public opinion. As the debate evolved and the forces against devaluation showed their strength, devaluationists had to take account of the tenor of public debate. Reynaud warned the Flandin government in December: "Implement your policy. If it succeeds, so much the better! But in the event that it fails, take care to do nothing that could render psychologically impossible the adoption of another policy that, one day, may appear as the only policy capable of saving the country."[96] When antidevaluation fervor reached its peak during the currency crisis of May 1935, Reynaud appealed above all for calm and for a *choc psychologique* to check speculation and restore the government's liberty of maneuver. He gave the key speech in denying decree powers to the Flandin government, but supported decree powers for both Bouisson and Laval, stating that the first thing to be done was to stop the campaign, "without precedent since the war, that has made devaluation appear to the astounded and fearful eyes of the country as at the same time imminent and catastrophic."[97]

The more hysterical elements in the French press took the debate to extremes in attributing base motives to Reynaud. *L'Action française* led the way, explaining that Reynaud sought devaluation to profit from his interests in silver mines in Mexico. Characterizing Reynaud as a "dangerous vermin," it suggested, "If *the little Reynaud, who has the mien and the manners of a termite-rodent*, had been booed, hooted and whistled down in the course of his campaign for devaluation, he quickly would

[94] Gaston Doumergue, *Mes causeries avec le peuple français* (Paris: Reboul, 1934), 61. "The newly unified Communist and Socialist Party" was Doumergue's invention to characterize Communist and Socialist opposition to deflation and cooperation leading to the creation of the Popular Front.

[95] Reported in Grafftey Smith, "Conversation with Monsieur Lacour-Gayet," 24 Oct. 1934, BoE OV45/84.

[96] *J.O.Ch.*, 3 Dec. 1934, 2945.

[97] *J.O.Ch.*, 30 May 1935, 1720.

have renounced his propaganda and crept back into his hole."[98] Some indication of the audience this press attracted can be gained from the letters Reynaud received in May and June 1935, in which the name calling, accusations, and death threats reflect the views and the character of the extreme right-wing press.[99]

At the other end of the political spectrum, Socialists and Communists remained largely hostile to devaluation because of the threat it posed to the workers' standard of living, given the general belief that it must produce inflation. As indicated earlier, devaluation was supported by isolated figures in the SFIO and the Confédération générale du travail (CGT), the Neo-Socialists, and the left wing of the Radical Party.[100] Reynaud was accused of having joined the Socialist camp in championing devaluation in 1934, but devaluation was not a Socialist solution to the crisis, and Reynaud's views were not Socialist. A look at the beliefs of several key figures of the Left indicates the difficulties in gaining acceptance for devaluation.

Léon Blum devoted considerable space in his daily columns in *Le Populaire* to explaining and interpreting economic policy to his Socialist readership. In April 1934 he attacked Doumergue's decree laws as bound to aggravate the crisis without eliminating the budget deficit, likening the decrees to poison administered to a sick patient.[101] When Doumergue accused the Socialists of promoting currency speculation by their resistance to deflation, Blum replied that they wished for stability of purchasing power and were opposed to both inflation and deflation. He went on to correct Doumergue's confusion between devaluation and inflation and to point out that devaluation could be accomplished without altering the cost of living. Although his party

[98] *L'Action française*, 17 Aug. 1934 and 16 May 1935; the latter cited in La Tour-du-Pin, "La Presse de droite," 111–12.

[99] Reynaud quotes from these letters in *Mémoires*, 1: 404–10; the letters are collected in a file in AN 74 AP 14. For the most extreme manifestations against devaluation in the press, see La Tour du Pin, "La Presse de droite"; see also Perrot, *La Monnaie et l'opinion*, 221–40, and Jackson, *Politics of Depression*, 187–93.

Reynaud's advocacy of devaluation also gave rise to some of the most entertaining cartoons of the period. In *L'Ami du peuple*, 19 May 1935, a masked executioner was shown gesturing to the guillotine and telling a man with a franc piece for a head, "Try it; you'll feel much better afterward." On the cover of *Le Spéculateur* (no date; copy in AN 74 AP 19) Reynaud was drawn in Indian dress, holding a tomahawk and dancing around a figure with a franc piece for a head, tied to a pole. The caption read, "The dance of the scalp . . . or Paul Reynaud, the last Mohican devaluator." A cover of *Le Nouveau Cri* (15 Sept. 1935) depicted Reynaud energetically sawing through a franc piece and exclaiming, "I'm big enough to imitate Roosevelt!"

[100] See Jackson, *Politics of Depression*, 183–6, 191–3.

[101] *Le Populaire*, 1 Apr. 1934.

had not taken a stand on the issue, Blum declared himself personally opposed to defense of the franc's gold parity, which risked sacrificing French industry to the interests of bankers.[102]

In September 1934 Blum joined the newspaper fray over devaluation, dispelling some of the confusion generated elsewhere. For Blum, the argument that the franc had already been devalued was "virtually devoid of sense." With falling prices and currency depreciations abroad, France had little hope of resisting the trend toward currency depreciation. He warned that devaluation would not be successful unless the public was carefully educated to accept it. Workers were hurt by both deflation and devaluation; in a capitalist system they were bound to pay the price of any economic adjustment. He associated deflation with the interests of finance capital and devaluation with industry and commerce, but retreated from his earlier preference for devaluation, which would benefit employment, excusing himself on the grounds that both devaluation and deflation were capitalist solutions to a capitalist crisis that could truly be resolved only by the advent of socialism.[103] The party was opposed to devaluation,[104] and Blum's own views were not held with sufficient conviction to set him in open conflict with party sentiment. Marc Joubert's reaction was more characteristic of party thinking: Both devaluation and deflation worsened the position of the workers, and the choice was more properly one between expansion of the domestic market and continued stagnation.[105] When Robert Marjolin praised the Belgian devaluation in 1935, he received angry letters from Socialist militants who accused him of wishing to save capitalism.[106]

CGT leader Léon Jouhaux favored devaluation in order to gain international monetary stabilization, a recovery of world trade, and funds to finance public works to increase employment.[107] But CGT energies were directed toward gaining more immediate benefits for workers

[102] *Le Populaire*, 25 Apr. 1934.

[103] See his series of articles in *Le Populaire*, on 15, 16, 18, 19, 22, 24, 28, 29, and 30 Sept. 1934.

[104] Jackson, *Politics of Depression*, 192.

[105] *Le Populaire*, 15 July 1934; this reflected the Socialist view that the crisis was one of underconsumption, requiring a redistribution of purchasing power rather than a monetary solution.

[106] Marjolin, *Le Travail d'une vie*, 69. Marjolin found that Blum was little interested in economic matters and later broke with the Socialists over his disagreement with Popular Front economic and foreign policy.

[107] See his address to the CGT Congress in Paris, Sept. 1935, Confédération Générale du travail, *Congrès confédéral de Paris–1935*, 238–9, and Bernard Georges and Denise Tintant with Marie-Anne Renauld, *Léon Jouhaux dans le mouvement syndical français* (Paris: Presses universitaires de France, 1979), 89–90.

through the forty-hour week, nationalizations – particularly of credit – and implementation of the CGT *plan de rénovation économique et sociale*, adopted in September 1935, to give relief to victims of the economic crisis and increase workers' purchasing power.[108]

The Communist Party was resolutely opposed to devaluation. Like the Socialists, Communists saw devaluation and deflation as "Siamese twins" that aimed at reducing costs by cutting workers' wages and the prices paid to producers of primary materials, either by reducing the nominal value paid or by "deforming" the unit of payment.[109] "Inflation, deflation, devaluation: three monetary strategies in the service of the same policy, for which the proletarians will pay the cost."[110] The Communists had a third alternative: *Faire payer les riches* (make the rich pay) through a tax on wealth.

Georges Politzer was the most articulate of the Communist analysts of the crisis. He argued that the funds generated by devaluation came from the pockets of workers, *rentiers*, and consumers, who were exploited through the reduction in real salaries; it was a despoilment of the poor. "Whether one opts for deflation rather than devaluation, or for devaluation rather than deflation, one remains on the same ground of the dilemma posed by the oligarchies . . . in deflation, as in devaluation, it is the poor who pay."[111] In December 1935 Politzer commented at length on the facility with which deflationists and devaluationists converged in the Chamber of Deputies, proving the PCF contention that deflation was preparing the way for devaluation.[112] Both measures maintained profits at the expense of the workers; once deflation had been taken to its limits, lowering production costs, retail prices would be raised by devaluation:

> From a social point of view, the distinction between deflation and devaluation does not exist. Both are policies of misery.
>
> From the economic point of view, the distinction between devaluation and inflation does not exist. Devaluation is inflation. Inflation is not the consequence, but *the essence* of devaluation.

[108] See Georges et Tintant, *Léon Jouhaux*, 90–109; Jackson, *Politics of Depression*, 150–63, 193; and Kuisel, *Capitalism and the State in Modern France*, 109–12.

[109] Lucien Constant, *Cahiers du bolchévisme*, 15 Sept. 1934, 1067.

[110] Jean Fréville, *Cahiers du bolchévisme*, 15 Dec. 1935, 1510–11.

[111] *Cahiers du bolchévisme*, 15 Nov. 1935, 1380–1. Politzer saw the choice between deflation and devaluation as a means of dividing wage earners and small savers in order to allow the oligarchy to impose its own policy at their expense; see his article in *Cahiers du bolchévisme*, 1 Dec. 1935, 1441–55. See also Michel Margairaz, "Déflation, dévaluation, reflation. La position de Georges Politzer," *CHIMT* 3 (1973): 133–41.

[112] Politzer, *Cahiers du bolchévisme*, 15 Dec. 1935, 1535–8.

There are only two solutions that are, *in reality*, opposed both socially and economically: that which consists of making the poor pay, and that which consists of making the rich pay."[113]

As Politzer's analysis claimed, the step from deflationist views to devaluation need not be a large one.[114] Propaganda in the press had made it seem very wide indeed, and Reynaud was justified in his concern that the antidevaluation campaign would make successful devaluation more difficult when it could no longer be avoided. Like Blum, Politzer believed the working classes were destined to pay the costs of either solution; like Blum, he paid insufficient attention to the different effects of devaluation and deflation on the level of economic activity. If the capitalist solutions were twins, they were not identical.

Devaluation was rejected across the breadth of the political spectrum. But disgraceful as devaluation might be morally, and dangerous as it might be politically and socially, deflation alone was not bringing the depression in France to an end. In September 1934 Lucien Romier had declared that three conditions were necessary for successful deflation: It had to be quick, prices and interest rates had to fall to compensate for the decline in purchasing power, and business had to be maintained to sustain employment."[115] As the devaluation debate proceeded in 1934 and 1935, France was losing on all three counts.

Conversions

Although many doors were closed to Reynaud by his advocacy of devaluation, he remained in the public eye, and he continued his campaign in Chamber debates on financial policy and in a variety of public forums. In February 1935, he debated devaluation with the journalist Raymond Cartier; by the account in *L'Echo de Paris*, hardly inclined to favor devaluationist views, Reynaud got the better of Cartier.[116] He also spoke at the Salle des ambassadeurs in Paris, addressed the Union industrielle et commerciale de l'Est in Nancy, and debated with Jacques Duboin. *Le Voltaire* commented on the latter that while Reynaud had not convinced all those present, many who had come to

[113] Ibid., 1538, Politzer's emphasis; and see Politzer articles in ibid., 15 Nov. 1935 and 1 Dec. 1935.

[114] Michel Margairaz pursues this idea in "La Droite française face à la crise: Incompétence ou choix politique?" *CHIMT* 20–1 (1977): 69–88.

[115] *Le Figaro*, 15 Sept. 1934.

[116] *L'Echo de Paris*, 21 Feb. 1935.

contradict him found they preferred to remain silent and that they had learned many things of which they were ignorant.[117] In May 1935 Reynaud convinced a group of eight hundred businessmen in the Hôtel Continental in Paris to vote a resolution calling for the immediate devaluation of the franc and an end to the presentation of devaluation as an "operation full of peril."[118]

Reynaud's debating skill and quick wit made him a persuasive advocate to unbiased auditors. But rational argument was not enough to convince a public highly sensitized to the links forged in the 1920s between devaluation, fiscal mismanagement, and inflation. Reynaud's oratorical talents were turned against him when his theses could not be refuted with logic. C.-J. Gignoux, responding to the resolution voted at the Hôtel Continental, compared Reynaud's address to the sirens' call against which Ulysses had blocked his sailors' ears and tied himself to the mast of his ship. Gignoux admitted that Ulysses had combined great prudence with intellectual perversity.[119] *Le Temps* warned readers that Reynaud supported devaluation with arguments "to which only his oratorical talents gave the illusion of a technical value."[120] Henri de Kérillis advised friends to be wary of Reynaud: "If he sets out to convince you that it is broader day at midnight than at noon, you will leave thereafter under the charm of his words, telling yourself that in fact it is indeed broader day than at noon."[121]

Reynaud referred to the religious character of the debate, in which he was cast as a heretic; the Fédération des porteurs de valeurs mobilières called for a "crusade" against devaluation. Converts could be attracted by logic, but many were able to change their views only after their faith in deflation had been broken. The Belgian devaluation and the failure of the Laval deflation contributed to a weakening of faith in the franc Poincaré. In late 1934, British observers saw little prospect of a French devaluation. Ambassador Sir George Clerk reported that Reynaud's views were "finding some echo among politicians who, though they probably would not vote for devaluation, are struck by the force of his arguments."[122] Grafftey Smith told his colleagues in the Bank of England that devaluation was a leading question, but "if devaluation comes it will be from irresistible external pressure. The devaluationists

[117] *Le Voltaire*, 2 Mar. 1935.
[118] See the account, and the resolution voted, in *La Journée industrielle*, 7 May 1935.
[119] Ibid.
[120] *Le Temps*, 17 Aug. 1934.
[121] Cited in *L'Echo de Paris*, 21 Feb. 1935.
[122] Clerk to Simon, 5 Dec. 1934, FO 371/17650.

are an important minority, including several intellectuals and a few industrialists, but they will never carry public opinion."[123]

Doumergue's "government of truce" resigned in November 1934. Flandin kept Pierre Laval as his minister of foreign affairs and Germain-Martin as his minister of finance, declaring to the Chamber, "Messieurs, the truce continues."[124] He sought to escape both deflation and devaluation; Reynaud congratulated him for rejecting further deflation, a "great step toward the truth," but criticized the idea that rising world prices could close the gap between French and world prices. The gap was significant and widening; Reynaud predicted Flandin would be forced to resume deflation if he rejected devaluation.[125] By the end of May, Treasury difficulties, the Belgian devaluation, and the Front commun successes in municipal elections combined to destroy Flandin's hopes of recovery without deflation.

The Bank of France was increasingly troubled by devaluationist arguments during this period. René-Paul Duchemin's *Y aurait-il intérêt à dévaluer le franc?* was printed by the Bank in October 1934 and distributed free in Bank branches; directors were asked to use its arguments to reply to devaluationist views. In 1935, Jean Tannery encouraged branch managers to work with local commercial and professional groups to organize lectures against devaluation, with the Bank footing the bill. The Fédération nationale des porteurs de valeurs mobilières was particularly active in these endeavors.[126] The Belgian devaluation at the end of March sparked controversy as to whether Belgium had gained or lost by the operation, and whether or not Belgian prices were rising. C. F. Cobbold of the Bank of England reported in April, "The devaluation movement in France has made progress in the last few weeks, and Tannery seems to hope that the Belgian experiment will prove that devaluation is no cure."[127] The Belgian experiment provided an example against which to judge French experience of the renewed deflationary effort under Pierre Laval, and heated debate followed as to whether it indicated success or failure.[128] Despite a great deal of misleading press analysis, it became evident that the Belgian devaluation had not pro-

[123] Grafftey Smith, "Impressions from Paris," 16 Nov. 1934, BoE OV 45/84.
[124] *J.O.Ch.*, 13 Nov. 1935, 2291.
[125] *J.O.Ch.*, 3 Dec. 1934, 2939–46.
[126] Netter, *Banque de France*, 4: 225–7, and Wolff, *Economie et finances de la France*, 192.
[127] Cobbold, 1 Apr. 1935, BoE OV 45/85.
[128] See Baudhuin, *La Dévaluation du franc belge: Une opération parfaitement réussie* and *La Dévaluation du franc belge: Un an après*; Charles Dupriez, *La Vérité sur la dévaluation* (Brussels: Wellens, Godenne, 1936); Henri Michel, *La Dévaluation belge: Une opération aussi délicate que décevante* (Paris: Imprimerie du Palais, 1936).

duced the catastrophic effects predicted by critics and that the Belgian economy was improving.

Flandin's prescription of cheap money and an end to deflation, which in theory should have hurt no one, in practice failed to cure French economic and financial ills. During the monetary crisis that overturned his government, major proponents of devaluation contributed to a special issue of Raymond Patenôtre's *Le Petit Journal* urging devaluation,[129] while the extreme Right attacked Reynaud and Patenôtre as traitors to France, *L'Action française* calling for their arrest.[130] A declaration was organized by the Confédération générale de la production française (CGPF) in which leaders of the "largest French professional organizations" called upon the Flandin government to avoid devaluation, which would yield only minor short-term advantages against serious long-term damage, and urged a restoration of budget equilibrium by cutting expenditure and reducing taxation. According to this declaration:

> Only the persistence of poor financial management by the state, leading to a permanent disequilibrium between receipts and expenses and to a constant tension from Treasury needs, is of a nature to imperil monetary stability and, if it is prolonged, to threaten recourse to the solution that public interest is certain to condemn.[131]

It was a striking demonstration of industrial and commercial solidarity, and Treasury director Wilfrid Baumgartner and Bank of France governor Jean Tannery were telling the government precisely the same thing: The origins of the monetary crisis lay in the budget deficit. All pushed Flandin down a road he was already traveling against his will, to obtain decree powers from Parliament in order to implement stricter deflationary measures.

Reynaud led the attack on the Flandin government in the Chamber of Deputies. Germain-Martin had told the Senate in January that if

[129] *Le Petit Journal*, 28 May 1935. On *Le Petit Journal*'s political tergiversations in the 1930s see Fred Kupferman and Philippe Macheferin, "Presse et politique dans les années trente: Le Cas du 'Petit Journal,' " *Revue d'histoire moderne et contemporaine* 22 (1975): 7–51.

[130] *L'Action française*, 13 and 17 June 1935.

[131] *La Journée industrielle*, 23 May 1935. Signatories included Henri Peyerimhoff, vice-president of the CGPF, C.-J. Gignoux, editor of *La Journée industrielle* and president of the Fédération des industriels et commerçants français, Edouard Duhem, president of the Confédération des groupements commerciaux et industriels, Etienne Fougère, president of the Association nationale d'expansion économique and the Fédération des associations régionales, and a further twenty-eight presidents and vice-presidents of economic groups covering virtually every sector of the French economy, including hard-hit export industries like textiles, leather goods, and automobiles.

the budget was not balanced, eventually the threat of devaluation would loom before them. Reynaud quoted this back to Germain-Martin and indicted the government for the failure of its economic program:

> I say to the government: you announced the end of the deflation of prices. You were wrong. That can happen to anybody.
>
> You announced a fall in the rate of interest. It has risen.
>
> You announced a rise in the price of government bonds. They have fallen.
>
> You have recognized the monetary peril and you have done nothing to avoid it.
>
> This is, I believe, the first time in parliamentary history that a government has claimed to find, in a situation engendered by its own incompetence, an argument for demanding an extension of its powers.[132]

Germain-Martin resigned in an effort to save the Flandin ministry, but Flandin himself was in a poor position to ask for extended powers to implement the deflationary measures he had claimed were unnecessary and injurious throughout his term of office.[133]

Reynaud did not exploit the crisis to further the devaluationist cause; he wished to relieve the difficulties facing the franc. The speculative panic alarmed him as it did the most loyal defenders of the franc Poincaré. When the bill requesting decree powers was presented to the Finance Committee of the Chamber, Charles de Lasteyrie characterized the vote as "for or against the integrity of the national currency." *Rapporteur général* Jacques Baréty asked that the committee cast its votes on technical rather than political grounds, given the urgency of financial and budgetary reform. Reynaud abstained, declaring that he had always opposed devaluation under conditions of panic and disorder and that the intense press campaign against devaluation had oversensitized public opinion. Radicals and Socialists combined to defeat the bill, but joined a unanimous declaration by the Finance Committee that "in the presence of the speculation unleashed against the franc, the Commission declares itself resolved to use all means available to preserve the integrity of the national currency."[134] Flandin's request was then defeated in the Chamber, 353 to 202.

Reynaud supported extended powers for both Bouisson and Laval; on 7 June Laval was granted decree powers "to battle against speculation and to defend the franc." The law had a narrower purpose than those proposed by Flandin and Bouisson, yet granted broader powers to

[132] *J.O.Ch.*, 30 May 1935, 1723; Reynaud summed up the Flandin government's appeal as "I was wrong; have confidence in me." Ibid., 1720.

