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Kenneth Mouré, *The Gold Standard Illusion. France, the Bank of France and the International Gold Standard, 1914-1939*. Oxford and New York: Oxford University Press, 2002. x + 297 pp. Figures, tables, notes, bibliography, and index. $72.00 (cl.) ISBN 019-924904-0.

Review by Julian Jackson, University of Wales, Swansea.

Kenneth Mouré's new book extends and develops the analysis of his previous study of Bank of France policy between 1928 and 1936. This time he looks at French gold policy from 1914 until 1939. The book is an important addition to the literature on French economic policy between the wars. It is a fairly technical study which will not always be easy-going for those unfamiliar with economic and monetary history. Nonetheless Mouré writes with clarity and elegance, and his book deserves to be read by anyone interested in understanding the economic background to the turbulence of the inter-war years in France. This was a period when politicians, whose backgrounds had prepared them for entirely different problems, found themselves confronting the most intractable financial and economic situation. The fate of governments in the mid-1920s fluctuated much of the time according to the exchange rate of the franc.

Mouré writes in the context of a new orthodoxy which asserts the importance of the Gold Standard in causing and then deepening the Great Depression of the 1930s. This is the view most trenchantly argued by Barry Eichengreen in his book vividly entitled *Gold Fetters* (1992). In Eichengreen's view, the Gold Standard was the main culprit in explaining the Depression. The argument runs as follows. In theory, the Gold Standard was supposed to be a self-equilibrating system which, if correctly administered, would provide stability to the international financial and monetary system. In reality, however, the system operated in an asymmetrical way: countries losing gold were required to carry out contractionary fiscal and monetary policies to restore balance of payments equilibrium, but countries accumulating gold did not come under equivalent pressure to impose expansionary policies. This meant that the Gold Standard had a severely deflationary impact on the world economic system. In this indictment of the Gold Standard, the spotlight falls on France since between 1928, when the franc returned to gold, and June 1932, French gold reserves increased by 55 billion francs, rising from 11.6 percent to 28.3 per cent of the world gold reserves.

Blaming France for the Depression is not new. In fact the accusation goes back to the 1930s when British financial journalists like Paul Einzig kept up a relentless barrage of criticism against what they saw as the selfishness of the Bank of France, allegedly accumulating gold for reasons of political prestige, without any regard for the consequences to the world economy. But the Eichengreen version of the argument is different: instead of blaming France for abusing the system, it blames the system itself, which is seen as structurally flawed. Hence the road to recovery lay in throwing off the "fetters" of gold. Eichengreen's argument has not convinced all historians. H.Clark Johnson, in his *Gold, France and the Great Depression* (1997), has taken a line closer to the inter-war critics of France, ascribing much blame to the Bank of France for not playing by the "rules of the game."

The central thrust of Mouré's book is a dialogue with these arguments. By offering the most detailed study so far written of French gold policy in the inter-war years, he aims to test the validity of the theses of Eichengreen and, to a lesser degree, Johnson. Thus his book is conceived as a contribution to a wider debate about inter-war economic history rather than as just a contribution to French monetary history. The book is arranged on broadly chronological lines. In the first chapter, Mouré surveys the working of the Gold Standard in its "classical" phase before 1914. His point here is that the seemingly essential stability of the system depended on a number of contingent factors: it was the result of very particular historical circumstances. One of these circumstances--the relative degree of political stability in which state budgets did not make major demands on central banks to cover deficits by printing money--was irremediably shattered by the war which broke out in 1914. France suspended convertibility of the franc on 5 August 1914, and it did not return to gold until 1928 at one-fifth of the 1914 parity.

The second chapter describes the policy of the Bank of France during and immediately after the war. Slightly over half of French war expenditure was met by domestic borrowing about 18 per cent by taxation, 16 per cent by foreign borrowing and the rest--over 12 per cent--by advances from the Bank of France. Although the bank made no difficulties about its patriotic duty in this respect, it also set about increasing its gold reserves in order to prepare the conditions for post-war monetary stabilisation. There was a vigorous publicity campaign to "harvest" gold: to encourage the French public to trade in their gold coins for bank notes. This campaign was so successful that the bank managed to collect about half the specie coin in circulation. Even the Church was roped into this effort. Citizens were assured that they would suffer no loss after the war. Mouré points out that such commitments, made in good faith during the war, help to explain why the bank found it so hard to abandon the commitment to pre-war parity in the 1920s.

