

PRINCETON STUDIES IN INTERNATIONAL FINANCE NO. 45

**London, Washington, and the
Management of the Franc,
1936-39**

Ian M. Drummond

**INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS
PRINCETON UNIVERSITY • 1979**

PRINCETON STUDIES
IN INTERNATIONAL FINANCE

This is the forty-fifth 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, Ian M. Drummond, is a professor in the Department of Political Economy at the University of Toronto. He has also taught at Yale University and, as a visitor, at Princeton University and the University of Edinburgh. Among his recent publications are *British Economic Policy and the Empire, 1919-1939*, *Imperial Economic Policy, 1917-1939*, and *Economics: Principles and Policies in an Open Economy*.

This series is intended to be restricted to meritorious research studies in the general field of international financial problems that are too technical, too specialized, or too long to qualify as ESSAYS. The Section welcomes the submission of manuscripts for the series. While the Section sponsors the studies, the writers are free to develop their topics as they will.

PETER B. KENEN

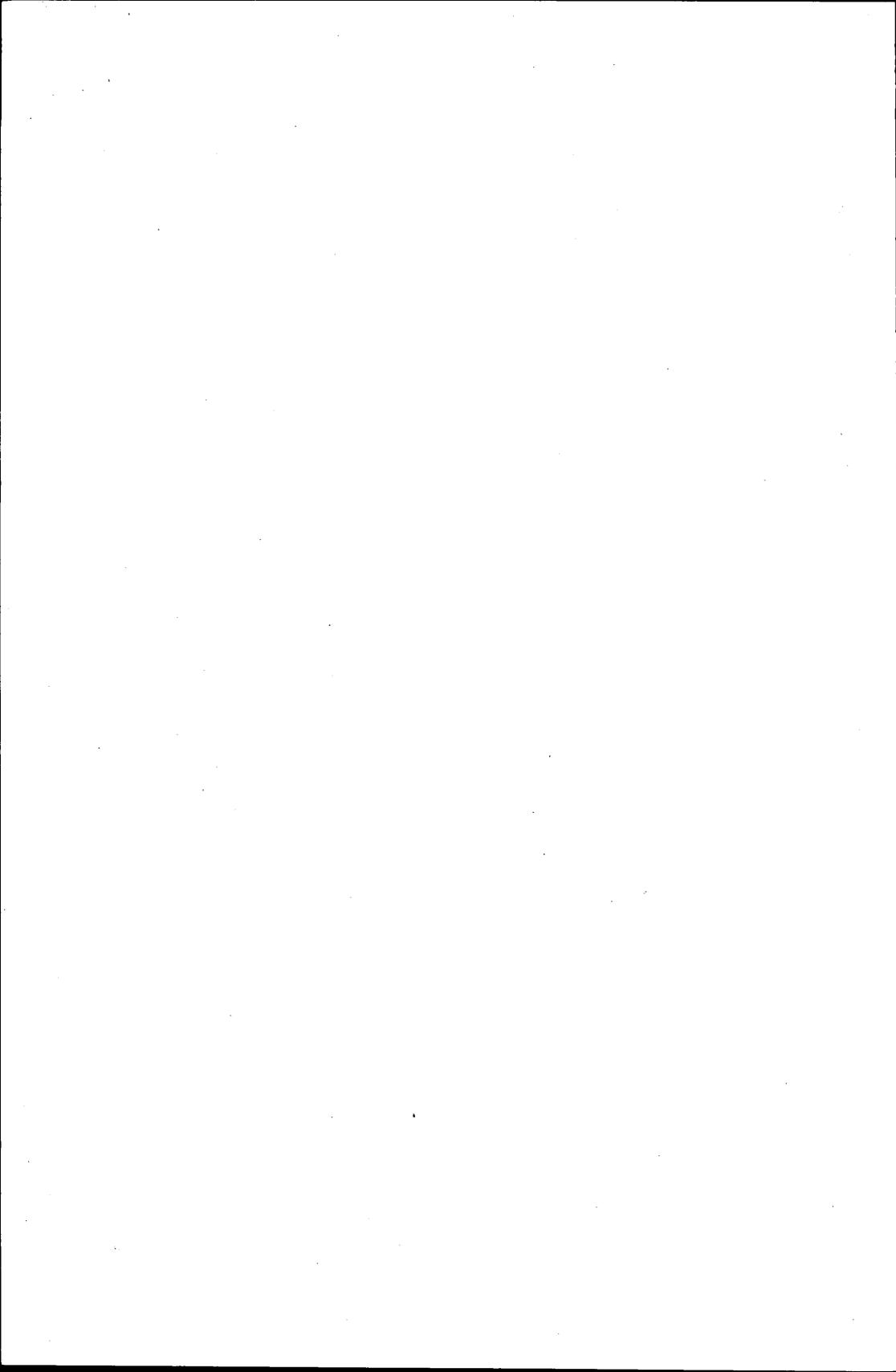
Director, International Finance Section

PRINCETON STUDIES IN INTERNATIONAL FINANCE NO. 45

London, Washington, and the
Management of the Franc,
1936-39

Ian M. Drummond

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS
PRINCETON UNIVERSITY
PRINCETON, NEW JERSEY
NOVEMBER 1979



CONTENTS

| | |
|--|----|
| CAST OF CHARACTERS | v |
| 1 INTRODUCTION | 1 |
| The Tripartite Declarations | 1 |
| Historical Backdrop | 3 |
| Attitudes toward Cooperation and Mutual Support | 4 |
| 2 BLUM AND AURIOL | 9 |
| 3 CHAUTEMPS AND BONNET | 16 |
| 4 CHAUTEMPS AND MARCHANDEAU | 26 |
| 5 BLUM ONCE MORE | 30 |
| 6 DALADIER AND MARCHANDEAU | 32 |
| 7 TRANQUILLITY WITH DALADIER AND REYNAUD | 39 |
| 8 MORGENTHAU AND THE FRENCH: CREDIT AND EXCHANGE CONTROL | 42 |
| 9 SOME CONCLUSIONS | 53 |
| REFERENCES | 57 |

INTERNATIONAL FINANCE SECTION
EDITORIAL STAFF

Peter B. Kenen, *Director*
Ellen V. Seiler, *Editor*
Susan M. Ciotti, *Editorial Aide*
Kaeti Isaila, *Subscriptions and Orders*

Library of Congress Cataloging in Publication Data

Drummond, Ian M

London, Washington, and the management of the franc, 1936-39.

(Princeton studies in international finance; no. 45)

Includes bibliographical references.

1. Foreign exchange problem—History. 2. International finance—History.
3. Currency question—France—History. I. Title. II. Series.
HG3811.D78 332.4'5'09 79-22074

*Copyright © 1979 by International Finance Section, Department of Economics,
Princeton University.*

All rights reserved. Except for brief quotations embodied in critical articles and reviews, no part of this publication may be reproduced in any form or by any means, including photocopy, without written permission from the publisher.

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

International Standard Serial number: 0081-8070

Library of Congress Catalog Card Number: 79-22074

CAST OF CHARACTERS

- AURIOL, VINCENT, French Minister of Finance, June 1936-June 1937.
- BEWLEY, THOMAS KENNETH, Financial Adviser to British Embassy in Washington, 1933-39.
- BLUM, LÉON, French Premier, June 1936-June 1937, March 1938-April 1938.
- BONNET, GEORGES, French Ambassador to Washington, 1936-37; Minister of Finance, June 1937-January 1938; Foreign Minister, 1938-39.
- BULLITT, WILLIAM C., U.S. Ambassador to France, 1936-41.
- BUTTERWORTH, WILLIAM W., Second Secretary, 1934-41, and Financial Secretary, 1935-41, U.S. Embassy in London.
- CHAMBERLAIN, NEVILLE, British Chancellor of the Exchequer, 1931-37; Prime Minister, 1937-40.
- CHAUTEMPS, CAMILLE, French Premier, June 1937-March 1938.
- COCHRAN, H. MERLE, Financial Secretary, U.S. Embassy in Paris, 1932-39.
- DALADIER, EDOUARD, French Premier, April 1938-40.
- FEIS, HERBERT, Economic Adviser to State Department, 1931-37; Adviser on International Economic Affairs, 1937-48.
- HOPKINS, SIR RICHARD, Second Secretary of the British Treasury, 1932-42.
- LABEYRIE, EMILE, Governor of the Bank of France, 1936-37.
- LEITH-ROSS, SIR FREDERICK, Chief Economic Adviser to the British Government, 1932-46.
- MARCHANDEAU, PAUL, French Minister of Finance, January 1938-November 1938.
- MÖNICK, EMMANUEL, Financial Attaché to the French Embassy in Washington, 1930-34, in London 1934-40; Governor of the Bank of France, 1945-49.
- MORGENTHAU, HENRY, JR., Secretary of the U.S. Treasury, 1934-45.
- NORMAN, MONTAGU, Governor of the Bank of England, 1920-44.
- PHILLIPS, SIR FREDERICK, Undersecretary of the British Treasury, 1932-40.

REYNAUD, PAUL, French Minister of Finance, November 1938-March 1940.

ROOSEVELT, FRANKLIN DELANO, President of the United States, 1933-45.

ROWE-DUTTON, ERNEST, Financial Adviser to the British Embassy in Paris, 1934-39.

RUEFF, JACQUES, Financial Attaché, French Embassy in London, 1930-36; Director, Mouvement Général des Fonds, 1936-39.

SIMON, SIR JOHN, British Chancellor of the Exchequer, 1937-40.

WHITE, HARRY DEXTER, Assistant Director, Division of Research and Statistics, U.S. Treasury, 1936-38; Director of Monetary Research, U.S. Treasury, 1938-41.

1 INTRODUCTION

The Tripartite Declarations

In the monetary history of the 1930s, 1936 was the "Year of the Tripartite Monetary Agreement." On September 25-26, 1936, the French, British, and American governments published almost identical declarations about their attitudes toward a desperately needed devaluation of the French franc and their desire for freer trade and fewer exchange restrictions. The British and American governments made certain promises to avoid retaliation against the French devaluation. Nothing was said, however, about the actual level of exchange rates, and there was no promise to stabilize rates over the long term.

We are generally told that the Tripartite Agreement brought new tranquillity and order into the monetary affairs of the Western world. The declarations are sometimes thought to have ended the chaos and disorder of the five years following the collapse of the gold standard in 1931. But an examination of the actual events of the period 1936-39 reveals no more tranquillity than in the period 1931-36. Sometimes the declarations are believed to have been a prelude to Bretton Woods, in that they established the principle that exchange rates were a matter of common concern. It is true that after the declarations there was almost continuous cooperation between the stabilization funds and central banks of Britain, France, and the United States. In accordance with the supplementary Gold Agreement, announced in October 1936, exchange rates were agreed on from day to day, and the three exchange funds cooperated in the management of the markets, settling balances daily in gold. This was the so-called "twenty-four-hour stabilization" of exchanges, an arrangement in which Belgium, Holland, and Switzerland soon joined. But the declarations established no mechanism by which countries could be compelled to consult before acting, because neither Britain nor France was prepared to admit that any other country or any process of negotiation could force on her the adoption of any particular exchange-rate regime. Thus the connection with Bretton Woods is tenuous at best.

This paper draws upon research materials that have been accumulated with the aid of travel and research grants from the University of Toronto and the Canada Council. This assistance is most gratefully acknowledged. Special thanks are due to Susan Howson, Donald Moggridge, David Dilks, and Robert Boyce, who have read successive drafts of the manuscript, and to the members of the Economic History Workshop of the University of Toronto, whose comments have helped to produce a better text.

Although some subsequent commentators recognized just how insubstantial these declarations were, others were misled by their own hopes and expectations, and the confusion has been spread by standard works of reference. Confusion was also occasioned by the fact that these three declarations were described as an "Agreement" almost from the moment of their issuance. (To avoid new confusion, I shall follow that imprecise practice.) As a result, the literature contains various statements that are either wrong or misleading.

Leith-Ross (1968, p. 170) tells us that the Tripartite Agreement was aimed at "limiting the fluctuations of the dollar, pound, and franc, and gradually restoring stable exchanges." Sir Frederick Leith-Ross was a senior U.K. Treasury official and Chief Economic Adviser to the Baldwin Government when the declarations were devised, and his statement reflects his own longing for stable exchanges, not the process by which the declarations were arrived at or the events thereafter. Lewis (1949) tells us that Britain, France, and the United States "signed a tripartite agreement not to alter exchange rates without consultation . . ." (p. 71), and that the "gold standard had not been restored, but the intentions and the consequences of the new arrangements were similar . . ." (p. 157). Lewis is wrong about both intentions and consequences. More recently, Strange (1976, p. 54) has told us that the accord was "partly to maintain the parity of the newly devalued franc by means of an exchange equalisation account" and partly "to regulate the sterling-dollar rate."¹ But France needed no Tripartite Agreement to create an exchange fund, and there was no new plan for regulating the price of sterling. Kindleberger (1973, pp. 257, 260, 261) has argued that although the accord committed the three governments to very little, it was a "significant step in rebuilding the international economic system" because "for the first time since 1933, exchange rates were discussed, technical arrangements made, and international co-operation built into the monetary area." Regrettably, it is hard to see much cooperation in the period 1936-39.

Clarke (1977) has recently traced the steps by which Britain, France, and the United States were led to issue the tripartite declarations. In so doing, he has shown how mixed were the motives that produced them, and his work serves to remind us that there was, strictly speaking, no agreement at all: Each government made its declaration for different reasons, and each had its own reservations and hidden assumptions. The terms of the three declarations had been harmonized until they were identical in essentials, but there was no

¹ Strange was citing League of Nations (1944), which apparently originated the confusion about the Agreement.

treaty and no single document to which the three powers adhered. Yet, until the outbreak of war in 1939, no one could deny that the declarations had in fact cohered into a sort of Agreement with which politicians and financiers were much preoccupied, both publicly and in private.

Historical Backdrop

Any study of the currency experiences of this period must consider the European political climate and the disturbing international developments of the late 1930s. Hitler's occupation of the Rhineland in March 1936, Italy's conquest of Ethiopia in May, and the start of the Spanish Civil War in July contributed to the general nervousness. These events were followed by Hitler's seizure of Austria in 1937, the Czechoslovakian crises of summer and autumn 1938, their temporary resolution at Munich, the German occupation of Bohemia and Moravia in spring 1939, and the darkening skies of July and August 1939 before the outbreak of war in September.

The statistical basis for both Britain and France is insufficient to support a fine-grained analysis of the effects of these developments on capital flows, but certain broad patterns emerge from what British data are available, and more can be learned from the opinions of the Whitehall officials of the period. First, because the European scene was growing steadily darker, there was a general tendency for funds to move across the Atlantic to the United States. Second, both Czech crises created severe difficulties for Whitehall and the Bank of England, with large capital outflows from Britain in 1938-39. Whatever respite was produced by the Munich settlement was brief and slight. In the summer of 1939, capital flows put the pound under such heavy pressure that the British were obliged to abandon their support operations in August 1939. Third, the French pattern was very different from the British. For the period from 1936 to 1938, when the franc was weak, it is impossible to separate the causes of French capital flight—fear of war, fear of increased spending on Popular Front programs, fear of currency confiscation or exchange control, and simple fear of the depreciating franc. One clue is that when the relatively conservative Daladier government came to power and established firmer financial control in the fall of 1938, reversing some of the Popular Front's more expensive projects and programs, funds returned to France even though the international scene continued to be threatening.

For the economist of the 1970s, accustomed to political stability, currency convertibility, and the study of interest-rate differentials, it is important to recall just how cheap money had become by the late

1930s. In 1938, for example, U.K. Treasury bills were yielding well under 1 per cent, and in other countries, too, money was earning little or no interest in that time of low economic activity. In such an environment, there was naturally more interest in protecting capital—in prospects for exchange rates and freedom to use and transfer funds—than in relative interest rates.

Attitudes toward Cooperation and Mutual Support

Having long believed that the franc was overvalued, British officials in September 1936 did not object to a French devaluation as long as it was not excessive relative to sterling, but they hoped for a reasonably stable franc thereafter. British documents do not tell us how Whitehall might have calculated that a devaluation was “excessive,” either in 1936 or later. They do suggest that British officials were interested in movements of relative prices and wage rates but were skeptical about purchasing-power-parity calculations.

Neville Chamberlain, the British Chancellor of the Exchequer, and his officials insisted on avoiding any commitment with respect to the sterling-dollar rate, although London knew of Washington's hopes or expectations regarding that rate. In 1936 and thereafter, U.S. Secretary of the Treasury Henry Morgenthau, Jr., and President Franklin D. Roosevelt wanted a \$5 pound. When sterling slipped below that figure in the course of 1938, they were worried, although they acquiesced eventually to a rate of \$4.68, a rate that London determined unilaterally. As for the franc, Washington was more concerned about stability than about the precise level. American documents do not tell us how the President and the Secretary of the Treasury formed their opinions about target rates for sterling or for the franc during the period 1936-39. At best, one can detect a fear that if sterling were to fall to or below \$4.86 there would be trouble in Congress, and probably pressure on commodity prices as well. For Morgenthau, politics were far more important than economics insofar as the franc was concerned. His advisers told him that the franc-dollar rate mattered very little for American recovery or trade. He believed that by helping the French to devalue in an orderly way he was strengthening not only the French government but also the forces of democracy in Western Europe. His beliefs survived the manifold disappointments of the period.

In 1936 neither Britain nor the United States was prepared to consider a common fund or mutual credit system by which exchange rates could be supported. Although the U.S. government could not legally have provided such credits to governments that were in default on

outstanding debts to the United States, there were no legal barriers to credits among central banks. But when such credits were proposed in 1937, Morgenthau would not hear of them. Nor does it appear that France expected credits or asked for any in 1936. Clearly, Britain was not prepared to support the franc. As time passed, the British and American authorities became slightly more willing to provide credit to the hard-pressed French, who certainly became much more willing to ask. Yet little was done, and the credit proposals of 1937-38 were not large or systematic enough to help the French authorities very much.

