PRINCETON STUDIES IN INTERNATIONAL FINANCE NO. 33

The Reconstruction of the International Monetary System:

The Attempts of 1922 and 1933

Stephen V. O. Clarke

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS
PRINCETON UNIVERSITY · 1973

PRINCETON STUDIES IN INTERNATIONAL FINANCE

This is the thirty-third number in the series PRINCETON STUDIES IN INTERNATIONAL FINANCE, published from time to time by the International Finance Section of the Department of Economics at Princeton University.

The author, Stephen V. O. Clarke, is Chief of the Foreign Research Division of the Federal Reserve Bank of New York. He is the author of a monograph on *Central Bank Cooperation: 1924–31*, published in 1967, and of various other studies on United States and foreign monetary problems. The present study was prepared for the Paris meeting of the French Economic History Association in October 1973.

This series is intended to be restricted to meritorious research studies in the general field of international financial problems which are too technical, too specialized, or too long to qualify as ESSAYS. The Section welcomes the submission of manuscripts for this series.

While the Section sponsors the studies, the writers are free to develop their topics as they will. Their ideas and treatment may or may not be shared by the editorial committee of the Section or the members of the Department.

PETER B. KENEN
Director

Princeton University

PRINCETON STUDIES IN INTERNATIONAL FINANCE NO. 33

The Reconstruction of the International Monetary System:

The Attempts of 1922 and 1933

Stephen V. O. Clarke

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS
PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY
NOVEMBER 1973

Department of Economics
Princeton University
L.C. Card No. 73-9360
ISSN 0081-8070

Printed in the United States of America by Princeton University Press
at Princeton, New Jersey

CONTENTS

LIST OF CHARTS

I. INTRODUCTION

The current worldwide effort to rebuild the international monetary system is the latest in a series that extends back at least to the early 1920's. Indeed, in the past half-century there has seldom been a year when the authorities somewhere were not concerned in greater or lesser degree with the strengthening, if not the reconstruction, of that system. Many of these efforts have been bilateral or have involved only a relatively few countries, for example, the stabilizations of various European currencies in the mid-twenties, the establishment of the British-French-United States stabilization arrangement in 1936, and the negotiation of the reciprocal credit facilities among central banks in the sixties. Others have involved multilateral negotiations among a somewhat larger group of industrial countries, for example, those that led to the establishment of the General Arrangements to Borrow in 1962. On yet other occasions negotiations have been undertaken on a virtually worldwide basis: at Genoa in 1922, London in 1933, Bretton Woods in 1944, and in connection with the establishment of the Special Drawing Rights facility in the late sixties.

An examination of all these efforts would doubtless be profitable, but the character of the current negotiations, together with limitations of time and space, suggests that the worldwide group is the most rewarding to study. Within that group a further narrowing of the field is suggested because the United States was clearly dominant at Bretton Woods and because the SDR negotiations were concerned primarily with international liquidity. In contrast, the current negotiations involve a number of strong countries, none of which is dominant, as well as the whole gamut of international monetary issues. In this respect, the current efforts are broadly similar to the negotiations of 1922 and 1933.

In writing this paper I have benefited from the suggestions of numerous colleagues and friends, especially Charles Kindleberger, Herman Krooss, James Moore, Richard Sayers, and Gregory Schmid. Although they have saved me from various errors of fact and interpretation, the responsibility for any faults that remain is of course my own. Needless to say the views expressed in this paper are solely those of the author and not of the Federal Reserve Bank of New York. I also wish to express my appreciation for the painstaking research assistance of Gwendolyn P. Webb.

Although both the Genoa and London conferences must be classed as failures, the records of the negotiations and the memoirs of participants provide a fascinating account of the interaction between economic developments and international monetary thought. At Genoa the traditional gold-standard view, as formulated by British thinkers, was accepted almost without question. Eleven years later this view was championed primarily by the French and other Continental Europeans but was rejected in practice by the United States, Britain, and the countries that were to comprise the sterling area. With this shift in monetary views came two other crucial changes. At Genoa the aim was a unified monetary system based on parities fixed in terms of gold—a system in which domestic economies would have to adjust in order to maintain international equilibrium. By 1933 only the inflation-scarred Continental Europeans were clinging to the traditional order of priorities, while Britain and the United States gave domestic recovery precedence over external stability. The further outcome of London was to accelerate international monetary disintegration, with the sterling area, the European gold bloc, and the United States each dealing as best it could with its special regional problems.

The records also emphasize the inextricable entanglement of international monetary reconstruction with other economic and political issues. In both 1922 and 1933, proposals for monetary reconstruction had especially profound and—more important—conflicting implications, not only for the trade policies and domestic economic prospects of the participating countries but also for their security. Proposals that were regarded by some countries as serving their policy aims were regarded by others as injurious. The clash of interests was evident in 1922 when a combination of security considerations and domestic financial needs stopped France from modifying its reparation claims in order to establish a basis for the exchange stabilization that all agreed was desirable. The clash was evident again in 1933 when fears of a setback to domestic recovery led the United States to torpedo temporary stabilization arrangements that it had previously favored.

Indeed, the overwhelming impression given by the records of the two conferences is that monetary reconstruction is dominated, if not overwhelmed, by higher-priority national policies. An international monetary system, if such an entity can be said to exist at all, consists of arrangements for the provision of liquidity, for the convertibility of currencies into each other and into reserve assets, and for the adjustment of imbalances through exchange-rate changes and other measures. To be meaningful such arrangements must surely be expected to endure—they are long-term in nature. On the other hand, the pressures that are brought to bear on the decision-makers at international conferences are overwhelmingly short-term in nature. Technical advisers may take a long-term view, but political leaders can ignore the short-term pressures only at their peril. The timing of negotiations is therefore crucial. Proposals that are rejected as excessively risky or costly in a depression may well be acceptable in prosperity or when previous difficulties have convinced political leaders that there is no satisfactory alternative. As events actually developed in 1922 and 1933, short-term political pressures killed numerous promising proposals for which the time became ripe only later.

II. THE NEGOTIATIONS OF 1922

In 1922 the background for international monetary reconstruction was hardly promising. Only three and a half years after the end of World War I, Europe's needs for food, raw materials, and capital goods for reconstruction were still well in excess of output. Throughout most of Western Europe, industrial and agricultural production was well below the 1913 level.[1] The significant prewar trade with Russia had dried up in the wake of the 1917 revolution.[2] The United States had sharply reduced, then stopped, official lending to the European Allies soon after the Armistice, had rejected both the Versailles Treaty and membership in the League of Nations, and, while insisting on the settlement of war debts, complicated their repayment by sharply increasing tariffs.[3] For their part, the European victors insisted that Germany should pay reparations that would, in effect, finance both reconstruction and war-debts payments to the United States, among other things.[4] On this basis, France proceeded to restore its devastated territories, financing the work through internal borrowing that it expected to repay out of reparations.[5] At the same time, the victors attempted to squeeze reparations from Germany, whose government was weak, whose population resented the burdens imposed by the treaty, and whose economy was in the throes of an inflation that was destroying the currency. During the two years ending January 1922, the mark depreciated almost 70 per cent to a value equivalent to 2 per cent of its 1913 gold parity. Other major European currencies were also unpegged from gold and, as Chart 1 shows, generally fluctuated in sympathy with the mark, although they depreciated less than the German currency. Of the major countries, only the United States still adhered to the gold standard.

The early 1920's witnessed a succession of international conferences

[1] Svennilson, 1954, pp. 18, 233, 246, 304.

[2] League of Nations, 1925, pp. 42, 115, 132, 346.

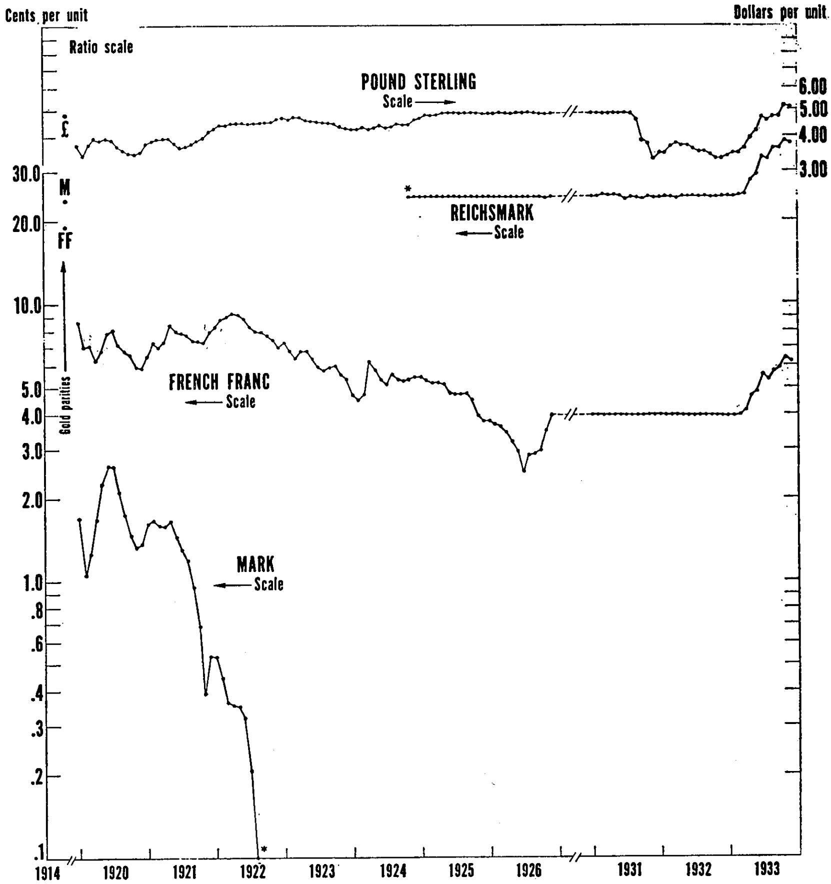
[3] Studenski and Krooss, 1963, pp. 339–342.

[4] Bergmann, 1927, Chap. 2; Balfour Note of Aug. 1, 1922, reprinted in *Foreign Relations of the United States 1922*, Vol. 1, Washington, D.C., 1938 (cited hereafter as *Foreign Relations 1922*), pp. 406–409; and Felix, 1971, pp. 38–40, 154–155.

[5] Wolfe, 1951, pp. 29–30.

Chart I

FOREIGN EXCHANGE RATES IN NEW YORK JUNE, 1914 AND SELECTED YEARS 1920-1933



Note: Monthly averages of daily market buying rates in New York at noon for cable transfers.

* The monthly average of daily rates for the mark dropped below 0.1 cents in August 1922. In the fall of 1923, the rate was stabilized at 1 trillion marks = 23.8 cents. In October 1924, the old currency was replaced by the reichsmark whose parity in terms of gold was established at the equivalent of 23.82 cents.

Source: Board of Governors of the Federal Reserve System, Banking and Monetary Statistics (Washington D.C., November 1943).

convened to grapple with Europe's difficulties. Of these, the one held at Genoa between April 10 and May 19, 1922, was perhaps the most notable. Some thirty-four countries—mostly European—attended. Germany and Russia were invited on a basis of equality with the other major powers for the first time since the war. In addition, the United States was invited, and at an early stage there were some hopes that it would attend.[6] For Britain and France, the main sponsoring powers, international monetary reconstruction was only one among the conference's several aims, probably not even among the most important. More fundamental was the need to restore the prosperity of Central and Eastern Europe and so provide the basis for a re-expansion of international trade.[7] This need was felt most keenly by Britain, whose economy, after the hectic postwar boom of 1920, had collapsed into depression during 1921. During the latter year, British industrial production was only 81 per cent of the 1913 level, the volume of its exports only half the prewar amount, while unemployment totaled 13 per cent of the labor force.[8] Trade with the shattered economies of Central and Eastern Europe was especially depressed.[9] Britain's urgent need to restore this trade provided the major impetus for the conference.

Britain's broad strategy in pressing for the conference is clear. Diplomatic and trade relations with the Soviet government—theretofore regarded as a pariah—would be established.[10] The basis for German economic reconstruction would be provided by revised reparation arrangements—possibly a reduction of periodic payments or even a temporary moratorium accompanied by an international loan—that would facilitate the stabilization of the mark. It was hoped that the United States would cooperate by scaling down its war-debt claims and by supporting a loan for Germany.[11] With intergovernmental debts settled and the prospect for a revival of trade brightened, the basis

[6] *Foreign Relations 1922*, pp. 384–388. See also D'Abernon, 1929, p. 268, and letter of Feb. 18, 1922, from Benjamin Strong, Governor of the Federal Reserve Bank of New York, to Montagu Norman, Governor of the Bank of England. (The Strong/Norman correspondence is in Strong, 1922.)