[133] As pointed out to the Chamber by George Bonnet, *J.O. Ch.*, 30 May 1935, 1741.

[134] PV CFCh, 29 May 1935.

accomplish it.[135] Régnier assured the Chamber of Deputies Finance Committee that measures to revive economic activity would be accomplished with the collaboration of the Chamber, by the normal legislative route.[136] But the Finance Committee refused to advise the government on policy. Laval and Régnier did not present a coherent program when they met with the Finance Committee in early July, and the latter wanted no share of responsibility for decree laws on which the government need pay no attention to their views.[137] Reynaud calmed his promotion of devaluation to allow Laval optimal conditions for the use of his decree powers in exchange for an undertaking by Laval to restrain the "campaign of panic" against devaluation in the press.[138]

Even before the Laval deflation, the failure of the Flandin experiment had influenced opinion on the choices facing the government. Joseph Caillaux spoke in April of the possibility of realigning the franc with depreciated currencies; he raised this possibility on the heels of a vehement condemnation of devaluation.[139] Charles Rist was welcomed to the devaluationist camp in May 1935, a full year before his conversion,[140] when he commented on the vulnerability of the French economy to monetary fluctuations abroad and attributed the continued slump in France to overvaluation of the franc. France now needed a deflation more profound than any experienced in the past:

> It is a question, finally, and this is the most serious part, of a deflation *of which it is impossible to predict the limit*, since at any moment the English currency, and perhaps also the American, could drop suddenly, upsetting each new equilibrium, however painfully it has been achieved.

The franc could still be preserved by a policy of low interest rates, a balanced budget, and an "economic deflation, no longer simply a budg-

[135] Most notably, the earlier bills had spoken of accomplishing fiscal reform and relaunching economic activity. See Chapter 5, this volume.

[136] PV CFCh, 7 June 1935.

[137] PV CFCh, 2 July 1935. Reynaud specified that "facing a government disposing of dictatorial powers, it is indispensable that the Committee not discuss or vote on the decree laws." Henri Lillaz, Gauche Radical deputy, put it more bluntly: "The Finance Committee must not participate impotently in the drama played by the government." The committee agreed it would not reconvene until the budget was ready for discussion in September.

[138] Described in a letter, Reynaud to Laval, 29 Oct. 1935, AN 74 AP 14, in which Reynaud stated he would resume his promotion of devaluation because Laval had failed to control press misinformation on the results of the Belgian devaluation.

[139] See the press report in *La Lumière*, 27 Apr. 1935, and Georges Boris's bemused comments on 4 and 11 May 1935.

[140] By Georges Boris in *La Lumière*, 11 May 1935. On Rist's conversion in May 1936, see Chapter 7, this volume.

etary deflation."[141] Rist did not explain how four years of budgetary deflation could now be extended into a more profound price deflation, nor how interest rates could be lowered when a discount rate of 6% was needed to check gold losses at the end of May and the government was borrowing at rates well over 5%.[142]

Jean Dessirier, the statistician who wrote the annual reports on the stock exchange in the *Revue d'économie politique* and regularly criticized monetary manipulations abroad, analyzed the course of the crisis in France in 1935. He focused on the domestic effects of the deflationary effort, separating firms into three groups: large public services (electricity, gas, urban transport, insurance), cartelized and protected industries (cartelized metal and mechanical industries, chemical and petroleum industries, commercial banks, sugar), and small, unprotected industries gathering in virtually everyone else, which were the hardest hit in the economy. Not surprisingly, he found a healthy increase in dividends among the first sector, a preservation of profit levels in the second, and the brunt of the crisis being borne by the third. He concluded that the conventional wisdom of unhealthy enterprises being purged in a depression bore no relation to the current economic hardship in France:

> The most unbalanced and badly managed enterprises were eliminated from the economic struggle a long time ago. The current disequilibrium results not from errors or from particular faults, but represents above all the consequences of a great crisis of deflation and transformation.[143]

Dessirier concluded that devaluation was necessary. Completing his study as the first Laval decrees were issued, he expressed optimism that they would help to right the domestic imbalance by reducing the degree of protection in the public service sector.[144] One year later he judged the Laval decrees had been "too little, too late." "It was a particularly grave error to have persevered with an absurd deflation in France, beyond reasonable limits in extent and duration, while exploiting on the political terrain the demagogic argument of the 'intangibility' of the franc."[145]

The Laval decrees raised a great deal of popular discontent; the nascent Popular Front urged public demonstrations, and workers were

141 *REP* 49 (1935): 545–52, Rist's emphasis.

142 Rist had claimed that a rate of 2½%, the Bank of France discount rate before the crisis in May, was too high.

143 Jean Dessirier, "Secteurs 'abrité' et 'non-abrité' dans le déséquilibre actuel de l'économie française," *REP* 49 (1935): 1330–58, quote 1350.

144 Ibid., 1346–8.

145 Jean Dessirier, "L'Economie française devant la dévaluation monétaire," *REP* 50 (1936): 1527, 1547.

killed in the suppression of strikes in Toulon and Brest in August. When the Chamber of Deputies Finance Committee reconvened in October to consider the 1936 budget, the widespread unpopularity of the decree laws had weakened Radical support for Laval's government. The committee insisted on hearing Laval on how the remaining decree laws would affect the budget balance before considering the budget, and this delayed discussion to the end of October. The Délégation des gauches representatives (Communist, Socialists, and Radicals), after a weak presentation by Laval, amended the budget on 29 and 30 October to "humanize" the decree laws by easing their impact on the middle and lower classes.[146]

Régnier rejected the amendments, declaring, "They are not a humanization, but a destruction, of the decree laws."[147] For three weeks the Finance Committee and the government were at loggerheads, and the right-wing press attacked the committee; renewed skepticism that the franc could be held on gold brought increased hoarding and large gold losses. Laval had lost the confidence of French capital holders, rendering a reduction in interest rates impossible.[148] The Radicals retreated, compromising with the government to render the "humanization" ineffective. The monetary crisis continued to the end of the month, when Régnier appealed to the Chamber of Deputies for a vote of confidence in approving the laws enacted by decree in order to break the speculation against the franc. Reynaud voted for the government, his intervention in the debate posing the vital question: What would the government do now? Resume its efforts at deflation? While previously deflation had the benefit of the doubt, today this was no longer true.[149] *Le Canard enchaîné* made the same point in more amusing fashion: " 'Are you for deflation or devaluation?' 'Me?' replied Rappoport, contorting herself like a silly little fool, 'Me, I'm rather for *delavaluation*.' "[150]

Contrary to claims by Régnier and Laval, the decree laws had failed to lower French prices. Retail prices in Paris fell slightly from June to August, then rose 7% by December.[151] Rowe-Dutton reported to the British Foreign Office:

[146] See Jackson, *Politics of Depression*, 127–8.

[147] PV CFCh, 12 Nov. 1935, and Herriot, *Jadis*, 607.

[148] Jean Tannery, in PV CG, 7 Nov. 1935, and Régnier, as cited by Herriot in *Jadis*, 610, were agreed that the flight from the franc was due entirely to the political crisis. Also Margairaz, "Histoire d'une conversion," 1: 141.

[149] *J.O.Ch.*, 29 Nov. 1935, 2246.

[150] Quoted in Alexander Werth, *The Twilight of France, 1933–1940* (London: Hamilton, 1942), 59.

[151] Sauvy, *Histoire économique*, 3: 355.

The fullest exercise of M. Laval's full powers has not availed effectively to alter the economic trend or to prevail against the adverse factors that it has encountered. It would be unjust to minimise the effort which has been made, but the result seems to be that he has run very fast indeed to keep where he was when he started.

Discussion of devaluation had become much more serious among politicians, but because of public fears they paid lip service to preservation of the franc.[152]

The budget was passed in December by voting chapters en bloc, and interest rates remained high. In Senate discussion of the budget, Caillaux reaffirmed that while he opposed a devaluation for reasons of Treasury finance ("a swindle practiced on the public at large"), he favored a monetary alignment to gain the international currency stabilization "indispensable to the economic life of the world."[153] Régnier pressed for quick passage of the budget, arguing that even in the event of a devaluation, a balanced budget was necessary.[154] Henri Peyerimhoff, vice-president of the CGPF, who had headed the list of professional organization signatories opposed to devaluation in May, told the Assemblée générale du Comité des houillères at the end of December that he preferred devaluation to exchange controls.[155] Georges Politzer devoted a long analysis in the Communist journal *Cahiers du bolchévisme* to the ease with which capitalist representatives in the Chamber of Deputies were switching from deflation to devaluation,[156] and even Frédéric Jenny acknowledged the "slide toward devaluationist views" at the turn of the year in *Le Temps*.[157]

In January the Radicals officially joined the Rassemblement populaire, and the four Radical ministers quit Laval's cabinet, leading to the resignation of his government.[158] The Bank of England noted growing pessimism among French businessmen: "All the fundamental problems have been carried into the New Year," N. P. Biggs reported, "with

[152] E. Rowe-Dutton, "The Financial Situation in France, October 1935," 31 Oct. 1935, FO 371/18796.

[153] *J.O.Sén.*, 26 Dec. 1935, 952, 956. See also Caillaux's attack on devaluation and his skepticism regarding international stabilization in *Le Capital*, 15 Nov. 1935.

[154] *J.O.Sén.*, 26 Dec. 1935, 949.

[155] Cited in Margairaz, "La Droite française," 82.

[156] *Cahiers du bolchévisme*, 15 Dec. 1935, 1516–38.

[157] Cited by Margairaz, "La Droite française," 82.

[158] See Larmour, *The French Radical Party*, 191–6; and Berstein, *Histoire du Parti radical*, 2: 403–13. Radical defection was due to discontent with Laval's foreign policy. While the grass roots and the Left in the party opposed deflation, many of the parliamentary representatives and leaders such as Herriot, Lamoureux, and Régnier fully approved of the Laval deflation and remained entirely orthodox in their financial views. Berstein, *Histoire du Parti radical*, 2: 390–7.

this difference that no one in France now believes that curtailment of State expenditures and cuts into retail prices will suffice to provoke recovery." No one, however, would support devaluation as election campaigns were beginning.[159] By this time the "campaign of panic" to which Reynaud objected had made devaluation so partisan an issue that conversions were not necessarily apparent. Raymond Luce-Gilson, editor of the financial paper *London–Paris Agency*, wrote to Reynaud in April 1936 after reading Reynaud's *Jeunesse, quelle France veux-tu?* saying he would have liked to recommend it to his readers. But if he did so he would lose his job: "I have been compelled to genuflect like a slave because one of your bitterest opponents has accused me of having passed into your camp; I passed there a long time ago."[160]

One of the most important shifts in opinion was not visible to the public eye. The director of the Treasury, Wilfrid Baumgartner, who in May 1935 had insisted that the origin of the monetary crisis was the budget deficit, realized the impossibility of further deflation. Laval's decrees had failed to restore sufficient confidence to return hoarded currency to circulation and attract refugee capital back to France. Popular demonstrations against the decree laws and the loss of Radical support were symptomatic of the political impossibility of further deflation. The Sarraut government that succeeded Laval was a caretaker government until national elections in the spring. Baumgartner's exposé of the government's financial situation, intended for Régnier's presentation to the Sarraut cabinet, indicated the considerable evolution of his views. Heavy borrowing would be necessary in the first half of 1936, and financial markets were unwilling to take up any more government paper at rates acceptable to the Treasury. To quote from the conclusions he drew:

A considerable effort at economy has been accomplished by the preceding government which, added to the efforts made by previous governments, has

159 N. P. Biggs, "The French Situation," 13 Jan. 1936, BoE OV45/85. Biggs went on to state that "in recent months a large body of responsible opinion in France has come to see devaluation as inevitable. ... At this moment, however, devaluation is politically inexpedient and no support for it will be found in the life of the present Chamber." C. F. Cobbold had noted in late October that devaluation was "quietly gaining ground"; Cobbold, "Visit to Paris – 28th to 30th October 1935," 1 Nov. 1935, BoE OV45/85.

160 Luce-Gilson to Reynaud, 16 Apr. 1936, AN 74 Ap 14. Bertrand Nogaro sent Reynaud a copy of his *La Crise économique dans le monde et en France*, stating that while the principal conclusion was the need to reestablish parity of purchasing power between the franc and the pound, "you will find, perhaps, that I should have cited the great battle you have led in this matter; if I have not done so, it is solely because, wishing to convince my reader, I avoided anything which could remind him of the impassioned debates which have been deformed by their presentation in the press." Nogaro to Reynaud, 8 July 1936, AN 74 AP 20.

succeeded in a large measure of financial reform that, in any case – even the case of a devaluation – would have been indispensable. But today I am the first to admit that this effort at economy has reached not its financial limit – because there are expenditures like veterans' pensions which I continue to judge to be excessive, and others, like exceptional military expenditures, which I would like to see limited when that becomes possible – but its political limit.

Whether one preferred deflation or devaluation, it was necessary to maintain the franc until the national elections, by any means, including advancing the election date.[161]

Yet popular opinion remained opposed to devaluation, and pockets of powerful resistance remained. Régnier firmly denied rumors that France would embargo gold exports, and in April the three largest Paris banks condemned devaluation in their annual reports as "unnecessary, futile and dangerous."[162] As France entered the 1936 election campaign, support for devaluation remained scattered across the political spectrum, with no political coherence and little will to confront public opinion. Popular fears of inflation had been so successfully exploited, having been linked to devaluation, that the 1936 elections skirted the Reynaud dilemma of deflation or devaluation. Manifestoes mentioned devaluation only rarely and "obliquely";[163] the word itself was avoided in favor of "monetary alignment."[164] Reynaud's advocacy of devaluation revived the nasty letter campaign against him and very nearly cost him his seat as deputy for the second arrondissement in Paris.[165] This avoidance of the issue attested to the success of the antidevaluationist campaign and presaged the problems the Popular Front would face in developing an appropriate economic policy.

International aspects

In June 1934 Louis Germain-Martin defended fidelity to the gold standard as an essential element of stability in the international economy:

The farther we go, the greater the international monetary disorder, the more I hear these supplications: "Don't let France abandon its position!" Because an

[161] Baumgartner, "Exposé remis à Marcel Régnier, en vue du premier Conseil du Cabinet du Ministère Sarraut, le dimanche 26 janvier 1936 à 17h30," MF B 33194.

[162] Reported by Rowe-Dutton, "French Bank Reports for 1935," 25 Apr. 1936, FO 371/19862.

[163] Jackson, *Politics of Depression*, 201.

[164] Bernard Ravenel, "Le Problème de la dévaluation vu par l'opinion économique et politique en France de 1932 à 1936," Mémoire pour le DES d'Histoire, Paris I, 1962, 45. But Reynaud specifically advocated devaluation in his booklet, *Jeunesse, quelle France veux-tu?* (Paris: Gallimard, 1936).

[165] Jackson, *Politics of Depression*, 180.

hour will come when, thanks to its policy, it will be able to play a grand role, as much in monetary as in economic affairs.[166]

He later rationalized his policies of 1934–5 as designed to restore French finances and revive the economy in a "courageous plan which prepared a solid economic base that would have permitted a successful devaluation at the end of 1935 or the beginning of 1936." An earlier devaluation, he claimed, would have had to be larger, with less chance of success. The instability of sterling and the dollar made "alignment" impossible.[167]

Even with the benefit of hindsight, Germain-Martin failed to recognize that overvaluation of the franc aggravated the financial and economic difficulties he wished to overcome before devaluation. His refusal to alter the value of the franc while the dollar and the pound remained off gold was misconceived, for there was little prospect that either would return.[168] His plan to revive the French economy and wait for greater exchange stability abroad before adjusting the value of the franc was doubly miscast. Preservation of the overvalued franc rendered economic revival unnecessarily difficult and weakened France's bargaining position for obtaining an international currency stabilization.

Opinion abroad was not as simple-mindedly enthusiastic as Germain-Martin presented it. Other gold bloc members naturally wished France to remain on gold. In Britain and the United States, however, there were strong hints that France would be well advised to devalue the franc. Walter Lippmann recommended in February 1934 that France devalue; this call was rejected by Germain-Martin before the Senate.[169] In Britain the *Economist* and the *Financial Times* counseled aligning the franc with the dollar and the pound, but these suggestions caused "considerable annoyance" in Paris, where they were considered to be an "unfriendly act" in political circles.[170] If such unofficial suggestions were poorly received, official suggestions were out of the question. Defense of the franc was the declared policy of the French government,

[166] *J.O.Ch.*, 28 June 1934, 1851.

[167] Germain-Martin, *Le Problème de la dévaluation*; in Feb. 1934 he told the Finance Committee the franc would have to be devalued by at least 60% to allow parity with prices abroad after the inevitable inflation caused by devaluation! PV CFCh, 2 Feb. 1934.

[168] Although the United States had in effect been on the gold standard since January 1934, Roosevelt's power to depreciate the dollar made Germain-Martin and others regard it as an unstable currency.

[169] *J.O.Sén.*, 26 Feb. 1934, 210, and *Le Temps*, 28 Feb. 1934.

[170] Rowe-Dutton to Leith-Ross, 25 Jan. 1935, T 188/109, concerning an article in the *Financial Times* in Jan. 1935.

and neither the United States nor Britain could be expected to encourage a devaluation or to complain of the exchange handicap that France inflicted on itself. Both supported French efforts to defend the franc, and the British Treasury gave repeated reassurances that defense of the franc was both possible and necessary.[171] Financial attaché Emmanuel Mönick's dispatches from London steadily transmitted British beliefs that the franc was overvalued and that they were not eager to see a French devaluation when they benefited from the overvaluation.[172]

Foreign opinion mattered because many in France argued that a devaluation of the franc would set off a wave of competitive devaluations. After 1933, there were no solid grounds for this belief. Emmanuel Mönick's reports stressed British belief that a French devaluation was necessary and would not provoke retaliation and that the British would not commit themselves to a particular sterling value until world trade and prices had been restored, war debts had been definitively regulated, and some remedy had been found for fluctuations in the purchasing power of gold.[173] The British refused to stabilize while they occupied a middle ground between the overvalued currencies of the gold bloc and an undervalued dollar.[174] Financial attaché Jean Appert

[171] Leith-Ross in particular, with whom the French financial attachés in London met regularly. See Mönick's note to the French ambassador in London, Charles Corbin, 25 Oct. 1934, referring to conversations with Leith-Ross and Waley, MF B 12678, and Leith-Ross's records of conversations with Emmanuel Mönick, "Note of an Interview with M. Monick, 23rd January, 1935," T 188/109, and "Note of an Interview with M. Monick on 16th May, 1935," 17 May 1935, T 188/116. On the role of the franc in the management of Britain's Exchange Equalization Account from 1933 to 1936, see Howson, *Sterling's Managed Float*, 22–4, and Sayers, *Bank of England*, 2: 467.

The Americans seem not to have been much concerned, one way or another, from 1933 to 1936 about the future of the franc. But word in 1933 that Roosevelt would not hesitate to "torpedo" a French devaluation if it interfered with recovery in the United States may have had a more durable influence on French views than on Roosevelt's. See Margairaz, "L'Histoire d'une conversion" 1: 49–50.

[172] Mönick, "Le Problème monétaire et l'opinion en Grande-Bretagne," 17 July 1935, MF B 12678.

[173] This was spelled out with particular clarity in Mönick to Germain-Martin, 9 July 1934, MF B 12678. Mönick's reports on the British press are in MF B 12634, B 12635, B 12636, and B 12678. Robert Frank has written on the important role played by the *attachés financiers* in "L'Entrée des attachés financiers dans la machine diplomatique, 1919–1945," 489–505; for his comments on Mönick see 500–1; see also Carré de Malbert, "Les Attachés financiers en 1938," 43–64, and Ian Drummond's comments on the importance of financial attachés in *London, Washington and the Franc, 1936–39*, Princeton Studies in International Finance no. 45 (Princeton, N.J.: Princeton University Press, 1979), 6.