By late summer 1936, when devaluation appeared inevitable, France was worried chiefly about the risk of offsetting devaluations—by Britain against the dollar and by the United States against gold. When the declarations of 1936 say that no country will attempt “to obtain an unreasonable competitive advantage,” they reflect this French concern, from which the declarations had sprung in the first place. In Britain, it was believed that the United States had taken an unfair competitive advantage in 1933-34 and that Roosevelt was anxious to retain that advantage. Hence the British continued to worry about American gold policy. Whitehall always wondered whether Roosevelt or the Congress would raise the dollar price of gold should sterling fall. Britain did not believe that the United States could be trusted to honor any commitment about competitive devaluation, and the evidence suggests that in this respect Whitehall expected nothing from the Tripartite Agreement. On their part, Chamberlain and his officials maintained that Britain had never deliberately depreciated the pound, and so could not properly be accused of seeking unfair competitive advantage. Therefore, the Whitehall view was that the 1936 declarations involved no new commitments with respect to the management of sterling. Washington did not accept London’s view of the management of sterling from 1931 to 1936, and when sterling depreciated sharply in 1938 both Morgenthau and his staff, especially Harry Dexter White, found their suspicions renewed. Thus Morgenthau valued the Tripartite Agreement because it would give the Americans grounds for complaint if sterling were to fall.²

At the time of the Tripartite Agreement, the vehicles for cooperation and discussion were the international telegraph, to a certain extent visits to Basel and to the several capitals, and sparingly the trans-Atlantic telephone. The three central banks were in daily touch. In

² The above paragraphs draw on Clarke (1977) and on my own researches, which will be published in Chaps. 9 and 10 of Drummond (forthcoming).

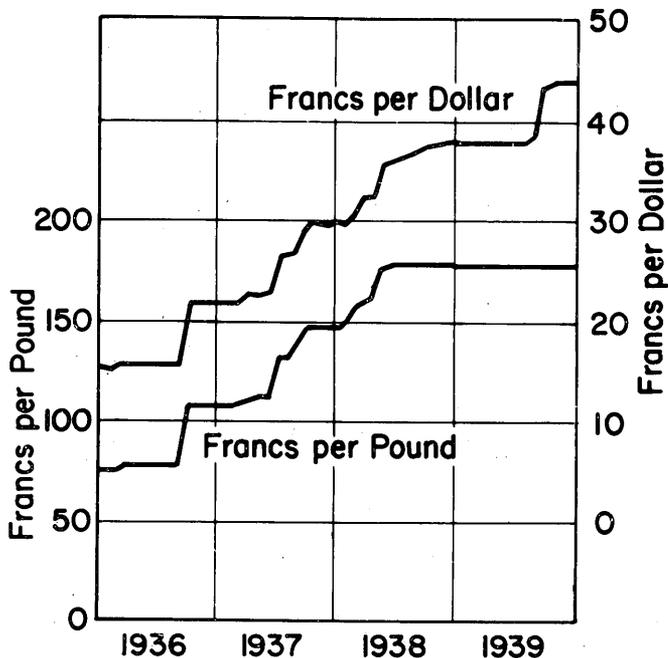
accordance with the Gold Agreement, each day it was necessary to send information about buying and selling rates, first from Paris to London and then to New York, as each capital successively took over management of the exchanges. Increasingly, long-distance telephone calls were used to pass on more general information about market prospects and local developments.

From London and Paris, the central-bank governors went almost monthly to the Bank for International Settlements in Basel. Although the United States was not a member of the BIS, H. Merle Cochran of the U.S. embassy in Paris regularly attended and reported his conversations in detail to his superiors in Washington. In addition, Cochran was Morgenthau's personal representative in Paris, where he was on good terms with politicians, officials, and bankers. W. Butterworth performed a rather similar function for the United States in London, though he worked rather more closely with his embassy. In Paris, the British Treasury had Ernest Rowe-Dutton, and in Washington, most of the time, T. Kenneth Bewley. France relied heavily on Emmanuel Mönick, who was a permanent financial attaché, sometimes in Washington and sometimes in London. These financial attachés and representatives were far more important than the ambassadors. They had access to officials and central bankers; they communicated directly with their home Treasuries; they informed themselves about financial affairs more completely than any ambassador could hope to do. Ambassadors entered the picture only when some fairly formal act was required and when the relevant attaché was unavailable.

France's new monetary law of October 1, 1936, allowed the franc to vary between 43 and 49 milligrams' worth of gold. Since the American dollar was linked to gold and the pound was not, it might seem that the franc was pegged loosely to the dollar. From September 1936 until September 1939, however, the franc-sterling rate was the rate the French authorities watched, not the franc-dollar rate, and they pegged it more or less rigidly for extended periods (see the accompanying chart). Their new monetary law survived only to the end of June 1937, and during these first nine months of the new regime, the sterling-dollar rate stayed within a narrow range. Thus, they could easily fix their attention on the franc-sterling rate while remaining within the law. By the time sterling began to weaken in the autumn of 1938, the French monetary law had been changed once more, and so the franc could go down not only relative to sterling but with it.

In the winter of 1936-37, exchange rates were relatively stable, because the French authorities were spending gold to support a weak franc while the British were buying gold to hold down a strong pound.

FRANC-STERLING AND FRANC-DOLLAR EXCHANGE RATES,
MONTHLY AVERAGES, 1936-39



SOURCE: *Annuaire Statistiques de la France*.

But in the spring of 1937, the franc began to sag, moving downward relative to sterling from April 1937 until May 1938. Sterling fell from \$5.00 in July 1938 to \$4.60 during the Munich crisis, recovered to over \$4.80, and then slipped once more, ending 1938 at around \$4.68. With respect to exchange stability, in other words, the record of 1937-38 is not exactly splendid. Without the Tripartite Agreement, however, the French might have felt free to let the franc drop farther, faster, or more irregularly. The Agreement at least gave Britain and the United States a license to remonstrate.

From November 1938 until after the end of August 1939, France was able to do what Britain had done from 1935 to 1938. The franc was strong once more and gold was flowing in, but the French authorities did not let the franc appreciate relative to sterling; instead, they systematically rebuilt their gold reserves. During this period, the sterling-dollar rate also changed remarkably little. But whereas the franc was strong, sterling was weak; whereas the French authorities heaped up gold, the British spent it to stabilize the sterling-dollar rate

at \$4.68. Examining the exchange movements of these months, the casual observer might think that indeed the Tripartite Agreement had produced a new era of stability. But it is hard to see how the declarations, as such, had much to do with this last prewar interval of stability in 1938-39. The strong franc was stable because France's authorities did not want it to appreciate; the weak pound was stable because Britain's authorities did not want it to depreciate. Britain did not ask for Franco-American credits to help her authorities support the pound. The Tripartite Agreement was relevant only insofar as it made the British authorities more nervous about American reaction to a sinking pound. But they would have been nervous anyway, and in autumn 1938 they let sterling fall without asking permission either of Washington or of Paris.

The present paper is concerned less with the cooperation among central banks that made the exchanges seem so much more orderly after September 1936 than with tracing the symptoms of longer-run disorder. To this end, it concentrates on the behavior of the French authorities and on reactions in London and Washington. Although there is no systematic discussion of the management of sterling,³ the evidence presented here should be enough to reveal just how incomplete and spasmodic were the cooperation and consultation that followed the Agreement.

³ The management of sterling is not treated here partly because Sayers (1976) has recently discussed it and Howson (forthcoming) treats Britain's Exchange Equalisation Account, and partly because I include a discussion of sterling in Drummond (forthcoming). A discussion of the financial diplomacy of sterling between 1936 and 1939 would need a paper as long as this one.

2 BLUM AND AURIOL¹

By the summer of 1936, political pressures on the franc were at least as important as economic ones. The actions and policies of the Popular Front government, headed by the Socialist, Léon Blum, alarmed French capitalists. The Tripartite Agreement did nothing to prevent the recurrence of such fears in later years, provoking further capital flows from time to time. Such flows made others fear a weakening of the franc, and the result was an additional capital exodus whose immediate motivation was more strictly economic. The international political scene was an additional source of disturbance. These were times when no amount of domestic "pacification" and no degree of confidence in the franc's future could have prevented the nervous from moving their money to Britain or the United States. In the background, too, was the possibility of exchange control. Successive French Premiers and Finance Ministers proclaimed their abhorrence of this device, but everyone knew that certain political forces, especially on the left, wished to introduce it. At any time, circumstances might oblige right-minded men to give way, or bring wrong-minded men to power. The prudent, therefore, would sell francs sooner rather than later.

In autumn 1936, British officials hoped that Premier Blum and Minister of Finance Vincent Auriol would devalue the franc in a clear-cut way that would preserve the gold standard and induce a reflux of French capital. They wanted France to devalue enough to convince capitalists that the new rate could be maintained, and to attach the franc to gold so as to convince the nervous that French money was worth holding. Since French funds had flowed partly to London, any such reflux would be partly at the expense of British gold reserves, but the British authorities were prepared to shed equal amounts of gold assets and short-term liabilities for this purpose. On October 2, after negotiations between the British and the French, the franc opened at

¹ These chapters are based on archival researches in Britain and the United States. Among the materials that have been drawn upon are the Morgenthau Diaries in the Roosevelt Library at Hyde Park, the Neville Chamberlain Papers at the University of Birmingham, and various holdings in the U.K. Public Record Office, London. The annual volumes of *Foreign Relations of the United States* have also been used extensively. In the notes that follow, "MD" refers to the Morgenthau Diaries, followed by the volume number. References to materials in the Public Record Office employ the appropriate archival key letters—"CAB" for Cabinet papers and minutes, "FO" for Foreign Office records, and "T" for Treasury records. The Neville Chamberlain Papers are identified by "NC," and *Foreign Relations of the United States* by "FRUS."

about 105 francs to the pound. The devaluation did not work, however. There was a temporary reflux of capital, but the drain reappeared. Late in October, Rowe-Dutton told the U.K. Treasury that there was a reliable report that the French were considering a further 10 per cent devaluation.²

In January 1937, Whitehall learned that the French authorities were negotiating a loan with a London syndicate headed by Lazards. Much the same group had provided France with £40 million early in 1936. That loan had been repaid on schedule in autumn 1936, at considerable cost to French gold reserves. When Chamberlain and Montagu Norman, Governor of the Bank of England, were told that the loan was to be for the French railways, and that £90 million would be requested, they did not think well of the plan. The railways were guaranteed by the French government, which would, they knew, be the actual recipient of the sterling credit. But there was no prospect of the French government being able to repay such a loan, and the railways were already running large losses. Chamberlain would not refuse to consider some "more modest and reasonable scheme," however. Meanwhile, the French authorities believed that the Bank of England was somehow impeding the arrangement. When Blum learned of Chamberlain's opinion, he protested that he had thought of a loan of only £40 to £50 million, not £90 million.

Fortunately for the French, political considerations quickly swamped Chamberlain's caution. Late in January, he cabled Morgenthau:

At the urgent request of French Government I have privately informed the Bank of England of my desire that a suitable operation, if it can be devised, should succeed. The terms are entirely a matter for the lenders. . . . I do not at present know their attitude. . . . I have taken this exceptional step as I feel that everything should be done to help France to maintain the Tripartite Agreement in the face of speculation. It would destroy the whole effect of that agreement if a fresh devaluation were necessary or if the government had to resort to exchange control.³

Soon thereafter, Lazards succeeded in orchestrating a £40 million credit. The terms were less favorable than in 1936, and, once again, the loan would have to be repaid before year-end.

How long would £40 million last? Governor Norman thought it was leaking away at the rate of £3 million per day. The British Treasury and the French thought it would last until the end of March, when

² Letter, Rowe-Dutton to Waley, Oct. 30, 1936, T160/685/F. 14741/1.

³ Telegram, Chamberlain to Morgenthau, Jan. 27, 1937, FO 371/20688/C 571. See also letter, Chamberlain to Norman, Jan. 23, 1937, /C 901.

the franc would have to slide once more, at least to the legal limit. Early in February, Sir Frederick Phillips, the Undersecretary of the British Treasury, reported that the French equalization fund had been selling gold "at a tremendous rate." The French must avoid exchange controls, he observed, but they would be wise to let the franc go, probably to 125, although to do so they would have to change their monetary law. From Paris, Cochran gave Morgenthau the same advice.⁴

In the winter of 1936-37, the French were in fact pegging the franc at 106 to the pound, although at the current sterling-dollar rate they could legally have let it drop as low as 112. In the summer of 1936, the British Treasury had thought that France should select some definite value for the franc and hold to that value. Now that this policy was actually being tested, Whitehall concluded that it would not work. Capital was not flowing back to France. Instead, because everyone knew that to keep the rate at 106 the French exchange fund found it necessary to support the franc, French policy was creating a one-way option that actually encouraged capital to leave France. The British Treasury concluded that France should allow the franc to float more freely.

Norman proceeded to advise Emile Labeyrie, Governor of the Bank of France, that the franc should be allowed to fluctuate, the budget should be brought under control, and Auriol should be forced out of the Finance Ministry. In Paris, the British Embassy warned Blum that the Tripartite Agreement was in grave danger. Blum was mystified, eager to clear up misunderstandings, and, it appears, rather annoyed at Norman's advice, some of which, he observed, had best be forgotten. Could not Auriol meet Chamberlain, so as to remove misunderstandings?⁵

Chamberlain did not want to meet Auriol. Instead, the British Treasury drafted a telegram to the British Embassy in Paris that Blum was meant to see. His Majesty's Government was alarmed because France was losing gold heavily, and the £40 million was going fast. If the drain continued, the Tripartite Agreement would be in jeopardy. Hence Britain "expressed the hope that M. Blum would consider what measures could be taken to restore confidence in the franc promptly." If Chamberlain and Auriol were to meet, their conclave would become known; the result would be "rumours and disturbances" in the market.

⁴ Foreign Office minutes, FO 371/20688/C 1083, Feb. 1937; telegram, Cochran to Morgenthau, Feb. 26, 1937, MD 56, p. 333.

⁵ Letter, Phillips to Rowe-Dutton, Feb. 10, 1937, FO 371/20688/C 1143; telegram, Sir George Clerk to Foreign Office, Feb. 11, 1937, /C 1165.

Auriol replied that he still wanted to come, secretly if necessary. But Chamberlain insisted that no visit could be kept secret.⁶

The French government was not impressed. On February 17, their financial attaché in London delivered a message from Blum and Auriol. They, too, had been worried by the gold losses. But the solution, they said, depended not only on France but also on the other great powers. They would avoid exchange control, though facing a flight of capital. But that flight would end "the day when it shall be clearly and solemnly proclaimed by the qualified authorities of three great nations that their exchanges are fixed [*solidaires*], that they will sustain themselves *effectively*, and that, in any case, even if they must be free in relation to gold they remain stable in relation to one another."⁷

It would be hard to imagine a statement more calculated to enrage Chamberlain. In the summer of 1936, France had tried to trap Britain into a contractual stabilization of exchanges. Before and since the Tripartite Agreement Britain had held sterling steady on the dollar. It was the franc that was weak. Yet the French were once more blaming the Anglo-Saxons, when the real cause was their own mismanagement—an unbalanced budget, rampant inflation, and the whole posture of the Blum government.

The Treasury briefed Chamberlain carefully. If the French were to ask for a pooling of resources for exchange management, Britain would have to refuse. The crisis would have to be handled in Paris, whose problem it was. By letting the franc float more freely relative to sterling, the French authorities could eliminate the certainty of speculative profit that existed so long as the rate was pegged rigidly. (It does not appear that the British authorities had considered the extent to which the franc might fall or the American attitude toward such a depreciation.) As for exchange rates, Britain could not go beyond the statements of the declarations. Indeed,

a fixed relationship between the pound sterling and the U.S. dollar which is for practical purposes tied to gold would result in a formal stabilisation of the pound sterling in terms of gold; to carry out such a measure under present circumstances would go beyond the powers and contrary to the declared policy of His Majesty's Government.⁸

⁶ Telegram, Foreign Office to Paris Embassy for Blum (drafted by Treasury and approved personally by Chamberlain), Feb. 11, 1937, FO 371/20688/C 1165; letters, Auriol to Chamberlain, Feb. 8, 1937, and Chamberlain to Auriol, Feb. 15, 1937, /C 1233.

⁷ Note from French government, Feb. 17, 1937, FO 371/20688/C 1372.

⁸ Phillips's written statement and notes for oral statement for delivery Feb. 19, 1937, FO 371, 20688/C 1372.

The news did not cheer the French financial attaché, though it can hardly have surprised him. Told that Britain would not stabilize the exchanges between fixed points, he wondered whether France should now consult the United States. Certainly, Chamberlain said, in general he was "in favour of the promptest and fullest communication being made to the United States Government on all occasions."⁹

In mid-February 1937, T. Kenneth Bewley, the Financial Adviser at the British Embassy in Washington, reported that Morgenthau was already worried:

The [U.S.] Treasury were well satisfied with the operation of the Tripartite Agreement until the recent signs of renewed difficulties in France. The effect of the Agreement, as the American Treasury saw it, was that the countries concerned would hold their currencies as steady as possible at their existing levels, and if forced to make any material change in their dollar parity would consult one another before doing so. The [U.S.] Treasury have always made the most they could of the Tripartite Agreement but of course it could at the best only be regarded as an interim arrangement. I do not believe however that they have at present any more definite goal towards which to work. . . . They are therefore anxious in the meantime both to keep their hands free and to preserve friendly and open relationships with free interchange of views on monetary matters with the other members of the Tripartite Agreement. . . .¹⁰

Morgenthau and Roosevelt were indeed alarmed about the French situation, which, they anticipated, would soon end the Tripartite Agreement. The United States had rescued France repeatedly, Morgenthau thought. Now it was time for the French to help themselves by devaluing another 8 per cent. Because it had rescued France "time and time again," America had the right to urge an exchange-rate policy on the French. Could Chamberlain, Morgenthau asked, think of anything helpful?¹¹

Chamberlain could not. He agreed that no one should object if the French dropped the franc to the limit allowed by the October monetary law. But he thought there was now "little hope of avoiding a breakdown of the monetary agreement due to the exhaustion, perhaps this week, of the London credit."¹²

Morgenthau at once asked whether the currency club could be saved if the French left it. (The so-called "currency club" comprised

⁹ Letter, Phillips to W. Strang, Feb. 19, 1937, FO 371/20688/C 1449.