[7] "Résolution adoptée par la Conférence de Cannes, 6 janvier 1922," in *Documents Diplomatiques*, 1922, pp. 15–16.

[8] *The British Economy: Key Statistics 1900–1966*, pp. 5, 8, 14.

[9] Board of Trade, 1937, pp. 354–357, and League of Nations, 1925, pp. 345–347.

[10] Owen, 1955, pp. 610–621.

[11] "Plan for a Financial Settlement," Memorandum on German Reparations enclosed in letter of Jan. 25, 1922, from Basil Blackett to Benjamin Strong, and Norman's letter to Strong, Mar. 22, 1922, p. 3 (Strong, 1922).

would be laid for a stabilization of Europe's currencies and a return to the gold standard.[12]

The chances that this scenario would work out were never bright and, as events developed, nearly all the hopes for the conference were dashed. In extending their invitation to Russia, the sponsoring powers had stipulated that diplomatic recognition would be granted only if the Soviet regime, among other things, accepted responsibility for the foreign debt of the overthrown imperial government.[13] This condition was especially important to France, whose investors held some $2 billion equivalent of imperial obligations.[14] Confronted with these claims, however, the Soviet delegation to the conference had the bad taste to make huge counterclaims on account of damages arising from Allied assistance to White Russian counterrevolutionaries.[15] On this score the negotiations broke down amid mutual recriminations.

The prospect for a scaling down of reparations and war debts also suffered heavy blows. In France the government of the conciliatory Aristide Briand fell in January 1922.[16] Raymond Poincaré, the new premier, was skeptical about the usefulness of the conference and agreed to his government's participation only on the condition that the agenda exclude any discussion of changes in France's rights under the Versailles Treaty and especially in its reparation claims under the schedule accepted by Germany in May 1921.[17] In the United States the funding commission, established in February 1922 to negotiate the repayment of war debts, was specifically denied authority to make any reduction in the amount outstanding.[18] Beyond this, the United States refused to be represented officially at the conference, ostensibly because it dealt with European political questions in which America

[12] Norman letter to Strong, Mar. 21, 1922.

[13] "Résolution adoptée par la Conférence de Cannes, 6 janvier 1922," in *Documents Diplomatiques*, 1922, pp. 15–16.

[14] Dulles, 1929, pp. 72–73.

[15] "The Genoa Conference: A Month of Crisis," *Current History*, 16 (June 1922), pp. 479–480, and Mills, 1922, p. 182. See also *Papers Relating to International Economic Conference*, 1924, p. 44.

[16] *The Economist*, 94 (Jan. 14, 1922), p. 39.

[17] "Premières instructions au Président de la Délégation française à la Conférence de Gênes, 6 avril," in *Documents Diplomatiques*, 1922, p. 48.

[18] Public Law No. 139, 67th Cong., Feb. 9, 1922.

did not care to become involved.[19] In fact, the United States wished to avoid any imbroglio either with the Soviet regime, to which it had not extended diplomatic recognition, or with the allies over the question of scaling down reparations and war debts.[20]

Perhaps the most sensational blow—one that almost broke up the conference—was the signing on April 16, 1922, of the Treaty of Rapallo between Germany and Russia. Efforts by the signatories to pass off the treaty as an instrument that would merely restore ordinary diplomatic and trade relations failed to assuage the surprise and outrage of Britain and France. In renouncing various financial claims against each other, Germany and Russia undermined such hopes as the Allies still retained for repayment of the Czarist foreign debt. More serious, the signing of the treaty was accompanied by an intensification of secret military cooperation between the two countries that, so far as it related to Germany, clearly violated the aims of the Versailles Treaty. Rumors about this cooperation, which began to circulate soon after the treaty was announced, conjured visions—eventually realized—of an alliance between the two outcasts that threatened the security of Western Europe generally and France in particular.[21] Thereafter, France's fears for its security overwhelmed its desire for monetary stability.[22]

Hope for a Reparation Settlement

As the date for the Genoa conference approached, however, most of these developments were still in the future. In London, New York, and even in Paris there was still hope for new reparation arrangements that would provide a basis for European currency stabilization. These persisting hopes centered on a decision of the Reparation Commission in early April to appoint a committee of bankers to explore the terms

19 Secretary of State to the Italian Ambassador, Mar. 8, 1922, in *Foreign Relations 1922*, pp. 392–394.

20 Letter from Strong to Norman, Feb. 18, 1922 (Strong, 1922).

21 Eyck, 1962, pp. 221–224; Hallgarten, 1949; Wheeler-Bennett, 1936, p. 293; Owen, 1955, pp. 615–616; Hajo Holborn, "Diplomats and Diplomacy in the Early Weimar Republic," in Craig and Gilbert, 1963, p. 169; *Current History*, 16 (June 1922), pp. 452–453, 480–486.

22 Harold Nicolson (1937, p. 241) writes: "It is impossible to resist the impression that M. Poincaré, from the day he succeeded to office, was determined to occupy the Ruhr and to obtain French security by force."

and conditions for an international loan for Germany.[23] This decision followed repeated appeals from Germany that it was unable to fulfill the May 1921 reparation schedule and the granting by the Commission of a partial reparation moratorium in January 1922.[24] In these circumstances the loan proposal had a broad appeal. By facilitating the stabilization of the mark, the loan would help end inflation in Germany and start that country on the road to economic recovery. Germany's long-term ability to meet reasonable reparation claims would thus be strengthened. In addition, the loan proposal had the short-term attraction that a substantial part of the proceeds was expected to be transferred to France, where it would contribute to the financing of reconstruction. France therefore approved the proposal subject to the somewhat ambiguous proviso that, in making its report, the bankers' committee should particularly take into account Germany's obligation under the May 1921 reparation schedule.

For Britain and for the unofficial American delegates to the Reparation Commission who favored the loan, the crucial question was whether the lure of an immediate cash payment might induce France to ease its reparation policy. Cabling the State Department, R. W. Boyden, one of the United States delegates, explained that the Reparation Commission's action in appointing the bankers' committee was:

> really serious constructive effort to get reparations and all German obligations on business basis. Effect hampered slightly for present by restricting Commission on demand French Delegate to existing requirements Treaty and Schedule of Payments, but this restriction will disappear if Committee finds, which seems unavoidable, that even small loans impossible while requirements upon Germany remain unchanged. We therefore regard project as opportunity for world financial opinion express itself effectively with great possibility beneficent result. Should hope final result to be recognition of fact that Germany cannot pay what she is capable of paying until total obligation brought within limit her capacity. I am sure this purpose in minds all delegates except French,

[23] The resolution of the Reparation Commission is reproduced in a letter of April 6, 1922, to Strong from James A. Logan, Jr., Assistant Unofficial U.S. Delegate to the Reparation Commission (Strong, 1922).

[24] "Décision de la commission des réparations accordant un délai provisoire au gouvernement allemand pour le payement des échéances du 15 janvier et du 15 février 1922, en vertu de l'état des payements," in *Documents Relatif aux Réparations*, 1922, pp. 185–186, and Bergmann, 1927, p. 114.

and even he also certain French Government officials give hints of possibility change French policy if supported by assurance or hope of substantial payments cash thru medium such loan.[25]

Thus, while the conference was proceeding in Genoa, members of the Reparation Commission conducted parallel discussions, approaching interested governments about the loan and searching for candidates to serve on the bankers' committee. Soundings in Paris in mid-April seemed hopeful. French Treasury officials did not discourage the impression that their government might consider a reduction in reparations in order to meet the conditions for an international loan to Germany that would provide substantial and urgently needed financial resources for France.[26] By late April a distinguished committee had been picked, including Sir Robert Kindersley, a director of the Bank of England, Charles Sergent, president of a Paris commercial bank and formerly a deputy governor of the Bank of France, and J. P. Morgan from the New York financial community.[27] Viewing the prospects for floating such a loan in New York, Benjamin Strong, Governor of the Federal Reserve Bank of New York, commented:

> If undertaken fairly promptly, I think a large amount could be raised, but I do not think it could be raised unless the country was satisfied, on the one hand, that reparation exactions did not exceed capacity to pay, and, on the other hand, that the German Government was running its affairs on a really business basis, which I am very sure they are not doing; the only doubt in my mind being whether it is wilful and deliberate, or ignorant and stupid. . . .
>
> As to the German loan itself[:] it should be offered in England and France, and possibly some other countries, as well as here. That gives a certain assurance that the "buck" is not being passed to us. It is, in my opinion, absolutely essential that a considerable amount of the proceeds (how much must be determined at the time) should be allowed for actual work of reconstruction of the German economic structure, rather than paid over in toto to the reparation beneficiaries.[28]

As the Genoa conference drew to a close, the first meeting of the bankers' committee was scheduled for May 24 and, at least to the

[25] Quoted in a letter from Logan to Strong, Apr. 6, 1922 (Strong, 1922).

[26] Logan letter to Strong, Apr. 15, 1922, p. 2.

[27] Logan letter to Strong, Apr. 14, 1922, and Strong letter to Logan, Apr. 24, 1922.

[28] Strong letters to Logan, Apr. 24 and May 15, 1922.

financiers concerned, the prospects seemed favorable that a substantial loan could be floated and a beginning made toward European stabilization.[29]

The International Monetary Proposals of 1922

These loan negotiations were going forward at about the same time that the international monetary proposals, for which the Genoa conference is usually remembered, were being considered. The proposals originated in Britain, which then occupied the center of the international monetary arena virtually unchallenged. The recognized and predominant international financial center of the era before 1914, Britain was still a major power; the extent to which its basic position had been weakened during World War I was not yet apparent. Germany and France were deeply preoccupied with domestic financial difficulties. The withdrawal of the United States into isolation under the Harding administration meant that, at this stage, America influenced international monetary reconstruction primarily through central and private banking channels. In these circumstances, the leading role was taken, almost as of right, by the British.

Drawing on prewar experience, the British authorities had formulated their views of the desirable international monetary system long before the conference assembled at Genoa. As early as January 1918, the Government had appointed a Committee on Currency and Foreign Exchanges after the War, chaired by the then Governor of the Bank of England, Lord Cunliffe. In an interim report[30] published in August of the same year, the committee presented a classical description of what its authors took to be the working of the pre-1914 gold standard. The report is relevant for this study because its international monetary model was in many respects the one that was accepted by virtually everyone at Genoa and even eleven years later by the Continental European countries that participated in the London conference. It was, of course, a system in which the parities of currencies were assumed to be permanently fixed in terms of gold and in which gold movements associated with payment imbalances brought equilibrating adjustments in domestic interest rates, wages, prices, and

[29] Logan letters to Strong, May 5, 1922, pp. 2–3; May 26, 1922, pp. 1, 4; and June 2, 1922, pp. 2–3. See also *The Economist* 94 (May 13, 1922), p. 890.

[30] Reprinted in Kirkaldy, 1921, pp. 438–455.

spending. The conception was of a unified world in which the component national economies adjusted in order to maintain international monetary stability. Not only was this view accepted without dissent by the committee, but its members conducted their discussions *on the assumption* that sterling would eventually be stabilized at its prewar parity equivalent to $4.86.[31]

The means by which the Cunliffe committee proposed to restore the gold standard are also relevant. Basically, the key to success was felt to be the drastic reduction of government influence on the operation of market forces. In the 1918 setting this meant the ending of policies that harnessed finance to the winning of the war, particularly (1) the cessation of government borrowing, especially from the banking system, (2) "the repayment of a large portion of the enormous amount" of bank-held government debt, and (3) the re-establishment of the Bank of England's freedom to use its discount rate to deal with movements in its gold reserves. In addition, the committee suggested a variety of gold economy measures: the ending of the circulation of gold coin; the centralization of gold with the Bank of England; the acquisition of gold coin and bullion for export by the public only from the Bank of England. By providing that gold be used primarily for international settlements, the committee hoped to increase the scope within which the authorities could administer the gold standard.

