



The Golden Franc

Memoirs of a
Governor of the Bank of France:
The Stabilization of the Franc
(1926–1928)

Emile Moreau

Translated by Stephen D. Stoller
and Trevor C. Roberts



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Foreword

In 1989 I spoke in the seminar of Professors Paul Volcker and William Branson at Princeton University. On that occasion Volcker remarked that he was contemplating learning French. I asked why, and received the reply that he wanted very much to read the autobiography of Emile Moreau, the governor of the Bank of France from June 1926, when the French franc plunged to its low of the decade, to 1930. I was able to relieve his mind by saying there was no need for such a substantial investment since two young persons, Trevor C. Roberts, who ran a financial firm in Burlingame, California, and Stephen D. Stoller, who worked with Roberts before returning to academic life, were producing a translation chapter by chapter. I was reminded of a brief period a decade or so ago when I thought of taking up learning Dutch, then was much relieved in due course by finding that the book I wanted to read on the financial crisis in Amsterdam in 1763 had a ten-page summary in English.

Moreau's diary is a marvelous read. Another enthusiast of the book is Milton Friedman. We disagree about monetarism, flexible exchange rates, the importance of the 1929 stock market crash for the subsequent depression, and doubtless many other contentious matters of economic policy, but we agree that Emile Moreau is a man whose mind it is worth getting inside of.

Moreau was an outsider, president of the Bank of Algiers, who was called upon by Joseph Caillaux, the minister of finance in the musical-chairs cabinet of the time under Edouard Herriot, to take over the Bank of France governorship in June 1926 from Georges Robineau whom Caillaux had tried twice previously to replace. Moreau was just starting his task when the cabinet fell again and Raymond Poincaré became prime minister and stabilized the franc. This was in July.

Moreau was a taciturn man from Auvergne, a remote part of central France, in the hills. At the time of his appointment, Caillaux had a number of requests to make of him, for example that he keep on as secretary of the bank, one Aupetit, who had political connections.

Moreau's skill in turning down such requests with a subtle threat not to take the job in the emergency offers a brilliant lesson in bargaining. "He knows so much more than I do. If you think he has to stay, I had better not take the job . . ." In the end Aupetit was willing to settle for no job, but pled to keep the apartment among those the bank had in the Palais Royale on the Rue St. Honoré. Moreau was ruthless in turning this down.

The major interest in the book lies elsewhere, of course, in the complex negotiations between the French treasury and the bank, with Poincaré as minister of finance as well as premier, over whether the franc should be pushed back to the prewar par or stabilized at a supportable rate; whether the treasury or the bank should bear the losses, if any, in slowing down the rise of the franc from almost two cents (49 to the dollar) at the low to 3.92 cents (25 plus to the dollar), when stabilized *de facto* in the fall of 1926 and *de jure* in June 1928; whether to breach the ceiling on advances of the bank to the treasury; and the like. Poincaré was assisted in the Finance Ministry by Clément Moret who succeeded Moreau as governor in September 1930, and who received a superb training in central banking from their long years of negotiation when Poincaré was busy with non-financial concerns.

Other personality clashes of the canny Moreau were with the regents who were the board of directors, so to speak, of the bank, especially with two strong personalities: François de Wendel, who owned the steel company in Lorraine, and Baron Edouard de Rothschild of the banking house. The diary devotes a number of interesting paragraphs to the personnel problems of the bank more generally, firing the non-cooperators, and giving praise and raises to those who helped correct the sloppy procedures that had developed under Robineau and Aupetit.