¹⁰ Memorandum, Bewley, Feb. 13, 1937, FO 371/20656, pp. 241-242.

¹¹ Telegram, Lindsay to Foreign Office, Feb. 26, 1937, FO 371/20688/C 1636; MD 55, pp. 206, 281-306; MD 58, pp. 317-319, Mar. 1937.

¹² Telegram, Chamberlain to Lindsay for Morgenthau, Mar. 2, 1937, FO 371/20689/C 1710.

the six countries in the Gold Agreement.) He was anxious, he said, that it should survive. After all, there would be five remaining members. All the members could buy and sell gold freely among themselves. Chamberlain thought that if France could devalue and also avoid "both exchange control and disorderly fluctuations," she might properly be regarded "within certain limits as still a member of the currency club."¹³

Although Blum did not drop Auriol, he agreed to Norman's suggestion that the franc would be free to fluctuate between the limits that the monetary law had fixed. There would be a free market in gold and no record of gold purchases and sales. Although all Blum's personal convictions and tendencies led him toward exchange control, the Premier refused to impose it "on account of the Tripartite Agreement and the necessity of keeping close to the Anglo-Saxon democracies."¹⁴

London had got its way, and Chamberlain was understandably pleased. Explaining the French problem to his sisters, he wrote:

The French are being very tiresome about their financial affairs and I was twice called to the telephone while I was away. . . . I have had a lot of trouble with the French over their loan the terms of which I did not approve. But I am inclined to think that they really did not appreciate that they were causing me any difficulty and I must say that Blum and his advisers were very ingenious in adopting the suggestions I had made to them, which amounted to a reversal of their previous policy, without involving Vincent Auriol in resignation. They have got their money all right and if the French investors feel restored confidence they should get through without busting up the Tripartite Agreement. Meanwhile the Americans are pleased as punch at the way I have kept them *au fait* and Morgenthau triumphantly declares that this shows how the two Treasuries can work together (he hasn't done anything but say ditto) for the common good.¹⁵

In March 1937, Morgenthau was so annoyed by France's refusal to devalue that he expected France's weakness to provoke a German invasion, but in April the French authorities at last let the franc fall from 105 to 112 (Sayers, 1976, p. 482). Professor Morton Blum (1959-67, Vol. I, pp. 455-463) tells us that in April 1937 the French government, in response to Anglo-American urging, devalued the franc by

¹³ Telegram, Morgenthau to Lindsay for Chamberlain, Mar. 2, 1937, FO 371/20689/C 1720; Chamberlain to Lindsay for Morgenthau, Mar. 5, 1937, /C 1972; MD 58, p. 48, Mar. 5, 1937.

¹⁴ Memorandum by Phillips, reporting call by French financial attaché, Mar. 5, 1937, FO 371/20689/C 1790; note by Rowe-Dutton, Mar. 9, 1937, p. 310.

¹⁵ Letters, Neville to Ida and Hilda Chamberlain, Mar. 7 and 13, 1937, NC 18/1/997, 998.

8 per cent, "which the Tripartite Pact and French legislation permitted." In fact, the so-called "pact" said nothing about actual exchange rates, nor was it, as Blum states, "intended primarily to facilitate the stabilization of the franc, the pound, and the dollar." What Professor Blum must mean is that the French authorities allowed the franc to fall to the lower limit of the range allowed by their 1936 monetary legislation.

In spite of the devaluation, gold was leaving France in great amounts in May 1937. By now, Morgenthau and his advisers were worried by the prospect of an excessive devaluation—one that would leave the franc too cheap. From the British Embassy in Paris, Rowe-Dutton reported that a further devaluation appeared imminent, although he had heard nothing from any official source. London did not like the idea. A British Treasury official wrote, "My own view is that a further devaluation would not help the French, would discredit the Tripartite Agreement, and would probably injure our trade. But if it is inevitable, we must make the best of it." Already, at Norman's suggestion, the British and American authorities were discussing the French problem.¹⁶ Although the Blum government managed to support the franc at 112 for a few more weeks, domestic financial and political difficulties drove Blum to resign on June 21, 1937.

¹⁶ Letter, Rowe-Dutton to Waley, June 24, 1937, and memorandum by Waley, n.d., responding to this letter, T160/689/F. 15000/01; FO 371/20689, pp. 17-19; conference between Morgenthau and his advisers, June 17, 1937, MD 72, pp. 224-236.

3 CHAITEMPS AND BONNET

When the Blum government fell, Georges Bonnet was French Ambassador in Washington. He had gotten on well with Roosevelt, but Morgenthau he thought "mediocre enough." Summoned by the new Premier, Camille Chautemps, to replace Auriol as Finance Minister, a post he had held in 1933 at the time of the world monetary and economic conference, he consulted Parisian friends before accepting. As he wrote many years later, the situation was alarming because France was losing so much gold so fast (Bonnet, 1969, p. 72). He reached Cherbourg at 4 A.M. on June 28, and Paris at noon. In the Ministry of Finance he found two "faithful collaborators," Jacques Rueff and Jean Jardel. But he thought little of Emile Labeyrie, whom he subsequently removed as Governor of the Bank of France. Immediately upon his return, he was closeted first with the Prime Minister and then with the Cabinet. Receiving full powers to rule by decree (which Blum had been denied), Bonnet at once acted on his conviction that the franc could not be held at the old level.¹

On June 29, the American and British governments were notified that France would remove the upper and lower limits that had been fixed by its monetary law of October 1, 1936. Henceforth, the franc would be a managed currency, divorced altogether from gold. In Paris, the message was passed to Merle Cochran; in London, Emmanuel Mönick telephoned the Treasury. There was no consultation, and there was no prior notice.

Sir John Simon, who had succeeded Chamberlain at the Exchequer, was far from pleased. He told Mönick to tell Bonnet that he did not see how the French authorities could talk of consultation *after* they had already decided what they would do. He was not sure that the Tripartite Agreement could be said to have survived, and he would have to consult the Americans at once.²

Bonnet's response seems disingenuous. He told Simon that he could not have consulted beforehand because he had reached Paris from Washington only on June 28. He considered his action consistent with the Tripartite Agreement because its purpose was to "restore a greater equilibrium of the currency in the market." France did not plan to change the arrangements for daily settlement between the Banks of

¹ Bonnet (1969, pp. 261-262, 264, 266-267).

² Memorandum by Waley, June 29, 1937, and minutes of oral statements to Mönick and Butterworth, T160/689/F. 15000/01/1. See also Blum (1959-67, Vol. I, pp. 475-478) and MD 79, pp. 132-143, July 20, 1937, for Butterworth's account of his "peregrinations" on behalf of the U.S. Treasury from June 23 to July 1.

France and England; the French equalization fund would continue to smooth fluctuations.³

Meanwhile, Simon told Butterworth, of the U.S. Embassy in London, of his message to Bonnet and asked the American diplomat to inform Morgenthau. Simon wanted to know whether, in light of the French promise to seek no competitive advantage from artificial depreciation, the American government believed it was possible for the three governments to continue to cooperate closely. Morgenthau and Simon then had a pointless trans-Atlantic telephone chat during which Morgenthau maintained that, because the French were committed to buying and selling francs at about \$0.0446, they were keeping the Tripartite Agreement. Simon observed that the French had made no commitment to the United Kingdom and, in any event, could change rates at any time. At the British Treasury, S. D. Waley pursued the point with Mönick, whose response undermined Morgenthau's interpretation. The American rate was only for "little transactions that take place when markets are closed. We cannot know the tendencies that will prevail when freedom of transactions has been re-established."⁴ Simon at once cabled the Americans, "My fear is that the franc may be allowed to float." How could the day-to-day arrangements continue? Both governments would have to wait and see "what in fact is going to happen."⁵

The situation was ironical. In June 1933, Bonnet had been the apostle of absolute fixity in exchange rates; in June 1937, he wanted the franc to float as freely as possible.⁶ In June 1933, Britain had acquiesced grudgingly and incompletely to French demands; in 1937, it was Britain who insisted most earnestly that the franc should be stabilized, at least from day to day. In 1933, the United States had insisted on maintaining its absolute freedom of monetary maneuver; in 1937, Morgenthau was prepared to do or say almost anything to keep the Tripartite Agreement alive in some way. The Agreement was his baby and could not be allowed to die.

Through Mönick, Bonnet pressed Simon for an answer to the same question: Could the Tripartite Agreement remain in force? Mönick argued that nothing had changed except the removal of the limits. The British Exchange Equalisation Account would get gold from the

³ Bonnet to Simon, June 30, 1937, FO 371/20690, pp. 104-106.

⁴ Minute by Waley, n.d., and written response by Mönick, T160/689/F. 15001/01/1, and Blum (1959-67, Vol. I, p. 478). For verbatim transcripts of Morgenthau's discussions, see MD 74, pp. 146ff., 177-189, June 29, 1937.

⁵ Telegram, Simon to Morgenthau, June 29, 1937, T160/689/F. 15001/01/1; MD 89, pp. 11-15.

⁶ For Bonnet's defense, see Bonnet (1961, pp. 126-128).

French fund, which would not allow the franc to fluctuate without control. On June 30, both Morgenthau and Simon lay low, awaiting developments. In response to a Parliamentary Question, Simon managed, pending further discussion with Morgenthau, to avoid saying anything about the Tripartite Agreement itself. Privately, he was urging the Americans to continue the tripartite arrangements for the present, but not to say that the Agreement continued in full force.

Simon offered for Morgenthau's comment a draft response to Bonnet expressing his apprehension about the level to which the franc might fall and the difficulty of controlling it. He said he remained uncertain whether Britain could continue the "reciprocal arrangements" for the day-to-day management of the exchanges and for the daily settlement of balances on prearranged terms. He suggested consultation after it had become clear how the franc would actually move. "So far as under the proposed arrangement the franc is kept relatively steady and not too far from recent levels," he would agree that "the practice under the Tripartite Monetary Agreement should continue," but he wanted to know "before business opens on the first of July to what precise level as compared with recent weeks M. Bonnet will allow the franc to move."

In Washington, Morgenthau agreed that Simon could ask such a question. His comments reached London in the early morning of July 1. He thought Bonnet's "failure to consult completely . . . understandable." Wanting the Agreement to continue to include France, he proposed that he and Simon tell Bonnet that they both "look forward to a continuation of close co-operation between our treasuries under the Tripartite Declaration."⁷ Simon agreed, but he also gave Bonnet his draft statement and told the Americans that he had done so.

J. Morton Blum (1959-67, Vol. I, p. 478) writes: "Morgenthau had fortified Simon's faltering spirit." It is hard to know what this phrase means. Thanks to Morgenthau, the British and American governments were able to issue a soothing statement that did not go beyond what Simon would have said in any event. The British authorities persevered in their determination to tell the French privately that they would have to do better. As Waley, of the British Treasury, wrote to the Foreign Office:

The position is that we felt it should be impressed on Bonnet that it is essential for him to carry out effectively genuine budget reforms, and that

⁷ Memorandum of conversation, June 30, 1937, with Mönick, T160/689/F. 15000/01/1; memorandum of message, Simon to Morgenthau, June 30, 1937, MD 75, pp. 17, 43-45, 103, 121. See also Blum (1959-67, Vol. I, pp. 476-478); MD 75, p. 121, June 30, 1937; telegram, Morgenthau to Roosevelt, July 1, 1937, MD 77, pp. 51-57.

otherwise he cannot hope to restore confidence, and that we can only continue to co-operate with him on condition that he keeps the franc not much below 124—keeps it steady. This may well involve him losing a good deal of gold from time to time, and we are afraid that he will let the franc slide to an extent that will be quite inconsistent with the general stability of the exchanges which is so desirable; he may thus cause a good deal of trouble to our traders. Morgenthau, on the other hand, regards the Tripartite Declaration as his pet child and his chief anxiety is that everybody should continue to regard it as a healthy and flourishing infant, whatever symptoms of premature decay it may show. We have compromised by agreeing with Morgenthau in sending a merely polite message to Bonnet for publication, while our real anxieties have been communicated to him in a private telegram. . . .⁸

Bonnet refused to say at what level the franc would be supported, but he repeated Mönick's assurance with respect to the French stabilization fund: it was controlling and would control day-to-day movements. The pre-existing arrangements for "technical cooperation between equalization funds" could be resumed. France would not let the franc fluctuate without control. When, he asked, might consultations take place? Simon himself drafted an answer. After consulting Governor Norman and Sir Richard Hopkins, Second Secretary of the British Treasury, but without consulting Morgenthau, he told Bonnet that it would be enough for the officials to discuss matters. Further, he expressed the hope that "the measures announced and taken will in fact produce the steadiness which it is the object of the Tripartite Agreement to maintain." The message went to Mönick and to Butterworth for transmission to Morgenthau in about mid-July.⁹

Morgenthau and his advisers were not pleased to learn that Simon had passed a private message to Bonnet without consulting Washington. They did not expect that Bonnet would actually commit himself to a new rate for the franc. But in Paris, British diplomats and officials continued to apply pressure. On July 20, Rowe-Dutton discussed the situation with a high French official, who talked about the need for the franc to find its own level. The British diplomat replied that the franc's fluctuation was not reconcilable with the Tripartite Agreement, and that to promote a relatively high and stable exchange rate France should do something about its budget deficit.¹⁰

Such pressures were not without effect. The British Ambassador

⁸ Letter, Waley to W. Strang (Foreign Office), July 1, 1937, T160/689/F. 15000/01/1. On Morgenthau's desires, see MD 75, pp. 182, 197, June 30, 1937; MD 77, p. 22, July 1, 1937.

⁹ Memorandum by Waley, n.d., T160/689/F. 15000/01/1.

¹⁰ Note of a conversation, July 20, 1937, T160/689/F. 15000/01/2; MD 77, pp. 46-48, July 1, 1937.

reported that he had heard that the French government was very anxious to prevent the franc from falling because it did not want to annoy the British. "It seems," he observed, "that the Chancellor's letter to M. Bonnet made an immense impression on him."¹¹ Nevertheless, Bonnet still refused to state where he would peg the franc. Furthermore, to the growing alarm of British officials, Bonnet was embarked on a program of domestic credit creation.

Bonnet's financial measures neither produced domestic recovery nor stemmed the gradual descent of the franc, and capital continued to leave France. In June a pound had bought 110 francs. In July it bought 130.¹² In mid-September the franc fell sharply to 140. The French exchange fund had withdrawn from the market, and there was no indication as to when, or at what rate, it might again support the franc. Neither the Bank of England nor the British Treasury had been warned in advance that the French would stop supporting the franc.¹³ Nor had New York or Washington.

Sir Richard Hopkins reminded Chancellor Simon that things were going wrong:

This renewed fall in the French franc . . . if it persists much more . . . will turn the Tripartite Agreement into little better than a farce, and it will be a great pity if that comes to be the view taken of an international currency move that has gained so high a reputation. Further if the French franc falls heavily it may come as a heavy handicap to British external trade. And finally, of course, it makes one wonder what is to be the general outcome in contemporary France. I am afraid there is nothing of an effective kind we can do in the matter. . . . On the other hand, I do not think we can let the happenings of these two days pass without any notice at all. Under the Tripartite Agreement the French authorities ought in reason to keep us informed of the nature of their difficulties, of their present policy, and, as far as may be, of their intentions. IN FACT THEY SAY NOTHING TO US. . . . I have arranged for the French financial attaché to call at the Treasury informally on Monday to discuss the situation. At that interview we can lecture him with as much emphasis as you may wish, on the seriousness of the situation and the need for a more defined policy.¹⁴

¹¹ Telegram, Sir E. Phipps to Foreign Office, July 19, 1937, T160/689/F. 15000/01/2.

¹² Sayers (1976, p. 482) explains that, at the request of the French, the Bank of England helped to push the franc from 125 to 129. See also MD 79, pp. 90-92, 108, July 16, 1937.

¹³ Telegrams, U.K. Treasury to Sir Frederick Phillips, Sept. 17, 1937, FO 371/20690, pp. 270-272.

¹⁴ Memorandum, Hopkins for Chancellor of Exchequer, Sept. 10, 1937, T160/689/F. 15000/01/2.

The French financial attaché in London transmitted the British worries to Paris. The result was a formal letter from Bonnet and an informal explanation. The attaché explained that only the Bank of France and Bonnet himself had known of the decision to let the franc fall. Because they had not told anyone, there had been no prior notice. Bonnet's response was unrepentant. The actual course of the franc was justified in part by the rise in French retail prices, he wrote. The "suddenness of the market operation" had prevented him from informing Simon that he would have to give the foreign-exchange market its liberty. He hoped for a better valuation, and would not use the "weapon for an economic object." But he would not dissipate French gold merely to defend the franc.¹⁵

The French Ambassador soon arrived with a message from Premier Chautemps. The franc had fallen, he reported to Chamberlain, now Prime Minister, because gold had been leaving France in immense amounts. The French authorities had not found it possible to communicate with the British as rapidly as they should have liked. Chamberlain, for his part, observed that there was some "grievance" felt in Whitehall, in that France had not "been as candid or as prompt in communicating their intentions" as the British Treasury had hoped.¹⁶

Sir Frederick Phillips told Chamberlain:

I see little hope for the franc under a Left government, and unless France contrives within a reasonable time to establish a National Government . . . there is great danger of the franc falling further and exchange restrictions . . . having ultimately to be imposed.