[174] See Chamberlain's statement to the House of Commons on 20 Dec. 1934, reported

in Washington thought the Americans unlikely to accept an international stabilization agreement; Wall Street and the press were pessimistic about the preservation of the franc, and the government was unwilling to discuss stabilization.[175]

Mönick was a shrewd observer of the economies in the United States, where he was posted from 1930 to 1933, and in Britain from 1934 to 1940. He became convinced in 1934 that France had to devalue and need not fear catastrophic results;[176] this conviction colored his reports on British political and press views of French defense of the franc. While appreciating the satisfaction of the British with the Exchange Equalization Account's management of sterling off gold, and their reluctance to make any commitment regarding stabilization, Mönick believed they could be induced to join stabilization discussions if there were a rise in British prices and a serious commitment to exchange-rate stability from the United States.[177] In January 1935, when Flandin was planning a visit to London, Mönick suggested the British be sounded concerning a provisional stabilization. Flandin was much concerned with exchange stability, for currency depreciations abroad would widen the gap between French and world prices, which he hoped would close without deflation or devaluation in France. In late 1934 and early 1935, sterling weakened against the gold bloc currencies, endangering his economic program. Mönick urged a prompt initiative, since from mid-1935 to early 1937 general elections in Britain, France, and the United States would hinder discussions of stabilization. He suggested that the threat of dollar depreciation, followed by disintegration of the gold bloc, large European devaluations, and renewed exchange instability, might induce the British to undertake a provisional stabilization.[178] The American financial attaché in London was amenable, though noncommittal, when Mönick broached the idea of stabilization talks. Having been rebuffed in their attempt to negotiate a sterling–dollar rate in 1933, the Americans would now take no initiative in stabilization talks, but if Flandin could obtain a serious undertaking from the British regarding sterling, the United States would participate in talks.[179]

in Cambon to Laval, 29 Dec. 1934, MF B 12678; Mönick to Germain-Martin, 22 Nov. 1934 in the same file, and the position expressed in the *Economist*, 27 Oct. 1934, 782–3. For an account of British exchange policy and stabilization beliefs at this time, see Howson, *Sterling's Managed Float*, 19–29.

175 See his reports in MF B 21824.

176 See Emmanuel Mönick, *Pour mémoire* (Paris: Printed by the author, 1970), 47.

177 Mönick to Germain-Martin, 22 Nov. 1934, MF B 31730.

178 Mönick to Corbin, 11 Jan. 1935, MF B 31730.

179 See ibid. and Mönick to Germain-Martin, 17 Jan. 1935, MF B 31730. Germain-

The British were not cooperative. When Mönick explained Flandin's concerns to Leith-Ross and suggested that a provisional stabilization of sterling would forestall increased exchange instability and allow a liberalization of French import quotas, Leith-Ross blamed sterling depreciation on the American export surplus and French import restrictions. A liberalization of French import quotas was the best guarantee against further sterling depreciation.[180] This argument was repeated several times. The French would offer the prospect of quota reductions and threaten that Britain would be morally responsible for increased exchange instability. The British would counter that trade liberalization was the surest route by which France could gain sterling stabilization. When Governor Tannery urged a Franco-British understanding on provisional stabilization that could lead to a joint approach to Washington in January 1935, C. F. Cobbold stated bluntly that there was no possibility of sterling stabilization, or even negotiations, as conditions then stood.[181] In conversations with Leith-Ross on 2 February, Flandin was sufficiently discouraged to eschew approaching the chancellor about stabilization.[182]

Similarly, when Leith-Ross lunched with Jacques Rueff and Mönick on 6 March, Rueff stated that Flandin wished to relax trade restrictions, but could not do so without progress toward exchange stabilization. Leith-Ross replied that stabilization was impossible before trade liberalization. He recorded in his notes that "recent French economic policy had been ruinous both for France and for the rest of the world

Martin did not think there was much chance of success. In early January he sent Paul Reynaud a copy of Mönick's note of 22 Nov. 1934. Germain-Martin had stated that under current circumstances conversations with the British on stabilization were not possible; Reynaud disagreed, saying Mönick's report confirmed his view that while Britain did not wish to see gold bloc devaluations, it would not take retaliatory action against devaluations that brought domestic prices into line with world prices. Germain-Martin to Reynaud, 9 Jan. 1935, and Reynaud to Germain-Martin, 31 Jan. 1935, AN 74 AP 20. Germain-Martin was not invited to London. On 17 Jan. an unsigned article in *Le Capital* blamed international exchange instability on sterling and pressed for a British stabilization without a devaluation of the franc; Mönick hinted that it had been inspired by Germain-Martin, who was piqued at not having been invited to London. Leith-Ross to Phillips, Hopkins and Chamberlain, 24 Jan. 1935, T 188/109.

180 Leith-Ross, "Note of an Interview with M. Monick, 23rd January, 1935," T 188/109. For a British explanation of the depreciation of sterling see the *Economist*, 2 Mar. 1935, 479.

181 Cobbold note of 29 Jan. 1935, BoE OV45/84.

182 According to Léon Noël, general secretary of Flandin's cabinet, Flandin and Laval spent more time deciding whether to travel to London by train and boat or by air than making any serious preparations for their conversations with the British. Cited in Duroselle, *La Décadence*, 17.

and I saw no reason to make any bargain about stabilization in order to induce France to do what was in her own interests."[183] He encouraged Mönick and Flandin to defend the franc, seeing this as feasible, provided that the French were willing to lose some gold. But as Flandin pointed out, neither Parliament nor the public would tolerate a French government that presided over sustained gold losses.[184]

When approaches to the British led nowhere, the Bank of France suggested that the United States and France offer a joint credit to steady the pound. On 5 March, Charles Cariguel told Jay Crane of the FRBNY that the fall of the pound had to be arrested "at all costs" and worried that France might have to forsake its defense of the franc.[185] The next day he broached the idea that a joint French and American credit be offered to the British Treasury. Although the British would almost certainly refuse, this would underscore British moral responsibility for the exchange instability that further depreciation of the pound would produce.[186] On Crane's advice, Secretary of the Treasury Henry Morgenthau waited until the Bank of France made a formal approach through Merle Cochran before stating that while sympathetic, he believed such an offer would be "futile and embarrassing" when such a credit was unrequested and undesired by the British.[187]

The *démarche* is indicative of the apprehension of the French and their conviction that the root of the problems was sterling instability. "Disastrous results" were feared if sterling depreciated further, and the French spoke of the special responsibility of France and the United States to prevent the "disorders that the decline of sterling must inevitably bring about." The proffered credit could work in two ways. Acceptance of the credit would in itself be sufficient to stop the flight from the pound, while a rejection on the grounds that British monetary reserves were sufficient would oblige Britain to use these reserves in preventing further decline of the pound. In either case, the French felt that the credit offer should be announced "in a spectacular fashion" to

[183] Leith-Ross, "Note of an Interview with Monsieur Rueff and Monsieur Mönick," 11 Mar. 1935, T 188/116.

[184] Leith-Ross, "Note of an Interview with M. Flandin, 2nd February, 1935," T 188/109.

[185] Jay Crane telephone conversation with Cariguel, 5 Mar. 1935. In the Morgenthau Diaries, Roosevelt Library, Hyde Park, NY, MD 4: 13.

[186] Morgenthau telephone conversation with Jay Crane, 6 Mar. 1935, MD 4: 14–15; also see S. V. O. Clarke, *Exchange-Rate Stabilization in the Mid-1930s: Negotiating the Tripartite Agreement*, Princeton Studies in International Finance no. 41 (Princeton, N.J.: Princeton University Press, 1977), 8–9, and Drummond, *Floating Pound*, 190.

[187] See text of Morgenthau's reply to Governor Tannery, 12 Mar. 1935, MD 4: 68.

achieve maximum effect.[188] After Morgenthau's refusal, Tannery asked Harrison whether the Americans would participate in a joint approach to the Bank of England to ask "in what measure they would be ready to use the technical cooperation which our large gold stocks might enable us to put at their disposal." The Americans again demurred.[189]

In mid-March, at a meeting of the BIS in Basle, the French returned to the attack. Pierre Fournier, Lacour-Gayet, and Pierre Quesnay cornered Cobbold to argue that the continued decline of sterling would cause dollar depreciation and a collapse of the gold bloc. "They are more anxious than I have ever known them about sterling," he reported, "and are talking dramatically about our responsibilities for a breakdown of Western civilization, etc., etc., if we do not stabilise."[190]

The British remained suspicious of stabilization talks. The Americans, however, influenced by Morgenthau's advisers in the Treasury, especially Jacob Viner, showed growing interest. Morgenthau and Roosevelt were skeptical, but hints of stabilization began to be dropped in April 1935, with Morgenthau claiming he wanted to "cultivate the French," stating that with a Franco-American stabilization, "the British will have to come to us."[191] On 13 May, Morgenthau broadcast a speech defending American monetary policy since 1933 and declaring that when the rest of the world was ready to stabilize, Washington would

188 See paraphrase of Cochran telegram, 7 Mar. 1935, MD 4: 25–7.

189 Tannery to Harrison, 15 Mar. 1935; Harrison to Tannery, 16 Mar. 1935; MD 4: 70–1.

190 Cobbold note of 13 Mar. 1935, BoE OV 45/84.

191 Morgenthau conversation with Jay Crane, 9 Apr. 1935; MD 4: 164–6. Morgenthau urged Franco-American cooperation in meetings with French Ambassador de Laboulaye, 9 and 10 Apr. 1935. Alvin Hansen wrote a note on exchange stabilization at this time, which the State Department proposed to send to its representatives abroad. Taking an internationalist view, Hansen argued that the recent depreciation of sterling pressed home the urgency of exchange-rate stabilization and that the threat to the gold bloc might make the French more amenable to devaluation as part of an international stabilization program. He set forth a program for stabilization of the dollar, sterling, and the franc, suggesting a 20 to 25% devaluation of the franc and a dollar–sterling rate of $4.50. Alvin Hansen, "Exchange Stabilization," 26 Mar. 1935; MD 4: 215–24A.

Morgenthau was enraged when the Treasury received a copy. He showed it to Roosevelt, who was "terribly angry" and recorded that "personally, I think it is one of the most stupid and anti-New Deal memoranda that I have seen in a long time and the thought that this was to be sent to the various American Embassies abroad made my blood boil" (22 Apr. 1935, MD 4: 250). Cordell Hull disclaimed any knowledge of the document; Roosevelt and Morgenthau made it clear that exchange-rate stabilization was Morgenthau's responsibility. Anger with the memorandum was a result of State Department trespassing on Morgenthau's domain, the misrepresentation of Treasury policy, and the generous treatment accorded to sterling.

not be an obstacle.[192] The British were scornful, but French reaction was mixed. While Paris was interested in the offer, there was consternation at this defense of American policy. Leith-Ross recorded a visit at which Mönick arrived "in a state of extreme excitement" to discuss the speech and "became almost incoherent when he arrived at the passage in which Morgenthau claimed that America was an innocent bystander."[193] The British refused to take the American offer seriously, for it gave no hint of more responsible behavior. Chamberlain minuted on 21 May that "with every desire to promote stabilization I see no reasonable prospect of any success in conversations with the French much less the Americans."[194]

In July, when Laval attacked Leith-Ross at a luncheon for Britain's "selfish" monetary policy, Leith-Ross repeated that economic stabilization must precede monetary stabilization and stated that Chamberlain would not join stabilization discussions that were bound to prove futile and damage confidence.[195] On 1 October, after Georges Bonnet had made declarations to the League of Nations on the need for currency stabilization and a reduction in trade barriers, Neville Chamberlain told the annual chancellor's dinner at the Mansion House that conditions were not yet ready for a return to gold and that "in the present tense condition of affairs in Europe, even the most tentative approach to stabilization is quite unthinkable."[196]

From London, Mönick advocated a unilateral devaluation of the franc. In a report titled "Les Conditions extérieures de l'expérience de déflation en France," he made a powerful case for devaluation as an

[192] See *New York Times*, 14 May 1935; Drummond, *Floating Pound*, 190; and John Morton Blum, *From the Morgenthau Diaries*, vol. 1, *Years of Crisis, 1928–1938* (Boston: Houghton Mifflin, 1959), 132–3, on the confusion in American thought even at this point. Successive drafts of the speech, with some colorful commentary by one of its writers, can be found in Chester T. Crowell, "The Complete History of Radio Address on 'The American Dollar', 5/13/35," MD 5: pt. 2.

[193] Leith-Ross, "Note of an Interview with M. Monick on 16th May, 1935," 17 May 1935, T 188/116. See also the notes by Frederick Phillips, 16, 18, and 19 May 1935, in the same file.

[194] Cited in Drummond, *Floating Pound*, 191. Phillips had written to the prime minister several days earlier that "Mr. Morgenthau's recent broadcast speech holds out no hope that an early resumption of international discussions on monetary matters would be attended by valuable results." Phillips note, 16 May 1935, T 188/116.

[195] Leith-Ross note of 15 July 1935, FO 371/19601.

[196] Reported in the *Times*, 2 Oct. 1935; see also T 160/840/F.13427/3. Waley explained to Mönick that Britain would not subordinate salaries and prices to the gold standard and would retain its freedom of action to maintain cheap money. Mönick to MF, 5 Oct. 1935, MF B 12678.

essential complement, rather than an alternative, to deflation. Any drop in the value of the British or American currencies could wipe out the gains France made through deflation, no matter how painful and costly they had been to achieve. There was no hope that deflation alone would close the gap between French and world prices; the United States would not tolerate inflation in an election year, and "England has never been further from stabilization than at the present time." Since the exchange-rate duel was principally an Anglo-American affair, a modest devaluation would allow France to retreat from the front lines of international monetary conflict; retaliation was unlikely from either the United States or Britain because it would aggravate the struggle between them.[197]

Ambassador Charles Corbin wrote directly to Laval urging close attention to the note and corroborating Mönick's views on British aversion to stabilization and readiness to accept a modest French devaluation.[198] The note spurred a serious reconsideration of devaluation in the Ministry of Finance, which yielded a report that was pessimistic about the prospects of further deflation and gave a thorough explanation of the arguments for and against devaluation. It acknowledged the beneficial effects of devaluations abroad and the possibility of devaluation without inflation, but it rejected devaluation in France because the uncertain economic advantages to be obtained were at the mercy of a volatile public opinion. A balanced budget was essential, whether France chose to adjust prices by deflation or by devaluation. Whatever the benefits of devaluation, it was certain that they would be more than counterbalanced, "because of the emotionalism of public opinion, by the danger the country would run of a devaluation undertaken before any serious attempt to restore order to public finance and put an end to the intolerable waste."[199]

Given the British aversion to stabilization and the American refusal to initiate talks, nothing could transpire before the elections in France. The French continued to receive indications that no retaliation would result from a modest devaluation.[200] The concern for reprisals was an excuse for inaction. Slow acceptance of the need to realign the franc

[197] "Les Conditions extérieures de l'expérience de déflation en France," 1 Sept. 1935, MF B 33201.

[198] Corbin to Laval, copies also sent to Tannery and Baumgartner, 9 Sept. 1935, MF B 12678, reprinted in *DDF*, 1st ser., XII: no. 141, 191–3.

[199] First page missing, n.d., MF B 33201.

[200] In November Waley insisted the French must not fear British reprisals: An adjustment of the franc was inevitable, and if accompanied by trade liberalization, it would be seen as a serious step toward ending the world crisis. Note of 6 Nov. 1935, MF B 33201; see also note of 11 Apr. 1936, MF B 31731.

with depreciated currencies did not alter the belief that France had remained faithful to a standard of monetary behavior that other nations had forsaken. There was a growing conviction among French policy makers that a devaluation was needed in a domestic political scene where few dared to support it publicly and with no means of achieving it because it was acceptable only as part of a general stabilization agreement no one was prepared to propose. The British were in no hurry to stabilize, and the Americans had no wish to have proposals spurned by the British. The French wanted a retreat with honor from defense of the franc and a restoration of the stability the gold standard was supposed to guarantee. These attitudes would constrict French policy until devaluation could no longer be postponed.

7. Devaluation of the franc

The end of deflation

The Popular Front's election victory on 3 May precluded the possibility of any further deflation; its platform had promised an end to the injustices of the decree laws, greater support for agriculture, a large public works program, and increased social welfare spending, including a national unemployment insurance system. The Socialists hoped to generate recovery by augmenting purchasing power, believing that prices would then fall because of higher production and tax revenue would rise to finance the growth in government spending. Such a program would take time to accomplish: To avoid capital flight and gold losses, the Popular Front program called for exchange control.[1]

The Bank of France lost gold steadily in the election period and the weeks before the Popular Front took power: 1.7 billion francs in the last week of March, 3 billion francs in April, and 2.7 billion francs in the first week of May. Prime Minister Sarraut threatened to resign immediately if Blum did not declare Popular Front policy on defense of the franc: On 10 May Blum announced that the Popular Front remained opposed to devaluation.[2] Exchange controls made political sense to prevent the economic sabotage of the Popular Front program by the holders of capital. Either devaluation or exchange controls would soon

[1] For analysis of the economic program of the Socialists as they were about to take power, see Michel Margairaz, "Les Socialistes face à l'économie," 95–7. Also useful are the discussions by Jean-Marcel Jeanneney, "La Politique économique de Léon Blum"; Pierre Mendès France, "La Politique économique du gouvernement Léon Blum"; and André Philip's comments in discussion in Fondation nationale des sciences politiques, *Léon Blum, chef de gouvernement, 1936–1937* (Paris: Colin, 1966), 212–13, 228–9, 233–6, 287–8, as well as the judicious summary of this discussion by Jean Bouvier, "Un débat toujours ouvert: La Politique économique du Front populaire," *Le Mouvement social* 54 (Jan.–Mar. 1966): 175–81.

[2] As reported by Mönick in Waley to Rowe-Dutton, 21 May 1936, FO 371/19862; also see *La Journée industrielle*, 9 May 1936.

be essential; choosing between them was one of Blum's most urgent tasks as he prepared to take office.[3]

This chapter follows the course of influential opinion and the actions of the Blum government from the election victory to the devaluation of the franc. The first section reviews the changes in opinion among policy makers and influential publicists; the second covers the government's struggle with monetary policy up to the realization in early September that devaluation could no longer be postponed. The third section examines the negotiation of the Tripartite Agreement in September; the fourth covers the presentation of devaluation to the French public and Parliament and its reception. The central questions are why the Blum government took so long to decide on devaluation and how the devaluation was accomplished once the decision had been made.

The Popular Front's inflationary program caused those still favoring deflation to reconsider the prospects for a devaluation. In the Chamber of Deputies on 6 June, Blum spoke of the "devaluationists of the 11th hour" who were now joining Reynaud. Jacques Rueff credited the Matignon Accords – by which French employers agreed to higher wages, collective bargaining, and annual vacations – with having altered opinion,[4] but major conversions preceded the accords, which were but one further element of a radical departure from the deflationary course charted by previous governments. As Frédéric Jenny recognized, "The economic and financial plans of the Blum cabinet are developing in a direction diametrically opposed to that which previous governments have followed. Deflation is being succeeded by a systematic 'counter-deflation' in budget policy as well as in economic policy."[5]

Charles Rist was the most notable convert. As head of a tariff reform commission, Rist recognized the handicap France suffered in maintaining an overvalued currency that could be defended only with high tariffs and interest rates.[6] In *Le Petit Parisien*, Rist contrasted the persistence of the economic crisis in France with recoveries abroad and

[3] See Bouvier, "Contrôle des changes," 112: "Exchange control was seen not as part of a militarized economy, as in Germany, but as a technical arm in a social and political struggle." As Mendès France noted, the Socialist slogan "Ni déflation, ni dévaluation" was "obviously of little use, and out of touch with the situation."

[4] Reuff, *De l'aube au crépuscule*, 126.

[5] *Revue politique et parlementaire*, 168, no. 500 (10 July 1936): 154–5. C.-J. Gignoux had pointed out the contradiction between the Popular Front's reflationary economic policy and its defense of the franc in May; *La Journée industrielle*, 17–18 and 27 May 1936.