These recommendations formed the basis for the international monetary views supported by the British at Genoa and were to a large extent reflected in the proposals eventually adopted by the conference. In the monetary sphere, the British came to Genoa well prepared. Well in advance of the conference, a draft of the proposals had been composed by British monetary specialists—among whom Ralph G. Hawtrey, then of the Treasury, was prominent.[32] This draft was circulated to interested authorities abroad toward the end of February 1922.[33] Toward the end of March, experts from Belgium, France, Italy, and Japan, as well as from Britain, met in London to discuss and slightly modify the British proposals.[34] Thereafter, the Allied experts' draft was again slightly amended and adopted by the Financial Commission

[31] Moggridge, 1972, p. 18. [32] Clay, 1957, pp. 137–138.

[33] Norman letter to Strong, Feb. 23, 1922.

[34] Norman letter to Strong, Mar. 29, 1922. The experts' draft is published as part of Document No. 5 in *Documents Diplomatiques*, 1922.

of the conference on April 20 and by the conference itself on May 3.[35] In fact, the changes from the original British draft to the conference's recommendations were mostly stylistic and organizational, although a few were calculated to give the interested governments greater latitude in implementing the recommendations. Basically, however, the international monetary conception articulated in the February British draft remained intact.

The unanimity with which the British proposals were accepted is the more remarkable because the period following the publication of the Cunliffe report had seen developments in the London authorities' monetary views that were later to become highly controversial. For these developments the violent boom and bust of 1920–21 was largely responsible. As controls were dismantled after the war, huge inflationary pressures were released, and, on both sides of the Atlantic, official policies were initially inadequate to restrain them. In the United States, wholesale prices increased 34 per cent from the beginning of 1919 to their peak in May 1920; thereafter, as monetary restraint became effective, they dropped 46 per cent to a low in January 1922.[36] Similarly, in Britain the corresponding thirty-seven months saw wholesale prices increase 40 per cent, then collapse 50 per cent, as the authorities attempted to nudge sterling back to its prewar parity with the dollar. With 14 per cent of Britain's labor force unemployed in 1922,[37] the cost of returning to the prewar gold parity was already becoming worrisome.

In these circumstances, the major innovations of the Genoa proposals were designed to mitigate the deflationary pressure that was expected to arise from a general return to the gold standard. For this purpose, the gold economy measures that the Cunliffe committee had recommended for adoption in Britain were redesigned in order to meet what the English experts regarded as the needs of the international monetary system. In particular, the Genoa report proposed to limit the number of countries that would maintain free gold

[35] *Documents Diplomatiques*, 1922, pp. 150–154; *Papers Relating to International Economic Conference, Genoa, April–May 1922*, Cmd. 1667, 1924, pp. 59–63. The resolution of the Financial Commission also is published in the *Federal Reserve Bulletin*, 8 (June 1922), pp. 678–680.

[36] *Federal Reserve Bulletin*, 1920–23.

[37] *The British Economy: Key Statistics 1900–1966*, p. 8.

markets and hold their international reserves entirely in gold. Other countries, while not prevented from holding gold, would be encouraged to maintain part of their international reserves in the form of liquid claims on the gold centers. A gold-exchange standard or international clearing system would thus be established. The resulting centralization and coordination in the demand for gold would, in the somewhat obfuscated language of the conference's recommendations, "avoid those wide fluctuations in the purchasing power of gold, which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves."[38] The system would be managed by central banks that should "be free from political pressure" and that should cooperate continuously with each other. Cooperation was defined to mean that credit policy would "be regulated, not only with a view to maintaining the currencies at par with one another, but also with a view to preventing undue fluctuations in the purchasing power of gold."[39]

While all countries were encouraged to re-establish fixed parities, it was recognized that inflation had gone so far in some that a return to prewar gold values would not be practicable. Moreover, where the difficulties of attaining budgetary balance and currency stabilization were especially severe, external loans might be required to complete successful monetary reconstruction programs.[40] The Bank of England was requested to call a meeting of central bankers as soon as possible to prepare a convention that would implement these recommendations.[41] Finally, it was recognized that stabilization of the purchasing power of gold could not be achieved without the coordination of policy between Europe and the United States, whose cooperation was therefore especially invited.[42]

In New York, Benjamin Strong, who was to become the key American participant in the international monetary cooperation of the twenties, watched the preparations for, and progress of, the Genoa conference with mixed feelings. On the whole, his comments on the draft proposals received from Governor Norman of the Bank of England were not enthusiastic. To be sure, he approved of the general

[38] Resolution 9 of the *Report of the Financial Commission of the Genoa Conference.*

[39] Resolution 11, Sec. 7, of the *Report of the Financial Commission.*

[40] Resolution 7. [41] Resolution 12. [42] Resolution 10.

principles that were to be recommended and he hoped that the proposal for continuous central-bank cooperation would "produce some results." On the other hand, Strong was dubious about the general conference approach to international monetary reconstruction. Plans that treated the exchange problems of all countries alike, he believed, were "doomed to failure." Their problems were too diverse; countries should therefore be treated individually or, at most, in groups whose problems were similar. Moreover, he felt that the Genoa conference was ill-timed and should be postponed until intergovernmental debt problems had been resolved. Without this, the conference would be "futile," would produce some "impressive resolutions" but "no material results." Being skeptical about the usefulness of the conference, Strong made no comments in the spring of 1922 on most of the international monetary proposals, although he did criticize the recommendations for opening the door to the "devaluationist" who favored the stabilization of currencies at rates below the prewar gold parity. Strong wrote: "I fear him and his patent remedies."[43] As time went on, Strong's doubts about the Genoa resolutions increased. During the summer of 1922, when it seemed likely that he would attend the proposed central bankers' meeting, he wrote of his concern that a commitment to stabilize prices in terms of gold would constrain the domestic-policy freedom of the Federal Reserve System. His criticism of the gold-exchange standard emerged only much later, in the late twenties, when the difficulties of this system had become manifest.[44]

Leaving the enunciation of general principles to conferences, Strong focused most of the attention that he could spare from domestic concerns on the formulation of a pragmatic approach to international monetary reconstruction—an approach that was to bear fruit in later years. He concentrated on specific problems. In his view, the key to a general return to fixed exchange rates was the stabilization of the German mark. He therefore supported, as already noted, the efforts of the bankers' committee to arrange an international loan for Germany. At the same time, he felt that the Allies should open negotiations

[43] Strong's views are in various letters that he wrote during the early months of 1922, especially those to Norman of Feb. 18, Mar. 28, and Mar. 30 and to Herbert Hoover of Apr. 22. The relevant portions of the letter to Hoover are reproduced in Chandler, 1958, pp. 278–279.

[44] Clarke, 1967, pp. 36–39.

with the funding commission as soon as its members had been appointed by the President. Once intergovernmental debts had been placed on a sound long-term basis, the road to exchange stabilization would be open at least for those countries whose economic positions were relatively strong and whose currencies stood within striking distance of their prewar parities. Writing to Herbert Hoover, who was then Secretary of Commerce, Strong listed Denmark, Holland, Norway, Sweden, Switzerland, Argentina, Canada, Japan, and probably Spain and Great Britain as falling into this category. The Federal Reserve should, Strong felt, support stabilization abroad by providing large gold credits to the central banks of such countries. Even before the Genoa conference convened, Strong had sent Norman the tentative outline of one such stabilization scheme.[45] Under it, Britain and several other strong countries might join with the United States to establish a $300 million exchange-stabilization fund. If, Strong reasoned, the participating countries would

> enter into a gold contract with each other and with us, to ship gold ultimately, and possibly at some quite distant date, in settlement of the net balance of the exchange trading account, we might then establish an organization for furnishing exchange when it was needed, and for buying exchange when it was not needed, so as to introduce the stabilizing influence of organized central bank buying and selling.

Dollars required to support the exchanges would be supplied through advances from the Federal Reserve against gold pledged by the other participating countries. Britain, as the most important of these, might be expected to furnish half of the $300 million gold pledge. Strong suggested the further possibility that

> if after the end of a year or two, or even longer, it was found that the account could only be settled by shipments of gold; in other words, that the premium on dollars had gotten beyond control, then it might be possible for the governments of these various countries to negotiate long-time loans in the United States for the sole purpose of settling balances owing.

[45] This proposal was contained in a letter dated Nov. 1, 1921, but not sent to Norman until Feb. 7, 1922. Strong indicated that he was only thinking out loud about the proposal and that, as it was highly tentative, he had not signed his name to it. Nevertheless, he made repeated references to the proposal in his letters to Norman during the spring of 1922 and defended it against Norman's rather negative reaction.

Fading of Stabilization Hopes

Strong's proposal, together with those advanced by the British authorities and the bankers' committee, pointed in the general direction that Europe was eventually to take toward international monetary reconstruction. Actually, hope for genuine progress toward stabilization in 1922 lingered for a few weeks after the Genoa conference closed on May 19. Strong secured the approval of the Harding administration to attend the proposed central bankers' meeting,[46] and Norman visited the United States to discuss plans both for that meeting and for the funding of Britain's war debt. The bankers' committee met as scheduled in Paris toward the end of May. At once, however, the committee was confronted with a question of competence: Did its terms of reference permit it to examine Germany's capacity to meet the May 1921 reparation schedule, and, if so, was the committee to make a judgment on behalf of the major financial markets concerning the reparation burden Germany could bear? When questions to this effect were addressed to the Reparation Commission, the French government refused to permit a reopening of discussions on reparations.[47]

The result of Poincaré's intransigence was not, for him, an unmixed evil. To be sure, international monetary conditions would remain chaotic so long as the reparation problem was unsettled. But a default on reparations would give his government the legal basis to occupy militarily Germany's industrial heartland and thus deal with the threat that, especially since Rapallo, the French perceived to their security.[48]

With the rebuff to the bankers' committee, the hopes for an international loan to Germany and for an early stabilization of the mark collapsed. The international monetary situation had to become worse before it could get better.[49] The failure of the bankers' committee,

[46] Strong letters to Logan of Apr. 24, 1922, and to Governor W. P. G. Harding of July 27, 1922.

[47] Reparation Commission, 1922; statement of Raymond Poincaré on June 2, 1922 (*Annales de la Chambre des Députés*, 1923, p. 97); and Bergmann, 1927, pp. 133–135.

[48] Wolfers, 1940, pp. 1–59, and Craig and Gilbert, 1963, p. 157.

[49] Discussing the prevailing French view that Germany could and should meet the May 1921 reparation schedule, Strong observed shortly after Poincaré came to power: "It seemed to be a case after all of not what the facts are, but what the people think they are. . . . In human affairs there are certain things to be accomplished which are possible by ordinary methods; others that can only be

followed by the assassination of Germany's Foreign Minister, Walther Rathenau, brought a rapid depreciation of the mark in the exchange markets. Germany was declared in default on reparations at the end of 1922 and again at the beginning of 1923, when French and Belgian troops occupied the Ruhr.[50] The collapse of the mark and of military efforts to collect reparations followed. Only then was the stage set for the successful German stabilization effort in the autumn of 1923, the flotation of the Dawes loan a year later, and the achievement of European monetary stability that followed sterling's return to gold in the spring of 1925.[51]

---

accomplished as the result of crises which form or change public opinion. . . . I am inclined to conclude that the situation in Europe, as well as with us, is of the second type, and that only a crisis will afford convincing proof of the character to make public opinion. Let us hope that the crisis will leave the patient alive" (from a letter that Strong wrote to Norman, Feb. 2, 1922).

[50] Bergmann, 1927, pp. 162–176.

[51] Clarke, 1967, Chaps. 4 and 5.