Nevertheless, Phillips pointed out,

by politely advocating more virtuous courses we preserve the right to intervene more violently if and when it seems possible to intervene with good effect. In the meantime if we claim, and claim successfully, the right to full and effective consultation, we may do no more than acquire joint responsibility for further falls in the French currency which cannot in fact be avoided. I do not at all think the time has come for threatening to break up the Tripartite Agreement.¹⁷

Not for the first time, the Treasury was interpreting French monetary experience in the light of Britain's 1931 adventures. In 1931, Britain had been running a budget deficit accompanied by a flight

¹⁵ Letter, Bonnet to Simon, Sept. 16, 1937, and memorandum by Waley, Sept. 17, 1937, T160/766/F. 15000/02/1.

¹⁶ "Notes of a conversation between the French Ambassador and the Prime Minister, on 20 September," 1937, T175/94, pt. 3.

¹⁷ Memorandum by Waley, Sept. 20, 1937; minutes by Hopkins, Sept. 20 and 21, 1937, T175/94.

from the pound. Announcing its determination to balance the budget and avoid inflationary finance, the Government appeared to have produced a reflux of capital funds and a strengthening of sterling that quickly proved embarrassing. Why might not France do the same?

From Paris, William Bullitt, the American Ambassador, argued that the authorities were not trying to force the franc to fall. Indeed, he said, they had spent heavily to support it. Hence the decline was not inconsistent with the Tripartite Agreement. Cochran reported that Bonnet had always thought the franc should stand at around 145 to the pound. The current slide did not worry him, and he expected that the exchange would fluctuate around that level. Harry Dexter White told Morgenthau that the franc mattered far more to Britain than to the United States; Herbert Feis, the senior economic adviser in the State Department, reported that the United States could do nothing to help. Nevertheless, Morgenthau was uneasy. "How long," he asked, "are Great Britain and ourselves going to sit by and see these fellows depreciate?"

On September 22, 1937, the French exchange fund intervened, and the rate was held at 145. Norman believed it would be held at or below 150 for a while. In Paris, however, Mönick told Cochran that in October the franc might fall to 200. He also reported that Anglo-American encouragement was essential to support Bonnet's determination to avoid exchange control. And he assured Waley that France "would make every effort to prevent the rate falling below 150."¹⁸

In Washington, Sir Frederick Phillips was discussing other matters with Morgenthau when he received a cable from Simon.¹⁹ Phillips should ask Morgenthau about a joint response to Mönick's request for support for Bonnet. Simon proposed to tell Bonnet that he was sorry the Tripartite Agreement "had not proved a very notable step towards the restoration of greater stability in international monetary relations." On September 20, Chamberlain put the same point to the French Ambassador. The Treasury wired Phillips: "Chancellor feels that the French have not behaved well, especially in their failure to consult us. Our personal view is that at present it would be very damaging both to the French government and to the franc if we gave any overt indication that we regarded France as no longer a member and in general

¹⁸ Memorandum by Waley, Sept. 23, 1937; telegram, Sir F. Phillips (in Washington) to Treasury, Sept. 22, 1937; telegram, Treasury to Phillips, Sept. 22, 1937, T160/766/F. 15000/02/1; MD 88, p. 60, Sept. 13, 1937; MD 88, pp. 139, 176, Sept. 15, 1937; MD 88, p. 236, Sept. 16, 1937.

¹⁹ For an account of the Phillips visit that gives no indication of the franc crisis and fails to mention the principal purpose of the visit, see Blum (1959-67, Vol. I, p. 498).

we feel with you that French membership should continue as long as possible."²⁰

After some hesitation on Morgenthau's part, he began to discuss with Phillips the response to Bonnet. In private, Phillips made it clear that if France imposed exchange control Britain would consider her to have breached the Tripartite Agreement. Morgenthau refused to commit himself about a hypothetical situation, and privately he was inclined to think well of exchange control for France. But he and Phillips agreed that France should not be pushed into exchange control. Hence the importance of keeping her in the Agreement. The result was an inoffensive statement not very different from the public declarations of June 1937. France was not read out of the currency club. This time, however, Simon expressed his annoyance in public. In his Mansion House address on October 1, while welcoming Bonnet's determination to balance his budget and to avoid exchange control, the Chancellor regretted that the franc had not remained as stable as had been expected in September 1936.

September 1937 was a bad month for the franc. By September 24, the French were spending £2 million in gold a day to hold the franc at 145. Leith-Ross wrote that with respect to the franc everyone in the world was bear-minded.²¹ By the end of the month the French exchange fund held only £42 million of gold. Of this amount, £40 million should have been mortgaged for the repayment of the London railway credit, which was due in December. There was plenty of gold remaining in the Bank of France, but under French law only the exchange fund's gold was automatically available for the management of the exchanges and for the support of the franc. Hence, Sir Richard Hopkins expected a fall in the franc and a political crisis.²² Hopkins was right in the end, although an unforeseen inflow of capital deferred the fall, and the crisis, until January 1938. Meanwhile, Whitehall argued that the French authorities could prevent the crisis if they chose by changing the law and releasing some gold from the Bank of France. As for the flight of capital, Whitehall still thought it was caused by budgetary indiscipline. Bonnet should force the French to swallow the medicine that Britain had ingested in 1931 to such good effect.

The British Treasury believed that France should remain a member

²⁰ Telegrams, Simon to Phillips, Sept. 18, Treasury to Phillips, Sept. 20 and 22, 1937, T160/766/F. 15000/02/3.

²¹ Memorandum, Leith-Ross for Simon, Sept. 24, 1937, T160/766/F. 15000/02/3.

²² Memorandum, Hopkins, Oct. 1, 1937, T160/766/F. 15000/02/2.

of the currency club as long as possible. It was prepared to urge thriftiness upon Bonnet but, beyond that, "We do not see anything more that we can do to help them."²³ There could be no question of an intergovernmental credit: The City could not and should not be urged to provide any new loans just to preserve the French gold hoard, which Paris could mobilize if it wished.

It is interesting, but not surprising, that when they were trying to explain the flight of French capital the British documents of 1937 never mentioned the German threat. After all, if war had broken out in 1937, Britain's position would have been as parlous as France's. Yet capital was flowing into Britain, where the Exchange Equalisation Account could barely digest the golden avalanche. Given these facts, Treasury officials must naturally have tended to concentrate upon those aspects of France's internal policy that were different from Britain's.

In the matter of a credit, Treasury and Foreign Office were soon at odds. In December 1937, France would have to repay the £40 million railway credit that she had drawn in February. Foreign Office officials convinced Sir Robert Vansittart, Permanent Undersecretary in the Foreign Office, that the Treasury should use its influence to help the French arrange a new credit on favorable terms. Nevertheless, Vansittart's staff was far from sure that a new credit would really do much good. In the end, one official wrote, France would have to save herself. Early in November, Mönick told Phillips that France wanted to "consolidate" £20 million as a three-year loan, repaying only £20 million in December. But Simon told Bonnet that the credit could not be renewed or lengthened, because the creditor banks would not cooperate. To a high Foreign Official, Simon observed that while the Treasury was alive to the political dimension, he would not urge the Bank of England to exert influence on the other banks. Because their domestic advances were rapidly rising, "the banks want their money back"; there was no point in trying to make an arrangement for the spendthrift French. One may imagine the anger with which Bonnet made the payment.²⁴

Long afterward, Bonnet (1971, p. 1) claimed that by the end of 1937 the French economic situation had been transformed and her credit reestablished. Unfortunately, that was by no means true. The country continued to run a current-account deficit. Prices and wages continued to rise rapidly. Admittedly, in October, November, and

²³ Telegram, Treasury to Phillips, Oct. 5, 1937, T160/766/F. 15000/02/2.

²⁴ FO 371/20691, pp. 333-346, Sept. 29, 1937; FO 371/20691, pp. 403, 406, 443-444, 449-455, Nov. 1937.

December, there was some reflux of capital funds to France. Wolfe (1951, pp. 178-179) attributes this flow partly to the psychological impact of a reassuring ministerial declaration early in October, and partly to the stock market crash in New York and the onset of worldwide recession, which, he believes, brought hot money to France. In Whitehall it was thought that external borrowing and repayment of debts from Spain made a contribution. The French exchange stabilization fund was able to buy gold from time to time, and it even managed to turn some over to the Bank of France. There was no trouble in holding the exchange rate at or near 150.²⁵ But Wolfe (1951, p. 179) reminds us that the favorable movements of capital ended with 1937 and that they were never considerable.

²⁵ Enclosure, Nov. 7, 1937, FO 432/3 no. 20.

4 CHAUTEMPS AND MARCHANDEAU

In January 1938, the world political scene was relatively tranquil, but the French scene was not. The strikes that had begun late in 1937 continued into 1938, and the Communist wing of the Popular Front objected to Chautemps' attitude to them. When Parliament reassembled on January 14, Chautemps told the Chamber that before the parliamentary recess there had been no cause for alarm about the financial situation but that for some days now there had been grave tension on the exchange market. He blamed "the recrudescence of social agitations and their exploitation" (Delperrié de Bayac, 1972, p. 419). Capital funds were once more fleeing the country. Prices and wages were still rising, though less rapidly than in 1937. Once again there was risk of severe social disorder. January 11 was the worst day for the franc since 1936. The exchange fund held the exchange rate at 150 only by providing massive support, which it had to continue on subsequent days. On January 14 the Socialist ministers withdrew from the government, and on January 15 the government resigned. On January 18 Chautemps formed a new government, in which Paul Marchandau replaced Bonnet as Finance Minister. The new government said that it would defend the currency and avoid exchange control. But although plenty of gold was left in the Bank of France, very little ammunition was left in the stabilization fund's magazine. The franc fell to 153, then to 155.

Morgenthau asked the French what limits would be set for the franc. The U.K. Treasury was not prepared to ask such a question itself, and was not pleased that Morgenthau had asked it without consulting Britain. Marchandau, Waley wrote, could not possibly know the answer. Hopkins proposed, and Norman and Simon agreed, that one should not press the French. Privately, Waley observed that if Britain plagued the French about the rate, the French could demand a "loan and various other things" as their price for keeping the franc at the desired figure.¹ And, indeed, Marchandau was about to raise the question of a public issue in New York.²

In Paris, Marchandau told Rowe-Dutton that the recent movements of the franc were "in accordance with the spirit of the Tripartite Agreement since it would have been very expensive to defend the rate against the general movement of the market."³

¹ Memoranda, Waley to Phillips, Jan. 25, 1938, and Phillips to Hopkins and Woods, Jan. 27, 1938, T160/766/F. 15000/02/2.

² FRUS 1938 II, pp. 257-261; MD 106, pp. 289-291, 294, Jan. 25, 1938.

³ Memorandum, Rowe-Dutton to U.K. Ambassador in Paris, Jan. 31, 1938, T160/766/F. 15000/02/2.

Under instructions from Washington, Butterworth went to Paris to investigate. On returning to London, he reported that, as British Treasury officials already knew, the French exchange fund was exhausted. Marchandeu, he announced, had told Cochran that though the fund had the right to draw some gold from the Bank of France, the franc was now a floating currency. Marchandeu would adhere to the policy of the previous government and to the Tripartite Agreement, but he would say nothing about a target rate or range for the franc.⁴ This reticence was hardly surprising, Phillips observed: the French fund was "exhausted, in fact much overdrawn."

Soon Mönick appeared at the U.K. Treasury to arrange a meeting between Simon and the French Ambassador to London. France did not want a loan; nothing must be said to the Americans. At the meeting, held on February 14, the Ambassador told Simon that the French government was still opposed to exchange control. Nevertheless, if it did not feel its opposition was supported by Anglo-American opinion, it would have difficulty resisting the demands for such control. He proposed that Mönick and U.K. Treasury officials review the whole situation "so that they might ascertain the views of His Majesty's Government and learn what suggestions His Majesty's Government had to make in the light of their own experience in 1931 or otherwise." The Treasury officials were mystified by this request, which they thought extraordinary. All they could say, they told Butterworth, was that the "present political lot should be cleaned out."⁵ Perhaps there would be similar talks at the American Embassy in Paris. From Mönick, Waley learned the next day that Marchandeu found it impossible to stem the flight from the franc and feared he would have to impose exchange control unless he could adopt some wholly new policy. He was thinking of a return to gold at an unstated parity. In accordance with normal gold-standard procedure, the gold of the Bank of France could then be used to defend the franc. In attempting such a bold stroke, he would need the moral support of Britain and the United States. "The secret of M. Marchandeu's intentions is known only to M. Chautemps, M. Delbos, and M. Corbin," Waley concluded.⁶

Marchandeu wanted to know what Simon thought of his idea. He was, in fact, "consulting" both the Americans and the British under

⁴ Memorandum, Waley for Phillips, Feb. 2, 1938, and minute, Phillips T 160/766/F. 15000/02/2; telegram, Cochran to State, Jan. 25, 1938, MD 106, p. 308.

⁵ Telegram, Butterworth to Morgenthau, Feb. 16, 1938, MD 111, pp. 8-12.

⁶ Memorandum, Waley to Phillips, Feb. 16, 1938, T160/766/F. 15000/02/2; letter, Waley to W. Strang (Foreign Office), Feb. 17, 1938, T188/211.

the Tripartite Agreement. As Mönick was off to Paris in a week, no response was necessary until then. It was expected that Marchandean himself would meet Simon later in February.

In their usual way, U.K. Treasury officials consulted the Bank of England and wrote memoranda. From Paris, Rowe-Dutton remarked that Marchandean's suggestion was odd; it could work "only if undertaken at a moment when the tide is already flowing in the right direction." Phillips was delighted to observe that France was still trying to avoid exchange control. Not only was exchange control wrong, but it would not work, especially in France. As for the Marchandean scheme, "the cat emerging from the bag is a fine large animal though its outline is still indistinct." Marchandean, Phillips thought, was right to believe that he would have to try something new. Should he stabilize *de facto* and announce that he would use the Bank of France's gold? The Bank of England preferred a *de jure* stabilization which, by revaluing the Bank of France gold, would give the French government £160 million in hand, even after repaying Bonnet's large borrowing from the Bank of France. Phillips continued, "I am inclined to think this is the best chance they have got of avoiding chaos without thinking it more than a chance. . . . M. Marchandean does not appear to ask for more than moral support from us, which he can have in unlimited quantities. We cannot lend him money, and it would be useless to him if we could. It would soon disappear and leave nothing behind but an increased foreign debt."⁷ Leith-Ross, on the other hand, thought Britain should extend "a really substantial credit in gold . . . some of the superfluous gold which [France] has been dumping on us." Phillips countered that the French had not asked for a credit, and there was the greatest doubt whether the Americans would cooperate.⁸

Mönick returned to Paris, where he consulted Cochran. He wanted a secret conversation with the United States, one which could examine the possibility of stabilizing each of the three currencies "in some international moves." Cochran was suspicious, but Morgenthau told him to go and listen. On February 18, Cochran met Marchandean, who asked whether the United States would open trans-Atlantic conversations to develop and extend the cooperation inaugurated by the Tripartite Agreement, "particularly the possibility of establishing a new stage in the direction of more stability." Cochran immediately discussed the matter with Butterworth, Phillips, and Rowe-Dutton. All agreed that though nothing much could be expected, Britain and

⁷ Letter, Rowe-Dutton to Waley, Feb. 18, 1938; memorandum by Phillips for Chancellor's meeting with Marchandean, Feb. 21, 1938, T188/211.

⁸ Minutes, Leith-Ross, Phillips, Feb. 1938, T160/766/F. 15000/02/2.

the United States would have to listen to the French, from whom any concrete proposal would have to come. Phillips believed that Mönick envisaged some steps toward an eventual gold franc. Neither Cochran nor Rowe-Dutton thought that stabilization could be anything but hazardous.⁹

Morgenthau summoned his advisers, none of whom thought much of Mönick's idea that France should return to a gold standard. Morgenthau himself remarked that when he had decided to desterilize some American gold, he had meant to raise commodity prices, thus helping the French and the world at large. Consultation, Herbert Feis observed, should be limited to the question of exchange control—how the three countries might preserve the tripartite “working arrangement” in the event of French exchange control. He urged, and the Secretary agreed, that the conversations be “technical and confidential.” Telephoning Cochran, Morgenthau said, “We’re ready to listen, any time . . . and that’s all I can tell you.”¹⁰

On March 1, Mönick appeared once more at the U.K. Treasury. At last, Paris had heard from the Americans, who had agreed to secret tripartite conversations. Indeed, he made it appear that the United States heartily welcomed such discussions. Marchandeu, Mönick reported, wanted to return to the gold standard. He would like parallel declarations by the three governments. These should contain provisions for the adherence of others. Britain, Mönick said, would be asked to offer “more than sympathy.” At first, it was not clear what this might be. As Waley remarked, since Britain would not alter her monetary policy, she could not provide more than “sympathy and platitude à la *Tripartite*.” When Mönick spoke to Phillips on March 9, he was still vague, but he did cite as an example “some arrangement by which a fixed rate should be declared as between the pound and the dollar which could not be altered without previous consultation.” The British Treasury kept Butterworth informed of all Mönick's London approaches.¹¹

⁹ MD 111, p. 173, Feb. 17, 1938; MD 111, pp. 266-268, 275, 283-287, Feb. 18-22, 1938; memorandum by Phillips, Feb. 22, 1938, T160/766/F. 15000/02/2. For the American version, see also FRUS 1938 II, pp. 263-267, especially telegram from Cochran to Hull, Feb. 21, 1938.