Once the war was over, the bank's objective was return to "*la situation normale*"--that is gold-convertibility at pre-war parity--as soon as possible. But this was easier said than done since note circulation had increased from 6 to 30 billion francs, and prices were three times as high as in 1914. The Bank of France urged the Treasury to curb expenditure and take measures to reduce currency in circulation. Mouré makes the point, however, that there was little the bank could do to impose these unrealistic policies: it was largely impotent to influence government policy and felt betrayed. What it did succeed in doing was to get the government to agree, in the François-Marsal Convention of 1920, to repay the bank's advances at the rate of at least 2 billion francs per annum. A repayment was made in December 1921, but the state found it increasingly hard to meet its obligations in the following years, as the economy began to recover. The kind of monetary contraction required would have imperiled this growth.

In the next two chapters Mouré charts the gradual shipwreck of the policy to return to pre-war parity. He shows how, in the mid-1920s, the bank used every means at its disposal to argue the case for deflation: that is, the reduction of the currency in circulation by means of the repayment of bank advances. But as early as 1922 leading French economists like Charles Rist, Charles Gide, and Bertrand Nogaro were coming to the conclusion that the attempt to restore pre-war parity would come at too high an economic cost. So too were leading Treasury officials like Jean Parmentier and Pierre de Moüy. Their arguments were partly driven by pragmatism--the François-Marsal Convention made it increasingly difficult for the Treasury to manage the floating debt--and by wider economic considerations. As it came to seem increasingly unlikely that pre-war stability would be recovered, the franc came under increasing pressure on the foreign exchanges. Politicians were caught between two contradictory objectives: the need to finance post-war reconstruction and the need to pay lip-service to the idea of an ultimate return to parity. It made no difference whether the politicians were of the left or the right; none of them dared to be seen to be betraying the intangibility of the franc. As Clémentel, Minister of Finance, said in 1924, it was necessary to defend the franc as one had had to "defend the first line of the trenches" in the war.

When the left-wing Cartel government came to power in 1924, it was presented with a clear-headed memorandum by de Moüy, now director of the Treasury, advocating the abandonment of deflation. But left-wing governments who inherit a calamitous financial situation are often particularly timid as a result of a desperate need to display their financial rectitude. So, the Cartel passed over its chance. By not seizing the opportunity the Cartel ultimately sealed its fate because the bank now had a powerful weapon against it. Since March 1924 the bank had been doctoring the published figures on the level of note in circulation in order not to cause alarm. This policy had been very much the initiative of Governor Robineau, and the regents of the bank were not informed at the time. (One of the most hawkish Regents on the issue of monetary stabilisation, the industrialist de Wendel, did not realise until 1930 that the *faux bilans* had started before the arrival to power of the Cartel). Herriot, the Prime Minister, was not informed of this fact until October 1924. Although the practice of *faux bilans* had originally been devised in order to help the government out, it came to give the bank a powerful means of pressure over the government. Once the bank decided to publish the true figures in April 1925, the Herriot government fell. In effect, the Bank of France had brought it down. The situation of the franc on the foreign exchanges became increasingly parlous, culminating in a dramatic crisis which brought back Raymond Poincaré at the head of a coalition government of national unity.

Poincaré's government rapidly reversed the decline of the franc. It took a number of financial reform measures, but the psychological impact of Poincaré's reputation was also important. By the end of the year the danger was that the franc would appreciate too far, jeopardising the economy. Once the franc was firmly anchored again, this method of blackmail would no longer work. Mouré is not the first to describe these dramatic events, which have been extremely well described in the past by Jean-Noel Jeanneny and Stephen Schuker, but Mouré fills in a lot of detail and keeps the focus firmly on the bank.[1]

In his fifth chapter Mouré analyses the struggle between the bank and the government over the timing and level of franc stabilisation between 1926 and 1928. In this period the bank, under its new Governor Robineau, had abandoned its commitment to pre-war parity--perhaps Mouré could have discussed more fully how this volte-face was so easily assumed--but not its belief in the gold standard. Its policy now was to move as fast as possible to *de iure* stabilisation. Poincaré, on the other hand, tried to delay as long as possible, partly because he did not want to go down in history as the man who had finally devalued the franc. Poincaré's motives were also political. The threat of a possible resumption of capital flight bound the Radical Party into the coalition.