III. THE NEGOTIATIONS OF 1933

The international monetary principles that had been so harmoniously—one might almost say casually—accepted in 1922 were undermined as a result of the diverse experiences of the major countries in the following decade. To be sure, the ideas articulated in the Cunliffe report and at Genoa still found strong supporters in the early thirties. Among these perhaps the most vigorous were in French government and banking circles. French experience before and after the stabilization of the franc in 1926–28 seemed clearly to vindicate the orthodoxy of the early twenties. So long as the government budget was unbalanced and the deficit was financed through borrowing from the banking system, the country suffered inflation, capital markets were demoralized, and the franc depreciated on the exchange markets.[1] France was at the mercy of its foreign creditors; its currency was held in disrepute and its influence abroad was enfeebled. Soon after the authorities balanced the budget, reduced the government's debt to the Bank of France, and stabilized the franc in terms of gold—albeit at a rate substantially lower than the 1914 parity—the inflation ceased, gold flowed to France, and Frenchmen could claim that their currency was the strongest in the world. The economy was prosperous and, for a year or more after the onset of the Great Depression, production in France was better sustained than in most other major countries.[2] The major exception to the Cunliffe-Genoa view raised by French experience related to the recommendation that certain central banks should hold part of their reserves in foreign exchange—losses on London balances after the severance of sterling's link to gold in September 1931 cost the Bank of France some $97 million equivalent.[3]

While the orthodox view was supported by France's experience, it was heavily qualified by Britain's. The return of sterling to its prewar gold parity, the stabilization of continental currencies at depreciated rates, rigidities in Britain's industrial structure and in its wages and prices, the huge excess of foreign short-term claims on London over the Bank of England's reserve assets—these and numerous other

[1] Dulles, 1929, and Wolfe, 1951, Chaps. II and III.

[2] Maddison, 1964, p. 202.

[3] Banque de France, 1932, p. 10.

difficulties made Britain's attempt to implement the Genoa prescription an unhappy experience. Real per capita income in Britain rose much more slowly in the seven years ended 1929 than in France and the United States. When the boom of the twenties was at its peak in other countries, 11 per cent of the labor force was still unemployed in Britain. On the eve of Britain's abandonment of the gold standard, the unemployment rate had risen to 21 per cent.[4]

For the United States, the experience of the decade following Genoa was a source of profound confusion. Whereas orthodox principles seemed to have been vindicated by the experience of France and undermined by that of Britain, the lessons to be drawn for America were unclear. Neither the prosperity of the twenties nor the depression of the early thirties could be attributed to international economic forces. True, the stabilization of currencies abroad and the substantial rise in United States foreign lending contributed marginally to the confidence and prosperity of the twenties, just as the currency depreciations and defaults contributed to the deflationary spiral of the early thirties. However, adherence to the gold standard never caused the United States to suffer the intense conflict between domestic and external aims that was experienced by Britain. United States short-term liabilities to foreigners reported by banks were never more than a fraction of its gold reserve, which, even on the eve of the abandonment of gold in March–April 1933, was still substantially larger than that of any other country and accounted for one-third of the world's total monetary gold stock.[5] Most important, the international side of United States economic activity was dwarfed by the domestic side. The key to the experience of the decade seemed therefore to lie in domestic economic management. Here, however, the verdict on orthodox principles was contradictory. Laissez-faire and the reduction of government debt had been associated both with the good times of the twenties and also with the crash. Thereafter, heroic efforts to balance the budget and so maintain confidence in the government's credit had been accompanied by a worsening of the depression.[6] In their perplexity, some concluded that the remedy lay in an even stricter imple-

[4] League of Nations, 1931/32, p. 59.

[5] *Banking and Monetary Statistics*, 1943, pp. 544, 574–575.

[6] *Annual Report of the Secretary of the Treasury*, 1950, p. 491; Studenski and Krooss, 1963, pp. 353–365.

mentation of orthodox principles, while yet others held that alternative policies—then regarded as radical and inflationary—were required.

Proposals for Cooperative Recovery Measures

In retrospect it is clear that, whatever lessons could be drawn from their diverse economic experiences, the major countries would have benefited in the early thirties from a cooperative recovery effort. With large-scale unemployment of human and material resources everywhere, the simultaneous adoption of expansionary monetary and fiscal policies would have been mutually advantageous. The expansion would have been reflected partly in the recovery of depressed prices but mostly in a growth of real income and employment. The simultaneous reduction of tariffs, quotas, and exchange controls would have released commerce from the multiple restrictions by which it had been choked as governments futilely attempted to protect their economies from deflation. Payments disequilibria that would doubtless have arisen during the recovery could have been financed cooperatively or handled by exchange-rate changes, depending on the nature of the problem.

Proposals for cooperative recovery were not lacking. They had been clearly and forcefully articulated, especially in Keynes's pamphlet, *The Means to Prosperity*, published during the spring of 1933.[7] Moreover, the governments of the United States and Britain had accepted vital parts of these proposals. The American Secretary of State, Cordell Hull, was of course a champion of trade liberalization most of his life and was to engage during the next few years in widespread negotiations for reciprocal tariff reductions. President Roosevelt's instructions to the United States delegation to the Monetary and Economic Conference held in London from June 12 to July 27, 1933, urged the elimination of exchange controls and the adoption of expansionary monetary and fiscal policies, financed where appropriate by market borrowing.[8] At the same time, the British government advanced a

[7] Keynes's proposals appeared as a series of articles in *The Times* of London and *The New Statesman and Nation* during March and April 1933. The articles were collected into the pamphlet that was published in New York later that spring (Keynes, 1933).

[8] President Roosevelt to the Secretary of State, May 30, 1933, *Foreign Relations of the United States 1933*, Vol. 1, Washington, D.C., 1938 (cited hereafter as *Foreign Relations 1933*), pp. 620–627.

proposal that, while not so ambitious as one previously outlined by Keynes, envisaged the establishment of an international monetary fund.[9] Under this plan, participating countries would have supplied the proposed institution with some $1½ billion to $2 billion for lending to central banks at very low interest rates. Countries that benefited from such loans would have been expected to stabilize their exchanges, remove exchange controls, and reduce other barriers to international trade.

Nevertheless, the prospects for successful cooperation were never good. Among the obstacles, the diverse experiences of the major countries in the previous decade were probably most important. The political basis for a cooperative effort consequently failed to develop. Moreover, governments, politically insecure and under pressure to relieve domestic economic distress, were desperately preoccupied with the short-term effects of policy. The large but nebulous long-term gains promised by advocates of international cooperation were insufficient to win acceptance for a bargain that involved even moderate short-term risks.

These were the preoccupations of the major countries in the winter of 1932–33. In France economic activity, after weathering the first shock of the depression relatively well, dropped 12 per cent from the 1929 level.[10] Government revenues were consequently shrinking and budgetary deficits appeared. Guided by the orthodoxy of the twenties, the authorities strove to cut expenditures and to maintain monetary discipline. The domestic economy, deprived of financial stimulus, was protected by increased tariffs and quotas from imports cheapened by currency depreciations and deflation abroad. With prices in France becoming increasingly uncompetitive with those in world markets, maintaining the stability of the franc grew ever more difficult. In these circumstances, a principal aim of French foreign economic policy was to persuade Britain and other countries, whose currencies were fluctuating, to restore exchange stability on the basis of the gold standard.[11]

Britain, journeying another road to economic salvation, rejected

[9] Memorandum by Herbert Feis, Apr. 17, 1933, *Foreign Relations 1933*, pp. 574–575.

[10] Maddison, 1964, p. 202.

[11] Wolfe, 1951, Chap. IV, and Moore, 1971, pp. 116–122. In writing this and the following sections I have relied frequently on Dr. Moore's dissertation.

French arguments in favor of the gold standard as self-serving. The 33 per cent depreciation in the sterling/dollar rate during the sixteen months ended December 1932 had brought a significant narrowing of Britain's trade deficit.[12] Under the Ottawa arrangements, negotiated between Britain and the dominions in July–August 1932, a preferential trading area was being formed. Freed from external constraints, the Bank of England's monetary policy had been eased and the domestic economy was beginning to recover. In the British authorities' view, the outlook would have been as satisfactory as could be expected but for the continued burden of war-debt payment to the United States, the annual amount of which was equivalent to 12 per cent of Britain's 1932 exports.[13]

Reparations and War Debts

Although Britain and France could agree on little else, they did make common cause on war debts. Understandably, neither country had ever paid these debts cheerfully, but in 1932 they had special reason to seek relief. In May of that year, German reparations, which had been temporarily suspended under the 1931 Hoover moratorium, were in effect permanently stopped by the Lausanne conference. The European powers thereupon increased their efforts to persuade the United States that the elimination of war debts was a prerequisite for the success of any recovery effort.

In the United States, high officials in both the outgoing Hoover and incoming Roosevelt administrations were receptive. Privately, they favored a statesmanlike attempt to use America's power to cancel war debts in order to obtain a cooperative recovery effort. However, the domestic political obstacles were great. Outside the New York banking community, which generally favored a war-debt settlement, most of the American public echoed Coolidge's commercial view that the Europeans had "hired the money" and should pay their debts. Toward the end of 1931, indeed, the Democratically controlled Congress had rebuffed a recommendation from Hoover that the funding commission be revived to reexamine the problem in the light of the emergency

[12] *Banking and Monetary Statistics*, 1943, p. 681, and Bank of England, 1932 and 1933.

[13] *Annual Report of the Secretary of the Treasury*, 1933, p. 28, and *The British Economy: Key Statistics 1900–1966*, p. 14; Moore, 1971, pp. 20–22, 52–53; *Banking and Monetary Statistics*, 1943, p. 681.

created by the depression, and had declared its opposition to any cancellation or reduction of the debts.[14] Even after the November 1932 election, this declaration doubtless contributed to Roosevelt's reluctance to ask for authority to reopen the debt negotiations, at least until after the bulk of his domestic recovery program had been enacted. Indeed, his administration went to great lengths to avoid any appearance that war-debt concessions would be made in return for cooperative foreign measures and insisted that discussions of the two questions be separate.[15] While informal discussions about a settlement were held with foreign officials, no United States concessions were offered. The official position remained that there was no connection between reparations and war debts and that the debt agreements negotiated in the twenties should be honored.[16]

The effort to develop a cooperative approach to world economic recovery was thus soured by the continued war-debt conflict. After Lausanne, the surge of European resentment against further war-debt payments could not be contained. In December 1932 the government of Edouard Herriot fell when the French parliament refused to appropriate funds for the year-end debt payment to the United States. Along with a few others, Britain made its year-end payment, but in that country, as elsewhere, pressure to stop war-debt payments intensified during 1933. In the face of an unbending American stand and, with the London economic conference in session, France and various other continental countries again defaulted on the payments schedule for mid-June, while the British saved face by making a token payment of $10 million, equivalent to 13 per cent of the amount due. The American administration made only pro forma protests, but Europe's default on the service of its war debts added to the already numerous obstacles to a cooperative handling of the world's economic problems.[17]

[14] Hoover, 1952, p. 171.

[15] Department of State to the British Embassy, Memorandum of Mar. 24, 1933, *Foreign Relations 1933*, pp. 472–473.

[16] On these discussions, see *Foreign Relations 1933*, pp. 826–847.

[17] Acting Secretary of State to the French Ambassador, June 17, 1933, and Acting Secretary of State to the British Ambassador, June 14, 1933, *Foreign Relations 1933*, pp. 842, 880. See also U.S. government statement on "British War Debt Payment" published in Roosevelt, 1938, Vol. 2, pp. 242–244.

Changing United States Economic Priorities

Apart from war debts, the change in administration in March 1933 brought a major shift in United States economic policies. Hoover believed that his administration had adopted all the domestic measures for recovery that were appropriate; further efforts would need to be international ones. It was in order to stimulate such efforts abroad that he was willing to consider the scaling down or cancellation of war debts.[18] In contrast, the incoming Roosevelt administration was bursting with new domestic recovery programs. True, during his election campaign Roosevelt had paid lip service to a balanced budget and "sound money."[19] The leaders of his administration included some—like Lewis Douglas—who attached importance to the old pieties. In the spring of 1933 the government even adopted budget cuts that symbolized its devotion to them.[20] Yet the administration's priorities as between domestic and external aims were clear. Franklin Roosevelt, who had run in 1920 as vice presidential candidate on a platform that supported the international aims of Woodrow Wilson, stated in his first inaugural:

> Our international trade relations, though vastly important, are in point of time and necessity secondary to the establishment of a sound national economy. I favor as a practical policy the putting of first things first. I shall spare no effort to restore world trade by international economic readjustments, but the emergency at home cannot wait on that accomplishment.[21]

Meeting the needs of the domestic economy perforce occupied all but a minute fraction of the President's attention in the spring of 1933. Some fifteen major measures were prepared by the administration and enacted by Congress in the first hundred days that Roosevelt was President.[22] The time that he devoted to international economic problems was therefore extremely limited. By the same token, his interest in the international economic conference that had been sponsored by Hoover was only sporadic. He was aware that some of his advisers feared the conference was a trap designed to force orthodox financial

[18] Hoover, 1952, p. 180, and Schlesinger, 1959, p. 203.
[19] Roosevelt, 1938, Vol. 1, pp. 795–811; *New York Times*, Nov. 5, 1932.
[20] Schlesinger, 1959, pp. 9–11. [21] Roosevelt, 1938, Vol. 2, p. 14.
[22] Schlesinger, 1959, pp. 20–21.

policies on the new administration and that they consequently favored a postponement of the meeting at least until his domestic programs had begun to take effect.[23] On the other hand, in the experimental atmosphere of the hundred days, it seemed possible that the meeting could be fruitful. Some new and useful proposals might materialize.