Perhaps the greatest interest, however, attaches to the clash between Moreau and Montagu Norman, governor of the Bank of England. Moreau spoke no English—a remarkable fact for a world where finance was increasingly being conducted in English. He sent one of his trusted chiefs, Charles Rist, to Ogden Mills' Long Island estate in July 1927 to participate in what we would call today a G-4 meeting of central bankers—Benjamin Strong of the Federal Reserve Bank of New York, Hjalmar Horace Greely Schacht of the Reichsbank, and Norman—to discuss monetary policy help for Britain. He made few trips to London, dealing there largely through his other top staff man, Pierre Quesnay. When Governor Norman visited him in Paris there were tense discussions over the Britisher's ambitions, as Moreau saw them, to dominate the central banks of the rest of Europe. In the quarrels between the two governors, Benjamin Strong, whose

title as the head of the Federal Reserve Bank of New York at the time was also “governor,” would try to make peace, not always with success. With the undervalued level of the franc at stabilization and the return of French flight capital from London, the Bank of France piled up large sterling balances, giving Moreau a whip hand in his dealings with Norman. His diary records his satisfaction over this advantage in typical laconic terms.

Charles P. Kindleberger
Lexington, Massachusetts

Foreword

I wrote a foreword for this book more than a quarter of a century ago—without, of course, realizing it. I quote from a 1962 article:

“I was myself most fully persuaded that it would be politically intolerable to have an ‘independent’ central bank by the memoirs of Emile Moreau, the governor of the Bank of France during the period from about 1926 to 1928, the period when France established a new parity for the franc and returned to gold. Moreau was appointed governor of the Bank of France in 1926, not long before Poincaré became premier after violent fluctuations in the exchange value of the franc and serious accompanying internal disturbances and governmental financial difficulties . . .

“The book is fascinating on many counts. The particular respect that is most relevant for our present purpose is the picture that Moreau paints of Montagu Norman, governor of the Bank of England, on the one hand, and of Hjalmar Schacht, at that time governor of the Bank of Germany, on the other; they were unquestionably two of the three outstanding central bankers of the modern era, Benjamin Strong of the United States being the third. Moreau describes the views that these two European central bankers had of their functions and their roles, and implies their attitude toward other groups. The impression left with me—though it is by no means clear that Moreau drew the same conclusions from what he wrote, and it is certain that he would have expressed himself more temperately—is that Norman and Schacht were contemptuous both of the masses—of ‘vulgar’ democracy—and of the classes—of the, to them, equally vulgar plutocracy. They viewed themselves as exercising control in the interests of both groups but free from the pressures of either. In Norman’s view, if the major central bankers of the world would only cooperate with one another—and he had in mind not only himself and Schacht but also Moreau and Benjamin Strong—they could jointly wield enough power to control the basic economic destinies of the Western world in accordance with rational ends and objectives rather than with the irrational processes of

either parliamentary democracy or laissez-faire capitalism. Though of course stated in obviously benevolent terms of doing the 'right thing' and avoiding distrust and uncertainty, the implicit doctrine is clearly thoroughly dictatorial and totalitarian."

In an attached footnote, I added:

"Another feature of Moreau's book that is most fascinating but rather off the main track of the present discussion is the story it tells of the changing relations between the French and British central banks. At the beginning, with France in desperate straits seeking to stabilize its currency, Norman was contemptuous of France and regarded it as very much of a junior partner. Through the accident that the French currency was revalued at a level that stimulated gold imports, France started to accumulate gold reserves and sterling reserves and gradually came into the position where at any time Moreau could have forced the British off gold by withdrawing the funds he had on deposit at the Bank of England. The result was that Norman changed from being a proud boss and very much the senior partner to being almost a supplicant at the mercy of Moreau. Aside from the human drama, it emphasizes how important it is whether the rate of exchange is fixed 5 percent too low or 5 percent too high. Britain went back on gold in 1925 at a price of gold in terms of the pound that was probably something like 5 or 10 percent too low, and France went back *de facto* at the end of 1926 and *de jure* in mid-1928 at a price of gold in terms of francs that was 5 or 10 percent too high. This difference meant the difference between the French being at the mercy of the British and the British being at the mercy of the French."¹

Precisely this same pattern was repeated from 1958 to 1968 with the same actors. France in 1958 devalued to a level that stimulated gold imports, just as it had at the end of 1926. And Britain was forced to devalue in November, 1967, just as it was in September, 1931. To add piquancy to the post-World War II experience, Jacques Rueff, who had edited Moreau's memoirs and arranged for their publication in 1954, was the leading figure in devising the monetary reform four years later. Evidence of Moreau's influence? Or did Rueff arrange to publish the diaries to prepare the ground for the subsequent reform? There is no way of knowing. In either case, Moreau's continuing influence is evident.

