The Reconstruction of the International Monetary System: The Attempts of 1922 and 1933

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I. INTRODUCTION

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

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

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

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

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

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

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

The early 1920's witnessed a succession of international conferences

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1 Svennilson, 1954, pp. 18, 233, 246, 304.
convened to grapple with Europe’s difficulties. Of these, the one held at Genoa between April 10 and May 19, 1922, was perhaps the most notable. Some thirty-four countries—mostly European—attended. Germany and Russia were invited on a basis of equality with the other
major powers for the first time since the war. In addition, the United States was invited, and at an early stage there were some hopes that it would attend.⁶ For Britain and France, the main sponsoring powers, international monetary reconstruction was only one among the conference's several aims, probably not even among the most important. More fundamental was the need to restore the prosperity of Central and Eastern Europe and so provide the basis for a re-expansion of international trade.⁷ This need was felt most keenly by Britain, whose economy, after the hectic postwar boom of 1920, had collapsed into depression during 1921. During the latter year, British industrial production was only 81 per cent of the 1913 level, the volume of its exports only half the prewar amount, while unemployment totaled 13 per cent of the labor force.⁸ Trade with the shattered economies of Central and Eastern Europe was especially depressed.⁹ Britain's urgent need to restore this trade provided the major impetus for the conference.

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

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

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


would be laid for a stabilization of Europe's currencies and a return to the gold standard.\textsuperscript{12}

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

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

\textsuperscript{12} Norman letter to Strong, Mar. 21, 1922.
\textsuperscript{13} "Résolution adoptée par la Conférence de Cannes, 6 janvier 1922," in Documents Diplomatiques, 1922, pp. 15-16.
\textsuperscript{14} Dulles, 1929, pp. 72-73.
\textsuperscript{15} "The Genoa Conference: A Month of Crisis," Current History, 16 (June 1922), pp. 479-480, and Mills, 1922, p. 182. See also Papers Relating to International Economic Conference, 1924, p. 44.
\textsuperscript{16} The Economist, 94 (Jan. 14, 1922), p. 39.
\textsuperscript{17} "Premières instructions au Président de la Délégation française à la Conférence de Gènes, 6 avril," in Documents Diplomatiques, 1922, p. 48.
\textsuperscript{18} Public Law No. 139, 67th Cong., Feb. 9, 1922.
did not care to become involved. In fact, the United States wished to avoid any imbroglio either with the Soviet regime, to which it had not extended diplomatic recognition, or with the allies over the question of scaling down reparations and war debts.

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

Hope for a Reparation Settlement

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

19 Secretary of State to the Italian Ambassador, Mar. 8, 1922, in Foreign Relations 1922, pp. 392–394.
20 Letter from Strong to Norman, Feb. 18, 1922 (Strong, 1922).
22 Harold Nicolson (1937, p. 241) writes: “It is impossible to resist the impression that M. Poincaré, from the day he succeeded to office, was determined to occupy the Ruhr and to obtain French security by force.”
and conditions for an international loan for Germany. This decision followed repeated appeals from Germany that it was unable to fulfill the May 1921 reparation schedule and the granting by the Commission of a partial reparation moratorium in January 1922. In these circumstances the loan proposal had a broad appeal. By facilitating the stabilization of the mark, the loan would help end inflation in Germany and start that country on the road to economic recovery. Germany's long-term ability to meet reasonable reparation claims would thus be strengthened. In addition, the loan proposal had the short-term attraction that a substantial part of the proceeds was expected to be transferred to France, where it would contribute to the financing of reconstruction. France therefore approved the proposal subject to the somewhat ambiguous proviso that, in making its report, the bankers' committee should particularly take into account Germany's obligation under the May 1921 reparation schedule.

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

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

23 The resolution of the Reparation Commission is reproduced in a letter of April 6, 1922, to Strong from James A. Logan, Jr., Assistant Unofficial U.S. Delegate to the Reparation Commission (Strong, 1922).
and even he also certain French Government officials give hints of possibility change French policy if supported by assurance or hope of substantial payments cash thru medium such loan.25

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

If undertaken fairly promptly, I think a large amount could be raised, but I do not think it could be raised unless the country was satisfied, on the one hand, that reparation exactions did not exceed capacity to pay, and, on the other hand, that the German Government was running its affairs on a really business basis, which I am very sure they are not doing; the only doubt in my mind being whether it is wilful and deliberate, or ignorant and stupid. . . .