The decision to participate thus fitted in with the President's pragmatism. Indeed, his pursuit of apparently incompatible goals and his unpredictability were sometimes the despair of his technical advisers. James P. Warburg, one of the few New York bankers in whom Roosevelt had confidence and whom he appointed financial adviser to the United States delegation to the London conference, noted in his journal that monetary questions seemed alternatively to bore the President or to fascinate him; he was looking for some trick that would solve the country's problems. Warburg wrote that, in dealing with the President, "you were up against a compulsive drive to do something in this area without ever being able to pin the man down so that he would really think about it—a very odd experience."[24] In any event, a world conference that could be proclaimed successful might give a useful fillip to the domestic recovery effort. On balance, it seemed wise to go ahead.

Preliminary Sparring

By the time Roosevelt decided to participate, preliminary discussions had already taken place within a commission of experts appointed by Britain, France, the United States, and various other countries. In these discussions, which occurred in the winter of 1932–33 before the new administration took office, the views of the United States representatives were closer to those of the French and other continentals than to those of the British. True the British, French, and American experts agreed that recovery efforts called for comprehensive measures that would lead to the stabilization of exchange rates, the easing of monetary policy, and the reduction of barriers to trade and payments. However, they disagreed about the order in which such measures should be adopted. The Americans and French, as well as some other continentals, held that the return of sterling to the gold standard—at a parity that remained unspecified—was a prerequisite for cooperative

[23] Schlesinger, 1959, p. 203, and Moley, 1966, p. 51.
[24] Quoted in Schlesinger, 1959, p. 203.

measures in other areas. Without exchange stabilization, no country could undertake monetary expansion or the reduction of trade and exchange restrictions without exposing itself to unpredictable changes in its external position.

Taking the contrary view, the British experts held that, although they accepted the virtues of a reformed gold standard, sterling could be stabilized only upon the fulfillment of specified conditions, including (1) the adoption of expansionary measures in the major countries that would increase commodity prices to a level at which production costs would again be covered; (2) the reduction of barriers to trade and payments; (3) the acceptance of gold economy measures, including the reduction of central-bank reserve requirements; and (4) cooperative central-bank measures that, through the provision of special credits to debtor countries, would facilitate the revival of international capital flows. Until the effects of such measures had worked through the exchange markets, the British authorities would be in no position to judge where the sterling rate should be stabilized.[25]

Although the gap between the positions of the gold countries and the sterling ones was great, it seemed during the last weeks of the Hoover administration that a bargain could be negotiated. Under the terms visualized by the American members of the expert commission, Britain would stabilize sterling, France would relax quotas and other restrictions on imports, Germany would ease exchange controls, while the United States would reduce both its tariffs and its war-debt claims.[26] For the new administration, however, this bargain had three major faults: It assumed that Roosevelt would be more willing than

[25] League of Nations, Monetary and Economic Conference, Preparatory Commission of Experts, various documents, especially Exposé by Sir Frederick Leith-Ross on Jan. 9, 1933 (CP/conf. ME/34); comments by J. H. Williams and C. A. Rist, Jan. 9, 1933 (CP/conf. ME/2nd Sess./PV2); draft submitted by Leith-Ross and Rist, Jan. 16, 1933 (CP/conf. ME/38). British Embassy in Washington, memorandum on "British Policy on Economic Problems," handed to Cordell Hull just prior to Mar. 4, 1933, *Foreign Relations 1933*, pp. 465–470; address by Chancellor of the Exchequer Neville Chamberlain in Birmingham, England, Jan. 28, 1933, as reported by the *New York Times*, Jan. 29, 1933, p. 1; and Moore, 1971, Chap. 2.

[26] Memorandum from the American Representatives on the Preparatory Committee of Experts to the Secretary of State, Feb. 24, 1933, published in *Foreign Relations 1933*, pp. 462–464, and Feis, 1966, pp. 76 and 116.

his predecessor to grasp the war-debts nettle by asking Congress for authority to reduce the United States claims on foreign governments. It contained no significant stimulative measures but only the removal of obstacles to recovery. Finally, it foreclosed a major policy option for the new administration by assuming that the gold parity of the dollar would remain unchanged.

As events developed, Roosevelt's gold policy was dictated primarily by domestic pressures. The March banking crisis led the government to forbid gold exports except under Treasury license. However, this restriction was widely regarded as temporary; some licenses were in fact issued, and the dollar remained fairly stable in the exchange markets. Then on April 18 the President decided to halt all support operations and to allow the dollar to depreciate in terms of foreign currencies with a view to fostering an increase in United States commodity prices. The decision, interpreted by the press as a definite abandonment of the gold standard, was mainly designed to defuse pressures in Congress for policies that the President opposed because they would be dangerously inflationary and also nondiscretionary. Specifically, the decision enabled the President to persuade Congress to reject such mandatory measures in favor of the so-called "Thomas amendment," which, among other things, authorized but did not require him to change the United States gold price within specified limits and to issue greenbacks in order to buy various obligations of the United States.[27]

While domestic pressures predominated, the April 18 move was also influenced by international considerations. Prime Minister MacDonald of Britain was already en route to visit the President for preliminary discussions about the London conference. Numerous other foreign delegations were soon to follow. The abandonment of gold strengthened the bargaining position: the United States changed from the wooer to the wooed. The tie with France and the other gold-standard countries was broken. British hopes that the stabilization of sterling could be traded against a scaling down of war debts were undermined. Sterling, which was quoted at $3.46 in the New York exchange market on the eve of Roosevelt's inauguration and at $3.45 on April 17, ap-

[27] Roosevelt, 1938, Vol. 2, p. 138; Feis, 1966, p. 124; Schlesinger, 1959, p. 200; Public Law No. 10, 73rd Cong., Title II, Sec. 43, reprinted in *Federal Reserve Bulletin*, May 1933, pp. 317–318.

preciated rapidly thereafter. Indeed, the rise in the sterling/dollar rate was 20 per cent between then and the opening of the conference on June 12; it appreciated another 6 per cent by July 3, when the release of the President's so-called "bombshell" message shattered illusions that the London conference could reconcile conflicting national monetary aims.

However, the same domestic pressures that indirectly strengthened the United States bargaining position in the exchange-rate area severely weakened its negotiating power in other areas. In the hectic rush of formulating and adopting his domestic recovery program, the President was reluctant to complicate his Congressional relations with proposals that did not carry the highest priority. For this reason, as already noted, no legislation to reopen war-debt negotiations was requested. Similarly, no authority to negotiate tariff reductions—dear to the heart of Secretary Hull—was obtained before Congress adjourned on June 15. The discouraged Secretary commented later that he had "left for London with the highest of hopes, but arrived with empty hands."[28] Likewise, Britain's suggestion for the establishment of an international monetary fund was rebuffed on the ground that, in view of public resentment of defaults—actual and threatened—on outstanding loans, Congress would certainly reject any proposal for new credits to foreigners.[29]

It is fruitless to speculate about how the conference might have turned out if the United States negotiators had been able to offer war-debt cancellation, exchange stabilization, tariff reduction, and support for an international monetary fund in order to obtain acceptance abroad of the cooperative recovery program outlined in the President's instructions to the United States delegation. Some American officials may have envisaged such a bargain, but they were in no position to realize the vision by the time the conference was upon them. Moreover, even if the American delegation had been in a better negotiating position, there is considerable doubt about how far major countries abroad would have supported such a cooperative approach. In mid-May, an adviser to the President cabled from London:

> The British will talk about agreeing with us upon the broad policy of economic cooperation to be adopted at the World Conference but I fear

[28] Hull, 1948, p. 255.

[29] Memorandum by Feis, Apr. 17, 1933, *Foreign Relations 1933*, pp. 574–575.

> that the Cabinet with the possible exception of MacDonald has now little real faith or interest in achieving this. MacDonald is the facade which they use in order to work out a proper setting for dealing with us. . . . They feel that the restoration of England to its proper position . . . is now blocked by only two things, namely, war debts and the fluctuating dollar. They feel that with Ottawa and the other preferential treaties that they have negotiated or are now negotiating they would be in a position to face the future with equanimity apart from these two obstacles even if the Economic Conference proved a failure or its practical benefits were long delayed.[30]

For the French, the objective that overshadowed all others was the restoration of the gold standard and, more particularly, the stabilization of sterling and the dollar.[31]

The Exchange-Stabilization Negotiations

As events developed, such stabilization negotiations dominated the conference. Although the American delegation's instructions emphasized that exchange stabilization was but one part of an interrelated program for cooperative recovery, the negotiations on that part were separated from the rest and pushed rapidly toward a conclusion. As Roosevelt came to realize that exchange stabilization would be the only significant outcome of the conference, he balked, and was saddled with the blame for the breakdown of the cooperative recovery effort.

The separation of exchange stabilization from the rest of the negotiations, which earned Roosevelt this unwelcome verdict, was bureaucratic in origin. The technical arrangements for stabilization were the special concern of central banks and treasuries. Accordingly, representatives from those institutions in Britain, France, and the United States were delegated to work out the arrangements subject to the approval of their respective governments. In fact, the American representatives—O. M. W. Sprague of the Treasury and Governor George L. Harrison of the Federal Reserve Bank of New York—reported not to Secretary Hull, who headed the American delegation in London, but to the Secretary of the Treasury and to the Federal Reserve Board, respectively. Although James P. Warburg was assigned to maintain

[30] Telegram from Norman Davis to Cordell Hull, May 19, 1933, *Foreign Relations 1933*, pp. 597–598.

[31] French Embassy to Department of State, May 16, 1933, *Foreign Relations 1933*, pp. 608–609.

liaison between the stabilization negotiators and Hull's delegation, the activities of the two groups were hopelessly uncoordinated.[32]

The stabilization negotiations moved swiftly, while those on other recovery measures hardly had time to start before the conference collapsed. The difference in pace is understandable. The negotiations on trade and payments restrictions and financial policies involved a reconciliation of the interests of some sixty countries; those on stabilization involved only three. The stabilization negotiators were career officials, several of whom had known their foreign counterparts for many years. The techniques of currency stabilization were familiar. The professional inclination of the central bankers was to restore order and stability in the exchange markets. The needs of the occasion seemed clear. Addressing the heads of the countries that were to attend the London conference, the President had appealed in mid-May, among other things, for the prompt restoration of "order in place of the present chaos by a stabilization of currencies."[33] His instructions to the United States delegation were general but the purport was unmistakable: "Stability in the international monetary field [should] be attained as quickly as practicable" and "gold should be reestablished as the international measure of exchange values."[34] Moreover, some spade work had been done during late April and early May when British and French officials had visited Washington. At that time administration officials had shown interest in the establishment of a tripartite fund that would stabilize the British, French, and United States currencies. The exchange rates would be fixed only provisionally, being subject to change by any of the three countries upon due notice.[35] By mid-May the French government, reiterating its established view that the success of the general conference depended on the removal of the uncertainty about the dollar and sterling, proposed that the central banks of the three countries "start immediately" to negotiate stabilization arrangements.[36]

Once the American government authorized the stabilization negotiations, discussions moved fast. They began on June 10, two days before

[32] *Foreign Relations 1933*, pp. 619–620, 627–629; letter from Governor Eugene R. Black to W. Randolph Burgess, June 13, 1933, Records of the Federal Reserve Bank of New York, File C 797.41; Feis, 1966, pp. 150–151.

[33] Roosevelt, 1938, Vol. 2, p. 186.

[34] *Foreign Relations 1933*, p. 626.

[35] Feis, 1966, Chap. 14.