Later, in the same article, I drew a sharp contrast between the "personal weakness" displayed in 1919 and 1920 by W. P. G. Harding, governor of the Federal Reserve Board (the counterpart of today's chairman) and the personal strength of Moreau:

"Almost every student of the period is agreed that the great mis-

take of the Reserve System in postwar monetary policy was to permit the money stock to expand very rapidly in 1919 and then to step very hard on the brakes in 1920. This policy was almost surely responsible for both the sharp postwar rise in prices and the sharp subsequent decline. It is amusing to read Harding's answer in his memoirs to criticism that was later made of the policies followed. He does not question that alternative policies might well have been preferable for the economy as a whole, but emphasizes the treasury's desire to float securities at a reasonable rate of interest, and calls attention to a then-existing law under which the treasury could replace the head of the Reserve System. Essentially he was saying the same thing that I heard another member of the Reserve Board say shortly after World War II when the bond-support program was in question. In response to the view expressed by some of my colleagues and myself that the bond-support program should be dropped, he largely agreed but said 'Do you want us to lose our jobs?'

"The importance of personality is strikingly revealed by the contrast between Harding's behavior and that of Emile Moreau in France under much more difficult circumstances. Moreau formally had no independence whatsoever from the central government. He was named by the premier, and could be discharged at any time by the premier. But when he was asked by the premier to provide the treasury with funds in a manner that he considered inappropriate and undesirable, he flatly refused to do so. Of course, what happened was that Moreau was not discharged, that he did not do what the premier had asked him to, and that stabilization was rather more successful."²

Rereading the memoirs in this splendid translation by Trevor Roberts and Stephen Stoller has impressed me with important subtleties that I missed when I read the memoirs in a language not my own and in which I am far from completely fluent. Had I fully appreciated those subtleties when Anna Schwartz and I were writing our *A Monetary History of the United States*, we would likely have assessed responsibility for the international character of the Great Depression somewhat differently. We attributed responsibility for the initiation of a worldwide contraction to the United States, and I would not alter that judgment now. However, we also remarked, "The international effects were severe and the transmission rapid, not only because the gold-exchange standard had rendered the international financial system more vulnerable to disturbances, but also because the United States did not follow gold-standard rules." Were I writing that sentence today, I would say "because the United States and France did not follow gold-standard rules."

Benjamin Strong and Emile Moreau were admirable characters of personal force and integrity. But in my view, the common policies they followed were misguided and contributed to the severity and rapidity of transmission of the U.S. shock to the international community. We stressed that the U.S. “did not permit the inflow of gold to expand the U.S. money stock. We not only sterilized it, we went much further. Our money stock moved perversely, going down as the gold stock went up” from 1929 to 1931.³ France did the same, both before and after 1929.

Strong and Moreau tried to reconcile two ultimately incompatible objectives: fixed exchange rates and internal price stability. Thanks to the level at which Britain returned to gold in 1925, the U.S. dollar was undervalued, and thanks to the level at which France returned to gold at the end of 1926, so was the French franc. Both countries as a result experienced substantial gold inflows. Gold-standard rules called for letting the stock of money rise in response to the gold inflows and for price inflation in the U.S. and France, and deflation in Britain, to end the over- and under-valuations. But both Strong and Moreau were determined to prevent inflation and accordingly both sterilized the gold inflows, preventing them from providing the required increase in the quantity of money. The result was to drain the other central banks of the world of their gold reserves, so that they became excessively vulnerable to reserve drains. France’s contribution to this process was, I now realize, much greater than we treated it as being in our *History*.