De facto stabilisation of the franc was achieved in December 1928 at a rate of 122.50 francs/£. Mouré discounts the idea that the intervention of the *Confédération Générale de Travail* leader Léon Jouhaux in October was decisive in the timing of this decision or the rate chosen. But Poincaré had accepted that a higher rate would be too damaging to the economy, although he made it clear that ultimately he wanted to see a higher rate. In the struggle between Moreau and Poincaré over the move towards *de iure* stabilisation, Mouré shows that the bank got its way in the end. The constituency for further revaluation had shrunk to all but a few diehards like Jacques Bainville of *Action française*, and one or two deputies of the right-wing *Fédération Républicaine* (one of whom, de Wendel, was in fact a regent of the bank). De iure stabilisation finally occurred in June 1928. In the end, Poincaré had had his hand forced by the bank, on this occasion working with the Treasury, and he was reported at the end to be furious about this and refused to speak to Moreau.

In his next chapter, Mouré moves away from his chronological scheme to look at the cooperation--or lack of it--between central banks throughout the 1920s. This topic is important for his main argument since one of Eichengreen's key points is that one problem of the gold standard in the interwar years was the failure of central bank cooperation. In the first half of the 1920s, central bank cooperation really meant the axis between London and New York, between the Bank of England governor, Montague Norman, and his American counterpart Benjamin Strong. Mouré is sceptical about the importance of central bank cooperation as a pillar of the gold standard. He sees it as a new development of the 1920s occurring as a fall-back mechanism designed to shore up a system whose credibility was increasingly strained.

Mouré's seventh chapter on the period between 1928 and 1936 covers ground already dealt with in his previous book.[2] He examines the massive imports of gold into France after 1928 and the reasons for it; he also discusses the Bank of France's orchestration of the campaign to defend the franc and oppose devaluation after 1934. Finally, his last chapter looks at the consequences of the devaluation of the franc in 1936. He concludes that, towards the end of the decade, the bank reluctantly and belatedly adopted a more activist policy of monetary and credit management. On the eve of the war, the bank had begun to behave like a modern central bank. Thus, in this regard, as in many others, the post-war "modernisation" of French economic policy has its roots in the late 1930s.

To return to the central question of Mouré's book, his answer is a nuanced acceptance of the Eichengreen thesis, but a rejection of the Johnson one. Johnson's idea that the French had flouted the rules of the game is rejected on the grounds that there was, in fact, no general agreement on what those rules should be, and that France's interpretation of them was entirely legitimate. Mouré sees no evidence that the Bank of France deliberately sought to lower world prices. What it did want was above all to avoid inflation. The Bank of France took the view that it was incumbent upon countries losing gold to take the necessary corrective action, and that when they did the Bank of France was to put no obstacles in the way of the resulting outflow of gold from France. As far as Eichengreen's argument is concerned, Mouré's corrective comes in his view that it is wrong to see the gold standard as a system in which policy makers were imprisoned. Mouré takes a more open-ended view of the way that this system worked, suggesting that there was a considerable leeway of interpretation open to policymakers: "conceptualisations of what the gold standard was and how it would deliver the ends desired varied according to particular national domestic needs, historical experience, and individual preferences" (p. 13). Policy, in short, was decided according to various choices made by individuals and institutions "within intellectual constraints they accepted willingly" (p. 15). There is certainly a nuance here, but unless I have misunderstood the argument, it is little more than that. Mouré's point is that the "fetters" described by Eichengreen were in the head: it was because people believed in the automatically equilibrating qualities of the Gold Standard, that they misunderstood the problems they faced; hence Mouré's title, "the Gold Standard illusion."

NOTES

[1] Jean-Noël Jeanneney, *François de Wendel en République: l'argent et le pouvoir, 1914-1940* (Paris: Seuil, 1976); *Leçon pour une gauche au pouvoir: la faillite du Cartel, 1924-1926* (Paris: Seuil, 1977); Stephen Schuker, *The End of French Predominance in Europe: The Financial Crisis of 1924 and the Adoption of the Dawes Plan* (Chapel Hill: University of North Carolina, 1976).

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

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