[36] French Embassy to the Department of State, May 16, 1933, *Foreign Relations 1933*, pp. 608–609.

the formal opening of the general conference, and were completed during the following week.[37] By Friday, June 16, a two-part agreement was negotiated and submitted to the governments. Both parts were to be effective only until the adjournment of the conference, by which time more permanent stabilization arrangements were expected to become operative. Under the first part, the three central banks agreed in effect to expend up to 3 million ounces of gold (equivalent to some $60 million at the $20.67 parity of the dollar) in order to maintain the existing pattern of market exchange rates for the three currencies. The middle rates for the dollar were to be $4.00 against sterling and $0.0466 against the French franc. The margins of fluctuation on either side of the middle rates were set at 1½ per cent. Corresponding sterling/franc rates would be maintained by Bank of England operations in the London gold market. Upon the expenditure of 3 million ounces of gold by any of the three central banks, the agreement was to be terminated but could be renewed subject to agreement on exchange rates and on further amounts of gold to be used in support operations. In order to ensure its effectiveness, the terms of the agreement were to be secret.[38]

While the $4 rate was well below the $4.15–4.25 that the President seems to have been contemplating,[39] it was doubtless the second part of the proposed agreement that he found most unacceptable. There was to be a declaration by the three governments, much of which, to be sure, was composed of innocuous generalities. France would confirm its adherence to the gold standard, while Britain and the United States would reaffirm their intention ultimately and under proper conditions to stabilize their currencies on a gold basis. The commitment that the President could not swallow was that none of the three countries would "in the absence of exceptional and unforeseen circumstances take any measures which will be incompatible with the principle of maintaining or restoring monetary stability," which, in the

[37] "Diary of Trip to London, June 1933," pp. 1–16. The author of this diary was probably J. E. Crane, Deputy Governor, Federal Reserve Bank of New York, who accompanied Harrison on the trip. The diary is in the Harrison Papers, 1933.

[38] Draft declarations by the three central banks and by the three governments enclosed in letter from Norman to Harrison, June 17, 1933, File C 260, Records of the Federal Reserve Bank of New York.

[39] Roosevelt to Hull, June 17, 1933, and Roosevelt to Acting Secretary of State, June 19, 1933, *Foreign Relations 1933*, pp. 646, 649.

context, meant exchange-rate stability. Cabling Washington to recommend approval of the two-part proposal, Sprague explained that this commitment meant that, except in an emergency, the United States would refrain from using the Thomas amendment.[40] Supporting this interpretation, Warburg cabled to the President:

> We have tried to protect your freedom of action to the utmost at the same time giving the assurance that can reasonably be asked of us as leaders in the monetary field to the effect that we are not going to be wilful and unnecessarily violent in our monetary policy.[41]

This proposal brought to a head all the fears of those who gave domestic recovery priority over external stability. The trap prepared by the orthodox priests of international finance was about to be sprung. Experience since the inauguration indicated a close link between movements in the dollar exchange rate and in United States stock and commodity prices. Despite the imposition of restrictions on gold exports, the dollar/sterling rate had remained reasonably stable during March and early April, while stock and commodity prices had increased only moderately (see Chart II). In the week following the President's April 18 gold decision, the dollar depreciated sharply on the exchange markets, while the rise in stock and commodity prices accelerated. In contrast, rumors about the tripartite stabilization agreement during the first week of the London conference brought an appreciation of the dollar and setbacks in New York stock and commodity prices. This led Hugh Johnson, Administrator for National Industrial Recovery, to thunder to Raymond Moley that "an agreement to stabilize now on the lines your boy friends in London are suggesting would bust to hell and gone the prices we're sweating to raise."[42] About the same time, an influential committee of nationalistic Americans cabled the President:

> every attempt to stabilize in the ratio of $4.00 to a pound must raise grave doubts as to early restoration of American price level. . . . All European nations have a common interest in seeing our dollar kept

[40] O. M. W. Sprague to W. H. Woodin, June 16, 1933, *Foreign Relations 1933*, pp. 642–643.

[41] James P. Warburg to Roosevelt, June 16, 1933, *Foreign Relations 1933*, p. 645.

[42] Quoted in Schlesinger, 1959, p. 215.

> high and our goods kept out of their markets. . . . This may undermine the public's expectation of higher price level, check the price rise and retard reemployment. . . . The country cannot stand another set back. . . . Instead of stabilizing, the United States should act to depress the dollar by selling it abroad. . . . Our committee is convinced that efforts to fix the dollar's destiny by conference and compromise in Europe must lead to unsatisfactory if not disastrous results at home. . . .[43]

Against this background, the President became increasingly skeptical about any commitment to stabilize the dollar. At first, his cables to the United States delegation in London suggested that he might consider temporary stabilization with a middle dollar/sterling rate of $4.15 and 2.4 per cent margins or, alternatively, an informal arrangement under which the United States would consider unilateral action of an unspecified nature to keep the dollar/sterling rate from depreciating below, say, $4.25.[44] Interspersed with these suggestions were reminders from the President that "far too much importance is attached to exchange stability by banker-influenced cabinets. In our case it means only a very small (perhaps three) percent of our total trade as measured by production."[45] At the same time the President continued to emphasize the need to avoid external constraints on domestic recovery. The declaration by the three governments included in the stabilization proposal might, he felt, be "construed by us as general and permissive in scope but is so worded that London and Paris might later charge us with bad faith if we decline later to go along with their interpretation of it."[46] The United States could accept no commitment that would bar "full freedom of action under [the] Thomas amendment" in order to deal with any incipient decline in United States commodity prices.[47]

By the end of June, the President had backed away altogether from government stabilization measures. Central banks—which he rather cavalierly relegated to the private sector—could attempt if they chose

[43] Copy of telegram to the President from the Committee for the Nation sent to Governor Harrison for his information, June 17, 1933, File C 260, Records of the Federal Reserve Bank of New York.

[44] *Foreign Relations 1933*, pp. 646, 649.

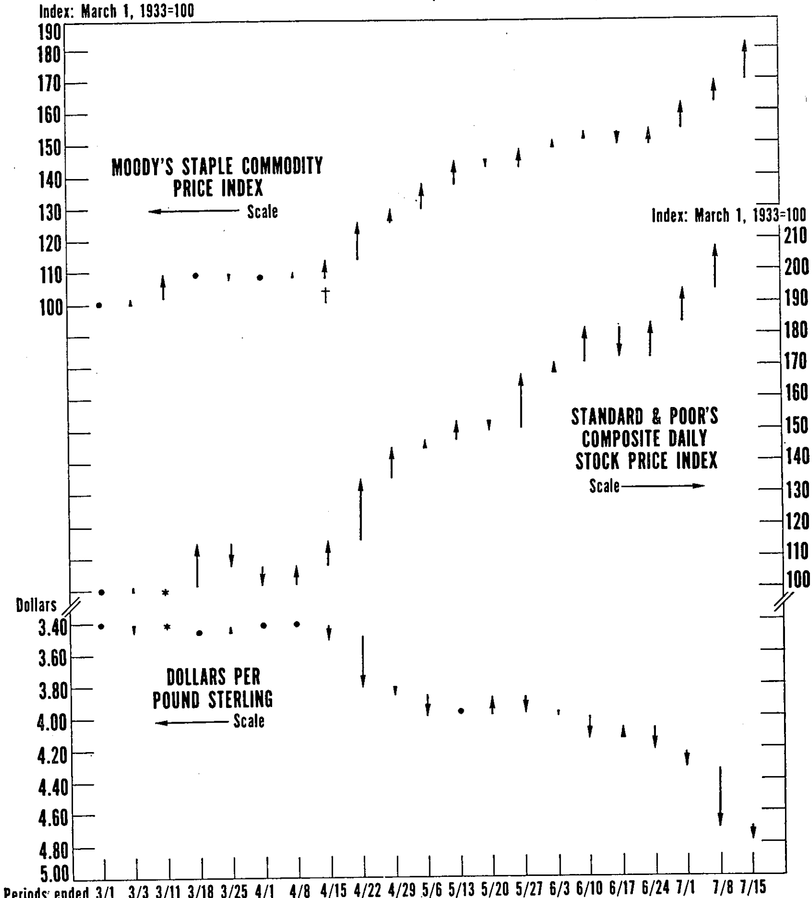
[45] Roosevelt telegram to Hull, June 20, 1933, *Foreign Relations 1933*, p. 650.

[46] Roosevelt to Hull, June 17, 1933, *Foreign Relations 1933*, p. 646.

[47] Roosevelt to Hull, June 17, 1933.

Chart II

CHANGES IN DOLLAR-STERLING EXCHANGE RATE AND IN PRICES ON UNITED STATES STOCK AND COMMODITY MARKETS, MARCH 1-JULY 15, 1933



Notes: Arrows indicate the magnitude and direction of change during each week ended Saturday; where weekly change is negligible, a point appears at the level.

* The closing of the banks, beginning Saturday, March 4, 1933, resulted in closings of the stock market through March 14, the foreign exchange market through March 11, and the commodities markets through March 6.

† The commodities markets were closed for holidays April 14, 15; the indicated change is for the week ended April 13.

Sources: Moody's staple commodity price index from Commercial and Financial Chronicle.

Standard and Poor's composite daily stock price index from Standard and Poor's Trade and Statistics--Securities Price Index Record, 1972 Edition.

Dollar-sterling exchange rates from Record of Foreign Exchange Rates, Certified to the Secretary of the Treasury, 1933, Foreign Department, Federal Reserve Bank of New York.

to limit exchange speculation, but he imposed the crippling proviso that any such attempts should lead to no United States gold losses.[48] Then, on July 2, the President brushed aside a proposed declaration on stabilization that did no more than repeat the substance of the instructions he had given to the American delegation a month earlier. In the so-called "bombshell" statement that was released to the press the following day, the President declared that he would

> regard it as a catastrophe amounting to a world tragedy if the great Conference of Nations, called to bring about a more real and permanent financial stability and a greater prosperity to the masses of all nations, should, in advance of any serious effort to consider these broader problems, allow itself to be diverted by the proposal of a purely artificial and temporary experiment affecting the monetary exchange of a few nations only.[49]

He was especially annoyed that the conference, supposedly called to deal with world economic problems, was focusing so much on what he regarded as the domestic economic policy of the United States. The United States, he insisted, must be "fully free to maintain stable domestic price level as our first consideration."[50] He stressed that "the sound internal economic system of a nation is a greater factor in its well being than the price of its currency in changing terms of the currencies of other nations."[51]

"No World Solution"

Franklin Roosevelt's mishandling of United States participation in the London economic conference is generally recognized and understood. The elements in the debacle range from the President's monetary idiosyncrasies to his intense concern to maintain the momentum of domestic economic recovery. During the first hundred days of the New Deal, the President encouraged a great diversity of programs and proposals, some of them inconsistent with each other. Among other things, he agreed to participate in a world economic conference that would promote cooperative recovery measures but simultaneously

[48] Roosevelt to Acheson, June 28, 1933, and Roosevelt to Hull, July 1, 1933, *Foreign Relations 1933*, pp. 663, 669–670.

[49] Roosevelt telegram to Hull, July 2, 1933, *Foreign Relations 1933*, p. 673.

[50] Roosevelt telegram to Hull, July 1, 1933, p. 669.

[51] Roosevelt telegram to Hull, July 2, 1933.

complicated cooperation by taking the United States off the gold standard. He favored a tariff truce but sanctioned restrictions against imports under the National Recovery and Agricultural Adjustment Acts. After the gloomy immobility of the Hoover administration, the new regime was experimenting, keeping its options open, and choosing its course according to the immediate effects of diverse policies on the economy. And it was on the domestic economy, perforce, that the President focused most of his attention. Preparation of the position that the administration expected to present at the conference was left in the hands of a very few subcabinet officials who had had little or no previous diplomatic experience. In this preparation, guidance from the President was minimal. When Roosevelt gave his formal written instructions to the delegation prior to its departure for London, James Warburg, who had drafted them, experienced an "uncomfortable feeling" that the President had, for some reason, lost interest in the conference.[52] Roosevelt's insouciance may also account for the poor quality of his appointments to the United States delegation, whose members were unable to work in harness, were diplomatically inexperienced, and were sometimes totally uninterested in the work of the conference. The success of a cooperative recovery effort would have been problematic in any event; with such a delegation it was altogether unlikely.[53]

Tactical mistakes contributed to the debacle. America failed to take advantage of its potentially powerful bargaining position to promote a cooperative recovery program. Domestic complications prevented the playing of some strong cards, and the cards that were used were wasted or played too soon. Before the conference was a week old, Britain had joined France in shaking off war debts, and a temporary stabilization agreement seemed within the Europeans' grasp. Thereafter, the hope for the adoption of cooperative recovery measures abroad rested primarily on British and French good intentions.

