NOTES

The Politics of Currency Stabilization: the French Franc, 1926

Gregory C. Schmid
Institute for the Future, Palo Alto, California

In democratic countries, it is hard for an active reform minded government to curb monetary instability. The need for large expenditures to initiate new programs or to revitalize old ones makes it difficult to exercise the restraint necessary to restore monetary stability. A striking example of this dilemma occurred in France during the period 1924-1926 when a moderate left governing coalition, which was pledged to carry out major reforms, was confronted with the problem of rapid inflation. Unable to resolve the dilemma of reform versus restraint, they finally ceded power to a conservative-led coalition government. The new coalition was able to restore confidence in the franc and to end the inflation, but the moderate left used their remaining political influence to prevent any substantial revaluation of the franc. When it was finally stabilized in December 1926, its value had fallen sharply vis-à-vis the other major Western currencies, which had been re-established at their pre-War parities. This relatively low value of the franc was a contributing factor in the international monetary crisis of the early 1930's.[1]

This article examines the process of decision-making that led to the undervalued franc, and investigates the domestic political, social, and economic factors which played crucial roles in this outcome. The process of stabilization fell into two distinct periods. During the first period (June 1924-July 1926), a series of moderate-left governments were unable to halt the rapid inflation. The period ended when sizable numbers of moderate left deputies voted

[1] For a discussion of the undervaluation of the franc and its consequences in the late 1920's see: WILLIAM A. BROWN, JR,. *International Gold Standard Reinterpreted, 1914-1934*, Vol. I (New York: National Bureau of Economic Research, 1940), Chaps. 15-19; PAUL EINZIG, *World Finance, 1914-35* (New York: Macmillan Co., 1935), Chaps. 16, 21; R. G. HAWTREY, *The Art of Central Banking* (London: Frank Cass and Co., 1962), Chap. 1; and MARTIN WOLFE, *French Franc between the Wars* (New York: Columbia University Press, 1951), Chap. 2.

against their own leadership and supported Raymond Poincaré, only two years after they had repudiated his financial policies in the bitter electoral campaign of 1924. The second period (July-December 1926) culminated when political pressures, again associated with the moderate left, forced Poincaré, against his own wishes, to grant the Bank of France complete control over stabilization activities.

I.

In the twelve years after the outbreak of the War in 1914, the French experienced almost steady inflation. For the first ten years of that period, first the War and then the expectation of German reparations to cover the costs of reconstruction kept French public finances in constant deficit and spurred the steady inflation. It was only with the repudiation in late 1923 of Premier Raymond Poincaré's policy of forcing Germany to pay reparations that the French turned full attention to the regulation of their own domestic financial situation. While the Poincaré government's doubling of the turnover tax and negotiating of a substantial foreign loan in March 1924 temporarily stabilized the economy, the elections of 1924 swept him out of power, giving victory to a coalition of the moderate left. This coalition consisted of a group of parties pledged to end the policy of forced reparations, to improve the lot of the disadvantaged, to reform the tax system which was based almost exclusively on regressive indirect taxes, and to bring order to the budget and stability to the franc.[2]

One of the first acts of the new moderate left government was to make an inventory of the financial situation which had produced price rises of almost 24 per cent in 1922 and 28 per cent in 1923.[3] The inventory revealed that the costs of the war and reconstruction had forced state expenditures far beyond the bounds of the state's ability to tax. The result was consistently large budget deficits and subsequent rises in Treasury borrowing from the Bank of France and in the money supply. To break this inflationary cycle, the new government proposed in late 1924 a consolidated and balanced budget for 1925 covering all state expenditures.[4] The government hoped that swift approval of its budget would build up public confidence in the liberal coalition.

---

[2] The term « moderate left » is used to signify the liberal reformist deputies found in the large Radical-Socialist party and in the smaller Republican-Socialist and Radical Left parties. In the election of 1924, an alliance was formed with the Socialist party, the so-called « Cartel des Gauches ». Between June 1924 and July 1926, the moderate left parties formed each successive government.

[3] FRANCE, PRÉSIDENCE DU CONSEIL, SOUS-SECRÉTARIAT D'ETAT DE L'ECONOMIE NATIONALE, STATISTIQUE GÉNÉRAL DE LA FRANCE, *Annuaire statistique.* (Hereafter, SGF). Index of 45 goods.

[4] The budget had previously been divided into three parts: ordinary expenses to be covered by current revenue, extraordinary expenses to be covered by long-term borrowing, and recoverable expenses to be covered by reparations receipts.

The government's plan was sidetracked by its own supporters. In the Finance Committee of the Chamber, reform-minded members of the coalition pushed through amendments raising expenditures by about two billion francs (or six per cent of the total), primarily for civil servant and teacher salary rises and for increased allotments to social programs. Since monetary stability and popular confidence in the government at this time were dependent upon the achievement of a balanced budget, the deputies of the left generally acknowledged that as a consequence of the increased expenditures, taxes would have to rise. But there was a decided split within the ranks of the left coalition over what form the tax rise should take. The socialist deputies, who supported the government but did not participate in it, had always wanted to replace the turnover tax by a general levy on all capital wealth. In this instance, they pushed for a general tax reform to coincide with the tax rise, and received the support of a number of the more radical deputies of the moderate-left. A group of the remaining deputies of the moderate left worked for a limited tax rise based exclusively on direct taxes; the rest favoured a more pragmatic program with a mixture of direct and indirect taxes to cover the need for additional revenue.