¹⁰ MD 112, pp. 23-31, 33, esp. telephone conversation, Morgenthau and Cochran, Feb. 23, 1938.

¹¹ Memoranda, Waley for Phillips, Mar. 1, 1938, and Waley, Mar. 9, 1938, T160/766/F. 15000/02/2; telegram, Butterworth to Morgenthau, Mar. 7, 1938, MD 113, p. 432; MD 114, pp. 1-4, 130-132, 133.

5 BLUM ONCE MORE

Renewed political crisis in France made it unnecessary for the British authorities to restate their exchange policy. Chautemps was refused new decree-making powers, and his government fell. On March 13, 1938, Blum formed one last Popular Front government, and the Premier was his own Minister of Finance. There was no more suggestion of a gold standard. The franc fell at once, touching 163½ on March 23.

The U.K. Treasury soon learned that the Blum government proposed to centralize exchange transactions at the Bank of France. Waley believed that this "would obviously lead to a drastic exchange control."¹ Premier Blum, however, distinguished between centralization and control. Morton Blum (1959-67, Vol. I, p. 500) reports that in mid-March Morgenthau had told the French Premier that the American government did not object to exchange controls, so long as these applied only to capital movements. The actual message was rather different: The United States was "prepared to discuss" the question of exchange controls. Nothing was said about capital movements. Morgenthau consulted Roosevelt, but not the British, before making this statement.² As we shall see in Chapter 8, Morgenthau was increasingly inclined to believe that France should impose controls. On March 26, Bewley had asked an American official what he thought the Americans would do about the arrangements for gold sales if the French imposed exchange restrictions. He was told that if Britain wanted France to stay in the currency club, the American authorities would probably "fall in with that view."³

In London, of course, there was considerable dismay that France seemed to be moving once more in the direction of exchange controls. Some comfort was taken from Blum's assurances that there would be discipline and surveillance, but no prohibition, all "strictly in the spirit of the Tripartite Agreement." But the British officials in Paris did not trust the French official who transmitted Blum's assurances.⁴ They thought that the surveillance would not work. There would be renewed capital flight and, thereafter, more severe control. Phillips warned of "the centralisation of exchange operations by the Bank of

¹ Memorandum, Waley to Phillips, Apr. 5, 1938, T160/766/F. 15000/02/2.

² Telephone conversation, Morgenthau and Cochran, Mar. 14, 1938, MD 114, pp. 342-357.

³ Letter, Bewley to Waley, Mar. 26, 1938, T160/885/F. 17657/09/1.

⁴ Telegram, H. M. Embassy in Paris to London, Apr. 4, 1938, T160/766/F. 15000/02/3.

France. . . . I can only read this as meaning that unless the Bank of France is satisfied . . . it will refuse to supply foreign exchange. This is in fact exchange control, or, at the very least, it is 90 per cent advance toward a system of exchange control." Hopkins agreed.⁵ But because everyone expected the Blum government to fall, no one saw any point in discussing the evil suggestion. And, indeed, on April 8 Blum's second administration collapsed.⁶

⁵ Memorandum, Phillips for Hopkins and Woods, Apr. 6, 1938, and minute thereon by Hopkins, Apr. 6, 1938, T160/766/F. 15000/02/3.

⁶ On an American initiative with respect to French exchange control that came to nothing, see memorandum by Feis, Mar. 14, 1938, and telegram, Cochran to Morgenthau, Mar. 14, 1938, FRUS II, pp. 270-272; also Blum (1959-67, Vol. I, p. 500) and Chap. 6 below.

6 DALADIER AND MARCHANDEAU

Edouard Daladier's new government, whose members were from the Radical-Socialists and parties on the right, did not proceed with Blum's scheme to centralize the exchanges. Daladier returned Marchandean to the Ministry of Finance and appointed Bonnet Foreign Minister. The franc resumed its downward drift, and by the third week of April the French exchange fund was supporting it at 160 to the pound. Norman was greatly disturbed. He believed that the franc was weak because Paul Reynaud, Minister of Justice in the new French government, had claimed it ought to be at 175. Speculators had therefore concluded that the government was about to devalue formally or remove the support and were acting accordingly.

Norman and Phillips agreed that market forces would put the franc at about 160, that irrational speculation was all that had produced the downward pressure, and that "any further depreciation could not therefore be regarded as conforming to the trend of the market" and hence could not conform to the "spirit of the Tripartite Agreement. . . . It could only be due to an arbitrary decision taken outside the market on theoretical or political grounds . . . the selling comes mainly from sharply defined quarters."¹ It will be remembered that when the Tripartite Agreement was devised, the pound was worth 76 francs, and that after the new monetary law of October 1, 1936, it was worth about 105. Thus, in less than two years the franc had fallen, relative to the pound, to 43 per cent of its value in August 1936, and to 66 per cent of its value in October 1936. So much for the stability of exchange rates under the Tripartite Agreement!

The U.K. Treasury wired the Paris Embassy that if the French wanted to work with an exchange rate of 175, then, under the Tripartite Agreement, they ought to consult: "As at present advised we should certainly endeavour to dissuade them on the ground that the rate could be held easily enough at 160."² When the French financial attaché visited the Treasury at its request, he said he did not know what French policy was. He doubted that Marchandean would favor an "arbitrary reduction" or that he would adopt any new policy without consulting Britain. He asked if the French should say that they were still bound by the Tripartite Agreement and would therefore not

¹ Memorandum, Phillips to Hopkins, n.d., T160/766/F. 15000/02/4.

² Telegram, U.K. Treasury to U.K. Embassy in Paris, n.d., T160/766/F. 15000/02/4.

arbitrarily change the rate. The British officials thought this would be useful. As Leith-Ross wrote, "Recent developments of French policy in the monetary field . . . certainly appear difficult to reconcile with the adherence they profess to the Tripartite Agreement." But so, he observed, were the tariff increases and the quota reductions that the new government had introduced in spite of the pledges that the Blum government had given in September 1936. Phillips told Butterworth that the French seemed to have abandoned the Agreement. They should consult, support the franc, or both.³

For two days, the French government gave no exchange-rate directive to the Bank of France. If Bank officials had not acted on their own initiative, the technical arrangements of the tripartite understandings would have lapsed. The Americans were distressed. Morgenthau told Ambassador Bullitt that if France let the franc float down she would be breaking the Tripartite Agreement. He believed that if the franc were to descend France would be devaluing competitively. He sent Cochran to ask Marchandeu what the planned exchange rate would be: "Under the Tripartite Agreement I'm entitled to know that information . . . if he knows it himself." The French, he and his advisers agreed, were not consulting properly. Marchandeu had told the Americans that the franc was falling because of "speculation based on lies." The authorities had sold gold to prevent a further fall; they were not trying to manipulate the rate downward toward 175, he had said. But now the authorities had withdrawn support and were no longer providing a rate. What did they have in mind?⁴

Daladier made an announcement that the French were still bound by the Tripartite Agreement and that they would not arbitrarily change the exchange rate. British Treasury officials thought this was the result of their pressure. The exchange rate improved, but the market was skeptical about Daladier's statement and there was still noticeable pressure on the exchange. According to Mönick, the French Finance Ministry was in fact discussing a devaluation. Mönick claimed to have convinced them that first they must consult Britain and the United States. Butterworth transmitted to the U.K. Treasury a report from Cochran: According to the Bank of France, Daladier would ask Britain for a loan of £25 to £30 million. British Treasury officials by

³ Memorandum, Leith-Ross to Phillips, Apr. 25, 1938, T160/766/F. 15000/02/4; telegram, Butterworth to Morgenthau, Apr. 22, 1938, MD 120, pp. 217-219.

⁴ Telegram, Cochran to Hull, Apr. 23, 1938, FRUS 1938 II, p. 274; MD 120, pp. 248-251, 326; MD 121, pp. 78, 227, Apr. 26, 1938; MD 122, p. 46, May 2, 1938.

now had no objection to a loan maturing in five to ten years, but they believed that until France showed sure signs of recovery the London market would not accept it.⁵

On April 29, when French ministers were in London, Bonnet told Simon their woes. They did not believe they could hold the exchange rate at 160. What should they do? Might the British Exchange Equalisation Account buy francs and hold them? Simon explained that this was illegal. Might there be a credit of £30 to £40 million from the London banks? Simon doubted that the banks would extend such a credit except on gold security, which could not be offered. Might the franc be allowed to fall to 190 or 200? Simon "pulled a face." In the next few days, Bonnet explained, the government would decide on such a step—a deliberate depreciation to entice refugee capital back to France. Simon objected that any such action would be entirely contrary to the Tripartite Agreement, which certainly precluded artificial alterations of exchange rates. In his view, France was offering "a plan for deliberately depressing the franc."

Soon thereafter, Simon gave an official reply to Bonnet: His Majesty's Government did not want France to raise a short-term sterling credit; the Government did not object to a long-term flotation but was advised that such a loan would be expensive and hard to place; as for exchange rates, the present rate was about right, and any change would violate the tripartite understanding of September 1936.⁶

Three days later, Simon received an *aide-mémoire* from Bonnet. A similar message reached Morgenthau, through Cochran, on May 2.⁷ Bonnet wrote, "The French Government is compelled . . . to choose between exchange control and a fall in the exchange. The rate . . . will be in the neighbourhood of 175 francs with the intention to improve the rate progressively. . . ."⁸

Phillips told Butterworth that Simon was bound to think deliberate depreciation plus new tariffs violated the Tripartite Agreement. Morgenthau was shocked and surprised to learn that the rate was to be 175. He was distressed that Britain and the United States had been informed rather than consulted. He could not and would not lend dollars to assist the franc, and he thought that no response should be made until there had been time for further thought. Meanwhile, in the early morning of May 4, Cochran extracted a French government

⁵ Memoranda, Phillips to Hopkins, Waley to Phillips, letter, Rowe-Dutton to Waley, April 27, 1938, T160/766/F. 15000/02/4.

⁶ Minute of a conversation between Bonnet and Simon, Apr. 29, 1938, T160/766/F. 15000/02/4. See also T160/771/F. 15966, entry for April-May 1938, and telegram, Butterworth to Morgenthau, Apr. 29, 1938, MD 121, pp. 318-319.

⁷ Telegram, Cochran to Morgenthau, May 2, 1938, FRUS 1938 II, pp. 275-276.

⁸ Entry for April-May 1938, T160/771/F. 15966.

promise that this devaluation would be the "final one": "Nous donnons l'assurance que le Gouvernement Français se fixe la chute envisagée comme la dernière."⁹

While not liking the French action, Simon was prepared to acquiesce in it. Morgenthau, believing that he had received definite assurance from the French, at length agreed as well. He continued to believe that the French could not save themselves without controls; the U.K. Treasury continued to believe that France would never be able to operate controls. Whitehall officials argued it would be one-up for autocracy and a blow to the Daladier government if France were expelled from the currency club. Expelling France might force her to institute exchange controls, and these could not work satisfactorily. The case for a rate of 160 had been strong, but it was now much weaker, because of leakages. The franc would in fact be weak at any point above 175: "The damage in this respect has been done." Hence, "it would be the wrong policy to expel the French from the Currency Club, however much the United States government and ourselves may dislike the position that has come about."¹⁰ Explaining matters to Roosevelt, Morgenthau argued that by delaying U.S. acceptance of the French proposal, he had frightened the French into supporting the franc, convinced them that they could not depreciate further, and impressed them with the need for advance consultation. After obtaining British approval, Morgenthau decided to assure the French government that he thought the "Tripartite Accord [was] continuing in full operation."¹¹ It was therefore possible for Cochran to assure French officials that the American authorities "would continue to do business with and on behalf of the French authorities," and to transmit Morgenthau's message.¹²

On May 4 Simon received an encouraging message from Marchandau: "We shall continually pursue the maneuver of carrying the franc to the highest possible [position] consistent with secure stability, even if less than 175. We are more likely to succeed if no one knows what figure we have in mind."¹³

On May 5 the franc opened at 179.

When Morgenthau heard that the franc had fallen again, he became

⁹ Minute by Phillips, May 3, 1938, telegrams, Bewley to Treasury, May 3 and 4, 1938, T160/766/F. 15000/02/4. See also Blum (1959-67, Vol. I, pp. 503-505) and MD 122, pp. 29, 35, 46, 58, 86, May 2, 1938; MD 122, p. 161, May 3, 1938; MD 123, pp. 186 ff., 222, May 4, 1938.

¹⁰ Telegram, Treasury to Bewley, May 4, 1938, T160/766/F. 15000/02/4.

¹¹ Memorandum by Herbert Feis, May 4, 1938, FRUS 1938 II, pp. 276-277; telegram, Morgenthau to Roosevelt, May 4, 1938, MD 123, p. 247.

¹² Telegrams, Cochran to Hull, May 4 and 5, 1938, FRUS 1938 II, pp. 277-279.

¹³ Entry for Apr.-May 1938, T160/771/F. 15966.

very angry indeed: "I can't be too emphatic in my disgust and . . . as far as I'm concerned it's the last time I take their word on anything financial. . . . They'd better bring that down tonight if they know what's good for them." By telephone, he instructed Cochran in Paris to tell Marchandean that France had gone too far, in view of the assurances about 175. Marchandean replied that he would have to consult the whole Cabinet, including Bonnet and Premier Daladier. Thereafter, Bonnet asked the American officials if Morgenthau would accept a series of small steps, bringing the rate to 175 "in the course of a few days." Morgenthau would not. He wanted "prompt . . . immediate" action. Through Butterworth, who telephoned from London, the Secretary relayed his message to the British, who had told Butterworth that they also thought the rate too low. The French, however, maintained they were getting "nothing but enthusiastic messages" from the British Treasury.¹⁴

The American Chargé complained to Bonnet that although Morgenthau had "twice sought information as to the financial plans of the government he had received only the vaguest replies," in spite of the Tripartite Agreement, which "called for consultation . . . [and] presupposed a frank, friendly exchange of views among the parties to the agreement."¹⁵ Then, having promised a rate of 175, France let the franc fall to 179. No wonder the Secretary of the Treasury was annoyed.

Bonnet replied that the franc would be at "about" 175 in a week or ten days. Later on May 5, Marchandean and Bonnet assured Wilson that the rate would be brought up in small stages, "as favorable opportunities presented themselves." In the event, however, the exchange rate remained above 176 to the pound until August 1939, although, with the Czechoslovak crises of the summer and early autumn, it fell relative to the dollar, since the pound too began to slip.¹⁶

Discussing French behavior with Cochran, Governor Norman was unwontedly frank. "They lied to us," the Governor said, by going to

¹⁴ Memorandum by Herbert Feis, May 5, 1938, FRUS 1938 II, pp. 280-282; conversation between Cochran and Morgenthau, May 5, 1938, MD 123, pp. 136-146; telegram, Morgenthau to Butterworth, May 5, 1938, MD 123, p. 169; conversation between Butterworth and Morgenthau, May 5, 1938, MD 123, p. 211; note of Morgenthau's report to Roosevelt, n.d., MD 123, p. 220; conversation between Cochran and Morgenthau, May 5, 1938, MD 123, pp. 259-276. Blum (1959-67) ignores these later developments, as does Sayers (1976, p. 482).

¹⁵ Letter, Chargé in Paris to Hull, May 6, 1938, FRUS 1938 II, pp. 282-258.

¹⁶ Conversation between Cochran, Chargé, and Morgenthau, May 5, 1938, MD 123, pp. 299-306; notes of Morgenthau's opinions and decisions, MD 123, pp. 380, 384, 390; conversation between Morgenthau, Cochran, and French ministers and officials, May 5, 1938, pp. 404-420.

179; furthermore, 175 was the maximum rate that Britain would have granted France. He saw no way to explain away the action of the French except that people close to the French government were speculating in the franc. Expecting that France would shortly want to depreciate further, Norman asked London and Washington to consider their response: "Considering last week's experience, further yielding cannot very gracefully be done."¹⁷

Morgenthau proposed to holiday on the French Riviera during the summer of 1938. Learning of this plan, Simon pressed him to visit Britain for consultation, but Morgenthau refused. The trip was a pure vacation, he said, and, besides, Mrs. Morgenthau would object if she were deflected from France. The American Treasury still saw the franc as weak, and it warned Morgenthau that he might see fireworks before his holiday was over. Further devaluations, Treasury officials thought, would not help. In spite of his hopes for an uninterrupted vacation, Morgenthau paused for informal conversations with officials and politicians while passing through Paris to the south. These and the international political situation provoked a renewal of speculation. Trouble began when Morgenthau was on the beach at Antibes early in August. Believing that "the principal cause of the movement from the franc is the conviction on the part of market operators that there will be a change in the Tripartite Agreement in the autumn," Marchandau pressed Morgenthau to deny that any such change was in prospect. The American Ambassador urged Morgenthau to make no such statement, contending that "real facts, not fantastic rumors," explained the weakness of the franc. Morgenthau did not want to make a statement, but if one were made he wanted it to emanate simultaneously from all three governments, not just from him. Marchandau agreed to ask London for consent for such a joint statement. Meanwhile, he informed the American Embassy formally that, if the speculative pressure continued, France might not be able to continue the sacrifice of reserves that the maintenance of the existing level entailed. France wanted not only a common declaration but also "appropriate measures to ward off the shocks."¹⁸

The British reaction was unfavorable. Sir Frederick Phillips did not object to a "common innocuous statement," but Mönick's suggested tripartite declaration was ridiculous. Not only were the three countries

¹⁷ Telegram, Cochran to Morgenthau, May 9, 1938, MD 124, pp. 66-67.