[6] 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: Editions SPID, 1952), 74.

stated bluntly that the cause was not budgetary, as he had believed previously, but economic. The disparity between French and world prices was of the order of 20%, and this disparity was poisoning the French economy. "It is from this cause that all our secondary illnesses proceed, and it is this cause, since it is the central cause of our troubles, that we must eliminate." Overvaluation of the franc boosted imports and discouraged exports and tourism, but its most damaging effect was that it encouraged hoarding and raised interest rates. Devaluation of the pound had allowed a cheap money policy to stimulate recovery in Britain; overvaluation of the franc kept interest rates high, impeding recovery in France.[7] Continued defense of the franc would require increased tariffs and quotas, and controls on gold and foreign exchange, relegating the franc to the same league as the German mark and the Italian lira. The Popular Front had two options: to devalue the franc in order to allow a "natural and spontaneous recovery" or to inflate the money supply in order to raise prices, leading to a larger devaluation under less favorable conditions.[8]

In the *Revue d'économie politique*, Rist introduced the review of "La France économique en 1935" as "the gloomiest we have had to trace since this review first appeared." The Laval deflation had shown the resistance of both industry and agriculture to the "economic deflation" he had called for in 1935. Devaluations abroad had demonstrated that recovery without inflation was possible. France had to choose between autarky, leading to progressive impoverishment, and devaluation, which would link France to the economic recoveries in the Anglo-Saxon countries.[9]

In mid-May, Germain-Martin revealed a change of heart. In *Le Capital* he criticized Blum's opposition to devaluation and welcomed invitations from abroad to align the franc with the dollar and sterling, stating that he would have been happy to receive such offers when, as minister of finance, he had sought an international stabilization.[10] The "invitations" he referred to, in the *Economist* and the *New York Herald*, scarcely differed from invitations he had rejected during his own period in office. He argued that the Popular Front's program would inevitably increase the budget deficit, and this made necessary a national economic recovery (finally), which in turn required that the franc be made less expensive. He proposed that the 1928 gold value of the franc be main-

[7] *Le Petit Parisien*, 4 June 1936.
[8] *Le Petit Parisien*, 8 June 1936.
[9] *REP* 50 (1936): 577–86.
[10] *Le Capital*, 12 May 1936.

tained domestically while aligning its external exchange rate with the dollar and sterling by a "regime of controlled liberty." This sounded suspiciously like exchange controls; Germain-Martin insisted it was neither devaluation nor exchange controls, merely increased discrimination by the Bank of France on gold movements.[11]

Joseph Caillaux, too, was preoccupied with the inevitability of inflation under the Popular Front. In *La République* he stated that deflation was no longer possible and that a monetary alignment including devaluation of the franc had become necessary.[12] He remained opposed to unilateral devaluation, however, and proposed that the Bank of France adopt controls on gold movements like those in Holland.[13]

Frédéric Jenny of *Le Temps* still believed in February 1936 that the price problem was exaggerated; French prices were "only" 15% higher than British and 25% higher than American; thus, the argument for devaluation to restore price parity had "manifestly lost much of its cogency"! To "tamper with the currency" over this price disparity was in his view a "very risky and chimerical undertaking." Only three circumstances could compel devaluation: exhaustion of the gold reserves, too much private indebtedness (as in the United States in 1933), and excessive public spending and taxation. He foresaw no such dangers if politics remained calm and concluded that "there is no major reason why a fresh devaluation of the French currency should be forced upon us. The so-called overvaluation of the franc is pure legend."[14]

Rising government expenditure changed his mind after the Popular

[11] *Le Capital*, 14 May 1936. Confusion about what he said caused him to "clarify" in articles on 25 and 26 May 1936. An informant at Lazard Brothers told Rowe-Dutton that Germain-Martin was a "convinced devaluationist" and that the article of 14 May was "a *reductio ad absurdum* of the idea that Blum can get the money he wants without devaluation." The articles of 25 and 26 May in no way made this clear, however; they were notable for their incoherence, coming as they did from a former minister of finance who later professed he had been working toward a devaluation while in office. Rowe-Dutton, "The Financial Situation in France, May 1936," 3 June 1936, FO 371/19862.

[12] *La République*, 11 June 1936. Reynaud counted Caillaux among the "devaluationists of the eleventh hour" whom the Popular Front victory finally awakened to reality; Paul Reynaud, *Mémoires*, vol. 2, *Envers et contre tous* (Paris: Flammarion, 1963), 66.

[13] See Caillaux's exchanges with Auriol in the Senate Finance Committee in August and September, PV CFSén., 12 Aug. 1936 and 29 Sept. 1936. Just as Reynaud goes too far in claiming Caillaux was a convert to devaluation, Jean-Denis Bredin errs in the other direction in claiming of Caillaux, "Very far from Paul Reynaud the 'devaluator,' he had always been fiercely hostile to devaluation." *Joseph Caillaux* (Paris: Hachette, 1980), 282. Caillaux favored the September devaluation in principle, but found much to criticize in its realization.

[14] Frédéric Jenny, "The Essentials of Prosperity in France," *Lloyds Bank Review* 7, no. 72 (Feb. 1936): 60, 68–71.

Front victory. In May he believed that devaluation would aggravate the confidence crisis in France and increase the capital flight;[15] he rejected Rist's case for devaluation and persisted in the belief that French monetary difficulties were due to government overspending.[16] The key question was whether Blum could restore confidence. In July Jenny changed his mind and announced that if prices rose, if any choice were possible, "I should prefer a frank and ordered devaluation to the bad alternative of rigid controls of exports and imports and the prohibition of export of capital, according to the German and Italian precedents."[17]

According to Rowe-Dutton's reports to the British Treasury in late May, the financial experts and most of the banking community would accept devaluation rather than suffer exchange controls, and these views had spread through the right-wing press.[18] Paul Baudouin, head of the Banque de l'Indo-Chine, had advocated devaluation for some time; he now found few friends who would argue against it.[19] The threat of exchange controls crystallized banking and expert opinion in favor of devaluation as the lesser of two evils.[20] Public opinion remained resolutely opposed, however. The campaign against devaluation in the previous two years had made it a touchy political issue. The Popular Front was almost entirely opposed to devaluation; it was rejected by the Radicals, the Communists, and most of the Socialist Party.[21] Rowe-Dutton reported, as the Popular Front took power:

> The question of devaluation has been so widely discussed from the political aspect, and its possible disadvantages so unscrupulously exaggerated that it will require a certain amount of courage on M. Blum's part to take the straightforward course at the quite serious risk of active popular resentment. Hence there is already a keen search being made for expedients and compromises, which might allow the issue to be evaded.[22]

[15] *Revue politique et parlementaire* 167, no. 498 (1936): 344–7. He stated that exchange controls would be the "worst of all eventualities."

[16] *Le Temps*, 8 June 1936.

[17] Frédéric Jenny, "How Can the Prosperity of Europe be Restored?" *Lloyds Bank Review* 7, no. 77 (1936): 354–5.

[18] See Rowe-Dutton to Chamberlain, 20 May 1936, and Rowe-Dutton to Waley, 26 May 1936, FO 371/19862.

[19] Rowe-Dutton, "Note of a Conversation with M. Baudouin, May 25th, 1936," 25 May 1936, FO 371/19862.

[20] Rowe-Dutton, "The Financial Situation in France, May 1936," 3 June 1936, FO 371/19862.

[21] See the comments by Pierre Mendès France, "La Politique économique du gouvernement Léon Blum," *Léon Blum, chef du gouvernement*, 232–3.

[22] Rowe-Dutton, "The Financial Situation in France, May 1936," 3 June 1936, FO 317/19862.

The complicated situation facing Blum after the May elections is evoked well in a note from Paul Reynaud's papers:

It is incontestable that [the people] have voted against the policy of deflation. It is equally incontestable that opinion is impervious to reason on the need for a monetary adjustment. It is incontestable, finally, that the new majority is unaware of the economic reasons for its success, and of the essential condition for the continuation of this success, which is economic recovery, and thus, a monetary adjustment. . . . This problem cannot be debated in public because public opinion has gone hopelessly astray, because there is insufficient time, and because even those who understand the problem lack the courage to testify to its solution.[23]

The decision to devalue

Blum presented his government to the Chamber of Deputies on 6 June, stating that his program would remain the same as that issued by the Popular Front in January.[24] This promised obviously reflationary measures – reduction of the work week without a reduction in wages and new public works projects – without indicating how they would be implemented and financed. For Reynaud, this ignored the essential question, the need for a monetary alignment, and although he did not dispute in principle the measures proposed, he warned that if they were undertaken without devaluation, they would lead to catastrophe by further raising French prices. Reynaud contrasted the conversions of even the bitterest opponents of devaluation in recent weeks with a Socialist paralysis "by some sort of bourgeois prudence and timid conservatism." He cautioned Blum that refusal to devalue would lead down the path of dictatorship in requiring exchange controls and an "economic fascism."[25] In response to Reynaud and other critics, Blum gave little detail on his financial plans, except to state that he did not intend to devalue: "The country need not fear that one fine morning we will cover the walls with the white notices of a devaluation, the white notices of a monetary coup d'état."[26]

Yet Blum was already moving toward the September devaluation. Before taking office he had asked to see Emmanuel Mönick, known for his devaluationist views, and Mönick is credited with having convinced Blum

[23] "La Situation actuelle," 6 May 1936, AN 74 AP 14.
[24] *J.O.Ch.*, 6 June 1936, 1316.
[25] Ibid., 1321–2.
[26] Ibid., 1325.

to devalue.[27] Mönick argued that defense of the franc would require exchange controls and economic self-sufficiency, the route traveled by Germany; if France wished to ally itself with the great Western democracies, it was essential to align the franc with the dollar and the pound.[28] Whether or not Mönick alone convinced Blum, his argument that the choice between devaluation and exchange controls was not just an economic question, but a political matter affecting France's alignment in an increasingly tense international scene, recurred often in May and June 1936. Baumgartner had used it since early May, arguing that exchange controls were a "fascist" alternative, and the Socialists were impressed by the reasoning.[29] The argument also surfaced in the press and in Parliament.[30]

This desire to align with the Western democracies, of little consequence in London and Washington, where overvaluation of the franc was an economic matter, weighed heavily in the Popular Front's rejection of exchange controls.[31] In May commercial attachés were asked to provide information on the use of exchange controls. If Blum considered such measures at all seriously, the report from the commercial attaché in Berlin would have soured his taste for them. This analysis of German experience since 1931 made it clear that extensive regulation and severe penalties were necessary for effective control; such controls would take at least a year to be made effective in France and would require the employment of at least ten thousand new civil servants.[32]

One more factor was at work. The "invitations" Germain-Martin had conjured in May appeared in a more official form on 6 June. The

[27] Particularly by Rueff, *De l'aube au crépuscule*, 126. See also Mönick's own account in *Pour mémoire*, 46–9. According to William Butterworth, the financial secretary at the U.S. Embassy in London, Mönick had been in contact with Blum several times in May; Butterworth attributed the caveats about an international currency understanding in Blum's declarations against devaluation to Mönick's influence. Butterworth to William Phillips, 21 Aug. 1936, MD 30: 110B.

[28] Mönick, *Pour mémoire*, 47–8. Mönick made a heartfelt statement to this effect in thanking Morgenthau when he left Washington on 30 June; see Morgenthau notes of 30 June 1936, MD 27: 201–201B.

[29] Rowe-Dutton to Waley, 13 May 1936, FO 371/19862.

[30] See Romier articles in *Le Figaro*, late May and early June; *La République*, 20 May 1936; *La Journée industrielle*, 9 June 1936; and in the Chamber of Deputies, Reynaud in *J.O.Ch.*, 6 June 1936, 1322.

[31] See Bouvier, "Contrôle des changes," 113–15; René Girault, "Léon Blum, la dévaluation de 1936 et la conduite de la politique extérieure de la France," *Relations internationales* 13 (1978): 97–9; and Vincent Auriol, *Hier, demain* (Paris: Charlot, 1945), 39–40.

[32] "Aperçu des mesures à prendre pour contrôler la sortie des capitaux," 11 June 1936; also "Note résumant la réglementation en Pologne du transfert des devises à l'étranger," May 1936, MF B 32324; and Frankenstein, *Prix du réarmement*, 129.

Americans were concerned that if France were to go off gold in 1936, measures be taken to ensure that it did so in an orderly fashion.[33] On instructions from Morgenthau, Merle Cochran, first secretary of the American Embassy in Paris, asked Auriol whether a statement that neither the dollar nor sterling would be depreciated if the franc were devalued "to a reasonable extent" would facilitate a French devaluation. The Popular Front victory and the strike wave at the end of May had caused alarm in Washington, where it was apparent that Blum's reflationary program could not succeed without a devaluation. Morgenthau was particularly agitated, fearing a "smash-up" if prompt action were not taken to assure the French that they had "safe ground to jump to"; he expected a prompt French devaluation of 20 to 30%, as early as that weekend.[34] But Cochran's approach yielded meager results. Auriol was ready to cooperate in a broad international "leveling out of currencies," but he was not interested in a merely tripartite agreement that would see the franc devalued while the dollar and the pound remained stable. Auriol proposed that the United States approach Britain and the gold bloc countries "so that France is not singled out"; he also wished to link economic stabilization to an international program for world peace. If he were to approach the British or to be quoted as "personally favoring or suggesting or inspiring any devaluation scheme," he would have to resign from the cabinet.[35]

[33] In March 1935, when sterling depreciation threatened the Belgian franc, Morgenthau had preparations made for an American gold embargo should France follow Belgium off gold (MD 4: 116, 124–34). In late January 1936, Morgenthau again feared France was about to go off gold (minute of 28 Jan. 1936, MD 16: 84). In April 1936 the FRBNY prepared a report titled "Immediate Policy of the United States if France – in Effect – Leaves Gold Standard," dated 8 Apr. 1936, sent to Morgenthau 14 Apr. 1936, MD 21: 128–32. At the end of April Morgenthau asked permission to open stabilization talks with the British (Morgenthau minute of 29 Apr. 1936, MD 22: 155–6). The British affirmed that no depreciation of sterling would take place in the event of a moderate French devaluation, but refused to take part in a joint approach to the French. For American negotiations with the British in May see Clarke, *Exchange-Rate Stabilization*, 22–7, and Drummond, *The Floating Pound*, 194–9.

[34] So Morgenthau told Thomas K. Bewley (financial adviser to the British Embassy in Washington); he compared the situation in France to those in Italy and Germany that had brought Mussolini and Hitler to power. Morgenthau–Bewley interview, 4 June 1936, MD 26: 117–117C, and Blum, *Morgenthau Diaries*, 1: 140–6. In asking Roosevelt's permission to raise the matter with Bewley, Morgenthau had stated, "It may be too late if we wait over the weekend." Morgenthau minute of 4 June 1936, MD 26: 120–1. When Mönick was in Washington in late June he had to correct the views of both Roosevelt and Morgenthau as to the dangers of revolution in France; MAE (Léger) to MF, 26 June 1936, FNSP 2 AU 8 Dr 6.

[35] *FRUS 1936*, Cochran to Secretary of State, 6 June 1936, 1: 535–6. The United States did approach Holland and Switzerland; they were interested in a 20 to 25% devaluation of their own currencies, but French acceptance of devaluation was essential to a gold

This raises a key question concerning Popular Front monetary policy. The devaluation was presented in September as the result of efforts pursued since Blum took office to lay the groundwork for an international monetary alignment. Available French sources on the negotiations, however, indicate that although the government preferred devaluation to exchange controls, it made no decision until further postponement was impossible. The agreement reached in September was the product of financial crisis and a combination of genuine compromise and maladroit negotiation rather than coherent Popular Front policy attaining a fixed objective. The groundwork was laid by Emmanuel Mönick more on his own initiative than by government direction. Within the Popular Front coalition, the Radicals were suffering from their usual confusion over economic policy but were for the most part opposed to devaluation, while the Communists remained hostile,[36] and most Socialists viewed it with distrust if not outright opposition. Having just won power on a campaign rejecting both deflation and devaluation, Blum was not prepared to undertake a prompt devaluation.

In early June Jean Tannery was removed as governor of the Bank of France for his close association with the Laval deflation,[37] and Emile Labeyrie, director of the Cour des comptes, was appointed to replace him on a temporary basis. The appointment was clearly intended to ensure a compliant governor.[38] Pierre Quesnay had been considered for the post, but when he met with Blum in late May and expressed frankly devaluationist views, Blum told him that although he agreed with his views, a devaluation was politically impossible.[39] Auriol

bloc devaluation. See Clarke, *Exchange-Rate Stabilization*, 25–6, and Cochran telegram reporting conversations with Trip and Bachman, 8 June 1936, MD 26: 154–154K, and Cochran–Morgenthau phone conversation of 8 June 1936, MD 26: 157–157H. The British were still unwilling to take any initiative; when Morgenthau told Bewley of the results of Cochran's conversations, Bewley said the French position was "very obscure" and that the British "would not refuse to discuss" devaluation if approached by the French. Morgenthau minute, 8 June 1936, MD 26: 160–160D.

36 See Jacques Duclos's attack on devaluation in *J.O.Ch.*, 6 June 1936, 1340, and Serge Wolikow, "1936–1939: Genèse de la politique économique du Parti communiste français," *CHIMT* 17–18 (1976): 108–12.

37 Siepmann note on telephone conversation with Cobbold who was in Paris, 11:45 a.m., 6 June 1936, BoE OV45/86. Cobbold met with Tannery, just after he had seen Auriol.

38 Labeyrie was not held in high regard; François Bloch-Lainé refers to him as a ridiculous figure, Auriol's "postman at the Bank of France." François Bloch-Lainé, *Profession: fonctionnaire* (Paris: Seuil, 1976), 50. Hjalmar Schacht described Labeyrie as a "charming and cultured gentleman capable of discussing any subject except that of central banking." (So he told R. H. Porter, financial adviser to the Standard Oil Company, related in Cochran to Morgenthau, 27 Aug. 1936; MD 30: 356K.)

39 Cobbold, "Prospects of the Franc," 10 June 1936, BoE OV45/86. In a letter to René Pleven telling of his contact with Blum, Quesnay made no mention of having specifically

told René Belin the same thing before the Blum government took office.[40]

At the end of his first week in office, however, Blum acted on Mönick's suggestion that soundings on devaluation be made in America, sending Mönick to Washington on 14 June to establish contact.[41] Auriol's position was certainly less flexible than Blum's on the subject. Until late August or early September he remained faithful to the ideas he had expressed to Cochran on 6 June: He was opposed to a French devaluation unless as part of a broad international alignment. When Cochran approached Auriol on 15 June to repeat that Morgenthau thought devaluation advisable and that neither Britain nor the United States would retaliate, Auriol replied that a devaluation of the franc without a change in the values of the dollar and sterling was "absolutely impossible." French action could occur only as part of a general stabilization.[42] He criticized the recent converts to devaluation[43] and regretted the irresponsibility of figures such as Rist and Germain-Martin who now publicly advocated devaluation.[44] Auriol had long criticized unilateral devaluations as damaging and undesirable, an instrument of economic warfare that attracted retaliation.[45] He advocated international economic cooperation as essential for economic and political peace. Presenting his financial program to the Chamber of Deputies on 19 June, he said that while he shared the sincere convictions of the first partisans

advocated devaluation. He advised Blum to try to repeat Poincaré's revival of confidence in 1926 in order to benefit from a reflux of capital. Quesnay left believing that while Blum sympathized with his views, popular pressure would compel him to try exchange controls, preventing a return of capital and leading to a devaluation under worse conditions. Quesnay to Pleven, 2 June 1936, AN 374 AP 28.

[40] Georges Lefranc, *Histoire du Front populaire (1934–1938)* (Paris: Payot, 1965), 172, n. 1. In his memoirs, Belin described the interview with Auriol more colorfully, if less reliably, depicting Auriol seated with elbows on his desk, head in his hands, saying "No, no, no. Everyone wants me to devalue. But I won't." René Belin, *Du Secrétariat de la C.G.T. au Gouvernment de Vichy* (Paris: Editions Albatros, 1978), 109–10.

[41] Mönick claims in his memoirs that Auriol was unaware of the mission until it was underway (*Pour mémoire*, 50), but he carried with him a letter from Auriol to Morgenthau dated 13 June; there are copies in the Morgenthau Diaries, MD 27: 148D–148F, and in the Auriol Papers, FNSP 2 AU 8 Dr 6.

[42] Cochran hoped to influence Auriol's finance speech scheduled for 19 June; see telegram, 16 June 1936, MD 27: 22E–22F.

[43] *Le Populaire*, 13 June 1936.

[44] So Auriol told Tannery; see Siepmann note, 6 June 1936, BoE OV45/86, and his condemnation of "devaluators of the eleventh hour" in the Chamber of Deputies, *J.O.Ch.*, 19 June 1936, 1502–3.

[45] *Le Petit Provençal*, 11 Sept. 1935; this is collected with a number of Auriol articles on the subject in FNSP 1 AU 23.

of devaluation, he would resist the current assaults by those hoping to profit from a devaluation on capital they had sent abroad:

I can affirm without fear of error and perhaps in complete accord with the original advocates of devaluation, that a unilateral devaluation at this time would be a danger and a deception, and that a monetary alignment at this time is difficult given the rate of economic and social change taking place in the world.[46]

Devaluation was not urgent economically, in Auriol's view; the price problem was not serious and could await the political convergence that would allow a broad program of international détente. A note dated 15 June in his papers acknowledged the strength of Reynaud's case for devaluation, but recommended postponement for several reasons: to allow the social reforms in France to raise French prices, to avoid a premature devaluation that would prove insufficient, to avoid the danger of working-class protest, and to allow an international currency stabilization that was essential to successful devaluation.[47]

Mönick's mission to Washington was intended to establish contact between Blum and Roosevelt, to thank Morgenthau for his offer of 6 June, and to sound out American reaction to a possible alignment of the franc.[48] To avoid attention in the press, Mönick was to explain his journey as a vacation. In Washington, Morgenthau assured Mönick that the United States favored a "moderate devaluation" of the franc.[49] Mönick told Roosevelt that France sought not just an American disavowal of retaliation, but a true international agreement; Roosevelt liked

[46] *J.O.Ch.*, 19 June 1936, 1503.

[47] The note also recognized that retaliation was unlikely and that the British were unwilling to stabilize. "Note," 15 June 1936, FNSP 2 AU 8 Dr 6.