The split over the tax issue was to be of critical importance during the next 19 months of moderate left government (January 1925 to July 1926). Over that span of time, seven governments with a total of nine finance ministers resigned or were overthrown on the question of regulating the monetary situation. The governments' attempts to find a stable majority tended to follow one of two basic patterns — either an appeal to the socialists and the more radical members of the moderate left for a rise in revenue through tax reform, or an appeal to the moderate and the moderate left deputies to take steps to meet the immediate budgetary and financial crisis without carrying out wholesale reforms. Proposals for a capital levy could not gain enough support because too many moderates doubted that such a measure could be executed effectively without disrupting the economy and bringing on financial chaos. Proposals to meet the budgetary crisis with indirect taxes violated the moderate left campaign promise to substantially ease the burden of indirect taxes. Since neither group could by itself form a stable majority, and neither group felt it could in good conscience support the other point of view, ministerial instability resulted.

Throughout this period, state finances remained in deficit. The 1925 budget (finally approved in July 1925) resulted in a deficit of approximately two billion francs, and the projected 1926 budget (passed in April 1926) showed a deficit of about the same amount.[5] The budget deficit, the constant maturing of substantial amounts of short-term government debt, and the lack of popular confidence in any new debt issue forced the government to borrow

---

[5] France, Ministère des Finances, *Compte général de l'administration des finances.*

further from the Bank of France: advances from the Bank to the state rose from 26.7 billion francs in January 1925 to 43.2 billion francs in July 1926.[6] To cover the advances, the Bank had to increase the currency in circulation from 39.1 billion francs to 55.0 over the same period.[7] This new currency represented an increase in effective demand on already fully employed resources and led to a further rise in prices: the cost of living index rose from 525 to 854 (July 1914 = 100) over the period.[8] These price rises heightened popular doubts that the government could deal effectively with the crisis. This was true especially among the well-to-do business and commercial groups, who responded by sending their money abroad despite stringent capital controls. Reflecting this capital outflow and the domestic price rises, the exchange rate of the franc fell in value from a monthly average of 89 f/£ in January 1926 to 199 f/£ in July 1926.[9]

The deputies of the moderate left, whose parties shared the responsibility for governing during this entire period, tried hard to fulfill the diverse campaign promises they had made on economic issues. We have seen how the deputies of the moderate left had split in the conflict over two seemingly incompatible pledges — tax reform and monetary stability. Two other parts of their economic program — the pledge to aid the disadvantaged and poor and the pledge to strengthen the public and semipublic financial institutions — played an important role in determining the course of events of this period.

Most of the deputies of the moderate-left had pledged during the 1924 election to help the lot of the disadvantaged and those worst hit by the inflation.[10] From the 1924 budget to the 1926 budget, increases in state spending of more than 20 per cent had been voted primarily through the initiative of moderate left and left deputies in such areas as old age and widow's pensions, child aid, aid to the infirm, assistance to large families, teacher and civil servant salaries, and local medical assistance programs.[11] The deputies of the moderate left were also active in trying to ease the tax burden on the disadvantaged or on those of relatively modest income (e. g., small farmers, large families, the aged, etc.).

The moderate left was also actively interested in the public and semipublic financial institutions which had been built up in pre-War France to

---

6 Banque de France, *Bilan* (Bi-weekly).

7 *Ibid.*

8 SGF, Index of 45 goods.

9 SGF, Monthly average of exchange rates.

10 France, Journal Officiel, Chambre des Députés, Treizième Législature, Session de 1925 (Annexe), No. 1471. *Programmes, professions de foi et engagements electoraux de 1924* (Paris: 1925). [Also known and hereafter cited as « Barodet »].

11 France, Ministère des Finances, *Compte général...*

assure that all sectors of society received adequate financial services.[12] Most of these institutions seemed to provide a service to the sectors of society from which the moderate left parties drew their strongest support: small rural proprietors, provincial merchants and shop-keepers, and the lower middle classes of the small towns. Four of the more important of these institutions were the agricultural credit societies, the low-cost housing agency, the societies for mutual assistance, and the national savings banks.

The agricultural credit agency (*Crédit agricole*) was designed to aid in the provision of credit to small farmers who had specialized credit needs in the face of an uncertain future, and who could not obtain adequate funds at reasonable rates on the private market. In return for some supervisory and appointment powers, the state gave the agency annual subsidies, interest-free advances, and certain fiscal exemptions. Between 1924 and 1926, the total state aid received by the agency rose by about 15 per cent.[13] In a special supplementary program for rural electrification, subsidies rose by 50 per cent over the same period.[14]

The low-cost housing agency (*Habitations à bon Marché*) received low-interest advances from the state, which increased by 22 per cent between 1924 and 1926.[15] The government had been providing as well regular subsidies to societies of mutual assistance (*Sociétés de Secours mutuel*), which were increased by 23 per cent between 1924 and 1926.[16]

The state savings bank system (*Caisse d'Epargne, Caisse nationale d'Epargne*) was intended to mobilize investments of small savers which had been ignored by private institutions, to stimulate saving among the rural populace, and to offer them the benefit of long-term placements. The interest rate paid was usually higher than the rate paid by private savings banks, and to assure that the banks were used primarily by small savers, a legal maximum was placed on the size of any single account. The government also actively supported a number of insurance programs for retirement (*Caisse nationale des Retraites pour la Vieillesse*), accident (*Caisse nationale*

---

12 For literature on these institutions, see: Henry Laufenburger, *Les banques françaises*, Tome I: *Enquête sur les changements de structure du crédit et de la banque* (Paris: Librairie du Recueil Sirey, 1940); L. Petit and R. de Vegrac, *Le crédit et l'organisation bancaire* (Paris: Recueil Sirey, 1938); Pierre Solanet, *La Caisse des Dépôts et Consignations* (Paris: Librairie du Recueil Sirey, 1943); and J. S. G. Wilson, *French Banking Structure and Credit Policy* (Cambridge, Massachusetts: Harvard University Press, 1957).