Moreau was explicit in his memoirs about the dilemma he faced. On February 17, 1927 (chapter 7), he wrote: “It was reported to me that prices are slowly rising. This is probably the result of the monetary abundance produced by the foreign exchange purchases of the Bank of France. We should hasten to issue a consolidation borrowing to absorb these loose funds before they are incorporated into the price structure.” Eight months later, on October 22, 1927 (chapter 12), he criticized Strong for doing the same thing: “If Strong lets things develop naturally, gold flowing into the United States would raise prices there. The rise in American prices would attract European products and gold would return to Europe until equilibrium was restored. Instead of that, Strong seeks to prevent American prices from rising by withdrawing the imported gold from circulation. The result is that equilibrium is not achieved, Europe loses its gold and erects a credit structure on artificial foundations. All this shows that theoretical arrangements, however refined and sophisticated, cannot replace the free play of natural laws.”

It is a tragedy that the personal characteristics we admire so

much in Strong and Moreau—adherence to principle and force of character—should have enabled them to follow policies that did so much harm to the rest of the world, and indirectly to their own countries as well. Neither was in power when the major adverse effects occurred—Strong because of his untimely death in 1928, Moreau because of his retirement from the governorship of the Bank of France in 1930. Perhaps if these able men had been in charge during the early thirties, they could have reduced the damage from their earlier policies.

True or not, that observation serves to reinforce the major conclusion of my 1962 article: that “a system of this kind [i.e., of independent central banks] is really a system of rule by men and not by law and is extraordinarily dependent on the particular personalities involved.”⁴

Milton Friedman
Stanford, California

Translators' Preface

Emile Moreau, governor of the Bank of France from 1926 to 1930, took office at a moment in history when the public finances of France were in disarray and the French currency on the verge of collapse. Within two years he had rescued the franc from impending disaster and cooperated in a program to restore sound public finance to France. Satisfied that he had accomplished his task, Moreau retired from public life in 1930.

The French economy in mid-1926 was in a desperate state. The franc was depreciating rapidly on the foreign exchange markets and domestic inflation was accelerating along with the currency's fall.¹ Many feared that France was on the verge of plunging into the hyperinflationary vortex which had swallowed Germany three years earlier.² Behind the monetary collapse stood years of fiscal deficits and an escalating national debt whose maturity was progressively shortening.³ French government debt had grown to the point where, in 1926, its nominal value was estimated to be equal to the total real wealth of the nation and interest payments on outstanding debt were consuming most of the treasury's revenues.⁴

The French franc prior to World War I was a respected currency, trading at a fixed exchange parity of 5.18 to the U.S. dollar or 19.3*q*. Like the dollar at that time, it was gold convertible.⁵ With the outbreak of World War I came the suspension of convertibility. France, like other European combatants, borrowed heavily to pay for the war and when government requirements became excessively heavy, the treasury sought direct advances from the Bank of France.⁶ Over the course of the war, the bank was forced to expand its note circulation from 6 billion to over 30 billion francs.

During the early 1920s, governmental expenditures, driven by the necessity to rebuild the war-ravaged regions of northeastern France, expanded at a pace in excess of revenues and public deficits soared. The pattern of finance established during the war continued with the Bank of France called on more or less regularly to assist in the financing of deficits. By mid-1926, the bank's note circulation

stood at 54 billion francs.⁷ Although the franc's exchange rate had remained roughly stable against the dollar during the war years, by late 1919 it had begun to depreciate rapidly. Sharp rallies occurred, particularly in 1921, 1922 and early 1924, but the overall trend was downwards. Continuing to decline, the franc by mid-July 1926 had fallen to an exchange rate of almost 50 to the dollar or 2¢ amidst general expectations that it would plunge further. Capital fled from France despite numerous legal prohibitions.