[48] The account that follows covers events as much as possible from a French perspective. Negotiation of the Tripartite Agreement is well covered in existing literature, based on American and British sources. In particular see Clarke, *Exchange-Rate Stabilization*; Drummond, *The Floating Pound*, 201–22; Girault, "Léon Blum, la dévaluation de 1936"; Frankenstein, *Prix du réarmement*, 129–40; and Mönick, *Pour mémoire*, 46–58. There is a remarkable inside account from the American Treasury's point of view published in 1939, Joseph Alsop and Robert Kintner, "The Great World Money Play" and "The Secret Finale," *Saturday Evening Post*, 8 and 15 Apr. 1939, on which Jean-Pierre Cuvillier relies heavily for his account in *Vincent Auriol et les finances publiques du Front populaire* (Toulouse: Publications de l'Université de Toulouse–Le Mirail, 1978), 17–25. See also Stephen V. O. Clarke, "The Influence of Economists on the Tripartite Agreement of September 1936," *European Economic Review* 10 (1977): 375–89; René Girault, "Les Relations internationales et l'exercice du pouvoir pendant le Front populaire, juin 1936–juin 1937," *Cahiers Léon Blum* 1 (May 1977): 20–46; and Duroselle, *La Décadence*, 305–9.

[49] According to Morgenthau's record of the conversation, 20 June 1936, MD 27: 148, 148H, and Blum, *Morgenthau Diaries*, 1: 155–6.

the idea and insisted it was necessary to bring the British into such discussions to show sufficient regard for their *amour propre*. He also stated that tripartite negotiations could not take place in Washington, since the British would suspect Franco-American collusion, and that it would be necessary for the French to approach the British themselves.[50] Elated with the results of the conversation, Mönick sent an account to Blum by telegram, "forgetting" that his mission was secret.[51]

On 24 June Mönick met Morgenthau again and elaborated his views on the "understanding" by which France would devalue. Form and procedure were "exceptionally important" for the presentation of the devaluation to the French public.[52] When Morgenthau suggested that France wanted a "dressing up" to make devaluation acceptable in France, Mönick replied: "Not at all; it is a 'dressing up' for the entire gold bloc and for peace. We want to give the impression of a monetary peace – which will give an impression of entente between the great democratic nations. That can aid the cause of peace pure and simple."[53] Mönick then presented a draft accord that would stabilize the pound at \$4.75 to \$4.97, and the franc at .0475 to .0497 (thus, 100 francs to the pound). Morgenthau agreed to this as a basis for discussion but insisted that the British be included in any discussion of the rates. It was agreed that haste was needed to conclude the envisaged tripartite stabilization.[54]

Mönick returned to Paris in early July. The strikes had abated, and the government declarations against devaluation in concert with the financial program announced on 19 June had brought temporary calm

[50] See MAE to MF, 26 June 1936, FNSP 2 AU 8 Dr 6, in particular; also Mönick, *Pour mémoire*, 51–2, and the Phillips note on this conversation, 23 June 1936, *FRUS 1936*, 1: 539–40. Phillips's memorandum does not include discussion of the international stabilization agreement.

[51] A copy of the telegram, sent to the Quai d'Orsay, went automatically to President Lebrun. Mönick, *Pour mémoire*, 52–4.

[52] Morgenthau–Mönick interview, 24 June 1936, MD 27: 178F–178G, records Mönick stating, "We are not near an accord as to how to inform the public on the question."

[53] Appert, "Compte rendu de la conversation intervenue entre M. Morgenthau et M. Mönick le 24 Juin 1936 à 3 heures," FNSP 2 AU 8 Dr 6, and "Conversation between Secretary Morgenthau and Mr. Mönick, June 24, 1936," MD 27: 178F–178G. The two accounts differ slightly; Appert's report reinforces the importance for the French of the political alignment in the Tripartite Accord, as argued by Girault in "Léon Blum, la dévaluation de 1936."

[54] Appert, "Compte rendu," and Léger note, MAE to MF, 26 June 1936, summarizing Mönick's conversations and including a French translation of Mönick's draft accord, which had been left with Morgenthau; FNSP 2 AU 8 Dr 6. See also Morgenthau's record of the conversation, MD 27: 178H–178O, and Clarke, *Exchange-Rate Stabilization*, 28–9.

to exchange markets. The Treasury had obtained some breathing space, and there was a slight reflux of gold. In Washington Mönick had obtained the assurances necessary to approach the British, but negotiations stalled. The lull has been variously attributed to the calming of political and financial pressure relaxing the urgency of the devaluation[55] and to continued domestic political tensions.[56] There is an element of truth in each; immediate financial pressure had eased, and there was opposition within the Popular Front coalition. The fundamental reason, however, was that no decision had yet been made to devalue, and the urgency in Mönick's Washington conversations reflected his own convictions rather than those of the government. Mönick had presented a draft stabilization accord entirely on his own initiative. No decision by the government would be taken until September.[57] Blum and Auriol were not deceiving or misleading the public in renouncing devaluation in June and July; they acknowledged the desirability of a monetary alignment, but envisaged it only as part of an international stabilization, without which they would not act until they were forced to. Blum told a party congress in 1938 that while he and Auriol had realized the inevitability of devaluation, "as slight as the chance was of avoiding it, we wished to take that chance to the very end."[58]

In Paris, Mönick urged immediate action for two reasons. First, the American presidential campaign was beginning. A monetary accord would aid Roosevelt's campaign and prevent the accord from falling victim to electoral dispute. Second, if devaluation were postponed, rising prices in France could increase the necessary adjustment beyond the amount the United States and Britain now considered reasonable. As to the method, Mönick recommended against a private approach to the chancellor; it would lead to delay and refusal. France had to present a dynamic, constructive policy for tripartite stabilization: "The choice facing the French government is not whether it should open unofficial conversations in London. It is whether it should open, on the preliminary bases agreed in Washington, simultaneous negotiations with En-

[55] Drummond, *The Floating Pound*, 204, and Clarke, *Exchange-Rate Stabilization*, 29.

[56] Blum, *Morgenthau Diaries*, 1: 158; this was the explanation Mönick had cabled to Morgenthau.

[57] As Sauvy recognized, *Histoire économique*, 1: 270–1. The Mönick mission to Washington is sometimes misinterpreted as a decision to devalue. See, e.g., Lefranc, *Histoire du Front populaire*, 200, n. 2; Berstein, *Histoire du Parti radical*, 2: 463, and Julian Jackson, *The Popular Front in France: Defending Democracy, 1934–38* (Cambridge University Press, 1988), 171.

[58] At the Royan Congress, June 1938; cited in Joel Colton, *Léon Blum, Humanist in Politics* (New York: Knopf, 1966), 186.

gland and the United States towards monetary peace." Mönick urged that France take advantage of the importance Roosevelt attached to political solidarity among the Western democracies; tripartite cooperation could attract the support of gold bloc countries, Poland, and perhaps part of Central Europe.[59]

As Mönick acknowledged, the decision was up to the government. The government was not yet prepared to decide. In early July it launched a short-term loan, appealing to small savers to buy six- or twelve-month "Auriol bonds" offered in denominations as low as 200 francs.[60] Blum advertised their distinctively "democratic and national" character,[61] and in mid-July Auriol advised holders of gold and foreign exchange that they could safely sell them; there was no longer any justification for suspicion that the franc would be devalued.[62] The government sought to win the nation's confidence, and this precluded pressing ahead with plans for devaluation.

When Mönick returned to London he told the British Treasury of his talks in Washington, reporting to Paris that the British seemed aware of the talks and that he had disclosed the nature of his conversations "in order to safeguard the relations of complete confidence that exist between the British and French treasuries."[63] He explained that contact had first been made with Washington in order to ascertain whether the United States would raise objections to France and Britain reaching a monetary agreement. He repeated his plan for a devaluation of the franc to 100 francs to the pound, with wide gold points allowing a 2.5% variation either way, and asked whether the British would undertake to hold the pound between $4.75 and $4.97.[64] The British had no intention of making any such commitment. Waley recorded:

> The French idea of cooperation is, as usual, one-sided. In return for France doing what she needs to do, to save her from disaster, and for America doing what she in any case intends to do, we are asked to alter our whole monetary

[59] Mönick to Blum and Auriol, 14 July 1936, FNSP 2 AU 8 Dr 6.

[60] Auriol announced the loan in a radio address on 10 July, printed in *Le Temps*, 11 July 1936. The British christened the low-denomination bonds "Baby Bonds."

[61] Text of speech in *Le Populaire*, 18 July 1936.

[62] Sauvy, *Histoire économique*, 1: 271.

[63] Mönick, "Rapport au Président du Conseil et au Ministre des finances," 28 July 1936, FNSP 2 AU 8 Dr 6. Waley's notes on Mönick's visit give no indication that the British had any prior knowledge of the Washington talks; Mönick may have used this as an excuse for pushing negotiations forward. See Waley notes of 22 July 1936, T 160/840/F.13427/4, and "Memorandum by Mr. S. D. Waley (Treasury) respecting the Devaluation of the Franc, 1936," 10 Oct. 1936, FO 371/20458.

[64] Mönick, "Rapport au Président du Conseil," 28 July 1936, FNSP 2 AU 8 Dr 6, and Waley notes of 22 July 1936, T 160/840/F.13427/4.

policy, and receive nothing in return except the satisfaction of helping France to overcome internal political difficulties.[65]

On 25 July Frederick Phillips observed that if the franc were stabilized in relation to sterling and sterling held between $4.75 and $4.97, France's gold points would never become operative in relation to the dollar. When the franc weakened, Britain would lose gold to the United States; when it was strong, gold would flow to London rather than Paris. Phillips concluded, "it is essential, from our point of view, both that the French should remain on gold and that we should not be compelled to keep within a fixed range."[66]

Léon Blum paid a brief visit to London in late July, officially to consider tripartite negotiations on the Rhineland with Britain and Belgium, but also to discuss the outbreak of civil war in Spain.[67] Chamberlain assured Mönick that Britain would not obstruct an alignment of the franc and would cooperate to ensure its success, and agreed to say as much to Blum.[68] Mönick drew the two together at a dinner at the French embassy, allowing Chamberlain to offer British support.[69] French and British Treasury officials then composed a draft letter from Chamberlain to Blum stating that a French devaluation to 100 francs per pound would be received "with every sympathy and with every desire to cooperate" and would not provoke economic or monetary retaliation. It specified that Chamberlain could not agree to any link to gold between fixed points and that the stability of the sterling exchange could be "seriously affected" by any larger franc devaluation or any depreciation of the dollar.[70]

There was also discussion of a common declaration if France devalued. The British recognized that Blum wished to present the devaluation as an international currency realignment, but they wanted no claims made for an international understanding that did not exist, nor for collaboration among French, British, and American stabilization

[65] Waley note of 22 July 1936, T 160/840/F.13427/4.

[66] Phillips note of 25 July 1936, T 160/840/F.13427/4. Drummond comments that the French proposed this either "with malice or in confusion" (*The Floating Pound*, 204); the latter seems more likely, but the French realized that returning to gold would leave them vulnerable to further exchange manipulations; Rist had proposed devaluing onto sterling in his articles in June.

[67] See Colton, *Léon Blum*, 237–42.

[68] Mönick, "Rapport au Président du Conseil," 28 July 1936, FNSP 2 AU 8 Dr 6.

[69] Ibid. and Mönick, *Pour mémoire*, 55–6; by Mönick's account Blum was by no means eager to discuss the matter with Chamberlain.

[70] The composition of this note can be followed through successive drafts on 23 July 1936 in T 160/840/F.13427/4. Mönick sent a French translation with his "Rapport au Président du Conseil" of 28 July 1936, FNSP 2 AU 8 Dr 6.

funds when no such collaboration was taking place. Waley and Phillips agreed that the Bank of England would never accept such a statement: No one could collaborate with Morgenthau, and the French Exchange Equalization Fund did not yet exist. At the same time, they were unsettled by Mönick's wish to avoid reference to the franc remaining linked to gold. Although they wanted France to remain on gold to facilitate the management of the sterling exchange, they were in a weak position to insist when they would not themselves undertake to stabilize sterling: Mönick told them France could not remain on gold if Britain remained free to depreciate sterling.[71]

Once the text of the Chamberlain letter had been agreed upon, which Mönick saw as a "matter of extreme urgency," the British expected that Blum would try to convince cabinet colleagues of the urgency of devaluation. They believed the French should act immediately; the Bank of England thought it "sheer lunacy" to lose time convincing party leaders. They expected the decision would be made in a matter of days. The Chamberlain letter would then be signed and delivered to Blum, and its existence made known to Morgenthau; British Treasury officials stood ready to act as soon as the French decision was taken.[72]

Mönick summarized the progress accomplished for Blum and Auriol and pressed for a prompt devaluation. In view of the discussions to this point with the British and the difficulties that would arise in September, it is noteworthy that Mönick stated that the agreements reached with the United States and Britain would allow an alignment of the franc "whatever the formula for monetary adjustment envisaged by the government might be." They would permit reattachment to gold, linking the franc to sterling ("which would fit perfectly with the assurances obtained, but which could present serious inconveniences for the independence and the prestige of our currency"), or a compromise, which Mönick favored, widening the franc's gold points to allow management in relation to sterling until a definitive stabilization was achieved.[73]

Mönick's sense of urgency was not shared in Paris. Auriol took four weeks to reply. In the meantime, Mönick wrote to Morgenthau to explain the delay, lest he suspect there were difficulties in the London negotiations. Mönick disclosed the circumstances of the Chamberlain letter and explained that the delay was owing to the government in

[71] Waley note of 25 July 1936, T 160/840/F.13427/4.

[72] See Waley minute, 25 July 1936; Phillips to Chamberlain, 30 July 1936; and Hopkins minute, 1 Aug. 1936, T 160/840/F.13427/4. On Anglo-American tensions over monetary matters at this time see Clarke, *Exchange-Rate Stabilization*, 31–3.

[73] Mönick, "Rapport au Président du Conseil," 28 July 1936, FNSP 2 AU 8 Dr 6.

Paris, which, "for serious reasons connected with domestic politics," did not believe the moment was opportune: "There we are. I wait with patience. I believe there is no instance in which a child which has reached the moment of birth has been prevented from entering the world. And this one obviously is seeking birth."[74]

When Auriol finally replied on 25 August, he thanked Mönick for his efforts, rebuked him for the initiative he had shown, and stated, "It is now up to the government to decide on the principle and the methods of the policy to be followed in this important matter." He asked that Mönick thank the chancellor for his sympathy and support and queried whether Blum should write to thank Chamberlain immediately or whether it would be courteous to answer only when a decision was made in several weeks' time. Auriol then elaborated his own position with regard to a monetary alignment. He wanted neither a unilateral devaluation nor an alignment of the franc, which, without guarantees of general stability and international collaboration, would run the same dangers as unilateral devaluation. He sought a "true monetary and economic peace between the great nations of the world" that would end autarky, exchange controls, trade barriers, and all the economic disorders that provoked anxiety and threatened the peace. He envisaged gaining such an accord by successive, bilateral negotiations.

To achieve these goals, France needed first to restore domestic confidence, ease money market conditions, end gold losses, and revive the economy. Only when calm and confidence had been regained at home would France have the independence essential to realize an international agreement. It was a question not only of avoiding economic and monetary retaliation, but of a "preliminary understanding between the franc, the dollar and the pound in a period of prestabilization leading to a definitive stabilization." Once agreement had been reached with Britain and America, France would try to gain the adherence of Switzerland, Holland, Belgium, if possible Italy and Germany, and perhaps even the Soviet Union. "It is in this context that there would

[74] Mönick to Morgenthau, 16 Aug. 1936 (this may be misdated; more likely 19 Aug. 1936), from translation in MD 30: 1I–1J. The letter was sent in the American diplomatic pouch from London by William Butterworth, who analyzed monetary developments without being privy to Treasury negotiations in a letter to William Phillips of 21 Aug. 1936, MD 30: 110A–110G.

Morgenthau had ceased to expect quick French action by this time. On 22 July he commented that he did not believe there would be French action until a further run on the franc produced a crisis (meeting with Bewley, 22 July 1936, MD 28: 110B). In London, Frederick Phillips noted in September that the French had been silent since the drafting of the Chamberlain letter because Blum had met with trouble in his cabinet, particularly from Auriol (Phillips minute, 7 Sept. 1936, FO 371/20458).

be opportunity, should you be invited, to explain the preceding conversations."

Auriol clearly misunderstood the urgency of devaluation in France, the positions of the Americans and particularly the British, and the political realities of negotiating an international currency agreement. He also reproved Mönick for having gone beyond the bounds set for his mission. He began his letter by stating that when Mönick transmitted official thanks to Chamberlain, "in the event that you are asked to specify our point of view, I remind you of the object and the scope of your mission," and he concluded with the admonishment, "I ask that you at no time telegraph, in order to avoid any indiscretion, and if need be, to come to Paris to impart any new information."[75]

Mönick replied carefully, stating that he had negotiated for an international agreement as Auriol wished and that if the results achieved so far were insufficient, he would resume conversations. But he wished to call attention to four points. First, Chamberlain would not fix sterling between fixed gold points. The Chamberlain letter, a collaborative document that had been revised three times in an attempt to accommodate French views, represented the farthest the British would go toward a stabilization agreement. Second, there was no chance whatsoever that Britain would return to the gold standard at present, even provisionally. To attempt to draw Britain into such a stabilization through international negotiations would arouse their suspicions and perhaps imperil the agreement reached so far. Third, although the British instinctively rejected any formal promises or guarantees concerning sterling stability, they were offering in effect an attempt at prestabilization, and it would be a mistake to underestimate their good faith or to doubt the sincerity of their offer. Fourth, a broad international monetary peace was an exemplary ideal, but it would take a great deal of time and effort with little chance of success. An informal agreement between Britain, the United States, and France could be achieved quickly, would reassure British opinion, and would create a nucleus of cooperation that would inevitably attract the support of smaller nations.[76]

[75] Auriol to Mönick, 25 Aug. 1936, FNSP 2 AU 8 Dr 6; this file also contains an earlier draft of the letter. His description of the accord he desired makes clear how impractical his aspirations were: "Only an international prestabilization accord fixing new rates of exchange established with precision and clarity in relation to world prices, and maintained by a close financial collaboration between the contracting parties, not susceptible to modification by one party or another without common agreement or in the case of exceptional and unforeseen circumstances, can allay British and American fears, fears which we share, as do all other states."

[76] Mönick to Auriol, 1 Sept. 1936, FNSP 2 AU 8 Dr 6.

Mönick conveyed Blum's thanks to Chamberlain on 4 September, and told Frederick Phillips that devaluation was still under study; he could only guess that action would be taken "within a very few weeks."[77] A decision was in fact very close; Merle Cochran, called to meet with Auriol the same day, was told that a draft prestabilization agreement had been drawn up for submission to the American and British governments.

Negotiating devaluation

Auriol obtained neither the domestic calm and confidence nor the international détente necessary to establish a new gold standard before devaluing the franc. The issue of Auriol bonds yielded disappointing results; the loan closed in late September, having garnered only 4,445 million francs. A slight inflow of gold in July raised reserves by 1 billion francs to 54,989 millions on 7 August, but the flow reversed, trickling out in August, growing in strength in September, drawing reserves down toward the 50 billion francs the military considered essential to retain as a war chest.[78] The return of capital in July was not the recovery of confidence sought by Blum and Auriol; it was merely a prudent covering of speculative positions held in expectation of devaluation.

On 10 August Emile Labeyrie wrote to Auriol, "Gold no longer plays its natural role as guarantee of the currency: It has become an instrument of speculation." He advised granting the Bank of France power to inquire into the employment of gold drawn from the Bank and to require repayment of all gold not used for legitimate commercial or industrial purposes. Such controls had been instituted in both Britain and the United States before they left the gold standard, he argued, and had been adopted by all the remaining gold standard countries: "Can France alone remain indifferent to the abuses that facilitate speculation against its own currency? Should we not be worried to see the national economy deprived of resources which are exported in hopes of a devaluation which the government refuses to undertake?"[79] In the

[77] Phillips minute, 4 Sept. 1936, T 160/840/F.13427/4.

[78] See Frankenstein, *Prix du réarmement*, 109–10. Netter believes this was the main determining factor in the timing of the devaluation (*Banque de France*, ch. 6, 37); Baumgartner told Rowe-Dutton there was no precise figure for reserves that would be defended by devaluation, despite talk of a 50 billion franc minimum for the gold reserves (Rowe-Dutton, "Note of an Interview with M. Baumgartner, 4 May 1936," FO 371/19862).

[79] Labeyrie to Auriol, 10 Aug. 1936, MF B 33201. The letter included a *projet de loi*, which would grant the Bank of France the necessary powers. Cobbold, on a visit to

Senate Finance Committee two days later, Caillaux and René Hachette pressed for Bank controls on gold along the lines of those in Holland. When Baumgartner explained that the Dutch controls worked only because no other gold country used them and that their adoption by other gold bloc countries would result in devaluation, Caillaux concluded, "In short, we've been suckers."[80]

International politics allowed the Popular Front no reprieve. The outbreak of the Spanish Civil War and the agonizing choice of non-intervention preoccupied government attention and exacerbated political tensions within the governing coalition and between Left and Right. On 24 August Germany lengthened its term of military service to two years, requiring a new defense initiative on the part of the Popular Front. On 7 September, a French rearmament program was announced involving the expenditure of 21 billion francs over the next four years.[81] Such a program could not be financed by taxes and ordinary loans; as Auriol put it later, "People have done their sums."[82] Gold losses rose sharply, taking nearly 1 billion francs from 11 to 18 September and 2.5 billion the following week.