13 France, Ministère de l'Agriculture, Office National du Crédit Agricole, *Rapport sur les opérations faites par les caisses régionales du Crédit agricole mutuel.*

14 France, Ministère de l'Agriculture, Caisse National du Crédit Agricole, *Rapport sur les opérations faites en application de la loi du 2 août, 1923.*

15 France, Ministère du Travail, de l'Hygiène, de l'Assistance et de la Prévoyance sociale, *Rapport du Conseil supérieur des Habitations à bon marché.*

16 France, Ministère du Travail, de l'Hygiène, de l'Assistance et de la Prévoyance sociale, Société de secours mutuels, *Rapport sur les opérations.*

d'Assurance en cas d'Accidents), and life (*Caisse nationale d'Assurance en cas de Décès*).

The bulk of the deposits made at the national savings banks plus some money from the government-sponsored insurance funds and the societies of mutual assistance were put into a state deposit bank (*Caisse des Dépôts et Consignations*) which was to make suitable long-term investments. In fact, most of the investments were held in the form of government securities. In the mid-1920's, public or semi-public institutions operating through the state deposit bank held close to ten per cent of the domestic marketable debt.[17] Much more important in the period of moderate left rule, these institutions were a key source of support for new government security issues. In 1924, they absorbed over 15 per cent of the net new issues, while in 1925 they absorbed approximately 2.4 billion francs as the net total government issue actually declined by some nine billion francs.

The pressure of the moderate left deputies to fulfill their commitment to social services and state financial institutional structures led to increased state expenditures. With the moderate left split over new tax measures to cover the rising expenditures, the budget deficit persisted. There were further advances from the Bank of France to the state, and prices rose.

The rise in the cost of living not only had a direct effect on the constituency of the moderate left, but it also tended to nullify the economic improvements that they had been working hard to achieve. The inflation of 1924-26 more than offset the gains in state payments to the aged, teachers, civil servants, and others who depended upon state aid or service. The retirement and other insurance programs with fixed repayment plans were badly hurt. The establishment of a comprehensive social security law which had been urged by the moderate left and the left since before the War was being delayed in the Senate pending more auspicious economic circumstances for its inauguration. The state financial institutions, too, suffered under the impact of the inflation. The whole structure, with its legally guaranteed interest and loan rates, was completely inflexible in response to the inflation. The rise in the cost of living far outweighed the increase in state subsidies paid to these institutions. The interest rate paid by the national saving banks was a negative real rate during most of this time, and a guaranteed interest rate for borrowing meant that the inequities of the inflation were heightened — the people who received credit got it for less than they would willingly have paid, while many who could afford to pay more than the subsidized rate for credit received nothing.

---

[17] Total of the state deposit agency holdings of state securities taken from CAISSE DES DÉPÔTS ET CONSIGNATIONS, *Rapport sur les opérations*; Total marketable debt (Treasury paper plus bonds) taken from ROBERT M. HAIG, *Public Finances of Post-War France* (New York: Columbia University Press, 1931), Part III.

The situation came to a head in the early summer of 1926. Raoul Péret, Finance Minister in the moderate left government of Aristide Briand, charging lack of cooperation from the officials of the Bank of France in his attempt to stabilize the franc, withdrew from the government and forced the resignation of the entire cabinet (June 15). Amid rising political passions, a full week of desperate consultations passed without the formation of a new government. Finally on the eighth day, Briand was able to present a new government, this time with Joseph Caillaux as Finance Minister. Caillaux, a controversial tax reformer before the War, had been accused of being « soft » on Germany during the War, and thus had earned the distrust of both the conservatives and the nationalists.[18] In order to deal with the financial situation, Briand and Caillaux demanded that the Chamber grant them a three-month period to rule by decree on financial matters. In a stormy session, the government was attacked by both the left and the conservatives, and after a decisive defeat, the government resigned (July 17). Amidst this political turmoil, the exchange rate was daily falling in value and prices were rising. Strikes began to occur with increasing frequency. Demonstrations to protest the rising price of bread took place in small towns throughout the country. Hundreds of thousands of Frenchmen, many of them traditional supporters of the moderate left, streamed to the national savings banks to withdraw their funds. Not only was this a sign that the banks were failing to provide a meaningful service to small savers in a time of inflation, it also forced the state deposit agency to liquidate government bonds to meet the withdrawal demands just at a time when the government securities market desperately needed strong support. The withdrawals provided a massive vote of no-confidence in the moderate left's ability to stabilize the country's finances, and brought the country close to financial chaos.

Many of the deputies of the moderate left were acutely troubled by this series of events. A subtle change in priorities which some of them had already experienced at the beginning of the crisis was strengthened during this period. While the moderate left coalition had won the election of 1924 on the platform of a major tax reform to bring about monetary stability, removal of the heaviest tax burden from the poor, and expanded social services, there had long been advocates among the moderate left of the idea that meaningful reforms and improvements could take place only in a stable monetary environment. The best known were the respected economist Bertrand Nogaro and the former banker Jacques Duboin.[19]

---

[18] Rudolph Binion, *Defeated Leaders: The Political Role of Caillaux, Jouvenal, and Tardieu* (New York: Columbia University Press, 1960).

[19] Nogaro, a Radical-Socialist deputy from the Hautes-Pyrénées, was the leading financial expert of the moderate left party in the Chamber. He had been a professor of monetary economics at the University of Paris and had published some important books

From 1924, Nogaro and Duboin were in agreement that stabilization of the franc was « the only practical solution available »,[20] and was « the prelude to all the other projects which [the moderate left] had proposed ».[21] These two men became close collaborators and worked together with other moderate left deputies and associates to carry out a well-coordinated publicity campaign both in the Chamber and in the political press to stress the importance of stabilization to the achievement of the moderate left's program.[22] By the beginning of 1925, the Nogaro-Duboin group had organized, and numbered among its members nine moderate left deputies who were to serve in cabinet positions in the period 1925-26.[23] From the start, this group won strong support from the academic community.[24]