A majority of the French citizenry had become increasingly distressed at the mounting inflation, the disruption of their living standard, and the apparent inability of seven successive governments from mid-1925 to mid-1926 to remedy the problem. In a vivid display of participatory democracy, a Parisian mob on July 17, 1926, attacked the Palais Bourbon where the Chamber of Deputies was meeting and physically abused their elected representatives.⁸

The crisis of public confidence in late July 1926 brought the downfall of the weak leftist coalition government of Edouard Herriot and the election of a government of "National Unity" led by Raymond Poincaré. Poincaré was a seasoned veteran of French politics. He had served as president of the French Republic during the war and was universally respected as a tough, honest politician, a good man to call upon in a national emergency.⁹ If any leader could bring the increasing disintegration of the French economy to a halt, it was Poincaré.

Moreau, a central banker, emerged from outside the circle of professional politicians. He began his career as secretary to the minister of finance, Maurice Rouvier, in 1900, and subsequently served as governor of the Bank of Algeria for twenty years. At the time of his appointment as governor of the Bank of France on June 24, 1926, by the Herriot government, he was inspector general in the Ministry of Finance. Although the Bank of France had enjoyed tremendous prestige during the nineteenth century¹⁰, its reputation had sunk with the exchange rate of the franc during the 1920s. The bank had repeatedly accommodated the French treasury, an even less popular institution, in its massive issues of debt during and after the war. Debt monetization by the bank had produced more than a tripling of domestic prices during the war and except for the recession of 1920-21 in which they fell sharply, prices continued rising steadily during the following years.¹¹ To make matters worse, at the end of 1924 the bank had falsified its financial statements after expanding its note issue beyond the "plafond" or legal limitation.¹² When this scandal was revealed the following year, the bank's reputation sank to new lows and overall confidence in the economy suffered accordingly.

Successive French governments during the 1920s had failed to maintain balanced budgets and had created a host of new "special" budgets each time their spending exceeded revenues. By 1926, France had thirteen distinct governmental budgets. The initial rationalization for such innovative fiscal management was the expectation that France would receive large reparations payments from Germany after the war.¹³ These payments were intended to defray government expenses, but once it became clear in 1923 that Germany could no longer pay, the French government continued its deficit spending without further rationalization.

In desperation the short-lived Briand administration (in office from March 10 through June 24, 1926) appointed a committee of specialists on May 31, 1926, drawn from banking, business and the universities and charged it with formulating a plan to rescue the French economy. Moreau served on this committee together with other notable members of French business and academic life. Professor Charles Rist of the University of Paris participated and later, collaborating with Moreau at the Bank of France, assisted in the franc's stabilization. The report of this committee, issued on July 3, 1926, and named simply "The Report of the Committee of Experts" (*Rapport du Comité des Experts*), was a remarkable document in its simplicity.¹⁴

The report proposed that the government immediately cut its spending below expected revenues. Since there was a great deal of "waste, inefficiency, and fraud" in the public sector, there was ample room to cut. The report further proposed that new excise taxes be placed on items such as liquor and tobacco, taxes which were deemed hard to evade and efficient in raising revenue. The proceeds of these taxes along with revenues from the first transfer of real estate as well as inheritance duties would be channeled to a special fund, earmarked for the retirement of the public debt. Since the public remained deeply suspicious of the French treasury, a new agency known as the *Caisse d'Amortissement* (the "Fund for Redemption") would be created to receive these earmarked tax revenues and pay down the national debt.¹⁵

Lastly, the Committee of Experts proposed that the French franc be stabilized at an exchange rate which would keep French exports competitive on world markets. This was estimated to be in the range of 120 to 125 francs to the pound sterling or around 25 francs to the dollar. A return to the prewar parity of the franc as the British had done with sterling in 1925 was ruled out as imposing excessively burdensome costs on the real economy.¹⁶ This was a political as much as a purely "technical" economic decision. The committee realized that

the restoration of confidence, critical to the stabilization of the currency, would require an alliance of economic groups in French society which would require in turn a sharing of sacrifices. Finally, the report proposed that gold convertibility be restored to the currency. The tone of the report was grave. It urged prompt and drastic action.