The Treasury had done its sums, too, and in the first days of September decided to devalue. Auriol told Merle Cochran on 4 September that the obstacles to a French monetary alignment had been cleared by Mönick's conversations in Washington and London, and a prestabilization agreement had been drafted. He asked whether Morgenthau would prefer to see the draft before it was submitted to the British;[83] consistent with his position in June, Morgenthau replied that the draft should be submitted simultaneously to Britain and the United States.[84] The draft was delivered on 8 September. It reaffirmed French hostility to unilateral devaluation and desire to gain a "genuine economic and monetary peace." To this end, the French government was ready to join a prestabilization agreement that would fix currency relations "with

Paris at the time, reported to the Bank of England that Deputy Governor Fournier, who had long thought that a devaluation was necessary, believed that it was "absolutely out of the question" at present and that the Bank would try to restrict delivery of gold. Cobbold, "Note on Paris visit," 10 Aug. 1936; BoE OV45/86.

80 CFSén., 12 Aug. 1936.

81 See Frankenstein, *Prix du réarmement*, 65–71, 135–38 and, more generally on Popular Front defense policy, Robert J. Young, *In Command of France: French Foreign Policy and Military Planning, 1933–1940* (Cambridge, Mass: Harvard University Press, 1978), 160–91.

82 Cited in Frankenstein, *Prix du réarmement*, 137.

83 Cochran to Morgenthau, 4 Sept. 1936, *FRUS 1936*, 1: 541–2.

84 Morgenthau to Cochran, 4 Sept. 1936, *FRUS 1936*, 1: 543, and see Treasury discussion of telegram, 4 Sept. 1936, MD 31: 101H–101I.

precision and clarity" in order to remedy the disequilibrium caused by falling prices and the corresponding devaluations. It called for close collaboration among contracting parties to work toward a restoration of the international gold standard. The accord would lead to immediate reductions in trade barriers and a concerted effort to revive international trade as the "necessary prelude to the political organization of peace."[85]

This was unacceptable in both Washington and London. The American response was remarkably mild; Morgenthau suggested that the French proposal portended "certain immediate commitments" not essential to realignment of the franc. He restated American policy as continuing dollar stability, endorsed a realignment of the franc, and reminded Auriol that American policy would ultimately be determined by domestic conditions.[86] The British reacted more sharply. Although Mönick claimed that Auriol had tried to follow the chancellor's intentions "as he understood them,"[87] Chamberlain protested that "the French Govt have treated me very shabbily in this matter"; they seemed to be reviving proposals they had been told were unacceptable in July and trying to pressure Britain by enlisting American support.[88] In reply, Chamberlain stated that he could not go beyond the assurances he had given in July and that he would not agree to any convention that unduly restricted his freedom to manage domestic credit conditions.[89] Leith-Ross, representing the British in Paris, was instructed that Britain would refuse any undertaking to stabilize the pound between fixed gold points and that he should make it clear that "they cannot shift the responsibility for a decision to devalue onto other shoulders. Devaluation requires swift, secret and resolute action, and preliminary discussions which are sure to leak out and unnecessary hesitations are a serious danger."[90]

The British were well aware that the French wished to pass off devaluation under the guise of an international stabilization in order to

[85] French copies of this draft in MF B 32325 and B 21848; English translation in *FRUS 1936*, 1: 544–5. For discussion of this draft and the American and British responses see Clarke, *Exchange-Rate Stabilization*, 34–7; Drummond, *The Floating Pound*, 206–9; and Blum, *Morgenthau Diaries*, 160–3.

[86] Morgenthau to Cochran for delivery verbatim to Auriol, 9 Sept. 1936, *FRUS 1936*, 1: 545–6, and MD 32: 48–67, 84.

[87] Phillips note for Chamberlain, 9 Sept. 1936, T 160/840/F.13427/4.

[88] Chamberlain margin note on ibid.

[89] Chamberlain to Auriol, 14 Sept. 1936, MF B 21848, and see draft of telegram to Mallett from Warren Fisher, 14 Sept. 1936, FO 371/20458: "The Chancellor is not prepared under present conditions to limit his power of independent action by a formal agreement such as that proposed in the French note."

[90] Phillips to Leith-Ross, 14 Sept. 1936, T 160/840/F.13427/4.

make it palatable to a discordant coalition, a divided Parliament, and a hostile public.[91] Both Mönick in London and Charles Spinasse (minister of the budget) in Paris stated that they were quite prepared to accept revisions to the text; Auriol said as much to Leith-Ross, and stated that while details of the devaluation had not been fixed, they would definitely devalue on gold, at about 100 francs to the pound.[92] Spinasse relayed government fears of a concerted attack by *rentiers*, labor, and the Communists if they did not obtain a joint declaration to give devaluation the character of an international stabilization;[93] a resumption of sit-in strikes and Communist opposition to Blum's policy toward Spain were increasing government concern to maintain order.[94] Phillips wrote that Mönick "scarcely tried to hide the fact that the latest approach was really a try on to which they did not really anticipate any reply other than the one we gave. The actual wording of the reply seemed to please him."[95] Mönick's satisfaction was probably based on the fact that the British response confirmed what he had told Auriol in his letter of 1 September.

The next French draft relinquished the idea of a formal stabilization agreement, trying instead for a declaration of common belief in liberty, democratic cooperation, and the utility of policy coordination.[96] Borrowing phrases from Chamberlain's letter, the new draft announced that each country wished to pursue a "policy aimed at developing world prosperity and at ameliorating the standard of living of all social classes." This required the greatest possible monetary stability; monetary policy would be determined by

> – on the one hand the maintenance, by each country, of the greatest possible stability in its monetary relations with foreigners,
> – on the other hand, a due consideration at all times for the effect of its decisions

[91] Leith-Ross to Phillips, 16 Sept. 1936, T 160/840/F.13427/4, and Waley to P. Leigh-Smith, 18 Sept. 1936, FO 371/20458.

[92] Leith-Ross to Phillips, 17 Sept. 1936, T 188/167.

[93] Leith-Ross to Phillips, 16 Sept. 1936, T 160/840/F.13427/4, and Phillips note for Chamberlain, 9 Sept. 1936, T 160/840/F.13427/4, in which he recorded Mönick as having told him that "the precise wording of the document is of no importance and can be changed to meet our wishes."

[94] Cochran to Morgenthau, 15 Sept. 1936, *FRUS 1936*, 1: 548.

[95] Phillips to Leith-Ross, 14 Sept. 1936; see also Sir Warren Fisher to Chamberlain, 15 Sept. 1936, T 160/840/F.13427/4. Merle Cochran reported on 11 Sept. that Baumgartner was trying to convince Auriol "to be satisfied with a less specific and rigid agreement than would normally be sought by Auriol's juridical mind." 11 Sept. 1936, MD 32: 152.

[96] This was suggested by Mönick, "Note pour le Président du Conseil et le Ministre des Finances," 15 Sept. 1936, FNSP 2 AU 8 Dr 7.

in this matter on the economies of other countries, collaboration being necessary to achieve these ends.[97]

The franc would be aligned with the dollar and the pound to facilitate international stabilization. Treasuries and central banks would collaborate to maximize stability in order to reach the final objective, a "complete return to the international gold standard."[98]

This draft caused further consternation in London and Washington. Both thought the French were making larger claims for stabilization and cooperation than were warranted and disliked the reference to a return to the gold standard (this, too, had been taken from Chamberlain's letter stating Britain's position on 14 September). The Americans objected to the mention of "social classes," and Morgenthau thought the French had ignored his comments on their earlier draft.[99] Hopkins described the draft as "inconceivably French" and anticipated it would be difficult to reach a compromise.[100] The question at issue was fundamental: While ready to accommodate a reasonable devaluation of the franc, the British and Americans would not limit their freedom of action by exaggerated claims of stability and cooperation.[101] Auriol was forced to compromise, abandoning the common declaration aimed at a return to the gold standard and the breadth of agreement that he desired; he had to accept separate statements by each government, asking that they be issued simultaneously.[102]

In Washington, Morgenthau and his advisers redrafted the French proposal and submitted it to London and Paris on 19 September; this draft became the basis for the declarations of 25 September. It affirmed

[97] This section was, except for the last phrase, taken verbatim from the French translation of Chamberlain's letter of 14 Sept.

[98] Draft dated 17 Sept. 1936, FNSP 2 AU 8 Dr 7. There is an English translation in Cochran to Morgenthau, 17 Sept. 1936, *FRUS 1936*, 1: 549.

[99] Blum, *Morgenthau Diaries*, 1: 163–4, and Morgenthau record of Treasury discussions in his home on 17 Sept. 1936, MD 32: 289–306. These comments had not in fact shed much light on Morgenthau's position.

[100] Hopkins to Chamberlain, 18 Sept. 1936; see also Waley's comments of the same date and a separate Phillips minute, in T 160/840/F.13427/4.

[101] See Phillips's comments on the French draft, Phillips to Waley, 18 Sept. 1936, T 160/840/F.13427/4, and Waley to Leigh-Smith, 18 Sept. 1936, FO 371/20458. Phillips believed the draft needed rephrasing rather than any large change in concept.

[102] See Leith-Ross to Phillips, 17 Sept. 1936, T 160/840/F.13427/4, Cochran to Morganthau, 17 Sept. 1936, *FRUS 1936*, 1: 550; and Sir George Clerk to FO, 20 Sept. 1936, T 160/840/F.13427/5. Leith-Ross wrote to Fisher that "the French representatives both stressed the importance they attached to getting a joint declaration, if possible, and expressed entire readiness to make any textual modifications desired by the Chancellor." Leith-Ross to Fisher, 18 Sept. 1936, T 160/840/F.13427/4.

a common desire for peace and liberty, promised "reasonable stability of the dollar," accepted devaluation of the franc as a measure "which will establish a more solid foundation for the increase of international stability in the interest of peace and commerce," and promised collaboration with the governments of France and Britain.[103]

The wording was further revised to assuage minor British and American dissatisfactions, but in London primary attention shifted suddenly to the technical details of the French devaluation. These had not been discussed since July, until Cobbold picked up a rumor in Paris that France would adopt a "Rooseveltian standard" by which gold would be delivered only to other countries on the gold standard.[104] Britain's Exchange Equalization Account (EEA) had stabilized sterling mainly through operations in francs, which, bought to prevent appreciation of the pound, could be sold immediately for gold. If the EEA could no longer obtain gold for francs, Hopkins told Chamberlain, "our halcyon days would be over, and except in so far as we had agreements with the Bank of France we should be obliged to operate mainly through the cumbrous machinery of the gold market instead of in the exchange market."[105] This prompted Britain to insist on details of the French devaluation. Rowe-Dutton was instructed to tell Baumgartner that final wording of the declaration could not be considered until Chamberlain had received a "precise statement of the French Government proposals so that he can assure himself that they are satisfactory."[106] Even the rate of the French devaluation was uncertain; wage and price increases since July indicated that 100 francs to the pound would overvalue the

[103] Morgenthau to Cochran, 19 Sept. 1936, *FRUS 1936*, 1: 554. For composition of this American reply see Treasury discussions of 18 Sept. 1936, MD 33: 18A–18B, 18H–18K, 18M–18R.

[104] Cobbold had talked with Fournier on 17 Sept. See Clarke, *Exchange-Rate Stabilization*, 45. Also comments in Hopkins to Chamberlain, 18 Sept. 1936, and Phillips to Waley, 18 Sept. 1936, T 160/840/F.13427/4. Phillips commented that there were certain things Britain would not stand for, and one was an "arrangement by which the French and Americans would buy and sell gold from each other, but not from us. If that is proposed there is no chance of British cooperation." For a thorough explanation of British concerns see Drummond, *The Floating Pound*, 210–12. The first American discussion with France of rates for the devaluation was on 18 Sept.; see Morgenthau–Cochran telephone conversation, MD 33: 8X–8AA.

[105] Hopkins to Chamberlain, 18 Sept. 1936, and Phillips to Waley, 18 Sept. 1936, T 160/840/F.13427/4; also Hopkins to Fisher, 21 Sept. 1936, Hopkins to Waley, 22 Sept. 1936, in T 160/840/F.13427/5.

[106] Leith-Ross to Rowe-Dutton, 21 Sept. 1936, and Hopkins to Fisher, 21 Sept. 1936, T 160/840/F.13427/5.

franc, and Phillips and Hopkins thought 110 francs would be justified to improve the chances of success.[107]

On 22 September, Charles Fournier gave Cobbold details of the French plans. The government would be authorized to devalue between fixed limits, probably 25 to 33⅓%. In effect the franc would be managed on sterling at about the middle of this range, 103 to 105 francs per pound, by an exchange management fund established from the profits on revaluation of the gold reserve. Fournier pressed for public acknowledgment of central bank cooperation and plans to develop collaboration in the management of exchange equalization funds, but Cobbold refused to support any statement on either issue.[108]

There was little opportunity for British resistance to the French plans. The French offered to fix narrower gold points if the British would declare their intentions with regard to the gold value of the pound.[109] The situation in France was becoming critical as gold losses increased, and on 23 September Blum sent a personal appeal to Chamberlain warning that a gold embargo would be necessary if no international agreement could be reached and that the necessary legislation could meet insurmountable opposition in Parliament "if the Chambers do not have a very clear impression of cooperation between the three great democratic nations."[110] The British believed that if confidence were to be restored, the franc should be devalued on gold, and sterling left to find its own level. In an evening meeting on 23 September, Leith-Ross gave Mönick a sharp message for Auriol stating that Chamberlain did not like the French plan, doubted that it would work, and suggested they reconsider a devaluation on gold. If this were not possible, he suggested France delay action for a week to ten days to allow the British time to study the plan and see if it could be made workable. If France could neither alter nor delay these plans,

> the Chancellor asked Sir F. Leith-Ross to say that France must do this on her sole responsibility unilaterally and contrary to the views which the Chancellor had felt bound to express. In such circumstances the Chancellor would not be

[107] Hopkins to Fisher, 21 Sept. 1936, T 160/840/F.13427/5. Montagu Norman wanted the government to insist on 100 francs to the pound and to give the French a letter of support rather than joining in a joint declaration.

[108] Cobbold account of meeting at the Bank of France on 22 Sept. 1936, T 160/840/F.13427/5. Mönick passed on the same information in London on 23 Sept.; see "Memorandum by Mr. S. D. Waley," 10 Oct. 1936, FO 371/20458.

[109] Hopkins note of 23 Sept. 1936, T 160/840/F.13427/5.

[110] Note from French embassy in London, 23 Sept. 1936, T 160/840/F.13427/5.

able, and could not indeed be expected, to join in any declaration associating himself with any responsibility for the scheme or binding him in any way to collaborating in its execution, which he thinks will be found extremely difficult."[111]

The French situation was too desperate to yield to such pressure. Mönick told Leith-Ross that neither alteration nor delay was possible and offered French agreement to provide gold for francs at the end of each day provided that the British reciprocated, alleviating concern that Britain would be unable to obtain gold.[112] Mönick explained that the changes in French plans were the result of policy not having been decided as recently as one week earlier when Leith-Ross was in Paris, the pressure under which the government was working, and the Blum government's inexperience. Chamberlain agreed that under these circumstances, his harsh reply to Blum should not be delivered.[113]

With difficulties in phrasing ironed out, the French and British agreed on a version of the American draft statement. Declarations were to be released simultaneously in Paris, London, and Washington on 25 September. This plan very nearly collapsed, however, when the Americans asked for confirmation that the British agreed to a $5 pound. The British did not agree at all and insisted on their right to manage the pound according to domestic needs. After some delay, the Americans decided agreement was not necessary for release of their declaration to assist the French.[114]

At 1 a.m. on Saturday, 26 September, with more than one hundred reporters crowded restlessly in the corridors outside Auriol's office since 9 p.m. waiting for his press statement, and the rue de Rivoli outside jammed with cabs waiting to rush journalists back to their papers, the Minister of Finance announced the Tripartite Accord with Britain and

[111] Waley, "The French Franc," 23 Sept. 1936, T 160/840/F.13427/5, "Memorandum of Mr. S. D. Waley," 10 Oct. 1936, and telegram to Sir George Clerk for Blum, 24 Sept. 1936, FO 371/20458.

[112] Waley and Hopkins minutes, 23 Sept. 1935, and notes on a meeting between Chamberlain, Norman, Hopkins, and Leith-Ross at 5 P.M., 23 Sept. 1936, and Mönick note delivered at 11 P.M., 23 Sept. 1936, on cooperation between the exchange equalization accounts and gold convertibility, T 160/840/F.13427/5.

[113] Waley, "The French Franc," 23 Sept. 1936, T 160/840/F.13427/5, and "Memorandum by Mr. S. D. Waley," 10 Oct. 1936, FO 371/20458.

[114] See telegrams in T 160/840/F.13427/5 and vols. 33 and 34 of the Morgenthau Diaries; the best accounts are in Drummond, *The Floating Pound*, 212–16, and Clarke, *Exchange-Rate Stabilization*, 46–51.

the United States.[115] The Chamber of Deputies would sit Monday to consider a monetary reform law; the stock market and currency exchanges would be closed until the law was passed, and the minimum quantity of gold purchasable from the Bank of France in the interim was raised from 215,000 to 5 billion francs.

The declarations in no way constituted the general stabilization with which Auriol had hoped to devalue the franc, and it may well have grated on French nerves to have Morgenthau declare to the American press that "stabilization of world currencies is the foundation that had to be first built before we could look forward to lasting peace and real recovery in world trade."[116] This had been France's position at the World Economic Conference in 1933 in seeking the currency stabilization dramatically rejected by Roosevelt. In S. V. O. Clarke's phrase, the declarations were "high sounding, involved no binding commitments, and successfully obscured the fundamental differences among the three countries."[117] The agreement produced closer communication between the three, but this was neither apparent in nor required by the declarations issued. They provided an illusion of concord with little substance; Britain and the United States recognized a unilateral devaluation of the franc as a move toward greater international stability.[118] It was with this accord that Auriol would present devaluation to Parliament and the French public.

Devaluation in public

The devaluation marked a major turning point for the Popular Front. After the flurry of legislation from June to mid-August, the recall of Parliament to devalue the franc signaled the failure of the Popular Front's attempt to generate recovery through reflation without devaluation.[119]

[115] For the mood in Auriol's office during the wait for accord between the British and Americans, see Cochran's account in "Cochran Résumé of Stabilization Tripartite Agreement," 26 Oct. 1936, MD 43: 45–6.

[116] Morgenthau press statement, 26 Sept. 1936, MD 34: 126, 154.

[117] Clarke, *Exchange-Rate Stabilization*, 39–40.

[118] Cochran's summary in October 1936 stated: "The important achievement actually accomplished was to establish monetary cooperation between the three leading monetary powers. This provided, as the French so frequently said, the starting point for other developments." "Cochran résumé," MD 43: 69. The accord did lead to the "24 hour gold standard"; see Clarke, *Exchange-Rate Stabilization*, 51–4, and Drummond, *The Floating Pound*, 220–2.

[119] For analysis of the Popular Front's economic performance, see Jeanneney, "La Po-

The effort since June had raised prices rather than production and failed to escape the need for devaluation.[120]

The devaluation was intended to end the price disparity that had constricted French trade and tourism and to revive confidence in the franc, ending the flight of capital and domestic hoarding.[121] If successful, it would draw capital back into productive use in France, reduce interest rates, end gold losses, and stimulate domestic investment and production. Its success depended on the manner in which it was conducted, the policies with which it was complemented, and the reaction of the French public.

Immediate reaction did not bode well for a revival of confidence. *Le Populaire* zealously promoted the declaration as an "event of an importance perhaps without precedent in economic and financial affairs," stressing the unanimity of the declarations and the collaboration be-

litique économique de Léon Blum," 207–32; Mendès France, "La Politique économique du gouvernement Léon Blum," 233–40; Bouvier, "Un débat toujours ouvert"; Sauvy, *Histoire économique*, 1: 312–33; Asselain, *Histoire économique*, 2: 61–5; Lefranc, *Histoire du Front populaire*, 308–41; M. Kalecki, "The Lesson of the Blum Experiment," *Economic Journal* 48 (Mar. 1938): 26–41; Robert Marjolin, "Reflections on the Blum Experiment," *Economica* 5, no. 18 (1938): 177–91; and George Peel, *The Economic Policy of France* (London: Macmillan Press, 1937), 1–65. Robert Frank provides an insightful comparison between the Blum experiment and the first years of the Mitterrand government in "La Gauche sait-elle gérer la France? (1936–1937/1981–1984)," *Vingtième siècle* 6 (Apr.–June 1985): 1–21.