The group was informal, and its members campaigned individually but with the common goal of effecting a change in priorities in the program of the moderate left.[25] Up to the summer crisis of 1926, the group had been successful in winning over a number of moderate left deputies.[26] Then the major crisis of June and July brought a large group of moderate left deputies face to face with the choice of either giving priority to stabilization or watching both their work of the past two years and their hope for future reforms be lost through financial collapse and the resulting wave of popular mistrust of the moderate left. In the words of one of the most respected spokesmen of the moderate left, Léon Accambray, the meaning of the crisis was clear: « My principles are known; but along with principles there are events which sometimes command one to put principles aside temporarily so that they can be

---

including one on the monetary crisis (*La monnaie et les phénomènes monétaires contemporains*, Paris: Marcel Girard, 1924). Duboin, a Radical-Socialist deputy from the Haute Savoie, had been a banker and a popular writer on financial matters. For background and assessment see: Louis Damon, *Nos parlementaires* (Paris: Henri Goulet, no date but probably 1924), and Gilles Normand, *Politique et hommes politiques*, 2 Volumes (Paris: Perrin et Cie., 1925).

[20] Jacques Duboin, *Réflexions d'un « Français moyen »* (Paris: Payot, 1925), p. 120.

[21] France, Journal Officiel, *Débats parlementaires: Chambre* (hereafter « J.O. »), Duboin speech, November 17, 1925, p. 3726.

[22] François Piétri, *La quérelle du franc* (Paris: Librairie Hachette, 1929), Preface.

[23] Piétri, Nogaro, Duboin, Georges Bonnet, Emile Borel, Louis Loucheur, Lucien Lamoureux, Henri Queuille, and Paul Jacquier.

[24] Including Albert Attalion, Gaston Jèze, and Charles Rist who was later to play a major role in the stabilization question on the Committee of Experts and at the Bank of France. (Piétri, Preface).

[25] See the speeches of the men listed above in the « J.O. », or the collected articles and essays from this period later published in book form by Piétri, Duboin, Nogaro, and Rist.

[26] See, for example, the support given by Emmanuel Chaumié and Charles Delasalle in « J.O. », Feb. 2, 1926, p. 812, or by Léon Accambray, « J.O. », Mar. 31, 1926, p. 1718, or by Henri Queuille in *La Montagne Corrèzienne* (Corrèze), Mar. 14, 1926.

returned to afterwards and be assured of a definitive triumph ».[27] Another moderate left deputy, Henri Michel, wrote, « First save the franc and France. Then it will be possible to take our positions of combat and pursue the realization of the ideals of liberty and justice that each of us has vowed ».[28]

During the crisis months of June and July, then, more and more of the moderate left deputies came to accept the Nogaro-Duboin thesis that monetary stability took precedence over reform. But even with this widespread acceptance, there remained the practical problem of implementing an effective stabilization program. The socialists and some of the moderate-left party refused to accept a change in priorities and clung to the demand for stabilization through reform.[29] The moderates, conservatives, and communists continued their outright opposition to all moderate left governments.[30] With no record of political stability in the string of moderate left governments, and with no sign of compromise from either the left or the right, a large group of moderate left deputies were forced to look for a new political alignment. In mid-July, Marcel Astier, a moderate left deputy who belonged to the Nogaro-Duboin group, presented a petition to the Chamber containing the names of 230 deputies, many of them members of the moderate left.[31] The petition called for a broadly based government of national union, implying that much of the moderate left would be willing to support a government headed by someone other than a member of their own coalition.

Instead of a national union cabinet, Edouard Herriot, who had headed the first moderate left government in 1924, was given the task of forming a government (July 19). The announcement of this appointment led to numerous protests and demonstrations, including one near riot in front of the Chamber of Deputies. The exchange rate of the franc fell sharply, and withdrawal demands on the state savings banks increased. The Herriot government presented itself to the Chamber on July 21 for a vote of confidence. A moderate left deputy, Henri Franklin-Bouillon, voiced the inneer feelings of many other deputies of his group when he told Herriot that his coming to power « at this time surely augments the distrust and panic of the country... It will not do to prolong the anarchy and to make financial restoration impossible. To my strong regret, I am obliged to vote against this ministry ».[32] When it came

---

[27] Quoted in *L'Aisne* (Laon, Aisne), July 15-17, 1926.

[28] *La Dépêche Dauphinoise* (Grenoble), Aug. 7, 1926.

[29] See, for example, the statement of LÉON BLUM in the name of the Socialist Party in the Chamber (« J.O. », July 7, 9, 1926).

[30] Besides their repeated votes against even the moderate financial programs of the government in March through July 1926, see the refusal of moderates to serve in the governments of Briand and Herriot when asked in June-July, 1926. GEORGES SUAREZ, *De Poincaré à Poincaré* (Paris: Les Editions de France, 1928).

[31] Reported in l'*Ere Nouvelle* (Paris), July 22, 1926.

[32] « J.O. », July 21, 1926, pp. 3025-6.

to a vote, 77 moderate left deputies failed to support Herriot, thus providing the margin for the decisive defeat of the Herriot government.[33]

Two days later, Raymond Poincaré, the target of moderate left campaign criticism in 1924, was asked to form a broadly based union cabinet which included representatives of the moderate left. Poincaré carried into office with him the confidence of the business community and of the middle class. He set to work immediately to implement a stabilization program which included a sizeable increase in indirect taxes, a cut in government expenditure, and the establishment of an independent amortization fund with its own source of revenue. The critical proposal in this program was the large increase in indirect taxes, for this question had been a major cause of the political instability over the previous 18 months. The support or toleration of many of the moderate left deputies was needed for the passage of the new taxes. In fact, the support of 160 moderate left deputies was easily won on July 31.[34] The quick approval of the taxes and the other parts of Poincaré's program was sufficient to assure a budget surplus and to end both the real and the psychological pressures for inflation.