When the new Poincaré government took power on July 25, 1926, and announced shortly thereafter that it would adopt elements of the committee's plan, the impact on public confidence was electrifying. The public had been selling francs through July at an accelerating pace. On July 20, the franc reached its postwar low of 49.22 francs to the dollar or 2.03¢. On July 26, the day after Poincaré's accession, the franc traded at 2.58¢ as speculators and then investors clamored to buy. One month later the franc had doubled in value from its July low point to almost 4¢ and the Bank of France was faced with a new problem.

Moreau knew that the report's recommendation that the franc be stabilized rather than revalued was crucial to the program's success. There were many in France who sought not a stabilization of the franc but a full revaluation to the prewar parity with the dollar. Moreau, schooled in the nineteenth century "classical" school of central banking, was a defender of "sound money," but he was also realistic. He saw that if France tried to revalue the franc to anywhere near its prewar value, French goods would become overpriced and lose their international markets and the inevitable counter-speculation against the franc could be expected. The French economy would suffer accordingly. This fear is expressed several times in Moreau's early chapters. Realizing that solid economic growth and the support of the industrial sector as well as a healthy flow of tax revenues were critical to the success of the plan for monetary stabilization, Moreau stood fast. The franc would not be allowed to rise above the range of 120–125 francs to the pound sterling, the level that the Bank of France believed would maintain international competitiveness for French industry.¹⁷

Fortunately, the exuberance of the foreign exchange market played into Moreau's hands. French investors, sensing the sea change in confidence, moved to repatriate their capital by selling the pounds and dollars they had been holding abroad and buying francs. The Bank of France purchased the gold convertible foreign currencies offered on the market with newly issued francs and began a program of demanding gold from the Bank of England and the U.S. Federal Reserve Banks. Rather than view the rise in the Bank of France's note issue as potentially inflationary, something Moreau himself fretted about increasingly as his foreign exchange purchases bal-

looned, Frenchmen focused instead on the bank's growing gold reserves which they saw as the foundation of a strong currency--a point Montagu Norman stressed, somewhat disingenuously, to Moreau in their discussion of May 27, 1927.¹⁸

By late August 1926, the bank was committed to a policy of maintaining the franc's exchange rate in a narrow band around 124 francs to the pound sterling. It did this by "making the market" in the franc. If the franc fell below the desired range, the bank bought francs with its foreign exchange reserves. If it rose above, which happened more frequently, the bank issued new francs, bought additional foreign exchange, and requested gold from foreign central banks. Moreau observed that the bank had discovered how to coin gold from paper.

Moreau distrusted Anglo-Saxon banking practices. Specifically, he suspected that the Bank of England did not have all the gold it maintained it had and that one day it would no longer be able to redeem its outstanding bank notes with bullion. Unfortunately, Moreau's suspicions were proved correct in 1931. He was slightly more trusting towards the American dollar although his first choice for central bank reserves remained gold. Moreau's overriding concern, in fact, was to restore the Bank of France's 1926 balance sheet to its "correct" nineteenth century norm.¹⁹ This involved purging the treasury's debt and the bank's inflated real estate from assets and substituting gold and "statutory" short term commercial bills.²⁰ Moreau viewed his foreign exchange holdings as a temporary expedient, one which in time he hoped to replace with bullion.

But Moreau's high regard for gold, as both Professors Kindleberger and Friedman point out, did not prevent him from disobeying the rules of the classical gold standard system. Moreau, in fact, saw no contradiction, or at least expressed none in his diary, between accumulating gold and then sterilizing it by constraining the domestic monetary expansion. Perhaps the paradox is explained in part by the absence of legal rules mandating any particular degree of expansion in the transitional monetary regime of 1926-1928. The "plafond" system still ruled, and while the bank had obtained the right to issue new francs in exchange for the foreign currencies it was acquiring, it did not have to keep these francs in circulation according to any precise ratio. From this set of circumstances arose Moreau's program of foreign currency swaps whereby the bank could maintain effective ownership of gold convertible foreign exchange while simultaneously "mopping up" the domestic money market.

By the fall of 1926, the Bank of France had achieved a de facto stabilization of the franc. Throughout the remainder of 1926 and