On this score, the President and his advisers had serious doubts. During the spring, diplomatic reports had suggested that both countries viewed the conference as a device to accomplish narrow nationalistic aims. The French government aimed not at monetary or fiscal expansion but only at the reestablishment of the gold standard in

[52] Warburg, 1964, p. 125.

[53] Feis, 1966, pp. 172–174; Schlesinger, 1959, pp. 208–209.

Britain and the United States in order to alleviate the pressure on the franc. For Britain, the conference was a facade behind which to obtain the elimination of war debts and to prevent competitive depreciation of the dollar. While pre-conference negotiations had been going on, Britain and France, along with other countries, had equaled or surpassed the United States in erecting trade restrictions that made a mockery of the tariff truce.[54] The prospect that currency stabilization would be followed by cooperative measures that would help sustain the American recovery was therefore nebulous at best.

Even if the major countries could have surmounted their national preoccupations, other difficulties would have raised serious obstacles to a cooperative recovery program. Much time would have been required to negotiate the various elements of the program, to cast it into appropriate form for presentation to national legislatures, to obtain legislative approval, and to push sluggish bureaucracies to implement the laws thus enacted. It would have been surprising—even in the existing crisis—if all this could have been accomplished in as little as eighteen months.

In the meantime, the problem of exchange stability would have remained unresolved. Agreement on exchange rates could not have been divorced from other aspects of the recovery program, but until the major countries were implementing these programs, it would not have been possible to form a judgment about the appropriate exchange-rate structure. Progress, or the lack of it, in negotiating, legislating, and implementing the programs would have been reflected in shifting exchange-market pressures. Even if central-bank cooperation had not broken down, the difficulties of maintaining reasonably orderly markets would clearly have been very great.

In the conditions of 1933 few countries, certainly not the United States, could have accepted the delays and uncertainties of a major cooperative recovery effort. The need for leadership and action—almost any action—was too pressing. The test—in America at any rate—was whether a policy brought prompt increases in prices, spending, and employment. Measures that met this test were accepted and squeezed for all they were worth. Others were rejected. By this test

[54] Norman Davis telegrams to Hull, May 8, 9, and 23, 1933, *Foreign Relations 1933*, pp. 594–595, 597–599, 612–613; Theodore Marriner to Hull, May 22, 1933, *National Archives*, 550, S 1/850 1/2; Moore, 1971, p. 159.

exchange stabilization—even rumors of stabilization—failed in June 1933. On the other hand, the stimulative effects of vigorous nationalistic measures had apparently been demonstrated by the spurt in the stock and commodity markets after the abandonment of gold. Theoretical support for a nationalistic stance was provided by the doctrines of Professor George Warren, who claimed that decreases in the gold value of the dollar would bring corresponding increases in commodity prices[55]—an objective that the administration was desperately seeking.

Equally powerful pressures forced defensive measures elsewhere. The collapse of the stabilization negotiations was followed by the rise of speculation against the gold currencies. To counter this pressure, the governments of six continental countries, led by France, formed a so-called "gold bloc" that aimed to maintain the "free functioning of the gold standard" on the basis of existing parities.[56] Meanwhile, Britain and the overseas dominions continued the movement begun at Ottawa a year earlier toward the formation of a sterling bloc. Thus the gold bloc, the sterling area, and the United States each moved in its own way to solve its special economic problems. The outcome was not entirely unforeseen. A perceptive Englishman, reviewing the outlook before the conference, had concluded that "there is no world solution for the present crisis."[57]

[55] Warren and Pearson, 1933, esp. p. 174; Schlesinger, 1959, pp. 234–235; on pp. 219–220 Schlesinger discusses other authors who influenced Roosevelt's views at this stage.

[56] The statement, made on July 3, 1933, was issued on behalf of Belgium, Italy, the Netherlands, Poland, and Switzerland, in addition to France, and is reproduced in Brown, 1940, p. 1287.

[57] Quoted in Davis to Hull, May 9, 1933, *Foreign Relations 1933*, p. 598.

IV. CONCLUSION

The failure of the London conference left the international monetary system in disarray. The harmony in official monetary thinking that had prevailed at Genoa had been destroyed. The old orthodoxy was still championed by the gold bloc but was given little more than lip service in Britain and the United States. The traditional international monetary conception was dying without having been replaced by another more acceptable model.

This hiatus was hardly surprising. The difficulties of the early thirties were regarded as temporary. Few felt that basic revisions were required in monetary conceptions that were believed to have stood the test of time. Even if doubts did arise about the relevance of these views, the need to deal with pressing problems left busy officials with little opportunity to consider alternative conceptions. In the one area—international liquidity—where significant innovations were proposed, American disillusionment with earlier foreign lending killed their chances for acceptance.

Nevertheless, the debacle of the early thirties prepared the ground for subsequent reconstruction efforts. The Genoa conception, as it was given reality in the late twenties, had proven too rigid to withstand the pressures of the Great Depression, but in escaping from fixed exchange rates Britain, and subsequently the United States, swung to the opposite extreme. Like the erection of so-called "protective restrictions" on trade and payments, competitive exchange depreciation proved self-defeating. It became clear that domestic prosperity could be neither sacrificed on the altar of the gold standard nor purchased at the cost of beggaring one's neighbor. The failure at London thus stimulated a search—yet to be completed—for policy techniques that would satisfactorily reconcile the needs for both domestic prosperity and external stability.

In the field of international liquidity the experience of 1922–33, while failing to stimulate actual reform, at least prompted a definite advance in thought. The adequacy of international liquidity had, of course, been a serious concern in the early twenties, but the proposals of that period had been limited to national remedies: monetary laws were to be amended in order that gold would be used only to effect international settlements and to enable central banks to hold foreign exchange; monetary authorities were to avoid deflationary policies designed to attract gold. By 1933 most of these proposals were discredited or irrelevant. Although there was still widespread agreement that gold should be used exclusively for international settlements, the sterling and dollar devaluations had placed the gold-exchange standard under a cloud and made the danger of a competitive scramble for gold largely academic. Rather, the need was for injections of liquidity that would facilitate the repayment of frozen and defaulted international debts and the lifting of related restrictions on trade and capital flows. Yet, in view of the widespread failure to honor past commitments, the chances were virtually nil that further bilateral credits would be granted to defaulting countries. One way around this impasse was the establishment of an international monetary institution in which participating countries could deposit funds that could be re-lent in order to free up the world's capital markets. A suggestion from the fertile mind of Keynes was even further ahead of its time.[1] Anticipating the SDRs, his proposal envisaged the creation of unconditional liquidity in the form of gold-denominated notes. The notes —to be created by an international institution against gold-guaranteed obligations of participating governments—would be issued to participating countries, which would treat them as equivalent to gold for purposes of international settlements. Moreover, the amount of the issue outstanding was to be regulated in order to mitigate world economic fluctuations. These were promising proposals, but they were not to bear fruit until the depression of the thirties was history, another world war had been fought, and a new generation had grown to maturity.

[1] Keynes, 1933, Chaps. 5 and 6.

REFERENCES

Annales de la Chambre des Députés, Débates Parlementaires, Session Ordinaire de 1922, du 23 mai au 8 juillet 1922, Paris 1923.

Bank of England, *Statistical Summary,* 1932 and 1933.

Banking and Monetary Statistics, Washington, D.C., Board of Governors of the Federal Reserve System, 1943.

Banque de France, *Compte Rendu 1931,* Paris, 1932.

Bergmann, Carl, *The History of Reparations,* Boston, Houghton Mifflin, 1927.

Board of Trade, *Statistical Abstract for the United Kingdom,* 1913 and 1922, Cmd. 5353, London, 1937.

The British Economy: Key Statistics 1900–1966, London and Cambridge Economic Service.

Brown, William Adams, Jr., *The International Gold Standard Reinterpreted, 1914–1934,* Vol. 2, New York, National Bureau of Economic Research, 1940.

Chandler, Lester, *Benjamin Strong: Central Banker,* Washington, D.C., The Brookings Institution, 1958.

Clarke, Stephen V. O., *Central Bank Cooperation: 1924–1931,* New York, Federal Reserve Bank of New York, 1967.

Clay, Henry, *Lord Norman,* London, Macmillan, 1957.

Craig, G. A., and F. Gilbert, eds., *The Diplomats, 1919–1939,* Vol. 1, New York, Atheneum, 1963.

D'Abernon, Viscount, *The Diary of an Ambassador: Versailles to Rapallo, 1920–1922,* New York, Doubleday, 1929.

Documents Diplomatiques, Conférence Economique Internationale de Gênes, 9 avril–19 mai 1922, Paris, Ministère des Affaires Etrangères, 1922.

Documents Relatifs aux Réparations, Tome 1e, Paris, Ministère des Affaires Etrangères, 1922.

Dulles, Eleanor L., *The French Franc: 1914–1928,* New York, Macmillan, 1929.

Eyck, Erich, *A History of the Weimar Republic,* Vol. 1, translated by H. P. Hanson and R. G. L. Waite, Cambridge, Mass., Harvard University Press, 1962.

Feis, Herbert, *1933: Characters in Crisis,* Boston, Little, Brown, 1966.

Felix, David, *Walther Rathenau and the Weimar Republic: The Politics of Reparations,* Baltimore, The Johns Hopkins Press, 1971.

Hallgarten, G. W. F., "General Hans Von Seeckt and Russia, 1920–1922," *Journal of Modern History,* 21 (March 1949), pp. 30–32.

Harrison, George L., "Papers," Records of the Federal Reserve of New York, 1933.

Hoover, Herbert, *Memoires: The Great Depression, 1929–1941*, New York, Macmillan, 1952.

Hull, Cordell, Memoirs, Vol. 1, New York, Macmillan, 1948.

Keynes, John Maynard, *The Means to Prosperity*, New York, Harcourt, Brace, 1933.

Kirkaldy, A. W., *British Finance during and after the War, 1914–1921*, London, Pitman, 1921.

League of Nations, *Memorandum on Balances of Payments and Foreign Trade Balances, 1910–1924*, Vol. 2, Geneva, 1925.

League of Nations, *Statistical Yearbook*, 1931/32.

Maddison, Angus, *Economic Growth in the West*, New York, Twentieth Century Fund, 1964.

Mills, J. Saxon, *The Genoa Conference*, New York, Dutton, 1922.

Moggridge, D. E., *British Monetary Policy, 1924–1931*, Cambridge, England, Cambridge University Press, 1972.

Moley, Raymond, *The First New Deal*, New York, Harcourt, Brace & World, 1966.

Moore, James R., "A History of the World Economic Conference, London, 1933," unpublished dissertation, Stony Brook, N.Y., State University of New York, December 1971.

Nicolson, Harold G., *Curzon: The Last Phase, 1919–1925*, London, Constable, 1937.

Owen, Frank, *Tempestuous Journey: Lloyd George, His Life and Times*, New York, McGraw-Hill, 1955.

Papers Relating to International Economic Conference, Genoa, April–May 1922, Cmd. 1667, London, 1924.

Reparation Commission, "Minutes of Meetings of June 6–7, 1922," Records of the Federal Reserve Bank of New York, File C 797, 1922.

Roosevelt, Franklin D., *Public Papers and Addresses*, New York, Random House, 1938.

Schlesinger, Arthur M., Jr., *The Coming of the New Deal*, Boston, Houghton Mifflin, 1959.

Strong, Benjamin, "Papers," Records of the Federal Reserve Bank of New York, 1922.

Studenski, Paul, and Herman E. Krooss, *Financial History of the United States*, 2d ed., New York, McGraw-Hill, 1963.

Svennilson, Ingvar, *Growth and Stagnation in the European Economy*, Geneva, United Nations Economic Commission for Europe, 1954.

Warburg, James P., *The Long Road Home*, New York, Doubleday, 1964.
Warren, George F., and Frank A. Pearson, *Prices*, New York, Wiley, 1933.
Wheeler-Bennett, John W., *Wooden Titan*, New York, Morrow, 1936.
Wolfe, Martin, *The French Franc between Wars, 1919–1939*, New York, Columbia University Press, 1951.
Wolfers, Arnold, *Britain and France between Two Wars*, New York, Harcourt, Brace, 1940.