In resolving the July crisis, it is clear that the deputies of the moderate left played a key role through their willingness to vote for measures they had previously opposed, and against leaders they had previously supported. The motivation for this change seems to have been in the economic policy commitments of the deputies. In the two dramatic votes of late July, the rejection of Herriot and the acceptance of Poincaré's indirect taxes, there were 116 deputies of the moderate left who clearly failed to support policies they had previously supported or to oppose policies they had previously opposed.[35] Of these deputies, 89 had made explicit statements during the 1924 campaign pledging an increase in the state's social service sector or an improvement in the public financial institutions serving those who did not have access to private financial institutions.[36] More than two-thirds of the 116 intervened at least once in the course of debate over the 1925 and 1926 budgets to ask for increased assistance to the disadvantaged.[37] Of the total number of interventions in the Chamber made by these 116 deputies between January 1925 and July 1926, more than one-quarter were made in the attempt to offset the

---

33 The figure quoted is the number of moderate left deputies who voted against or abstained on the vote. The actual vote was 290-237 (of 581 deputies) against the government. For an individual breakdown, see « J.O. » 1926, Vote #672.

34 The actual vote was 295-179 for passage. « J.O. », 1926, Vote #682.

35 These 116 deputies represent deputies who voted confidence in the first Herriot government in June 1924 (Vote #8) or in April 1925 (Vote #250), and then voted against or abstained on the confidence vote in July 1926, and/or who voted against the imposition of indirect taxes in July 1925 (Vote #332) or in March 1926 (Vote #492) and then voted in favour or abstained in the tax vote in July 1926.

36 Barodet.

37 See « J.O. », Table analytique.

effects of inflation on the disadvantaged or on people of moderate means.[38] By their speeches and writings during the summer months of 1926 and by their votes in the critical month of July, these deputies showed that they had come to believe that stabilization was a necessary base upon which existing state social programs and possible reforms of these programs depended.

The voting changes of July reflected a change not in involvement or commitment of the moderate left deputies, but only in priorities. Unlike the communists and socialists, the moderate left groups did not want a radical break with social and economic structures as they existed. Unlike the conservatives, they sought reforms that would involve the state in helping to improve the lot of certain social groups. It was only after they realized that inflation was not only hindering the passage of new reforms but was also beginning to undermine reforms achieved in earlier periods that many of the moderate left deputies came to acknowledge the necessity of giving priority to stability. This shift in priority, given the inability of the moderate left to find a politically stable majority of their own, was sufficient to bring on Poincaré's National Union government and end the period of inflation.

II.

The dramatic appointment of Poincaré and the passage of his financial program by Parliament restored confidence in the future of the franc. People who had been sending francs out of the country or redeeming their government bonds or withdrawing their funds from the national savings banks because of the pervasive uncertainty, no longer felt the need to do so. As the pressure on the exchange rate eased, traders who had been leaving their export proceeds abroad found no reason to continue doing so and began to repatriate them. The foreign exchange value of the franc, still unregulated by public authorities, began to rise. From the formation of Poincaré's government in the last week of July to the second week of August, the rate of exchange went from 190 f/£ to 170 f/£. When Parliament recessed on August 11, the one important financial problem still to be resolved — the precise time and rate of stabilization — was left in the hands of the Premier and acting Finance Minister, Poincaré.[39]

---

[38] This figure depends for accuracy on the Table Analytique of the « J.O. » and includes all speeches, statements, questions and proposals during the course of the parliamentary sessions. The only omissions are the statements by deputies acting as official representatives of a group rather than as individuals. Thus it excludes the Premier explaining government policy or the chairman of a commission reporting bills to the Chamber. In these cases it is impossible to separate the deputies' official functions from their own personal interests.

[39] France had long before resolved that the franc ultimately should be stabilized. The commitment of most western nations to return to stable exchange rates had been made at the Genoa Conference in 1922.

Poincaré hesitated.[40] On the issue of the stabilization of the franc he was uncertain what final rate would be economically best for the French people, although he was publicly committed to restoring as much of the pre-War value of the franc as possible in order to honor the state's debt to the hundreds of thousands of small bond holders who had helped the state by purchasing bonds during the War. For this reason, as long as there were no apparent ill effects of a market-induced revaluation, Poincaré was willing to wait on events. After the first week in August, Poincaré delayed taking any new initiatives.

In the absence of definitive steps by Poincaré, events took on a dynamic of their own, spurred by popular expectations. After Poincaré's legislative successes and the first capital repatriations, many people came to expect some degree of revaluation, and Poincaré did nothing to discourage this idea. In fact, he sometimes openly hinted that full revaluation of the franc (the pre-War parity was 25 f/£) was his preference,[41] and he had frequent meetings during these weeks with the Baron de Rothschild and François de Wendel, both well-known and influential exponents of full revaluation to the pre-War par value.[42]

There was no clear popular consensus over the question of revaluation vs. stabilization, especially since this question presented itself so soon after the long popular involvement with inflation.[43] Through August and September the exchange rate held near 170 f/£, but in the middle of October it was pushed downward by market pressures, reaching 140 f/£ by the middle of November. Since unhindered market forces seemed to favor a revaluation and this agreed with Poincaré's own leanings, those favoring immediate stabilization had the burden of proof on their shoulders, having to convince Poincaré that an interventionist policy was necessary. Three important groups urged this policy on Poincaré: the moderate left in the Chamber, the directors of the Bank of France, and Poincaré's own technical advisors.

Moderate left. We have seen that by 1926, the majority of the deputies of the moderate left had come to agree with the Nogaro-Duboin group that the only way to carry out effective reforms was first to create an environment of stable money. They thus favored immediate stabilization, and not revaluation. From the beginning, Duboin had argued: « Stabilization is the only

---

40 For material on Poincaré, see: *Ceux qui nous mènent* (No author, Paris: Librairie Plon, 1922); Pierre Frayssinet, *La politique monétaire de la France, 1924-1928* (Paris: Recueil Sirey, 1928); J. Kessel and G. Suarez, *Le onze mai* (Paris: Editions de la Nouvelle Revue Française, 1924); Pierre Miquel, *Poincaré* (Paris: Librairie Arthème Fayard, 1961).