¹⁸ Briefing memorandum, July 12, 1938, MD 134, pp. 98-99; telegram, Cochran to State Department, Aug. 10, 1938, MD 135, pp. 55-64; memoranda by William Bullitt, Aug. 10 and 11, 1938, MD 135, pp. 80-88; note by French government, handed to American Embassy in Paris, Aug. 11, 1938, MD 135, p. 111; letter, Chargé in Paris to Hull, May 6, 1938, FRUS 1938 II, pp. 286-287.

to declare that there would be no "manipulation tending to new devaluation" but they were to execute "a common programme of economic recovery, of development of international commerce and of assistance to countries more especially affected by the crisis." Also, they were to "constitute among themselves a committee of permanent international action charged with putting this programme into effect." All this was to rest on "their large available stocks of gold and their forces of credit." Butterworth did not like the sound of the Mönick draft any better than Phillips. There would have to be credits, but neither Britain nor the United States was willing to grant them. In any case, Governor Norman believed that credits would do no good. Phillips attributed the basic problem to the international political situation. He thought that if the Daladier government did not resign, the Americans and the British would be obliged to choose between a further depreciation of the franc and exchange controls.

Having no instructions, Butterworth would not present the American attitude. He and Phillips simply agreed that the French could not impose exchange controls without new legislation. Britain would, however, acquiesce in a further depreciation of the franc.¹⁹ The same day, August 17, Phillips told Mönick that a formal declaration would only be taken as a sign of weakness but that the British would agree to a further fall of the franc.²⁰

Bonnet spoke to Ambassador Bullitt on August 18. Having explained that his government had now dropped the idea of a joint declaration, he blamed British intransigence. Yet on the same day Butterworth reported that Phillips would not resist to the last ditch the idea of a common declaration. Meanwhile, Morgenthau had reached Basel, where he became convinced that Daladier's real reason for dropping the joint declaration was that the French government was about to begin a general program of financial reconstruction, and it no longer wanted or needed a statement from Britain or the United States. Bonnet insisted that there was no thought of exchange control or of a further devaluation. Nor would Daladier resign.²¹

¹⁹ Telegram, Butterworth to Assistant Secretary of Treasury, Aug. 17, 1938, FRUS 1938 II, pp. 291-293; telegram, Cochran to State Department, July 13, 1938, MD 134, pp. 119-129; memoranda by Morgenthau, Aug. 12 and 14, 1938, MD 135, pp. 112, 138.

²⁰ Telegram, Butterworth to Assistant Secretary of Treasury, Aug. 17, 1938, FRUS 1938 II, pp. 294-295.

²¹ Telegram, Bullitt to Hull, Aug. 18, 1938, FRUS 1938 II, pp. 295-296; telegrams, Butterworth to State Department and State Department to Butterworth, Aug. 16, 17, and 18, MD 135, pp. 154, 174-175, 178-179, 202-204; note of a telephone conversation, n.d., MD 135, pp. 195-200; telegram, Bullitt to State Department, Aug. 18, 1938, MD 135, p. 211.

7 TRANQUILLITY WITH DALADIER AND REYNAUD

On October 6, 1938, the Daladier government received powers to govern by decree. It was permitted to "take measures destined to realise the immediate restoration of the economic and financial situation of the country." In November, Paul Reynaud replaced Marchandeau as Finance Minister. Almost at once, he promulgated sixty-one decree laws, the first installment of a three-year plan that was meant to rehabilitate French finances. These measures raised taxes, cut some government spending, permitted a longer work week, extended cheap credit for certain purposes, and expanded the system of vocational training. While the budget was still in deficit, the deficit was no longer "tragic," and with economic recovery it should shrink as tax collections rose with production and income.¹

On November 12, the French government revalued the gold content of the franc and pegged to sterling at 179, the level at which the French authorities had been holding it *de facto* since May. Two days later, Reynaud told reporters that if the dollar should vary, the franc "would remain faithful to the pound."² Conditions changed suddenly and dramatically for the better. As the international scene darkened over the winter of 1938-39, the pound became weaker, but the franc retained the remarkable strength it had begun to show in November. On October 31, 1938, the French exchange fund held only 54,776 ounces of gold, worth 2.1 billion francs. By the end of January 1939 the Fund held 376,485 ounces, worth 14.3 billion francs. The flow continued up to the outbreak of war, and, indeed, afterward. The authorities were able to transfer 10 billion francs' worth to the Bank of France, and 2 billion worth to the *fonds de soutien des rentes*.³ In March 1939, French gold reserves passed the British, and thereafter they were second only to the American.⁴ In June, Rowe-Dutton reported, "Confidence in the immediate future of the franc is greater than for many years."⁵ In July, a U.K. official at the Paris Embassy wrote: "Confidence in the franc has been completely re-established, in spite of the fact that the fundamental budgetary problem has not

¹ Annual report on the French economy from the U.K. Embassy in Paris, FO 371/21589, p. 3.

² Telegram, Cochran to Hull, Nov. 14, 1938, FRUS 1938 II, p. 297.

³ Data from various official French sources reproduced in FO 371/22906, p. 95, Jan. 1939, FO 371/22907, pp. 154, 165, Feb. and May, 1939.

⁴ Telegram, U.K. Embassy in Paris to Foreign Office, July 30, 1939, FO 371/22907, p. 200.

⁵ Note by Rowe-Dutton, June 7, 1939, FO 371/22906, p. 141.

been solved and will not be solved until there is a very substantial increase in economic activity. . . . Capital has been returning steadily to France, and gold to the Exchange Fund."⁶ And in September, Reynaud announced that the Bank of France possessed twice as many tons of gold as it had in August 1914, while the private hoards and the exchange-fund holdings were roughly equal to the gold circulation of that time.⁷ After fleeing France steadily for more than two years, capital funds were flowing back. Furthermore, some new funds appear to have sought refuge in France.⁸

How can we explain this transformation? First of all, the double depreciation of the franc in 1938—first on sterling and then on the dollar when sterling began to decline—must have had some effect. Relative to sterling, the franc fell during 1938 from 150 to 179, while sterling fell against the dollar from \$5.00 to \$4.68. But the turnaround of the franc was far too speedy to be explained fully by these depreciations. It would seem that confidence began to return soon after the Daladier devaluation of May 5, 1938. There was a noticeable rush to buy francs that very month. The Bank of France claimed that even during the September 1938 crisis just before the Munich conference, there was no perceptible capital flight. To French ministers and to British observers, the Daladier government seemed to deserve most of the credit, and its new policies of autumn 1938 appeared to have created a dramatic change.

France was taking the same bitter medicine that Britain had swallowed in 1931. The cure, it seemed, was just as dramatic and even speedier. Because the franc was so strong, Britain no longer had occasion or reason to comment on France's financial policies. Indeed, as the Daladier franc strengthened, such comments vanished from the records. With the franc stable and strong, there was no need for consultation, no need for anguished pleading—no need, in fact, for the Tripartite Agreement.

France may be said to have joined the sterling area in 1936. The original proposals for devaluation involved an explicit pegging to the pound. The legislation expressed a range in terms of gold values, but

⁶ Note by N. E. Young, U.K. Financial Counsellor in Paris, July 8, 1939, FO 371/22907, p. 166.

⁷ Telegram, U.K. Embassy in Paris to Foreign Office, Sept. 11, 1939, FO 371/22907, p. 271.

⁸ Report by Rowe-Dutton, Jan. 10, 1939, FO 371/22905, p. 58; memorandum by Rowe-Dutton, Jan. 20, 1939, FO 371/22905, p. 113; telegram, U.K. Embassy in Paris to Foreign Office, Mar. 7, 1939, FO 371/22906, p. 198; letter, Rowe-Dutton to Waley, Mar. 24, 1939, FO 371/22906, p. 243B; letter, Rowe-Dutton to Waley, Apr. 20, 1939, FO 371/22906, p. 302; letter, Rowe-Dutton to Waley, May 6, 1939, p. 63.

the management of the franc was conducted throughout the period 1936-39 in terms of the exchange rate on sterling. In June 1936, the U.K. Treasury foresaw this possibility but did not desire it;⁹ it was preoccupied at that time with the advantages of the open gold market in Paris, where gold and currencies could be freely interchanged. In the event, thanks to the arrangements for gold interchange first proposed by the French and generalized by the Americans in October 1936, the pegging of the franc to sterling created no problem for the British authorities. Until September 1939, they were able to buy gold with any francs they might acquire. Until spring 1938, francs were in chronic excess supply at the pegged exchange rates, so that they must often have been glad of the chance to do so. But from autumn 1938 on, as sterling weakened and the British authorities became chronic sellers of gold to France and the United States, this device, like many others, became ineffective. In this respect, also, the tripartite understandings had dwindled to unimportance by September 1939.

⁹ Telegram, U.K. Treasury to Sir Ronald Lindsay through Foreign Office, June 7, 1936, FO 371/19831, pp. 386-387.

8 MORGENTHAU AND THE FRENCH: CREDIT AND EXCHANGE CONTROL

However unsuccessful it was in stabilizing the franc, the Tripartite Agreement increased the French claim to help from both the British and Americans. Yet it was world politics, not the Agreement, that moved Chamberlain to facilitate French borrowings in Britain, and the Agreement did not make Governor Norman of the Bank of England look more kindly on French requests either. In contrast, just as the French felt more able to ask for American credits, some American officials felt more able to suggest them. From time to time American Treasury officials found such an idea attractive, as did Bullitt and Cochran in Paris. Morgenthau, however, was most reluctant to consider the extension of credit. In January 1937, Bullitt suggested that the United States buy \$5 to \$10 million worth of francs and hold them for four days. Paris was trying to arrange a longer-term credit in London; the American credit would provide a bridge, nothing more. Morgenthau would not hear of the idea.¹ In the State Department, Herbert Feis agreed. Morgenthau later said that, because the transaction would have bridged a weekend, it was like kiting a check. Even Roosevelt was consulted, and he thought Morgenthau right to resist Bullitt's insistent suggestion.

French officials returned to the charge, arguing that a credit would be a "normal supplement to the tripartite monetary accord." Now, however, they wanted \$4 to \$5 million for a year. This proposal appeared even more hopeless to Morgenthau. It was not the policy of the American government, Morgenthau said, "to extend unsecured credits for currency stabilization or other purposes," especially to governments that were in default on old loans. When told of Morgenthau's remark, the French Treasury official showed "neither disappointment nor surprise," Bullitt reported.²

By February 1937, the French Treasury was urging Cochran to find out whether the city of Paris or the *Crédit Foncier* could float a loan in the United States. Neither Morgenthau nor Roosevelt liked that idea either, and after taking advice from merchant bankers the French authorities did not proceed with it. When Harry Dexter White

¹ Telephone conversation between Bullitt and Morgenthau, Jan. 22, 1937, MD 52, pp. 117-129.

² Memoranda of conversations and discussions, Jan. 22-24, 1937, MD 52, pp. 133, 138; telegram, Bullitt to Morgenthau, Jan. 25, 1937, MD 52, pp. 266-269; remarks by Morgenthau, Jan. 26, 1937, MD 53, p. 43; telegram, Bullitt to Morgenthau, Jan. 27, 1937, MD 53, p. 106.

strongly favored the extension to France of an American credit of some sort, Morgenthau again refused to consider the idea.³ In February 1938, Premier Chautemps raised the question of an American loan. In March, Cochran reported that the Governor of the Bank of France had raised the question once more: Could the American government authorize a normal public issue? If not, could the American Exchange Stabilization Fund buy francs and hold them? The Governor, Cochran said, expected the Americans to refuse. His expectation was not disappointed.⁴

In Britain, Morgenthau's behavior was observed and disapproved of. When Cochran asked Cameron F. Cobbold of the Bank of England whether London would extend further credits for the franc, Cobbold asked whether it was not the turn of the United States to help.⁵ The Americans, however, did not take the point.

By August 1938, Morgenthau had become slightly more willing to finance the support of the franc. While Morgenthau was in Basel following his holiday on the Riviera, Cochran proposed that the American Exchange Stabilization Fund buy *spot* francs when the French fund was hard pressed and hold them for up to ninety days, perhaps longer. Morgenthau was intrigued by what he thought Cochran had suggested, and he at once cabled from Basel to Washington: Would his advisers consider the purchase of *forward* francs against a gold or equivalent dollar guarantee? He would meet Phillips at Rouen on August 23 to discuss the proposal, and Rueff, Phillips, Cochran, and Butterworth would cross from Le Havre to Southampton with the Secretary, who was proceeding by ship to New York. Meanwhile, Cochran asked Marchandau and Rueff whether they would like the Americans to buy and hold *spot* francs. They were much interested, though they suspected that the Americans simply wanted to push the franc back up again. At Rouen, Phillips reported that the British Exchange Equalisation Account probably could not hold *spot* francs. Rueff argued that because the Americans and British would want gold collateral, there was no gain to the French if the two funds held *forward* francs. Therefore, nothing came of Cochran's bright idea or of Morgenthau's misunderstanding.⁶

³ Conversations between Morgenthau and Roosevelt, Feb. 18, 1937, MD 55, pp. 441-442; minutes of meeting, Feb. 24, 1937, MD 56, pp. 283, 297, 299.

⁴ Report of a conversation, Jan. 29, 1938, MD 107, p. 224; telegram, Cochran to Morgenthau, Mar. 15, 1938, MD 114, pp. 411-412.

⁵ Telegram, Cochran to Morgenthau, Apr. 17, 1937, MD 65, p. 145.

⁶ Telegram, Morgenthau to U.S. Treasury, Aug. 20, 1938, MD 135, p. 218; telegram, Morgenthau to U.S. Treasury, Aug. 24, 1938, MD 135, p. 252; memorandum by Cochran, Aug. 25, 1938, MD 135, pp. 266-291.

The French situation seemed disastrous to Morgenthau. Though he was doing nothing to help the French maintain the franc, he believed himself to be deeply involved in some sort of rescue operation, and in the course of 1937 and 1938 he spent immense amounts of time and energy on the question of the franc. His officials told him that only exchange control would save the French currency. His own instincts and his American experience pointed in the same direction: The French problem arose from capital flight, and capital flight arose from distrust by capitalists of a left-wing regime. It was obvious to Morgenthau that the situation demanded the same willingness to impose drastic controls on the movement of capital and gold that the United States had introduced in 1933. It did not occur to him that these weapons had never been put to the test. Month after month and year after year, the United States received gold, and there was little sign that American capitalists wanted to move their funds abroad. British observers told Morgenthau that France would be unable to operate exchange controls; Morgenthau did not believe them, and they did not give their reasons.

When Cochran explained that there were connections between French politicians and banks, Morgenthau concluded that the French government was being run in the interests of the speculators. Confronted with speculation, especially by banks and financiers, his New Deal blood boiled. He and Roosevelt told themselves that if the French had any guts they would take hold of the situation, protect their gold, and save the franc.⁷ Government after government had declared that it would not impose exchange control, but Morgenthau would urge them in that direction anyway, and eventually they would see the error of their ways. The realities of French politics concerned him not at all.

As the American Secretary lavished attention on the French problem, he had a series of brainstorm. In March 1937, Morgenthau proposed that Russia join the Tripartite Agreement because she had so much gold. He thought that gold might just suffice to get France through her difficulties. How France would acquire the Soviet gold he did not inquire, though a charitable reading of the documents suggests he may have realized that the U.S.S.R. would have to lend the gold to France.⁸ Why should the Soviets agree to such a loan? The United States had a great heap of gold, much of it sterilized. If the Americans could imagine a Soviet gold loan, why not an Ameri-

⁷ MD 55, pp. 441-442, Feb. 18, 1937; for Roosevelt's opinion, MD 58, pp. 10-19, Mar. 5, 1937.

⁸ MD 57, pp. 233, 281-283, Mar. 3, 1937.

can one? Had that possibility occurred to Morgenthau, one knows what his retort would have been: Thanks to the Johnson Act, there could be no intergovernmental loan. Because of the risk, there could not even be a credit through the American Stabilization Fund. Like the dragon Smaug, Morgenthau would sit upon his heap of bullion and breathe fire at the world.

Armaments bothered Morgenthau, and in February 1937 he decided that arms outlays had caused the financial disarray in France and elsewhere in Europe. If only countries would disarm, the exchange markets would be tranquil and he could go back to the Hudson Valley. Having obtained Roosevelt's agreement that the United States should sponsor a disarmament conference, he discussed the arms race with his tripartite partners. They responded with courtesy but some perplexity, unsure of what the Americans were up to.⁹ Fortunately for the reputation of the American government, nothing came of this scheme.¹⁰

The strangest of all his bright ideas struck Morgenthau in October 1938, as a result of which he sent Jean Monnet on a secret mission to Premier Daladier. The story is so bizarre as to be charming.

Jean Monnet was then a merchant banker, living and working in New York. Daladier was interested in constructing an aircraft factory near Montreal. With the warm support of Ambassador Bullitt, Daladier asked Monnet to look into the matter. When they heard of the proposal, Morgenthau's staff wondered how the French government would find the necessary foreign exchange. Roosevelt was attracted, however, and he passed Monnet on to Morgenthau, who received the French financier and Ambassador Bullitt at dinner on October 22.

After hearing about the plan, Morgenthau said that France would first have to draw back the \$4 billion in gold that her citizens had exported in the past few years. Why not decree that French citizens must repatriate their capital? The United States would help to locate the funds. "I am sure," Morgenthau continued, "that the British would do the same. . . . Mr. Daladier, if he has the courage can . . . under the cloak of the Tripartite Agreement announce supervision of the foreign exchanges, and issue decrees which would make it a jail offense not to bring your money back."¹¹ Monnet and Bullitt, Morgenthau reported, were "simply beside themselves with joy."¹² The historian may wonder whether either man expressed his true feelings: Bullitt

⁹ Dispatch, Chamberlain to Morgenthau, n.d. (between Apr. 1 and 4, 1937), MD 62, pp. 176-181.