As to the German loan itself[:] it should be offered in England and France, and possibly some other countries, as well as here. That gives a certain assurance that the “buck” is not being passed to us. It is, in my opinion, absolutely essential that a considerable amount of the proceeds (how much must be determined at the time) should be allowed for actual work of reconstruction of the German economic structure, rather than paid over in toto to the reparation beneficiaries.28

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

25 Quoted in a letter from Logan to Strong, Apr. 6, 1922 (Strong, 1922).
26 Logan letter to Strong, Apr. 15, 1922, p. 2.
28 Strong letters to Logan, Apr. 24 and May 15, 1922.
financiers concerned, the prospects seemed favorable that a substantial loan could be floated and a beginning made toward European stabilization. 29

The International Monetary Proposals of 1922

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

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

29 Logan letters to Strong, May 5, 1922, pp. 2–3; May 26, 1922, pp. 1, 4; and June 2, 1922, pp. 2–3. See also The Economist 94 (May 13, 1922), p. 890.
30 Reprinted in Kirkaldy, 1921, pp. 438–455.
spending. The conception was of a unified world in which the component national economies adjusted in order to maintain international monetary stability. Not only was this view accepted without dissent by the committee, but its members conducted their discussions on the assumption that sterling would eventually be stabilized at its prewar parity equivalent to $4.86.³¹

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

These recommendations formed the basis for the international monetary views supported by the British at Genoa and were to a large extent reflected in the proposals eventually adopted by the conference. In the monetary sphere, the British came to Genoa well prepared. Well in advance of the conference, a draft of the proposals had been composed by British monetary specialists—among whom Ralph G. Hawtrey, then of the Treasury, was prominent.³² This draft was circulated to interested authorities abroad toward the end of February 1922.³³ Toward the end of March, experts from Belgium, France, Italy, and Japan, as well as from Britain, met in London to discuss and slightly modify the British proposals.³⁴ Thereafter, the Allied experts' draft was again slightly amended and adopted by the Financial Commission

³¹ Moggridge, 1972, p. 18.
³³ Norman letter to Strong, Feb. 23, 1922.
³⁴ Norman letter to Strong, Mar. 29, 1922. The experts' draft is published as part of Document No. 5 in Documents Diplomatiques, 1922.
of the conference on April 20 and by the conference itself on May 3. In fact, the changes from the original British draft to the conference's recommendations were mostly stylistic and organizational, although a few were calculated to give the interested governments greater latitude in implementing the recommendations. Basically, however, the international monetary conception articulated in the February British draft remained intact.

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

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

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

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

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

40 Resolution 7.
41 Resolution 12.
42 Resolution 10.
principles that were to be recommended and he hoped that the proposal for continuous central-bank cooperation would "produce some results." On the other hand, Strong was dubious about the general conference approach to international monetary reconstruction. Plans that treated the exchange problems of all countries alike, he believed, were "doomed to failure." Their problems were too diverse; countries should therefore be treated individually or, at most, in groups whose problems were similar. Moreover, he felt that the Genoa conference was ill-timed and should be postponed until intergovernmental debt problems had been resolved. Without this, the conference would be "futile," would produce some "impressive resolutions" but "no material results." Being skeptical about the usefulness of the conference, Strong made no comments in the spring of 1922 on most of the international monetary proposals, although he did criticize the recommendations for opening the door to the "devaluationist" who favored the stabilization of currencies at rates below the prewar gold parity. Strong wrote: "I fear him and his patent remedies." As time went on, Strong's doubts about the Genoa resolutions increased. During the summer of 1922, when it seemed likely that he would attend the proposed central bankers' meeting, he wrote of his concern that a commitment to stabilize prices in terms of gold would constrain the domestic-policy freedom of the Federal Reserve System. His criticism of the gold-exchange standard emerged only much later, in the late twenties, when the difficulties of this system had become manifest.