41 Emile Moreau, *Souvenirs d'un gouverneur de la Banque de France: Histoire de la stabilisation du franc (1926-1928)* (Paris: Editions M. Th. Génin, 1954) August 1 and 5, 1926, and « The Economist » (London: December 4, 1926).

42 Moreau, August 18 and September 3, 1926.

43 See the discussion in « The Economist », Dec. 11, 1926.

practical solution offered to us. The injustices are already committed; they are a result of the inflation and not the stabilization. A return to the pre-War franc is a utopian idea; it would lead to unemployment and ruin ».[44] These deputies supported Poincaré in July and August in order to halt the inflation, and they had counted on him to stabilize the franc. Although Parliament had recessed on August 11, it was to be reconvened later in the year to debate the 1927 budget, and Poincaré's majority depended directly upon the votes of the moderate left.

Despite the influential role played by the deputies of the moderate left, there were several factors in Poincaré's favor, which strengthened his position vis-à-vis the moderate left and which allowed him some freedom of manoeuvre. First, the power to deal with the revaluation-stabilization decision had been removed from the jurisdiction of Parliament by the laws approved in the first week of August.[45] This left the initiative in Poincaré's hands and meant that there would be no clear-cut votes in the Chamber solely on the issue of stabilization. Second, the obvious success of Poincaré's program to end inflation had made him extremely popular. With a large number of Frenchmen genuinely frightened by the financial and political instability experienced in July, any overthrow of the Poincaré government without sufficient reason would be a politically dangerous move. Third, Poincaré had appointed Briand as Foreign Minister in his government, and not only allowed him to work unhindered, but gave him his full support. In effect, this meant that Poincaré had conceded the area of foreign policy to the left, accepting the Dawes and Locarno accords with their implicit criticism of his 1923 Ruhr policy. In return, the moderate left was to allow Poincaré to retain the initiative on financial policy.[46]

Although Poincaré thus had considerable freedom in financial matters, the moderate left deputies remained a constraining force, a force which would be of critical importance if evidence were to arise that revaluation was causing hardship to any large group of people in France. The moderate left was afraid that revaluation could bring on a business crisis or cause significant unemployment, as in Great Britain. When Parliament was reconvened in November 1926, Poincaré immediately forced a vote of confidence on the necessity to limit discussion to the 1927 budget. Despite the almost continuous revaluation since the middle of October, the moderate left found no obvious outward

---

[44] JACQUES DUBOIN, p. 120. See also BERTRAND NOGARO, *Finances et politique* (Paris: Marcel Giard, 1927), p. 3; and « J.O. », June 1, 1926, pp. 2308-9.

[45] A key law in taking the decision out of Parliament's hands was the law of Aug. 7, 1926, which permitted the Bank of France the prerogative to buy gold at rates other than the 1914 gold/franc parity. This gave the Bank the right to intervene and stabilize the market *de facto* when they saw fit.

[46] PARTI RÉPUBLICAIN-RADICAL et RADICAL-SOCIALISTE, *Vingt-troisième Congrès*, Octobre, 1926.

sign of economic hardship, and so supported Poincaré. But they waited with interest for such signs as Poincaré's continued success brought more speculative and repatriated funds into France and drove the value of the franc still higher.

The Bank of France. The Bank of France, responsible for issuing francs, was deeply involved in the financial problems. Despite their aid to the post-War governments in the form of advances, the Bank, under Governor Georges Robineau, had lost the confidence of the moderate left governments through its actions in two critical periods. The Bank's publishing of the true balance sheet figures in April 1925 which revealed that hidden advances had been going on for months had led to the overthrow of the first Herriot cabinet. In June 1926, the Bank refused to commit its gold reserves to support a government attempt to stabilize the exchange rate. The attempt subsequently failed, and this failure led to the resignation of the Briand-Péret government. The result was that the moderate left cabinet of Briand-Caillaux when they came to power in late June 1926, made some significant changes in the personnel of the Bank. Robineau was replaced as Governor by Emile Moreau.

Moreau, besides being an admirer of Caillaux,[47] had worked as a financial adviser to the moderate left governments at the turn of the century and then had gained appointment as governor of the Bank of Algiers, in which post he had served for 20 years. Moreau's two most important collaborators at the Bank were also new appointees, Charles Rist as deputy governor and Pierre Quesnay as director of economic studies. Rist was a former economics professor at the University of Paris and had taken an active part in the 1924 election campaign as a strong supporter of the left coalition.[48] Quesnay was fotmerly the French delegate to the economic section of the League of Nations, an institution of importance to the French left.

All three of these key figures at the Bank favoured stabilization as opposed to revaluation, though Moreau's view on the matter was more complicated than that of Quesnay or Rist. Quesnay was asked by Moreau in August 1926 to prepare a memo proposing a position for the Bank on the question of rate and timing of stabilization.[49] (The franc at the time was fluctuating at around 170 f/£). The memo, presented a few days later, concluded that under the existing conditions, « any stabilization of the franc at a value higher than 160 f/£ appears difficult because it would entail an immediate crisis, anxiety, and an atmosphere unfavourable to the success of the operation ».[50]

---

47 Moreau, June 24 and July 18, 1926.

48 Cf. Rist's article in Michel Augé-Laribé et al., *La Politique républicaine* (Paris: Librairie Félix Alcan, 1924) and comments on Rist in François Goguel, *La Politique des partis sous la Troisième République* (Paris: Editions du Seuil, 1946), pp. 199-200.