¹⁰ MD 54, pp. 360-362, Feb. 11, 1937; MD 55, Feb. 17, 1937; MD 56, p. 291, Feb. 26, 1937; MD 56, p. 306, Feb. 26, 1937.

¹¹ Memorandum by Morgenthau, n.d., MD 147, pp. 185-190.

¹² *Ibid.*

had long believed that France could not effect exchange control and should not try, while a merchant banker would not be likely to approve so drastic a measure.

Morgenthau sent Monnet to the American Treasury to be briefed by Harry Dexter White on the measures the United States could use to track down French capital. It seemed that, without new legislation, the Americans could furnish on a reciprocal basis information about all foreign-owned property in the United States. They could also increase required bank reserves against foreign-owned deposits and perhaps, if Congress agreed, impose heavier income and transfer taxes on foreign-owned property.¹³ Roosevelt, Morgenthau, and Monnet jointly devised a cable by which Cochran could be warned that Monnet would arrive shortly carrying "a very important secret message for M. Daladier relating to the French financial situation."

Monnet's bundle was quite remarkable. It contained at least three documents. One was an account of French "flight capital" in the United States. White had estimated that in five years France had exported \$2.5 billion in capital, of which at least \$1 billion had come to the United States, half of it as "hot money." The second document argued the case for a restriction on the movements of "flight capital." Such movements, if unchecked, "may gradually undermine the basis of the Tripartite Accord [while increasing] the danger of a movement toward autarchy and political dictatorship." Britain, it was asserted, "should not be averse to facilitating the repatriation of hoarded gold," because much was held on private account by the four large bullion brokers. The rest could be liquidated and withdrawn "more gradually" to cushion its effect on official reserves. If measures could be concerted to deal with flight capital, "the prestige of the Tripartite Accord would be substantially strengthened," indicating that the Accord "is a vital instrument which is capable of growth." Finally, the bundle contained a draft tripartite declaration which Monnet had devised in consultation with White and other officials. This declaration largely repeated the arguments of the second document, and it continued:

Each of the adherents . . . have issued appropriate orders requiring the filing of reports relative to the holding of property in each of the countries by nationals of the other two countries. The information thus obtained will become reciprocally available to the three countries. . . . It is intended that whatever action of repatriation is taken by any country will be entirely consistent with the continuance of free enterprise and freedom of action in commercial and financial endeavors.¹⁴

¹³ MD 148, pp. 95-96, n.d. (between Oct. 26 and 31, 1938).

¹⁴ MD 148, pp. 183, 193-201, n.d. (between Oct. 26 and 31, 1938).

Monnet sailed for France on October 29. In Paris, Cochran told Daladier that a message was on the way. Daladier, deep in a cabinet crisis in which the principal issues were finance and exchange control, wanted to know the substance at once, without waiting for Monnet to arrive. Morgenthau, however, would not trust telephones and cables. Daladier "expressed his astonishment," but he had to wait until November 4, when Monnet reached Paris, met Cochran, and saw Daladier.

By November 4, however, Reynaud had replaced Marchandeu at the Finance Ministry. Marchandeu had lost office over the issue of exchange control, and Reynaud was pledged not to introduce any such measures. Yet it was clear to everyone, including Morgenthau, that the Americans were suggesting exchange control. Hence the French authorities responded noncommittally that it would be kind of the Americans to approach the British. Morgenthau was willing—indeed eager—to do so, but he wanted to be sure that in the end the French would follow his advice.¹⁵ He and some of his staff believed that finally France would do anything but call exchange control by its name, and he was annoyed to find that the French were not sure whether they would "use the knife and operate." Nor would France commit herself to the forced repatriation of capital that the Americans meant to undertake when the assembly of information was completed. The answer would depend on British opinion. At last, Morgenthau asked Cochran, "Are they going to put in exchange control or are they not?" Cochran answered that they would not. "Well then," Morgenthau announced, "the whole thing is a failure."¹⁶

In Washington, a senior official advised Morgenthau to drop the whole idea "for the moment." From Paris, Cochran gave the same advice. Morgenthau agreed that he would go no further, nor would he communicate with the British until he was sure that the French would "go the whole way." Cochran observed pointedly that if the American suggestion had reached Paris before the change of ministry it would have been accepted. But he also remarked that if Reynaud and some of the French officials were "forced out in such circumstances, I am convinced that the present conversations would be revealed, and the Secretary's most sincere efforts to be of genuine assistance and cooperation would be twisted into appearing as disastrous meddling."¹⁷ For

¹⁵ MD 151, pp. 134 ff, Nov. 1938; telephone conversation, Cochran and Morgenthau, Nov. 1, 1938, MD 149, pp. 67-74; telegram, Cochran to Morgenthau, Nov. 4, 1938, MD 149, p. 200; telephone conversation, Morgenthau and Cochran, Nov. 5, 1938, MD 149, p. 300; MD 150, pp. 66-92, Nov. 9, 1938.

¹⁶ MD 150, pp. 73, 75, 77, 79-80, Nov. 9, 1938.

¹⁷ MD 150, pp. 83-89, Nov. 9, 1938; MD 151, p. 169, Nov. 1938.

once, surely, Cochran was wrong. Morgenthau's intervention would look like meddling without any twisting whatever.

Morgenthau thought that Daladier would fall within a few days. He regretted that the French Premier had not adopted the American plan, believing that without exchange control and forced repatriation of capital the French were lost.¹⁸ When the franc recovered under the Daladier-Reynaud regime, he was surprised and not altogether pleased.

This October démarche is not really surprising. Admittedly, it is inconsistent with the Tripartite Agreement, which certainly committed the three countries to avoid exchange control. But for two years Morgenthau's advisers had been telling him that France could, should, and must have exchange control sooner or later—preferably sooner. No one seems to have noticed that exchange control was not consistent with Cordell Hull's program for tariff reduction and freer trade. There is little point in trying to revive the world economy by negotiating lower tariffs if countries can regulate trade and payments directly. Ever since the passage of the Trade Agreements Act in 1934, Hull and the State Department had been pressing forward with a program of trade negotiation. Indeed, at this very time the United States and Britain were about to sign a treaty that would provide for some useful tariff cuts. If asked to reconcile a policy of tariff cuts with a policy of exchange control, White and the others would probably have answered that there was no real inconsistency, since capital movements, not import and export payments, would be controlled. But to control only capital movements is easier said than done. As the more jaded European observers were quick to note, such controls have a tendency to become more general. To White and the other Treasury officials, however, these concerns meant little or nothing. At certain times, as at the beginning of 1937, they were prepared to believe that a devaluation alone might suffice: If the franc fell a further 8 per cent and if speculators believed that it would fall no more, capital might stop leaving and might even flow back to France. But the adventures of 1937 appear to have deepened the conviction they had had since mid-1936 that, for France, exchange control was the only way out.

The word went out at least as early as February 1937, when an American official told Bewley that controls might be the lesser evil for France. Roosevelt thought France would have exchange controls shortly, and Britain within a year. In mid-June 1937, Morgenthau asked his officials to devise contingency plans lest France introduce

¹⁸ MD 152, p. 386, Nov. 22, 1938.

such controls. Morgenthau was anxious to keep France in the tripartite understanding, but at this point he also hoped that she could avoid exchange control. In September 1937, he liked exchange controls because then the United States would not have to absorb so much gold. Early in 1938 he once more disliked controls. By then, he was sterilizing gold and the French outflow no longer worried him. In January 1938, he argued that it was in America's interest to stave off French exchange control, because controls might restrain world trade and the Hull program. Presumably, he still believed that there was some point in considering the question a live one, but his staff thought otherwise. Already in September 1937, White had thought that before losing much more gold France would "unquestionably" impose exchange controls. By February 1938, Feis had come to agree. By then, Morgenthau was prepared to listen to any control proposal that France might like to offer for consideration. In mid-March, having brooded about France all weekend, Morgenthau discussed the question of controls with his staff and with Roosevelt. It was proposed to recommend that the Blum government at once impose comprehensive exchange controls, gradually releasing commercial payments thereafter. The idea was first to win British approval and then to tell France that she could introduce exchange controls without being expelled from the currency club. Presumably, the interbank cooperation and twenty-four-hour stabilization would have continued, but clearly the accords, as originally devised, would have been breached. Morgenthau had various reasons for swallowing controls. They would help Blum; they would stabilize French politics and give France her rightful place in Europe; the country had lost half its gold in four years; "anything to help the French."¹⁹

Morgenthau's staff wanted him to tell the French that he approved of exchange controls but not to recommend them. They were not sure the French could operate controls at first. But, as White explained, "As time goes on they will learn." Even Professor Jacob Viner of the University of Chicago, consulted by telephone, responded that "in the light of the existing circumstances . . . and as a temporary expedient . . . I'm for it." Viner and Morgenthau agreed that Britain and France should simply be told simultaneously that the United States would accept controls. There should be no prior consultation with Britain.

¹⁹ MD 154, p. 233, Feb. 8, 1937; MD 55, p. 330, Feb. 17, 1937; MD 72, p. 341, June 14, 1937; MD 73, pp. 125, 136, June 1937; MD 73, pp. 157, 165, June 16, 1937; MD 73, pp. 224-236, June 17, 1937; MD 88, p. 178, Sept. 15, 1937; MD 89, p. 121, Sept. 20-25, 1937; MD 107, pp. 120 ff, Jan. 26 to 31, 1938; MD 112, p. 33, Feb. 23 and 24, 1938; MD 114, pp. 311-319, Mar. 14, 1938.

Feis was not happy to learn of this, fearing for political relations and for the trade talks with Britain, but Hull had no objection. Hence, on March 14 Morgenthau telephoned Cochran and told him to tell Blum that the United States "was prepared to discuss" the question of exchange control with France and the United Kingdom "to the end that every effort be made by our three governments to co-operate under the Tripartite Agreements." Cochran was to ask Blum whether such a statement would be acceptable. If Blum said that the statement should first be considered in London, Morgenthau was prepared to ask the British, but would otherwise not do so. Feis, from the State Department, listening to the conversation on the Treasury loudspeaker, insisted on adding the proviso that the controls should not interfere with the existing Franco-American trade treaty or impair its value by reducing American exports to France. From Paris, both Cochran and the American Chargé d'Affaires thought it unwise to transmit such a message to Blum so early in his new administration. But Morgenthau insisted: "This is what the President wants . . . and he wants us to get it to Mr. Blum just as quickly as possible"—that very evening, in fact, although in Paris it was already 8 P.M.²⁰

When Cochran consulted Blum, the French Premier responded that he did not want a formal approach made to France or to Britain, because he would do everything he could to avoid exchange control. For the time being, he would simply promise to communicate with Morgenthau should circumstances warrant some form of exchange control. White remarked that Morgenthau's message had still been worth sending. It had signaled that the United States was not opposed to the imposition of controls on capital movements and it had buried the idea that the Tripartite Agreement was the barrier, or a barrier, to exchange control. It had conveyed sympathy to France, strengthened the cause of democracy and peace, and armed the French against the political opponents of the French New Deal and against British pressure on French economic policy.²¹

When the Daladier government took office on April 11, 1938, and Marchandau once more became Minister of Finance, Morgenthau still believed that France should control capital movements. He insisted that, as a result of his message to Blum, France must know that the Tripartite Agreement was no obstacle. White was less sure, not knowing whether Marchandau had heard of the mid-March message. The State Department favored exchange controls to limit the flight of

²⁰ MD 114, pp. 342-357, Mar. 14, 1938.

²¹ Telegram, Cochran to Morgenthau, Mar. 14, 1938, MD 114, p. 337; memorandum by White, Mar. 14, 1938, MD 114, pp. 381-383.

capital. Roosevelt thought that, if necessary, these controls should be drastic.²² Early in May, White suggested that Britain be told what Washington thought about exchange controls and the Tripartite Agreement.

Outside the corridors of power in Washington, opinions differed. Werner Knoke and George L. Harrison of the Federal Reserve Bank in New York were appalled at the prospect of exchange controls. Cochran, Morgenthau's Paris emissary, was strongly opposed. The U.K. Treasury, of course, thought the idea most unattractive. Furthermore, in a letter to Morgenthau, the American Ambassador in London, Joseph Kennedy, was splendidly sarcastic about the idea:

I understand that while Blum was Prime Minister we told him that, if he considered it desirable to institute a form of limited exchange control in France, we would not object to it and would help to persuade the British that it did not break the Tripartite Agreement. This interests me for two reasons: first, because I am sure that no limited exchange control system can stay limited and still be a control system, and secondly, because in making such a suggestion we were certainly coming pretty close to playing dirty ball against the British . . . if we play that kind of ball we will get it played on us. Do write me whose idea this was. . . .²³

Morgenthau produced several drafts of an answer, but none was sent. Increasingly fascinated by his own prescription and that of his close advisers, the Secretary of the Treasury was not prepared to notice the arguments of others.

Just before Morgenthau left for France in July 1938, his officials warned him:

We are convinced now, as we were convinced last year and the year before last, [that there is] only one practical approach to the solution of France's currency affairs, namely, *the imposition of effective exchange controls over non-commercial transactions* [plus] imposition of appropriate penalties on failure to bring back capital within a reasonable specified time.²⁴

This was the background from which the Monnet mission sprang. As one might have predicted from their earlier attitudes, by 1938 American Treasury officials and the Secretary himself were prepared

²² MD 120, p. 336, Apr. 25, 1938; MD 122, p. 35, May 2, 1938; telegram, Roosevelt to Morgenthau, May 2, 1938, MD 122, p. 68.

²³ MD 122, p. 131, May 2, 1938; telegram, Cochran to Morgenthau, May 3, 1938, MD 122, p. 161; letter, Kennedy to Morgenthau, Apr. 25, 1938, MD 120, pp. 362-363.

²⁴ Memorandum [by White?] for Morgenthau, July 12, 1938, MD 134, pp. 98-99; MD 134, pp. 309-338, late July 1938.

to accept almost any departure from free-market principles so long as the franc could be kept high and stable. Whenever the franc sank or showed signs of sinking, Washington became hyperactive; when the franc seemed stable, Morgenthau lost interest in it. In London, the attitude was totally different. Whitehall did not like the descent of the franc, but it disliked exchange control even more. Whitehall recognized, as Washington did not, the political and administrative difficulties that would make French controls ineffective and the economic side effects that would make them undesirable. To Washington and to London, the Tripartite Agreement was a licence to interfere. Both governments protested whenever the franc fell. But, in addition, Washington urged exchange control on the French, while London urged budgetary responsibility and social prudence.

9 SOME CONCLUSIONS

The shifts and confusions of the period from 1936 to 1938 lead to the following conclusions. First of all, so far as France was concerned, the Tripartite Agreement did not induce systematic consultation. Usually, although not quite always, France's Finance Ministers managed the exchanges as they liked, informing the British and American authorities only after decisions had been taken. The franc drifted downward even though from time to time the French authorities spent gold to delay this fall or arrest it. While France was reasonably clearly in breach of the 1936 understandings, Britain and the United States were prepared to swallow almost any French action rather than announce that the Agreement was dead. Political considerations quickly became far more important than diplomatic or economic ones. Both Washington and London worried about the stability and security of French democracy. Washington worried about France and French monetary arrangements in relation to the peace of Europe. London could not ignore the need for Anglo-French solidarity in the face of the Nazi menace.

For reasons that are obscure to the present-day observer, successive French governments found it convenient to assert that the Tripartite Agreement was still in force; for more obvious reasons, London and Washington found it expedient to accommodate themselves to that desire. A great deal of value was attached to the arrangements by which the three central banks cooperated to manage the exchanges. With France out of the club, these arrangements could hardly have survived unchanged. For the British authorities, the Tripartite Agreement became a weapon with which to induce the French to give up gold or to avoid excessive devaluation. For Morgenthau, the Agreement was a means by which he could defend his right to be consulted.

In 1936 neither U.K. Treasury officials nor the Chancellor of the Exchequer wanted a Tripartite Agreement. They knew the franc was overvalued and that the social policies and fiscal confusions of the Blum government would increase the overvaluation. So long as capitalists distrusted the French government, French capital would flow westward across the Channel and eastward over the Swiss Alps. To Whitehall, the declarations appeared to be no more than an elaborate piece of political obfuscation that allowed Henry Morgenthau, Jr., to parade as a great thinker and world pacifier and Blum and Auriol to escape from the trap they had constructed for themselves when they promised never to devalue the franc. Nor did Whitehall approve the route by which the French managed their devaluation. A floating franc

was a Bad Thing, even if it floated within certain limits; only when the franc was firmly pegged at a defensible level would capital flow back to France. Further, with a floating franc the Blum government would be even more unrestrained in its financial management. London believed that Blum knew nothing of finance, and that Auriol was incompetent. It would have been one thing to devalue the franc in an atmosphere of fiscal rectitude and domestic confidence; it was quite another to do so in an atmosphere of fiscal disarray and domestic suspicion.

Once the Tripartite Agreement was made, however, the U.K. authorities were able to put it to good use. Admittedly, the arrangement exposed them to irritating inquiries from Washington. It forced them to appear to take Morgenthau seriously. It might produce requests for financial aid. On the other hand, it served the cause of Western amity. It helped to keep the Americans sweet. It provided a means by which the franc might be preserved from undervaluation. It helped the U.K. Exchange Equalisation Account to manage the market and draw gold.