PUBLICATIONS OF THE INTERNATIONAL FINANCE SECTION

Notice to Contributors

The International Finance Section publishes at irregular intervals papers in four series: ESSAYS IN INTERNATIONAL FINANCE, PRINCETON STUDIES IN INTERNATIONAL FINANCE, SPECIAL PAPERS IN INTERNATIONAL ECONOMICS, and REPRINTS IN INTERNATIONAL FINANCE. ESSAYS and STUDIES are confined to subjects in international finance. SPECIAL PAPERS are confined to surveys of the literature suitable for courses in colleges and universities. An ESSAY should be a lucid exposition of a theme, accessible not only to the professional economist but to other interested readers. It should therefore avoid technical terms, should eschew mathematics and statistical tables (except when essential for an understanding of the text), and should rarely have footnotes. Most important, it should have a certain grace of style and rhythm in its language.

This does not mean that a STUDY or SPECIAL PAPER may be awkward and clumsy, but it may be more technical. It may include statistics and algebra, and may have many footnotes. STUDIES and SPECIAL PAPERS may also be longer than ESSAYS; indeed, these two series are meant to accommodate manuscripts too long for journal articles and too short for books.

To facilitate prompt evaluation, please submit three copies of your manuscript. Retain one copy for your files. The manuscript should be typed on one side of 8½ by 11 strong white paper. All material should be double-spaced—text, excerpts, footnotes, tables, references, and figure legends. More complete guidance appears in the Section's style guide; prospective contributors are urged to send for it before preparing their manuscripts.

How to Obtain Publications

A mailing list is maintained for free distribution of all publications as they are issued to college, university, and public libraries and nongovernmental, nonprofit research institutions.

Individuals and organizations—including governmental organizations that do not qualify for free distribution—can obtain ESSAYS and REPRINTS as issued and announcements of new STUDIES and SPECIAL PAPERS by paying an annual fee of $5 to cover the period July 1 through June 30. Alternatively, for an annual contribution of at least $25 to the publication program of the International Finance Section they can receive all publications automatically—SPECIAL PAPERS and STUDIES as well as ESSAYS and REPRINTS.

ESSAYS and REPRINTS ordered from the Section are $1 per copy, and STUDIES and SPECIAL PAPERS are $1.50. (These charges are waived on orders from persons or organizations in countries whose foreign-exchange regulations prohibit such remittances.)

All manuscripts, correspondence, and orders should be addressed to:

International Finance Section
P. O. Box 644
Princeton, New Jersey 08540

Subscribers should notify the Section promptly of a change of address, giving the old address as well as the new one.

(Customers in England, Scotland, and Ireland may find it more convenient to order Section publications from the Economists' Bookshop, Portugal Street, London, W.C. 2. This bookseller will usually have Section publications in stock.)

List of Publications

The following is a partial list of the publications of the International Finance Section.[1] The issues of the four series marked by asterisks, Essays Nos. 1 through 60 and Studies Nos. 1 through 10, are no longer available from the Section. They may be obtained in Xerographic reproductions (that is, looking like the originals) from University Microfilm, Inc., 300 N. Zeeb Road, Ann Arbor, Michigan 48106. (Most of the issues are priced at $6.00.)

ESSAYS IN INTERNATIONAL FINANCE

- * 70. Milton Gilbert, *The Gold-Dollar System: Conditions of Equilibrium and the Price of Gold.* (Nov. 1968)
- 71. Henry G. Aubrey, *Behind the Veil of International Money.* (Jan. 1969)
- 72. Anthony Lanyi, *The Case for Floating Exchange Rates Reconsidered.* (Feb. 1969)
- * 73. George N. Halm, *Toward Limited Exchange-Rate Flexibility.* (March 1969)
- * 74. Ronald I. McKinnon, *Private and Official International Money: The Case for the Dollar.* (April 1969)
- 75. Jack L. Davies, *Gold: A Forward Strategy.* (May 1969)
- * 76. Albert O. Hirschman, *How to Divest in Latin America, and Why.* (Nov. 1969)
- 77. Benjamin J. Cohen, *The Reform of Sterling.* (Dec. 1969)
- * 78. Thomas D. Willett, Samuel I. Katz, and William H. Branson, *Exchange-Rate Systems, Interest Rates, and Capital Flows.* (Jan. 1970)
- * 79. Helmut W. Mayer, *Some Theoretical Problems Relating to the Euro-Dollar Market.* (Feb. 1970)
- * 80. Stephen Marris, *The Bürgenstock Communiqué: A Critical Examination of the Case for Limited Flexibility of Exchange Rates.* (May 1970)
- * 81. A. F. Wynne Plumptre, *Exchange-Rate Policy: Experience with Canada's Floating Rate.* (June 1970)
- 82. Norman S. Fieleke, *The Welfare Effects of Controls over Capital Exports from the United States.* (Jan. 1971)
- * 83. George N. Halm, *The International Monetary Fund and Flexibility of Exchange Rates.* (March 1971)
- * 84. Ronald I. McKinnon, *Monetary Theory and Controlled Flexibility in the Foreign Exchanges.* (April 1971)
- * 85. Robert A. Mundell, *The Dollar and the Policy Mix: 1971.* (May 1971)
- * 86. Richard N. Cooper, *Currency Devaluation in Developing Countries.* (June 1971)
- * 87. Rinaldo Ossola, *Towards New Monetary Relationships.* (July 1971)
- 88. Giovanni Magnifico, *European Monetary Unification for Balanced Growth: A New Approach.* (Aug. 1971)
- * 89. Franco Modigliani and Hossein Askari, *The Reform of the International Payments System.* (Sept. 1971)
- 90. John Williamson, *The Choice of a Pivot for Parities.* (Nov. 1971)
- 91. Fritz Machlup, *The Book Value of Monetary Gold* (Dec. 1971)
- 92. Samuel I. Katz, *The Case for the Par-Value System, 1972.* (March 1972)
- 93. W. M. Corden, *Monetary Integration.* (April 1972)

[1] A list of earlier publications is available from the Section, or consult the publications list in earlier essays. A few of these publications are still available at the Section.

94. Alexandre Kafka, *The IMF: The Second Coming?* (July 1972)
95. Tom de Vries, *An Agenda for Monetary Reform.* (September 1972)
96. Michael V. Posner, *The World Monetary System: A Minimal Reform Program.* (October 1972)
97. Robert M. Dunn, Jr., *Exchange-Rate Rigidity, Investment Distortions, and the Failure of Bretton Woods.* (Feb. 1973)
98. James C. Ingram, *The Case for European Monetary Integration.* (April 1973)
99. Fred Hirsch, *An SDR Standard: Impetus, Elements, and Impediments.* (June 1973)
100. Y. S. Park, *The Link between Special Drawing Rights and Development Finance.* (September 1973)
101. Robert Z. Aliber, *National Preferences and the Scope for International Monetary Reform.* (November 1973)

PRINCETON STUDIES IN INTERNATIONAL FINANCE

* 11. Arthur I. Bloomfield, *Short-Term Capital Movements under the Pre-1914 Gold Standard.* (July 1963)
12. Robert Triffin, *The Evolution of the International Monetary System: Historical Reappraisal and Future Perspectives.* (June 1964)
13. Robert Z. Aliber, *The Management of the Dollar in International Finance.* (June 1964)
14. Weir M. Brown, *The External Liquidity of an Advanced Country.* (Oct. 1964)
* 15. E. Ray Canterbery, *Foreign Exchange, Capital Flows, and Monetary Policy.* (June 1965)
16. Ronald I. McKinnon and Wallace E. Oates, *The Implications of International Economic Integration for Monetary, Fiscal, and Exchange-Rate Policy.* (March 1966)
17. Egon Sohmen, *The Theory of Forward Exchange.* (Aug. 1966)
18. Benjamin J. Cohen, *Adjustment Costs and the Distribution of New Reserves.* (Oct. 1966)
19. Marina von Neumann Whitman, *International and Interregional Payments Adjustment: A Synthetic View.* (Feb. 1967)
20. Fred R. Glahe, *An Empirical Study of the Foreign-Exchange Market: Test of A Theory.* (June 1967)
21. Arthur I. Bloomfield, *Patterns of Fluctuation in International Investment before 1914.* (Dec. 1968)
22. Samuel I. Katz, *External Surpluses, Capital Flows, and Credit Policy in the European Economic Community.* (Feb. 1969)
23. Hans Aufricht, *The Fund Agreement: Living Law and Emerging Practice.* (June 1969)
24. Peter H. Lindert, *Key Currencies and Gold, 1900-1913.* (Aug. 1969)
25. Ralph C. Bryant and Patric H. Hendershott, *Financial Capital Flows in the Balance of Payments of the United States: An Exploratory Empirical Study.* (June 1970)
26. Klaus Friedrich, *A Quantitative Framework for the Euro-Dollar System.* (Oct. 1970)
27. M. June Flanders, *The Demand for International Reserves.* (April 1971)
28. Arnold Collery, *International Adjustment, Open Economies, and the Quantity Theory of Money.* (June 1971)
29. Robert W. Oliver, *Early Plans for a World Bank.* (Sept. 1971)
30. Thomas L. Hutcheson and Richard C. Porter, *The Cost of Tying Aid: A Method and Some Colombian Estimates.* (March 1972)

31. The German Council of Economic Experts, *Toward a New Basis for International Monetary Policy.* (October 1972)

32. Stanley W. Black, *International Money Markets and Flexible Exchange Rates.* (March 1973)

33. Stephen V. O. Clarke, *The Reconstruction of the International Monetary System: The Attempts of 1922 and 1933.* (November 1973)

SPECIAL PAPERS IN INTERNATIONAL ECONOMICS

No. 1. Gottfried Haberler, *A Survey of International Trade Theory.* (Sept. 1955; Revised edition, July 1961)

* 2. Oskar Morgenstern, *The Validity of International Gold Movement Statistics.* (Nov. 1955)

* 3. Fritz Machlup, *Plans for Reform of the International Monetary System.* (Aug. 1962; Revised edition, March 1964)

* 4. Egon Sohmen, *International Monetary Problems and the Foreign Exchanges.* (April 1963)

* 5. Walther Lederer, *The Balance on Foreign Transactions: Problems of Definition and Measurement.* (Sept. 1963)

* 6. George N. Halm, *The "Band" Proposal: The Limits of Permissible Exchange Rate Variations.* (Jan. 1965)

* 7. W. M. Corden, *Recent Developments in the Theory of International Trade.* (March 1965)

8. Jagdish Bhagwati, *The Theory and Practice of Commercial Policy: Departures from Unified Exchange Rates.* (Jan. 1968)

9. Marina von Neumann Whitman, *Policies for Internal and External Balance.* (Dec. 1970)

REPRINTS IN INTERNATIONAL FINANCE

11. Fritz Machlup, *The Transfer Gap of the United States.* [Reprinted from *Banca Nazionale del Lavoro Quarterly Review*, No. 86 (Sept. 1968)]

12. Fritz Machlup, *Speculations on Gold Speculation.* [Reprinted from *American Economic Review, Papers and Proceedings*, Vol. LVI (May 1969)]

13. Benjamin J. Cohen, *Sterling and the City.* [Reprinted from *The Banker*, Vol. 120 (Feb. 1970)]

14. Fritz Machlup, *On Terms, Concepts, Theories and Strategies in the Discussion of Greater Flexibility of Exchange Rates.* [Reprinted from *Banca Nazionale del Lavoro Quarterly Review*, No. 92 (March 1970)]

15. Benjamin J. Cohen, *The Benefits and Costs of Sterling.* [Reprinted from *Euromoney*, Vol. I, Nos. 4 and 11 (Sept. 1969 and April 1970)]

16. Fritz Machlup, *Euro-Dollar Creation: A Mystery Story.* [Reprinted from *Banca Nazionale del Lavoro Quarterly Review*, No. 94 (Sept. 1970)]

17. Stanley W. Black, *An Econometric Study of Euro-Dollar Borrowing by New York Banks and the Rate of Interest on Euro-Dollars.* [Reprinted from *The Journal of Finance*, Vol. XXVI (March 1971)]

SEPARATE PUBLICATION

Fritz Machlup and Burton G. Malkiel, eds., *International Monetary Arrangements: The Problem of Choice.* Report on the Deliberations of an International Study Group of 32 Economists. (Aug. 1964) [$1.00]

$1.50