49 Benjamin Strong Papers, Federal Reserve Bank of New York, Warren Memo, August 23, 1926.

50 *Ibid.*

Rist had long shared the feelings of the Nogaro-Duboin group, and had worked within the Bank for immediate stabilization.[51] Moreau placed Rist in charge of exchange rates and stabilization, and Rist used this position to put maximum pressure on Moreau to stabilize. By the end of August, Rist felt that the franc had reached its « proper » level.[52] Numerous times in the next few weeks Rist requested, sometimes heatedly, that Moreau intervene to stabilize the exchange rate.[53] On October 21, after the franc had begun to rise sharply from the 170 f/£ level, Rist threatened to resign unless immediate stabilization steps were taken, but was persuaded to wait by Moreau.[54]

Moreau himself favoured stabilization,[55] but he had a different perspective on the problem than that of either Quesnay or Rist. He emphasized the central banking problem — the practical technique of achieving a real stabilization — rather than the economic problem of finding the ideal rate. Moreau wanted to be sure that once the Bank committed itself, a final stabilization was sure to be achieved, lest the failure of such a move unleash even greater speculative flows. By the end of August, Moreau was convinced that the Bank of France had to be given complete responsibility for the stabilization if it were to be successful.[56]

Moreau's opinion on stabilization led him into conflict with Poincaré. Poincaré was not ready to give the Bank full control over the exchanges,[57] while Moreau refused to accept a lesser role. Poincaré repeatedly asked the Bank during October to intervene on the foreign exchanges to regulate the rising value of the franc and to assure an orderly market. Moreau believed that in a rising market, this would merely have led to net losses for the Bank. When Moreau threatened to resign in late October if Poincaré continued to insist that the Bank play the role of regulator, Poincaré stopped his pressure.[58] At the beginning of November, then, Poincaré, with the power of decision still in his hands, could not count on the Bank of France to give any support to exchange market regulation unless it were given full power to effect a stabilization.

---

51 See articles written during this time in CHARLES RIST, *Essai sur quelques problèmes économiques et monétaires* (Paris: Recueil Sirey, 1933).

52 STRONG PAPERS, WARREN MEMO on Strong-Rist meeting August 26, 1926. Also Memo on other meetings in the August 23-31 period.

53 See MOREAU, October 6, 7, 18, 19, 30, of 1926.

54 MOREAU, October 21, 1926.

55 MOREAU, July 3, August 6, September 3, of 1926; see also Moreau's comments to Strong, STRONG PAPERS, WARREN MEMO, July 29, 1926.

56 STRONG PAPERS, WARREN MEMO, August 30, 1926 on the Bank of France, and WARREN MEMO, August 31, 1926 on Strong-Moreau meeting.

57 MOREAU, July 26, August 6, 1926; FEDERAL RESERVE BANK OF NEW YORK, *Correspondence Files* (hereafter FRBNY: *Corr. Files*), Crane Memo, November 12, 1926.

58 MOREAU, October 20, 1926.

Technical Advisers. Not an economist by training, Poincaré relied heavily on advisers to give him the technical background he lacked. The report of a Committee of Experts presented to the Briand-Caillaux government in the first week of July 1926 had laid much of the groundwork for Poincaré's own anti-inflationary program which was approved by parliament several weeks later. The report also recommended eventual stabilization at a devalued rate, to be carried out by the Bank of France, because only they had sufficient resources of foreign exchange and domestic currency to achieve a permanent stabilization.[59]

In September, under urging from both his own personal staff and from members of the Finance Ministry, Poincaré asked a young advisor, Jacques Rueff, to prepare a report on the optimum level of stabilization.[60] A few weeks later, in response to discussions with Moreau and Léon Jouhaux of the General Confederation of Labour (CGT) in which both emphasized the dangers of a further revaluation to the level of employment, Poincaré recalled Rueff and gave him a more specific problem: he asked him to estimate the franc exchange rate « beyond which exporting industries would feel they had to reduce labour costs to retain their level of sales ».[61]

Rueff's final report, given to Poincaré on November 20, concluded that while there were limitations in attempting international price comparisons in such a fluid situation, it would be dangerous to allow the value of the franc to rise above 120 f/£.[62] The evening Poincaré received the report, the franc closed at 129 f/£, a value up sharply from 141 f/£ of two days before. With the Treasury almost out of available francs after accumulating $150 million in foreign exchange over the previous months,[63] Poincaré asked the Bank of France « to intervene on the exchange markets in order to check the rise in the franc ».[64] Moreau, aware that Poincaré still was not offering the Bank a free hand in determining the final rate, put off consideration of his request until the next week. By then the franc had fallen somewhat (to 136 f/£ on November 25), and Poincaré changed his request to the Bank asking only that it intervene « to regularize the daily rate without hampering the revaluation ».[65] Despite pleas from Rist and Quesnay that he intervene under any circumstances, Moreau decided to wait, and took no action.

With some confidence that market forces alone would produce further orderly revaluation, Poincaré stated in a public speech given in the first week

---

[59] France, Comité des Experts (Décret du 31 Mai, 1926), *Rapport* (Paris: 1926), pp. 41-4. Both Moreau and Rist were members of the Committee.

[60] Emil Claasson (ed.), *Les fondements philosophiques des systèmes économiques.* [Texts and essays in honour of Jacques Rueff], (Paris: Payot, 1967), pp. 417-8.

[61] *Ibid.*, p. 418.

[62] *Ibid.*, pp. 419-23.

[63] FRBNY: *Corr. Files*, Crane Memo, November 2, 1926.

[64] Moreau, November 20, 1926, p. 164.