The economic experience of the Popular Front is often divided into three phases: one of reflation, from June to October; a second from the devaluation to the "pause," in February 1937; and a third from the "pause" to the fall of Blum's government, in June 1937. The "pause" really began in August, however; see Joel Colton, "Politics and Economics in the 1930s: The Balance Sheets of the 'Blum New Deal,' " in *From the Ancien Regime to the Popular Front*, ed. Charles K. Warner (New York: Columbia University Press, 1969), 181–208, quote from 190; Georges Lefranc titles his chapter on the period October 1936 to February 1937 "La Pause implicite," *Histoire du Front populaire*, 205–27.

[120] The index of industrial production fell from 88 in March and April 1936 to 81 in September; unemployment rose on a seasonally adjusted basis, and wagons loaded rose slightly from 35,900 daily in April to 36,300 in September (SGIC, *Mouvement économique*, 147, 161). The figures are misleading because strikes from late May to September disrupted production, and annual vacations in August and September explain much of the drop in production. In October the industrial production index jumped back to 88, and wagons loaded rose to 41,400 per day. From April to September the wholesale price index (1913 = 100) rose from 361 to 420; the retail price index from 451 to 494 (SGIC, *Mouvement économique*, 178, 181).

[121] See Auriol's presentation of the reform law to the Chamber of Deputies, *J.O.Cb.*, 28 Sept. 1936, 2781.

tween central banks that would result.[122] The CGT's *Le Peuple* was also enthusiastic; René Belin, a longtime supporter of devaluation, congratulated the government on the international stability the accord portended.[123] But even within the government's majority, reactions were mixed. *L'Humanité* criticized devaluation as an attempt to destroy the gains of the Matignon Accords and worried about the welfare of the working classes.[124] Among Radical papers only Georges Boris's *La Lumière* received the declaration favorably.[125] (*Le Canard enchaîné* noted, "Excellent consequence . . . the 200 families will now be only 133.")[126] Most of the Radical press was at least implicitly hostile; devaluation was a "new blow to the social groups for whom radicalism considers itself the political representation."[127] Farther to the right, commentators agreed that devaluation marked the failure of the Popular Front's program, confirming the mismanagement that had taken place since May. Devaluation alone would not bring recovery; a complete reorientation of Popular Front policy was required if the devaluation was to succeed: "A durable improvement can be obtained only if the devaluation is truly the liquidation of the past, only if one reforms the financial situation as the English have done, and if the policy that has led to devaluation is resolutely abandoned."[128] The international accord in which the devaluation was cloaked afforded little protection. Immediate press reaction was that there was no real accord; neither the dollar nor the pound had been stabilized, and the British and American governments retained their freedom to determine monetary policy according to domestic needs. The devaluation was attributed to financial mismanagement by the Popular Front: "This is a devaluation pure and simple, without returning to a system of international monetary stability. . . .

[122] *Le Populaire*, 26 Sept. 1936.

[123] *Le Peuple*, 27 Sept. 1936.

[124] *L'Humanité*, 27 Sept. 1936. See also Georges Politzer, *Cahiers du bolchévisme*, 1 Nov. 1936, 1168–92 (this article has been reprinted in *CHIMT* 3 [1973]: 86–108); Wolikow, "1936–1939: Genèse de la politique économique," 108–12, and Serge Wolikow, "Le PCF et le Front populaire," in *Le P.C.F., étapes et problèmes, 1920–1972*, Roger Bourderon et al. (Paris: Editions sociales, 1981), 179.

[125] *La Lumière*, 3 Oct. 1936.

[126] *Le Canard enchaîné*, 30 Sept. 1936; it also had Colonel de la Rocque pointing out that "The devaluation D–careful!–it's there, the point P, where we must swoop down. With these maneuvers M. Léon Blum runs the grave risk of revitalizing our failing economy. That is the danger."

[127] Berstein, *Histoire du Parti radical*, 2: 464; Berstein reviews Radical reactions to the devaluation on 463–6.

[128] *Le Temps*, 26 Sept. 1936; this theme was pursued consistently in the days that followed.

It is obvious that the accord realized between Paris, Washington and London is in no way, in and of itself, a reason to devalue the franc."[129] Frédéric Jenny told *Le Temps* readers that the franc Poincaré had succumbed to the sorry state of public finances.[130]

The announcement of the accord and the devaluation took most of France by surprise; in a country renowned for its government's inability to keep secrets, no major leak had warned of the devaluation.[131] It raised charges of deceit after the government's repudiation of devaluation in June and July. Blum and Auriol had been careful to leave the way open for a realignment by international accord, but this was seldom acknowledged by their critics in the Chamber of Deputies and the press. It was all too easy to contrast their statements against devaluation in June with its adoption in September. This produced an unfortunate mood of betrayal, particularly when Parliament was told that negotiations for an international stabilization had been initiated in June.

Parliament reconvened on 28 September, and Auriol presented a monetary reform bill with four significant features. First, in suspending articles 2 and 3 of the 1928 reform law, which had fixed the gold value of the franc, it did not set a new, fixed parity. The government was authorized to set the franc's value by decree, at between 43 and 49 milligrams (a devaluation of 25 to 33⅓%). Second, it created an Exchange Stabilization Fund to manage the value of the franc between these limits. Of the 16 billion francs generated by revaluation of the gold reserves, 10 billion would go to the Exchange Stabilization Fund and the remainder to the Bank of France in repayment of advances to the state. Bank of France authorization would be necessary for all transactions in gold, and Exchange Stabilization Fund gold holdings would not be published to allow the account freedom to manage the franc exchange rate. Third, in an impractical effort to prevent speculative profit from the devaluation, holders of gold were required to declare their holdings to the Bank of France and either sell them at the former parity or pay the difference in value to the Bank. Any transactions in foreign currency in the week before the tripartite declaration had to be declared to the Ministry of Finance. Fourth, ten of the bill's twenty-five articles were "social measures" to ameliorate the effects of devaluation

[129] *Le Temps*, 27 Sept. 1936.
[130] *Le Temps*, 28 Sept. 1936.
[131] See U.K. Ambassador Sir George Clerk's remarks on this in Clerk to Waley, 22 Sept. 1936, T 160/840/F.13427/5. There were rumors of devaluation in the last days before 25 Sept.; Blum's men laughed at questions about devaluation from the press, leading the *Times* correspondent to comment, "Official silence is complete – and ribald." Rowe-Dutton to Leith-Ross, 24 Sept. 1936, T188/167.

on the working classes. The most controversial measure was the creation of a "sliding scale" tying wages and civil service salaries to the cost of living.

The Tripartite Accord was targeted for repeated attacks in parliamentary discussion. "Neither the pound nor the dollar are reattached to gold," Paul Thellier told the government. "You have made of our franc an abstract and erratic currency, running after two wandering moneys." The vaunted accord was a momentary neutrality, not an alliance.[132] The government majority was no more hospitable. "In truth, there is no monetary alignment since there is no stabilization," Communist Jacques Duclos complained, echoing criticism from the right-wing press; "it is a unilateral devaluation, since neither America nor England have had to devalue when they accepted the terms of the common declaration."[133] Paul Reynaud congratulated the government for the international accord and the realization that alignment was possible with a *point mobile*, but he criticized the importance the Socialists attached to the accord. No country that had devalued successfully in the past five years had needed an accord to do so, and the Americans and British had promised nothing new.[134]

The reform law was criticized sharply and substantially revised in the Senate. The devaluation was attacked as insufficient when French prices were already rising and would rise farther as a result of the devaluation. The failure to return to a fixed gold parity also raised concern: If the franc were managed at the upper end of the range allowed, why should capital return and confidence revive when the government retained the power to depreciate the franc? The measures to prevent speculative gains were also attacked; these proved largely ineffective and were later withdrawn in hopes of attracting capital back to France. Most controversial were the measures to protect working-class victims of the devaluation, presented, Blum said, as measures of social conservatism and social peace.[135] These seemed to single out the working classes for privileged treatment. Georges Bonnet made the most telling arguments against them. Devaluation struck unjustly at the middle classes, the social groups the Radical Party sought to represent; if the government was to spare the working classes the costs of devaluation with the sliding scale for wages, what about the peasants, the *rentiers*, the *petits propriétaires*? If the government was to accord

[132] *J.O.Ch.*, 28 Sept. 1936, 2786.
[133] Ibid., 2788–9.
[134] Ibid., 2775.
[135] *J.O.Sén.*, 30 Sept. 1936, 1432–3.

special measures to the working classes, it owed them to the middle classes as well; but "when you have granted all citizens hurt by the devaluation the benefits of measures which you cannot, in all justice, accord only to a few, what will remain of the effects of the devaluation, and will it not risk being carried off like a wisp of straw?"[136] The sliding scale for wages was abandoned in the Chamber of Deputies; the Senate Finance Committee cut out all articles involving social measures. Before the bill reached the Senate, Caillaux was quoted as saying, "The devaluation, so be it, *but nothing else*: neither special powers, nor special measures of compensation."[137] The compromise text adopted on 1 October allowed the government special powers only to deal with unjustified price increases and to settle wage disputes by compulsory arbitration.

Reynaud told the government, "Devaluation is not a policy; it is the precondition for a policy." The devaluation had been decided; the question now was whether it would be undertaken as part of the reflationary economic program of the previous four months or whether the government would learn from experience in France and abroad, abandon reflation, and balance its budget to restore confidence.[138] The return to a balanced budget was essential if France was to reap the benefits of devaluation.

The most serious analyses of the devaluation were made by Reynaud and Georges Bonnet in the Chamber of Deputies. Bonnet's explanation of the government's performance to date was as damaging as it was honest: The policy of reflation had failed, and the government had been forced to devalue against its will. The Tripartite Accord offered nothing new; the Americans and British used the same language they had been using for years. If the government needed such an agreement as an alibi for devaluation, it could have been achieved when the Popular Front took power. For the devaluation to succeed, three conditions were necessary: a well-chosen rate, the return of exported capital (to ease money market conditions), and a strict discipline and spirit of national sacrifice to prevent undue inflation.

Bonnet found cause for considerable concern on all three counts. He did not assess the rate chosen, but pointed out that unlike the situation in Belgium, where financial reform had preceded the voting of social welfare legislation, in France new social measures were producing a rapid inflation. With prices rising, it would be a serious error to choose

[136] *J.O.Ch.*, 28 Sept 19367. 2772–3.
[137] *Le Temps*, 1 Oct. 1936.
[138] *J.O.Ch.*, 28 Sept. 1936, 2776.

an insufficient rate of devaluation: "Once again, we may be sure, you will see the famous and terrible dilemma on the horizon. It will be necessary to choose anew: either a new devaluation or a new deflation; either resigning ourselves to a new monetary manipulation, or imposing severe budget cuts." Second, the return of exported capital, necessary if interest rates were to fall, required confidence, social peace, and the adoption of measures that would encourage the return. It was necessary to abandon, for the time being, the "series of tortures" invented to punish those who had sent capital abroad, because the guilty were out of reach. Third, strict discipline and a balanced budget were necessary if inflation were not to destroy the benefits of devaluation, ruining French credit without bringing economic recovery. Class-specific protection was to be avoided; the costs of devaluation must be borne by all citizens.[139]

Reynaud similarly appealed for devaluation under conditions that would permit its success. "There is not a devaluation of the left and a devaluation of the right; there is a devaluation that succeeds, and one that must be repeated." The reflationary program attempted since June had failed completely, causing rising prices, falling production, increased unemployment, and a larger budget deficit. The insufficient devaluation, the social legislation already enacted, and the inflationary measures within the monetary reform law threatened to close the opportunity opened by the devaluation:

> The devaluation allows a great policy of national redressement, at a moment when France must be strong. If you make of the devaluation an expedient to permit yourself to continue for several months with a policy that has failed, look at the consequences. . . .
>
> If you must change in order to succeed, is it not your duty to change? In this grave hour, I have mounted the rostrum in order to ask the government and the Chamber, both of you responsible, this question: Will France be the only country in the world where the devaluation fails?[140]

The devaluation did not restore confidence in the franc. A brief return of capital allowed the Exchange Stabilization Fund to transfer 7 billion francs in gold to the Bank of France in October, but by the end of the month the capital flow had reversed. A general flow of European capital to the United States was reinforced in France by an increased trade deficit and continued distrust of the franc. By the end of October, rumors of a further devaluation circulated.[141] In early December the Exchange

[139] Ibid., 2771–3.
[140] Ibid., 2773–7.
[141] See Fournier's analysis, PV CG, 7 Jan. 1937. The trade deficit was caused mainly by large purchases of raw materials in November and December, owing to economic revival in France with expectations of rising prices and to the strong world recovery.

Stabilization Fund took back 4 billion francs in gold from the Bank; in February, its resources exhausted, it took the other 3 billion. Auriol tried to restore confidence in March by repealing measures to confiscate speculative profits, with little effect. High defense spending and weak confidence in the government meant that capital exports and the hoarding of currency notes continued. Early in the year the 1937 budget deficit was estimated to be 44 billion francs, of which only 6 billion was from the *budget ordinaire*. In February financial pressure forced Blum to make explicit the "pause" in Popular Front legislation implicit since August. A brief capital reflux followed, and a committee of experts – Jacques Rueff, Charles Rist, and the banker Paul Baudouin – was appointed to manage the franc at the Exchange Stabilization Fund. They pressured the government to cut spending, and after persistent gold losses Rist and Baudouin resigned on 14 June in protest against government inaction. As director of the Treasury, Rueff could not resign. He expressed sympathy for Rist and Baudouin's views, and had the government not fallen, Auriol would have had to replace him.[142] Blum requested decree powers to deal with the crisis; these were granted by the Chamber, but turned down twice by the Senate. Blum resigned rather than fight the Senate without solid support from his majority and his party.[143] The Chautemps government that followed let the franc float at the end of June; it depreciated to 130 to the pound in July, 140 in September, and 175 in 1938.[144]

Economic recovery did occur from October 1936 to March 1937. The index for industrial production climbed from 74 in September to 86 in March (1929 = 100; Table 7.1). Wholesale prices rose 33%; retail prices rose 16.8%. Exports benefited slightly from the devaluation; the volume of imports increased much more significantly. Most of the latter was a result of the increased import of manufactured goods and raw materials necessary to industry;[145] it reflected domestic revival and the expectation of rising prices. The balance of payments deficit increased from 700 million francs in 1935 to 3,050 million francs (1928 francs) in 1936, due entirely to the increased trade deficit. The *Revue d'économie politique* reported that in the first nine months of 1936 overvaluation of

142 Reuff, *De l'aube au crépuscule*, 127–39.

143 On the complicated politics involved in Blum's resignation see Irwin M. Wall, "The Resignation of the First Popular Front Government of Léon Blum, June 1937," *French Historical Studies* 6, no. 4 (1970): 538–54, and Jackson, *The Popular Front in France*, 272–7.

144 On management of the franc from 1936 to 1939 see Drummond, *London, Washington, and Management of the Franc.*

145 SGIC, *Mouvement économique*, 164, 166.

Table 7.1. *Popular Front economic performance*

Date	Industrial production (1929 = 100)	Exports (volume) (thousands of tonnes)	Imports (volume) (thousands of tonnes)	Trade balance (millions of francs)	Length of work week (hours)	*Chômeurs secourus* (thousands)	Wagons loaded (thousand/day)	Wholesale price index (1913 = 100)	Retail price index (1914 = 100)
1935 av.	72	2,443	3,718	−457	44.5	425.8	36.3	338	440
May 1936	80	2,516	3,987	−797	45.7	422.0	35.4	374	459
June	73	2,371	3,742	−676	45.8	419.9	34.6	378	461
July	75	2,099	3,718	−756	46.1	420.8	34.7	391	461
Aug.	70	2,367	3,886	−595	45.8	413.3	33.5	404	477
Sept.	74	2,415	3,980	−669	46.1	407.7	36.3	420	494
Oct.	81	2,464	4,015	−780	46.3	406.6	41.9	471	515
Nov.	83	2,579	4,237	−989	46.2	407.8	42.5	492	534
Dec.	83	2,373	4,750	−1,388	45.7	413.4	39.2	519	550
Jan. 1937	84	2,418	4,761	−1,564	42.5	426.1	36.1	538	567
Feb.	85	2,373	5,346	−1,972	42.3	410.2	38.3	534	577
Mar.	86	2,257	4,599	−1,387	42.1	386.2	37.2	550	576
Apr.	84	2,612	4,951	−1,327	41.0	368.4	37.6	552	580
May	82	2,458	4,553	−1,309	39.9	345.5	35.7	550	586
June	82	2,685	5,163	−1,716	39.7	321.7	37.4	557	590
July	78	2,554	4,569	−1,333	39.6	313.5	39.7	582	600

Sources: Sauvy, *Histoire économique*, vol. 3, industrial production index, p. 315; *chômeurs secourus*, p. 305. SGIC, *Mouvement économique*, export and import volumes, p. 164; trade balance, p. 166; length of work week, p. 158; wagons loaded, p. 161; wholesale price index, p. 178; retail price index, p. 181.

the franc had stimulated imports, while after the devaluation French prices rose so quickly that there was little benefit to exports and no reduction in imports.[146] The recovery of industrial production in October followed too closely on the heels of the devaluation, and without the appropriate increase in exports, to be explained by the monetary alignment. The figures in Table 7.1 suggest that a combination of the Popular Front's reflationary effort and the fears of further devaluation encouraged imports and increased domestic activity.

From March 1937 the economy suffered a new relapse. The decline in industrial production is most often ascribed to rigid application of the forty-hour work week in the first months of 1937.[147] Alfred Sauvy has been particularly determined to blame the forty-hour week for the failure of the devaluation, but a careful study of its effects does not corroborate Sauvy's indictment. Jean-Charles Asselain concludes that while the forty-hour week limited the extent of the recovery in 1937, it was but one constraint among many. A shortage of skilled labor, *patronat* resistance, and the flight of short-term capital all contributed to choke off the recovery. He believes the ceiling reached in March and in November 1937 was a "limit on the physical capacity of production"; relaxation of the forty-hour law and greatly increased armament spending in 1939 failed to restore industrial production to its 1929 level.[148]

[146] *REP* 51 (1937): 573–4, and Sauvy, *Histoire économique*, 3: 406.

[147] See, in particular, Sauvy, *Histoire économique*, 1: 327–32. Also Reynaud, *Mémoires*, 2: 102–3; Jeanneney, "La Politique économique de Léon Blum," 166–7; Marjolin, "Reflections on the Blum Experiment," 183–6; and Marjolin, *Le Travail d'une vie*, 70–4. The forty-hour week was also blamed by analysts in the spring of 1937 in *L'Activité économique*, *X-Crise*, *L'Observation économique*, and *L'Activité économique*; see the survey by Philippe Schwob in *REP* 51 (1937): 446–53.

Jean-Charles Asselain, "Une erreur de politique économique: La Loi des quarantes heures de 1936," *Revue économique* 25 (July 1974): 672–705. As the title states, Asselain views the law as a mistake economically, but he concludes that it was politically inevitable. Mendès France had similarly suggested this in "La Politique économique," 237. Both agree that the law was applied too rigidly. Mendès France and Jean Bouvier ("Un débat toujours ouvert," 176) also attribute failure of the law to a *patronat "politique du pire"* against working-class gains under the Popular Front. See also Patrick Fridenson, "Le Patronat français," in *La France et les français en 1938–1939*, ed. René Rémond and Janine Bourdin (Paris: Presses de la Fondation nationale des sciences politiques, 1978), 139–57; and Asselain, "La Semaine de 40 heures," for the law's effects on employment (which were much greater than that represented in the decline of unemployed receiving assistance as recorded in Table 7.1). New research in *patronat* records has led Adrian Rossiter to argue that the *patronat* accepted the forty-hour-week legislation until the CGT and Léon Blum failed to maintain an agreement on flexible application of the law. See Rossiter, "Popular Front Economic Policy and the Matignon Negotiations," *Historical Journal* 30, no. 3 (1987): 663–84. Ingo Kolboom has explored the crisis experienced by the *patronat* under the Popular Front in *La*

As Pierre Mendès France said later of the devaluation, "If it wasn't in the program of the Popular Front, it was very much a part of its inheritance."[149] The effects of the devaluation are tangled in the consequences of the total Popular Front program. Part of the responsibility for the failure of the devaluation can be distinguished, however, in Popular Front economic management, which exhibited substantial macroeconomic confusion. The program sought to generate recovery by reflation, by increasing purchasing power. This was bound to be inflationary; given the existing overvaluation of the franc, it made nonsense of the slogan "Neither deflation nor devaluation." The alternative of controls on capital movements, while part of the Popular Front program, conflicted with the government's desire to strengthen ties with the Western democracies. The strike wave that welcomed Blum to power precipitated a rush of inflationary social legislation, which further aggravated the disparity between French and world prices (hourly wages rose 60% in the Popular Front's first nine months in office).[150] Devaluation was accepted as preferable to exchange controls in June 1936, but the decision to devalue was delayed indefinitely in the hope of evading a politically unpalatable measure. This delay and the confusion of the tripartite negotiations (Emmanuel Mönick's pragmatism and initiative were clearly exceptional) reflect the ignorance and inexperience of the Blum government and the predominance of political concerns regarding devaluation. When devaluation could no longer be postponed, more attention was devoted to making it politically acceptable than to making it economically successful.