While the Agreement could not force the French to consult, Auriol, Blum, and Bonnet all attached some importance to it. When changing course domestically or manipulating the exchange regime, they liked to be able to say that their partners had approved. As a result, the British Foreign Office and Treasury could find occasions for nudging the French government in the right direction. Paris could be warned to eschew exchange control, to balance its budget, to reduce tariffs and quotas, to avoid too precipitate a devaluation, and to spend gold to support the franc. It could even be told to change its Minister of Finance.

Such suggestions sprang from a strange mixture of motives. The U.K. Treasury and Board of Trade were principally concerned about Britain's competitive position, and the Foreign Office shared this concern. The Treasury, like many French officials, also worried about destabilizing speculation. If the franc were to fall too fast or too far, capital might leave France even more rapidly. Gold would flow to Britain, where the Exchange Equalisation Account was already having trouble digesting the gold that was on offer. Capital flight also reflected a lack of confidence, and confidence depended on such things as the government program, the personality of the Finance Minister, the behavior of the unions, and the prospects for civil calm or disorder.

In the Foreign Office, where power politics mattered more than economic management, such questions were viewed politically. The Foreign Office was not involved in the original negotiations from which the Agreement emerged. But, increasingly, the diplomats saw it as one of the means by which France might be kept democratic and

reasonably strong. The *bloc populaire* must be helped and nudged in the right direction; though it could not be expected to find the course of prudence without help, it should not be brought down. The alternatives would probably be worse, and there was a considerable risk that political disorders might flow from economic mishaps. If the exchanges collapsed, France might be expected to lurch leftward; if the fisc could not be set right, there might be trouble with the more conservative *bourgeoisie* or even with the army. If the democracies were seen to have fallen out over the exchanges, the dictatorships would take courage, and possibly territory. By mid-1937, therefore, the franc presented one of those problems that bound the democracies together without uniting them.

So long as the sterling-dollar rate was reasonably stable, attention concentrated on the behavior of the franc. Because Britain was pegging the trans-Atlantic rate, she could more readily berate France for letting the franc slip. Thus the power to intervene or to lecture came partly from the Tripartite Agreement itself, partly from the French desire for Anglo-American approval, and partly from sterling's stability. It was increasingly imperative to discipline France, or perhaps to stiffen France's will to discipline herself. It was therefore increasingly important to defend the sterling-dollar rate. For eighteen months after the Agreement, this was easy to do. Gold flowed to London and the Exchange Equalisation Account held the dollar down. But in the course of 1938, sterling weakened and so did Britain's leverage over France's economic policy.

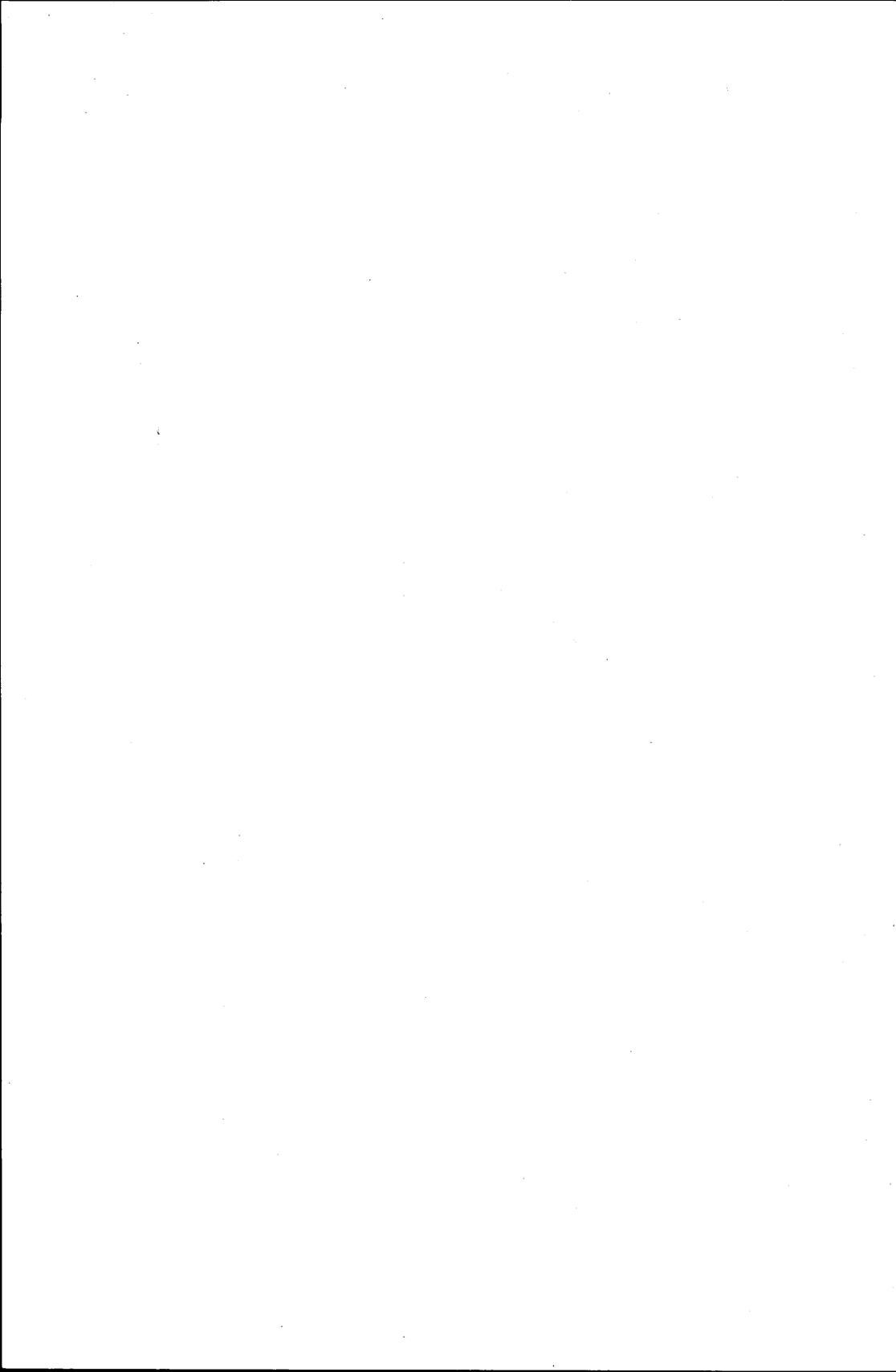
For the authorities in London, life may very well have been easier than when they were obliged to manage the sterling exchanges with no tripartite cooperative arrangements. Yet the period was not a calm one, and when France wished to devalue, depreciate, or change her exchange regime, the "commitment to consult" was conspicuously ignored, much to the annoyance of London and Washington. As we have seen, the Tripartite Agreement survived only because Britain and the United States were prepared to ignore the way in which France ignored it.

Might things have been better managed? The economist, observing that the declarations produced neither fixed exchange rates nor a clean float of the franc or the pound, can point to some obvious shortcomings. The declarations were vague, concealing profound disagreements about exchange policy and committing the three governments to little or nothing. They provided neither sanctions nor rewards. Most important, perhaps, they provided no credits. If they slowed the descent of the franc in 1936-38 or the descent of the pound in 1938-39,

they simply increased the westward flow of gold and helped to perpetuate the maladjustments that were among the causes of that flow. It would not be hard for economists to devise one or more imaginary agreements that would have worked better. But it is hard to see how such agreements could have been adopted in view of the national and international politics of the period, the history of international financial misunderstanding, especially in 1931-33, and the persons who governed and advised in London, Washington, and Paris. Given all the circumstances, the Tripartite Agreement may well have been the best that could reasonably have been expected. Although it may not have made much difference, we cannot understand the financial history of the late 1930s without taking account of it. It would have been Utopian to hope for anything better, if only because the three governments were in such fundamental disagreement about so many things. In due course, the Second World War would dissolve some disagreements and suppress others.

REFERENCES

- Blum, J. Morton, *From the Morgenthau Diaries*, Boston, Houghton Mifflin, 1959-67.
- Bonnet, Georges, *Le Quai d'Orsay sous trois républiques, 1870-1961*, Paris, Fayard, 1961.
- , *Vingt ans de vie politique, 1918-1938*, Paris, Fayard, 1969.
- , *Dans la tourmente, 1938-1945*, Paris, Fayard, 1971.
- Clarke, Stephen V. O., *Exchange-Rate Stabilization in the Mid-1930s: Negotiating the Tripartite Agreement*, Princeton Studies in International Finance No. 41, Princeton, N.J., Princeton University, International Finance Section, 1977.
- Delperrié de Bayac, Jacques, *Histoire du Front Populaire*, Paris, Fayard, 1972.
- Drummond, Ian M., *The Floating Pound and the Sterling Area*, Cambridge University Press, forthcoming.
- Howson, Susan, *Sterling's Managed Float: The Operations of the Exchange Equalisation Account, 1932-39*, Princeton University, International Finance Section, forthcoming.
- Kindleberger, Charles P., *The World in Depression, 1929-1939*, London, Allan Lane Penguin Press, 1973.
- League of Nations, *International Currency Experience*, Geneva, 1944.
- Leith-Ross, Sir Frederick, *Money Talks*, London, Hutchinson, 1968.
- Lewis, W. Arthur, *Economic Survey, 1919-1939*, London, Allen and Unwin, 1949.
- Sayers, R. S., *The Bank of England*, Cambridge, Cambridge University Press, 1976.
- Strange, Susan, in Andrew Shonfield, ed., *International Economic Relations of the Western World, 1959-1971*, Vol. II, London, Oxford University Press for Royal Institute of International Affairs, 1976.
- Wolfe, Martin, *The French Franc between the Wars*, New York, Columbia University Press, 1951.



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 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.

A **STUDY** or **SPECIAL PAPER** 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 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. For more complete guidance, prospective contributors should send for the Section's style guide before preparing their manuscripts.

How to Obtain Publications

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

Individuals and 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 a fee of \$8 (within U.S.) or \$10 (outside U.S.) to cover the period January 1 through December 31, 1979. Alternatively, for \$25 they can receive all publications automatically—**SPECIAL PAPERS** and **STUDIES** as well as **ESSAYS** and **REPRINTS**.

ESSAYS and **REPRINTS** can also be ordered from the Section at \$1.50 per copy, and **STUDIES** and **SPECIAL PAPERS** at \$2.50. Payment must be included with the order. **PLEASE ADD \$.60 FOR POSTAGE**. (These charges are waived on orders from persons or organizations in countries whose foreign-exchange regulations prohibit such remittances.) In London, the Economists' Bookshop will usually have Section publications in stock but does not accept mail orders.

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

International Finance Section
Department of Economics, Dickinson Hall
Princeton University
Princeton, New Jersey 08544

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

List of Publications

The following is a list of the recent publications of the International Finance Section. Most of the earlier issues and those marked by asterisks are no longer available from the Section.¹ They are available on demand in microfilm and xerographic soft or library-bound copies from University Microfilms International, 300 North Zeeb Road, Ann Arbor, Michigan 48106, United States, and 18 Bedford Row, London WC1R 4EJ, England. Microfilm editions are usually \$6 and xerographic editions usually \$10.

ESSAYS IN INTERNATIONAL FINANCE

101. Robert Z. Aliber, *National Preferences and the Scope for International Monetary Reform*. (Nov. 1973)
102. Constantine Michalopoulos, *Payments Arrangements for Less Developed Countries: The Role of Foreign Assistance*. (Nov. 1973)
103. John H. Makin, *Capital Flows and Exchange-Rate Flexibility in the Post-Bretton Woods Era*. (Feb. 1974)
104. Helmut W. Mayer, *The Anatomy of Official Exchange-Rate Intervention Systems*. (May 1974)
105. F. Boyer de la Giroday, *Myths and Reality in the Development of International Monetary Affairs*. (June 1974)
106. Ronald I. McKinnon, *A New Tripartite Monetary Agreement or a Limping Dollar Standard?* (Oct. 1974)
107. J. Marcus Fleming, *Reflections on the International Monetary Reform*. (Dec. 1974)
108. Carlos Díaz-Alejandro, *Less Developed Countries and the Post-1971 International Financial System*. (April 1975)
109. Raymond F. Mikesell and Henry N. Goldstein, *Rules for a Floating-Rate Regime*. (April 1975)
110. Constantine Michalopoulos, *Financing Needs of Developing Countries: Proposals for International Action*. (June 1975)
111. Gerald A. Pollack, *Are the Oil-Payments Deficits Manageable?* (June 1975)
112. Wilfred Ethier and Arthur I. Bloomfield, *Managing the Managed Float*. (Oct. 1975)
113. Thomas D. Willett, *The Oil-Transfer Problem and International Economic Stability*. (Dec. 1975)
114. Joseph Aschheim and Y. S. Park, *Artificial Currency Units: The Formation of Functional Currency Areas*. (April 1976)
- *115. Edward M. Bernstein *et al.*, *Reflections on Jamaica*. (April 1976)
116. Weir M. Brown, *World Afloat: National Policies Ruling the Waves*. (May 1976)
117. Herbert G. Grubel, *Domestic Origins of the Monetary Approach to the Balance of Payments*. (June 1976)
118. Alexandre Kafka, *The International Monetary Fund: Reform without Reconstruction?* (Oct. 1976)
119. Stanley W. Black, *Exchange Policies for Less Developed Countries in a World of Floating Rates*. (Nov. 1976)
120. George N. Halm, *Jamaica and the Par-Value System*. (March 1977)

¹ Some earlier issues are still available from the Section. For a complete list of publications, write to the Section.

121. Marina v. N. Whitman, *Sustaining the International Economic System: Issues for U.S. Policy*. (June 1977)
122. Otmir Emminger, *The D-Mark in the Conflict between Internal and External Equilibrium, 1948-75*. (June 1977)
123. Robert M. Stern, Charles F. Schwartz, Robert Triffin, Edward M. Bernstein, and Walther Lederer, *The Presentation of the Balance of Payments: A Symposium*. (Aug. 1977)
124. Harry G. Johnson, *Money, Balance-of-Payments Theory, and the International Monetary Problem*. (Nov. 1977)
125. Ronald I. McKinnon, *The Eurocurrency Market*. (Dec. 1977)
126. Paula A. Tosini, *Leaning Against the Wind: A Standard for Managed Floating*. (Dec. 1977)
127. Jacques R. Artus and Andrew D. Crockett, *Floating Exchange Rates and the Need for Surveillance*. (May 1978)
128. K. Alec Chrystal, *International Money and the Future of the SDR*. (June 1978)
129. Charles P. Kindleberger, *Government and International Trade*. (July 1978)
130. Franco Modigliani and Tommaso Padoa-Schioppa, *The Management of an Open Economy with "100% Plus" Wage Indexation*. (Dec. 1978)
131. H. Robert Heller and Malcolm Knight, *Reserve-Currency Preferences of Central Banks*. (Dec. 1978)
132. Robert Triffin, *Gold and the Dollar Crisis: Yesterday and Tomorrow*. (Dec. 1978)
133. Herbert G. Grubel, *A Proposal for the Establishment of an International Deposit Insurance Corporation*. (July 1979)
134. Bertil Ohlin, *Some Insufficiencies in the Theories of International Economic Relations*. (Sept. 1979)

PRINCETON STUDIES IN INTERNATIONAL FINANCE

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 Colclery, *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, *Towards a New Basis for International Monetary Policy*. (Oct. 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*. (Nov. 1973)
- *34. Richard D. Marston, *American Monetary Policy and the Structure of the Eurodollar Market*. (March 1974)
35. F. Steb Hipple, *The Disturbances Approach to the Demand for International Reserves*. (May 1974)
36. Charles P. Kindleberger, *The Formation of Financial Centers: A Study in Comparative Economic History*. (Nov. 1974)
37. Margaret L. Greene, *Waiting Time: A Factor in Export Demand for Manufactures*. (April 1975)

38. Polly Reynolds Allen, *Organization and Administration of a Monetary Union*. (June 1976)
- *39. Peter B. Kenen, *Capital Mobility and Financial Integration: A Survey*. (Dec. 1976)
40. Anne O. Krueger, *Growth, Distortions, and Patterns of Trade among Many Countries*. (Feb. 1977)
41. Stephen V. O. Clarke, *Exchange-Rate Stabilization in the Mid-1930s: Negotiating the Tripartite Agreement*. (Sept. 1977)
42. Peter Isard, *Exchange-Rate Determination: A Survey of Popular Views and Recent Models*. (May 1978)
43. Mordechai E. Kreinin and Lawrence H. Officer, *The Monetary Approach to the Balance of Payments: A Survey*. (Nov. 1978)
44. Clas Wihlborg, *Currency Risks in International Financial Markets*. (Dec. 1978)
45. Ian M. Drummond, *London, Washington, and the Management of the Franc, 1936-39*. (Nov. 1979)

SPECIAL PAPERS IN INTERNATIONAL ECONOMICS

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)
10. Richard E. Caves, *International Trade, International Investment, and Imperfect Markets*. (Nov. 1974)
- *11. Edward Tower and Thomas D. Willett, *The Theory of Optimum Currency Areas and Exchange-Rate Flexibility*. (May 1976)
12. Ronald W. Jones, "Two-ness" in Trade Theory: Costs and Benefits. (April 1977)

REPRINTS IN INTERNATIONAL FINANCE

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 Discussions 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 *Euro-money*, Vol. 1, 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 *Journal of Finance*, Vol. 26 (March 1971)]
18. Peter B. Kenen, *Floats, Glides and Indicators: A Comparison of Methods for Changing Exchange Rates*. [Reprinted from *Journal of International Economics*, Vol. 5 (May 1975)]
19. Polly R. Allen and Peter B. Kenen, *The Balance of Payments, Exchange Rates, and Economic Policy: A Survey and Synthesis of Recent Developments*. [Reprinted from Center of Planning and Economic Research, Occasional Paper 33, Athens, Greece, 1978]