[65] Moreau, November 23, 1926, p. 166.

of December that he wanted « to go as far as possible with the revaluation of the franc ».[66] But by the second week of December, the business crisis which had been long predicted by the moderate left began to appear and to attract public notice. On December 10, the large automobile firm Citroën began to lay off workers, and the Bank of France lowered its discount rate from 7.5 to 6.5 per cent.[67] In the next week, other large firms reported drops in sales, and many were turning to short-term employment.[68] Both Citroën and Peugeot appealed to the Bank of France for emergency short-term credits.[69] November trade figures, published at this time, showed an unseasonably large drop in the value of both imports and exports, while short-term commercial credit continued to drop from its high in the beginning of November.[70]

Meanwhile, the 1927 budget was approved in its final form on December 19. The swiftness and ease of passage of the balanced budget, together with Poincaré's earlier statement that he was going to allow the revaluation to continue as long as possible, led to a large influx of foreign exchange. The Treasury, short of funds because of a large year-end payment just made to the Bank of France, and fearful that the large private account balances it held could be withdrawn because of the fall in business activity, was powerless to intervene and regulate the market. On December 20 the value of the franc rose above 120 f/£. The Treasury was forced to ask the Bank of France to intervene. Moreau requested a free hand, adding that « the revaluation of the franc above the rate of 120 f/£ would be a catastrophe ».[71] With the Treasury unable to act on the market for lack of funds, with signs of a business crisis and unemployment growing, with Senate elections and a new session of parliament due in January 1927, and with his own advisers warning him against a revaluation beyond 120 f/£, Poincaré had to turn the matter over to the Bank. The Bank was ready. Within two days, the Bank had forced the rate to just above 122 f/£. With continued intervention, the new rate was held until the legal stabilization of 1928. The *de facto* stabilization had been accomplished.

III.

The choice of the rate of stabilization of the franc in 1926 was a direct result of the key political role of the moderate left in the period 1924-1926. Other political groups and individuals certainly played an important part in the decision-making, but their influence was essentially passive. The votes of the socialists on one side and the conservatives on the other remained constant

66 Quoted in « The Economist », December 4, p. 964.
67 Moreau, December 10, 1926.
68 « The Economist », December 18, 1926, p. 1007.
69 Moreau, December 14, 1926.
70 « The Economist », December 25, 1926.
71 Moreau, December 20, 1926, p. 183.

on similar issues, and Poincaré's anti-inflationary program of 1926 was basically similar to his 1924 anti-inflationary program. It was the moderate left, through their vote switches in July 1926, through the threat of withdrawing their support in December 1926, and through their general commitment to stabilization at a devalued rate that ultimately decided which questions would be the determining ones and when these questions would come to a head. Thus this paper has focused on the moderate left deputies and sympathizers as the key to understanding the process of decision-making in this case.

The moderate left had pledged to end the inflation in the campaign of 1924, yet they had permitted it to continue through 1925 and the first half of 1926 while they fought among themselves on the issue of tax reform. During this time, the possible abuses of inflation were outweighed in their minds by several other considerations. First, the political pressure to end inflation was eased not only by their constituents' interest in the tax reform issue, but also by the long period of economic expansion and full employment that accompanied the inflation. Second, the moderate left, being in control of the government, felt confident that they could expand state services and subsidies to offset the effects of inflation on those of modest or low income. Third, the system of state subsidies, low-interest loans, and guaranteed deposit institutions acted to insulate the constituents of the moderate left from some of the worst abuses of the inflation. Small farmers and businessmen, modest-income home buyers, salaried civil servants, and the aged and infirm were all partially protected from the inflation by the subsidies and legal ceilings on interest rates of the semi-public institutions serving them.

Yet the isolation of these sectors only forced the inflationary pressures to intensify in other places, especially on state expenditures and on the capital market where the state was a heavy borrower. When political instability made the inflationary pressures extreme in these sectors during the early summer of 1926, the response was a swift loss of public confidence in state-supported institutions. Substantial sums of money were withdrawn from the state's savings banks system, and this served to intensify the state's crisis on the capital market at a critical moment. Confronted with a political and monetary crisis which threatened not only their present hope for reform but also the past reforms they had worked so hard to achieve, the moderate left deputies were forced to act where previously they had been able to delay. The growth in their conviction that monetary stability had priority over reform meant that enough moderate left votes could be gathered to defeat Herriot's government, the symbol of radical reform, and to pass Poincaré's indirect tax proposals.

In turning over power to Poincaré, however, the moderate left placed important constraints on his freedom of action. First, the moderate left deputies were opposed to revaluation of the franc, and were in a position to block it if they could show that it caused hardship to any large group of voters. Second, the moderate left government bequeathed to Poincaré a staff of men

in the top positions in the Bank of France who were sympathetic to their views. If Poincaré had forced the new Governor, Moreau, and his subordinates to resign in favour of his own men, this would seriously have compromised the principle of a non-political central bank, and might have undermined the recently restored confidence of the financial community. Although Moreau could not persuade Poincaré to stabilize the franc in August, he did block the use of the Bank of France to regulate the exchange market during the process of revaluation. This left Poincaré with only the limited resources of the Treasury to regulate the market during a period when speculative pressure was acting to speed the revaluation. When there were signs of a business crisis in December, Poincaré, alerted by Jouhaux and Rueff to the real threat of unemployment, called on the Bank of France to stabilize the franc, and put aside his own desire for a further revaluation.

There is no evidence that any of the key decision-makers ever fully examined the role of the new franc exchange rate in an international context. The reason for this is clear. Inflation was the heritage of the War and reconstruction and was halted only when it became obviously harmful to a large portion of the French population. Only then would enough deputies call for sufficient sacrifices, in terms of higher taxes and postponed reforms, to end it. Since the inflation was allowed to continue to a point of crisis, it had time to affect many diverse groups, some of them far removed from the international sector of the economy. In order to justify the sacrifices these groups had made to halt the inflation, the deputies felt obliged to diminish any further process, such as revaluation, which would bring added problems to their constituents. Thus the revaluation process was subject to constraints which had little to do with international considerations. These constraints, combined with the lack of clear economic indicators of international price parities, meant that stabilization came at the first signs of a domestic industrial crisis. Given the financial background, the political structure, and the psychological temper of post-War France, pure international economic considerations could not have outweighed the collection of small and particular interests that determined the final value of the French franc in 1926.