Revanche des patrons: Le Patronat français face au Front populaire, trans. Jeanne Etoré (Paris: Flammarion, 1986).

[149] Mendès France, "La Politique économique," 235.

[150] E. H. Phelps Brown with Margaret H. Browne, *A Century of Pay* (London: Macmillan Press, 1968), 238.

Conclusion

Defending the devaluation in the Chamber of Deputies, Léon Blum invoked the example of Franklin Roosevelt to justify his abandonment of the franc Poincaré: "The Roosevelt experiment takes its exceptional character from Roosevelt's courage in trying one method after another, so as not to persist obstinately, against the evidence of experience, but rather to try alternatives until finally he finds a means that will succeed."[1] Blum overestimated the success of Roosevelt's "revolution" in America, but he was surely correct in stressing its spirit, which Roosevelt himself characterized as "bold, persistent experimentation." It is tempting to declare that the opposite was true of France; that until the Popular Front, the French persisted in the obstinate application of one policy, deflation, despite the steadily accumulating evidence of its failure abroad and its inability to bring recovery in France.[2] This persistence weakened French economic and financial power in the 1930s, earning a share of the blame for the fall of France in 1940.

Such a judgment contains a large element of truth, but it slights aspects of the French experience that are important in explaining the nature and logic of French policy during the Great Depression. The first is the coherence and cohesiveness of policy makers' understanding of the depression, which shaped their agenda for dealing with the slump. As shown by their reactions to the arrival of the depression in

[1] *J.O.Ch.*, 28 Sept. 1936, 2810. On French reactions to the New Deal, see Vaïsse, "Le Mythe de l'or"; French views of the New Deal are also treated in David Strauss, *Menace in the West: The Rise of French Anti-Americanism in Modern Times* (Westport, Conn.: Greenwood Press, 1978), 229–51.

[2] One could also contrast French single-mindedness unfavorably with Keynes's eclectic views on how to stimulate domestic recovery in Britain. Responding to a series of questions posed by Prime Minister Ramsay MacDonald to the Economic Advisory Council in 1930, Keynes replied that with regard to domestic measures, "I am in favour of practically all the remedies which have been suggested in any quarter. Some of them are better than others. But nearly all of them seem to me to tend in the right direction. The unforgivable attitude is, therefore, for me the negative one, – the repelling of each of these remedies in turn." Moggridge, ed., *JMK*, 20: 375. Actual British policy was much less flexible and adventurous.

France, the international gold problem from 1928 to 1932, and French efforts at international cooperation, policy makers responded to the crisis with the lessons they had learned from the 1920s experience of inflation and currency depreciation resulting from budget deficits. They saw the crisis as essentially monetary in origin. The "abuse of credit" in the United States and Britain exaggerated boom conditions in the 1920s and spread internationally through the operation of the gold exchange standard, engendering an unprecedented crisis of overproduction. The delayed arrival of the slump in France and its relative mildness convinced policy makers that its causes lay outside France and that they need only avoid the problems of the 1920s, for recovery would come of its own accord when conditions abroad improved. This interpretation harmonized with conservative views of economic growth and stability[3] and adequately explained the onset of the crisis and its early stages in France; it was reinforced by the financial crises of 1931 and the failure of the World Economic Conference in 1933. Unfortunately, while the diagnosis was in large part accurate, the prescription for preventing 1920s budget deficits produced stagnation in the 1930s. From July 1933 the French economy declined while conditions in most of the rest of the world improved. The first reaction was to intensify the prescription for bringing production and consumption back into equilibrium; it was only after this had deepened the slump that serious reconsideration of the diagnosis commenced.

[3] Sauvy has castigated a "Malthusian" strain in French economic attitudes, defining this as a "state of mind which produced actions aimed at the destruction of riches or the limitation of production"; as he admits, distinguishing between Malthusianism and simply bad policy decisions can be difficult. While acknowledging that "Malthusian" reactions were common among all who believed that the crisis was due to overproduction, he claims that this reaction was more intense in France than abroad, attributing this to the secular aging of the population. See Sauvy, *Histoire économique*, 2: 390–414 (quote from 398). Maurice Lévy-Leboyer has criticized the concept with regard to the *patronat* and French industry in "Le Patronat français a-t-il été malthusien?" *Le Mouvement social* 88 (July–Sept. 1974): 3–49. Richard F. Kuisel's *Ernest Mercier, French Technocrat* (Berkeley: University of California Press, 1967) examines Mercier's career as a dynamic entrepreneur in the electrical and petroleum industries and leader of the Redressement français, founded in the 1920s to promote technological and managerial innovation in French industry. Patrick Fridenson has studied attitudes among leaders in the automobile industry in "L'Idéologie des grands constructeurs dans l'entre-deux-guerres," *Le Mouvement social* 81 (Oct.–Dec. 1972): 51–68. Studies of dynamic entrepreneurs and enterprises during the interwar years are steadily eroding the explanatory power of "Mathusianism" in French business. See Kuisel, "Businessmen," in *Historical Dictionary of the Third French Republic, 1870–1940*, ed. Patrick H. Hutton (Westport, Conn.: Greenwood Press, 1986), 1: 152–3.

Elimination of the budget deficit was the focus of government attention; this was believed essential to economic recovery and to preservation of the franc. But as revenue declined, successive governments were unable to raise taxes and cut expenditures sufficiently to balance the budget, and recurrent borrowing pushed up interest rates and weakened confidence. At the same time import quotas, subsidies, and price supports (particularly for agricultural products), adopted for political reasons, rendered deflationary programs economically incoherent.

The second aspect of the French experience that such a characterization ignores is the political context within which policy decisions were made. The deflationary policies applied in France were essentially the economic solution of the Right, which attracted a large part of the Radical Party and reflected the views of rural France and the urban middle classes. Farther to the left, interpretations and solutions to the crisis varied, and the most penetrating debates on economic policy took place. But there was no single program of the Left, as witnessed by the policy disputes within the Radical Party, the vague outline issued as an economic program by the Rassemblement populaire, and the contradictions and inconsistencies in Popular Front economic policy. In addition, the fissiparous French political system worked against innovation, particularly after the budget went into deficit. Innovation usually meant increased spending and obscured or evaded the essential task of deficit reduction. In America, Roosevelt had nearly four years in which to experiment with New Deal measures, subject to congressional and Supreme Court approval, before elections called him to account before the nation. In France, governments were held accountable for each measure they presented to parliament and relied on fractious majorities to pass legislation that repeatedly erred on the side of caution. The most vigorous deflationary efforts could be accomplished only by decree, avoiding the need to gain prior parliamentary approval for the measures implemented. During the eight years of the franc Poincaré, twenty-one cabinets governed France.[4] The continuity of ministers of finance between different cabinets, and of policy in general, was both a counterweight to and a consequence of this turnover; until the Popular Front, minister and ministries fell over one another in stubborn application of the same policies.

A third matter of considerable importance was the diplomatic aspect of currency defense. Having understood the depression to be the result

[4] Twenty-two if one counts as a change in government Laval's resignation and reappointment, without changes in his cabinet, following Paul Doumer's election as president of the Republic on 13 June 1931.

of policy errors abroad, and the prestige of the franc to have been increased by the influx of international capital and gold in the first years of the depression, it was a major psychological blow to realign the overvalued franc. It required acknowledgment that the franc was out of alignment with other currencies; French policy makers preferred to believe that the other currencies had fallen out of line with the franc. It also required the recognition that the franc was a secondary player in international monetary affairs and that the essential exchange-rate duel was between the dollar and the pound.[5] Neither the British nor the Americans had reason to declare they had erred or to invite the French to devalue. Yet the French retreat from the Poincaré franc had to be accomplished with dignity. Mönick told Morgenthau in June 1936 that France could not come with hat in hand, on bended knee, to request stabilization: "France has accomplished a superhuman effort in defending the franc, of which one can say anything except that it lacked honor."[6]

A fourth factor was the French success in amassing gold reserves from 1928 to 1932. The 55 billion francs in gold accumulated in these years increased the prestige of the franc, convinced policy makers and the public that French policy was sound, and increased determination to preserve the franc Poincaré. With a smaller gold reserve, both the government and the Bank of France would not have been as thoroughly insulated against the slump and would have been pushed into earlier action either to implement effective deflationary policies or to devalue the franc. Recall that the prospect of further gold losses as reserves fell to 50 billion francs was a critical factor in the September 1936 decision to devalue.

Finally, such a judgment overlooks the evolution in policy that did take place from 1928 to 1936. France's understanding of the depression (and the durability of its misconceptions) and the political difficulty of innovation worked against policy evolution; a further factor was the mildness of the depression in France. The massive unemployment in

[5] In arguing for the necessity of devaluation in the Chamber of Deputies Finance Committee, Reynaud raised cries of protest when he claimed that "from the point of view of world currencies, the franc cuts quite a small figure beside the pound and the dollar," and tried to convince the committee that the British were more concerned with the dollar exchange than the franc. Laval objected that in 1931 when the British sought support in defending sterling, the franc had been a "great figure," and Jacques Stern declared, "To consider that the franc cuts a small figure when France has a gold reserve superior to all the gold reserves of Europe is a technical mistake which I did not expect on your part, Monsieur Paul Reynaud." CFCh, 12 Nov. 1935.

[6] "Compte-rendu" of conversation of 24 June 1936, FNSP, 2 AU 8 Dr 6.

the United States and Germany, which demanded government intervention in the economy, was not present in France; the cry "Il faut agir!" from critics of the passivity of French policy was not echoed by masses of the unemployed.[7]

Defense of the franc Poincaré, central to the French experience of the depression, can serve as a point of reference for judging the evolution of several aspects of French policy. Created in 1928 to end definitively the inflation and currency depreciation that had followed the war, the franc Poincaré was a symbol of the losses France had suffered in postwar financial battles and of the national wealth that remained as a patrimony and a promise for the future. The pound sterling's retreat from gold in 1931 and the dislodging of the American dollar from gold in 1933 raised no question in the minds of French policy makers as to whether the franc should follow suit: The gold parity of the franc would be preserved.

Retreat from this position came reluctantly and imperfectly, owing to a number of interrelated factors. The need for cheap money to stimulate recovery and reduce the cost of government borrowing was a key factor; cheap money was impossible when defense of the franc required high interest rates to protect gold reserves. Heavy government borrowing and confidence crises in response to budget deficits and fears of devaluation drove up interest rates and discouraged investment in France. Difficulties in financing the government on a day-to-day basis were, by 1936, clearly linked to the impossibility of running a national economy on an overvalued currency. The Treasury, realizing the importance of cheap money, pressed for a conversion of government debt in 1931 and 1932 and for lower interest rates in 1934 and 1935. But it was only at the end of 1935, when further deflation had become politically impossible, that the Treasury finally accepted the need for devaluation.

The Bank of France posed a problem of a different order. A longstanding conviction of the importance of a stable discount rate and a belief that cheap money could be too cheap, fostering unhealthy economic development even in the depths of a depression, made the Bank an unwilling partner in the Treasury's push for cheaper money and reluctant to use its discount rate to defend gold reserves when pressure on the franc increased. Emile Labeyrie's appointment as governor in

[7] Julian Jackson states that "up to a point stagnation was consciously preferred" (*Politics of Depression*, 220–1). While French policy makers preferred defense of existing interests to innovation, I would not call this a conscious preference for stagnation: They saw their alternatives as a choice not between stagnation and growth, but between maintaining stability and embarking on an uncertain course more likely to bring decline than improvement.

June 1936 produced Bank acquiescence to the Popular Front's cheap money policy; it reflected the governor's domination of Bank policy rather than a fundamental change in the views of the Council of Regents. As for devaluation, the Bank remained opposed.

Defending the franc brought changes in the Bank's position in the marketplace, with evolution from the passive reserve banking that had characterized its nineteenth-century operations toward more active management of national credit conditions. The retreat from direct discounting to acquire greater authority over commercial banks in the defense of the franc, an increasing sensitivity to the effects of interest-rate policy on business affairs, an awakening to the usefulness of open market operations in order to manage domestic credit conditions, and the de facto nationalization of the Bank in 1936 all reveal a maturation in the Bank's role as a central bank.

No one was "managing" the franc Poincaré in the modern sense of the term. The return to gold in 1928 was supposed to mean an end to "management": The normal operation of the gold standard would regulate the external balance of payments and domestic credit and prices. Under this happy illusion, responsibility for defense of the franc was left to the Bank of France. The Bank, however, was equipped with a set of traditions and prejudices that permitted neither free play of the gold standard nor effective management of gold movements and domestic credit. As the world depression and currency depreciations took their toll on the French economy, and the franc Poincaré was threatened, monetary policy returned to the political arena.

Finally, the devaluation debate from 1934 to 1936 presents an extreme case of politicization of an economic issue, rendering an economic solution unnecessarily difficult. The campaign against devaluation convinced popular opinion that devaluation was a swindle that would benefit speculators and debtors while impoverishing the rest of the nation. When influential opinion shifted in 1935 and 1936 as it became apparent that the deflation necessary to escape devaluation was politically impossible (recognition of its economic damage was less widespread), no one believed that popular opinion could be easily persuaded to follow, after the antidevaluation campaign of the previous two years, particularly when much of the financial press and the Bank of France remained committed to defending the franc. Strong leadership after the 1936 elections could have devalued successfully and blamed the measure on mismanagement by the previous legislature. The Popular Front government that took power in June 1936 was divided and confused on economic matters, and avoided devaluation until it could no longer be postponed. It was a coalition almost entirely opposed to devaluation, and its leaders would not decide to devalue as long as any freedom of choice remained. When it came, the devaluation was not so much a significant departure from previous policy as a necessary retreat, too long delayed, in an effort to recover the stability essential for a durable recovery.

Appendix

French premiers and ministers of finance, 1926–1936

Date ministry began	Premier	Minister of finance
23 July 1926	Raymond Poincaré	Raymond Poincaré
11 November 1928	Raymond Poincaré	Henry Chéron
29 July 1929	Aristide Briand	Henry Chéron
2 November 1929	André Tardieu	Henry Chéron
21 February 1930	Camille Chautemps	Charles Dumont
2 March 1930	André Tardieu	Paul Reynaud
13 December 1930	Théodore Steeg	Louis Germain-Martin
27 January 1931	Pierre Laval	P.-E. Flandin
14 January 1932	Pierre Laval	P.-E. Flandin
20 February 1932	André Tardieu	P.-E. Flandin
3 June 1932	Edouard Herriot	Louis Germain-Martin
18 December 1932	J. Paul-Boncour	Henry Chéron
31 January 1933	Edouard Daladier	Georges Bonnet
26 October 1933	Albert Sarraut	Georges Bonnet
26 November 1933	Camille Chautemps	Georges Bonnet
30 January 1934	Edouard Daladier	François Piétri
9 February 1934	Gaston Doumergue	Louis Germain-Martin
8 November 1934	P.-E. Flandin	Louis Germain-Martin
1 June 1935	Fernand Bouisson	Joseph Caillaux
7 June 1935	Pierre Laval	Marcel Régnier
24 January 1936	Albert Sarraut	Marcel Régnier
4 June 1936	Léon Blum	Vincent Auriol

Treasury and bank personnel

Baumgartner, Wilfrid. Admitted to the Inspection général des finances (IGF) in 1925; *chef de cabinet* to Minister of Finance Paul Reynaud, 1930; *sous-directeur*, Mouvement général des fonds, 1930–34; *directeur adjoint*, 1934; director, 1935–6; director of Crédit national from 1936; governor of the Bank of France, 1949–60

Bizot, Jean-Jacques. Admitted to IGF in 1922; *sous-directeur*, Mouvement général des fonds, 1929–34; *directeur adjoint*, 1934–5; director of Contributions directes, 1935–37; deputy governor of the Bank of France, 1937–9

Cariguel, Charles. Director, Foreign Department, Bank of France, 1929–45

Cobbold, Cameron F. Adviser, Bank of England, 1933–8; executive director, 1938–45; deputy governor, 1945–9; governor, 1949–61

Cochran, H. Merle. Financial secretary, 1932–9, U.S. Embassy in Paris

Escallier, Louis. Admitted to IGF in 1911; director of Mouvement général des fonds, 1930–4; *directeur général* of Bank of Algeria, 1934–46

Farnier, Charles. Admitted to IGF in 1919; *directeur adjoint*, Mouvement général des fonds, 1928–30; deputy governor, Bank of France, 1930–4

Feis, Herbert. Economic adviser to U.S. State Department, 1931–7; adviser on international economic affairs, 1937–48

Harrison, George. Deputy governor, Federal Reserve Bank of New York, 1920–8; governor, 1928–36; president, 1936–41

Harvey, Sir Ernest. Deputy governor, Bank of England, 1929–36

Hawtrey, R. G. Director of financial enquiries, British Treasury, 1919–45

Hopkins, Sir Richard V. N. Second secretary, British Treasury, 1928–42

Labeyrie, Emile. Acting governor of the Bank of France, 1936–7

Lacour-Gayet, Robert. Admitted to IGF in 1921; *attaché financier* to French Embassy in Washington, 1924–30; director of Economic Research, Bank of France, 1930–6

Leith-Ross, Sir Frederick. Deputy controller of finance, British Treasury, 1925–32; chief economic adviser, 1932–46

Maxime-Robert, Jean. Admitted to IGF in 1927; *sous-directeur*, Mouvement général des fonds, 1935–7

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, Emile. Admitted to IGF in 1896; governor, Bank of Algeria, 1906–26; governor, Bank of France, 1926–30

Moret, Clément. Director, Mouvement général des fonds, 1924–8; deputy governor, Bank of France, 1928–30; governor, 1930–5

Morgenthau, Henry, Jr. Secretary of U.S. Treasury, 1934–45

Norman, Montagu. Governor of the Bank of England, 1920–44

Phillips, Sir Frederick. Principal assistant secretary, British Treasury, 1927–31; deputy controller, 1931; under-secretary, 1932–9

Quesnay, Pierre. Director of economic research, Bank of France, 1926–30; general manager, Bank for International Settlements, 1930–7

Rist, Charles. Deputy governor, Bank of France, 1926–9; editor of the *Revue d'économie politique*

Rowe-Dutton, Ernest. Financial adviser to the British Embassy in Paris, 1934–9

Rueff, Jacques. Admitted to IGF in 1923; *attaché financier* to French Embassy in London, 1930–4; *directeur adjoint*, Mouvement général des fonds, 1934–6; director, 1936–9; deputy governor, Bank of France, 1939–41

Siepmann, H. A. Adviser to the governor, Bank of England, 1926–45; head of Central Banking Section, 1926–36; oversaw operations of the Exchange Equalization Account from 1932; executive director, Bank of England, 1945–54

Strong, Benjamin. Governor, Federal Reserve Bank of New York, 1914–28

Tannery, Jean. Director of the Caisse des dépôts et consignations, 1925–35; director of the Caisse autonome d'amortissement, 1926–35; governor, Bank of France, 1935–6

Waley, S. D. Assistant secretary, British Treasury, 1924–31; principal assistant secretary, 1931–9

Warburg, James. Economic adviser to Roosevelt in 1933

Public *caisses*

Caisse des dépôts et consignations

This *caisse* was created in 1816 to safeguard deposits and funds in litigation; private deposits were discouraged in the late nineteenth century, and after the First World War its main deposits were those of French savings banks and postal savings banks, as well as social insurance funds. Most of its deposits were invested in government paper, particularly two-year national defense bonds. Its director was appointed by the president of the Republic, based on nomination by the minister of finance.

Caisse d'amortissement

While there had been earlier *caisses d'amortissement* in France, that of the interwar period was the Caisse autonome de gestion des bons de la défense nationale, d'exploitation industrielle des tabacs, et d'amortissement de la dette publique, created in August 1926 as an amortization fund to gain control of the 50 billion francs in short-term debt, principally national defense bonds of three months or less, which posed a grave threat to the government whenever demands for repayment rose. Reducing this threat was essential for obtaining control of state finances and the need for advances from the Bank of France. The Caisse d'amortissement was funded from the state tobacco monopoly, taxes on inheritance and real estate transfers, and a portion of any budget surplus. It progressively eliminated one-month, three-month, six-month, and one-year defense bonds by 1928. Success brought increased responsibility, for long-term debt and for the Crédit national (the fund that paid reconstruction costs) in 1928 and 1930 and for redeeming inconvertible government securities previously covered from the budget in 1931. The combination of increasing responsibility and declining revenue reduced the Caisse d'amortissement's importance in the 1930s. It was administered by a council of twenty-one members drawn mainly from the Treasury and the tobacco industry and led by the director of the Caisse des dépôts et consignations.

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