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

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

with the funding commission as soon as its members had been ap-
pointed by the President. Once intergovernmental debts had been
placed on a sound long-term basis, the road to exchange stabilization
would be open at least for those countries whose economic positions
were relatively strong and whose currencies stood within striking
distance of their prewar parities. Writing to Herbert Hoover, who was
then Secretary of Commerce, Strong listed Denmark, Holland, Nor-
way, Sweden, Switzerland, Argentina, Canada, Japan, and probably
Spain and Great Britain as falling into this category. The Federal Re-
serve should, Strong felt, support stabilization abroad by providing
large gold credits to the central banks of such countries. Even before
the Genoa conference convened, Strong had sent Norman the tenta-
tive outline of one such stabilization scheme. Under it, Britain and
several other strong countries might join with the United States to
establish a $300 million exchange-stabilization fund. If, Strong rea-
soned, the participating countries would

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

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

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

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

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

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

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

46 Strong letters to Logan of Apr. 24, 1922, and to Governor W. P. G. Harding of July 27, 1922.
49 Discussing the prevailing French view that Germany could and should meet the May 1921 reparation schedule, Strong observed shortly after Poincaré came to power: "It seemed to be a case after all of not what the facts are, but what the people think they are. . . . In human affairs there are certain things to be accomplished which are possible by ordinary methods; others that can only be
followed by the assassination of Germany's Foreign Minister, Walther Rathenau, brought a rapid depreciation of the mark in the exchange markets. Germany was declared in default on reparations at the end of 1922 and again at the beginning of 1923, when French and Belgian troops occupied the Ruhr.\textsuperscript{50} The collapse of the mark and of military efforts to collect reparations followed. Only then was the stage set for the successful German stabilization effort in the autumn of 1923, the flotation of the Dawes loan a year later, and the achievement of European monetary stability that followed sterling's return to gold in the spring of 1925.\textsuperscript{51}

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

\textsuperscript{50} Bergmann, 1927, pp. 162–176.
\textsuperscript{51} Clarke, 1967, Chaps. 4 and 5.
III. THE NEGOTIATIONS OF 1933

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

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

¹ Dulles, 1929, and Wolfe, 1951, Chaps. II and III.
³ Banque de France, 1932, p. 10.
difficulties made Britain's attempt to implement the Genoa prescription an unhappy experience. Real per capita income in Britain rose much more slowly in the seven years ended 1929 than in France and the United States. When the boom of the twenties was at its peak in other countries, 11 per cent of the labor force was still unemployed in Britain. On the eve of Britain's abandonment of the gold standard, the unemployment rate had risen to 21 per cent.

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

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5 *Banking and Monetary Statistics*, 1943, pp. 544, 574–575.
mentation of orthodox principles, while yet others held that alternative policies—then regarded as radical and inflationary—were required.

Proposals for Cooperative Recovery Measures

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

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

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

proposal that, while not so ambitious as one previously outlined by Keynes, envisaged the establishment of an international monetary fund. Under this plan, participating countries would have supplied the proposed institution with some $1\frac{1}{2}$ billion to $2$ billion for lending to central banks at very low interest rates. Countries that benefited from such loans would have been expected to stabilize their exchanges, remove exchange controls, and reduce other barriers to international trade.

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

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

Britain, journeying another road to economic salvation, rejected

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9 Memorandum by Herbert Feis, Apr. 17, 1933, Foreign Relations 1933, pp. 574–575.
11 Wolfe, 1951, Chap. IV, and Moore, 1971, pp. 116–122. In writing this and the following sections I have relied frequently on Dr. Moore's dissertation.
French arguments in favor of the gold standard as self-serving. The 33 per cent depreciation in the sterling/dollar rate during the sixteen months ended December 1932 had brought a significant narrowing of Britain's trade deficit. Under the Ottawa arrangements, negotiated between Britain and the dominions in July–August 1932, a preferential trading area was being formed. Freed from external constraints, the Bank of England's monetary policy had been eased and the domestic economy was beginning to recover. In the British authorities' view, the outlook would have been as satisfactory as could be expected but for the continued burden of war-debt payment to the United States, the annual amount of which was equivalent to 12 per cent of Britain's 1932 exports.

Reparations and War Debts

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

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

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

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

14 Hoover, 1952, p. 171.
15 Department of State to the British Embassy, Memorandum of Mar. 24, 1933,
Foreign Relations 1933, pp. 472-473.
16 On these discussions, see Foreign Relations 1933, pp. 826-847.
17 Acting Secretary of State to the French Ambassador, June 17, 1933, and
Acting Secretary of State to the British Ambassador, June 14, 1933, Foreign Re-
lations 1933, pp. 842, 880. See also U.S. government statement on "British War
Debt Payment" published in Roosevelt, 1938, Vol. 2, pp. 242-244.
Changing United States Economic Priorities

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

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

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

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

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

Preliminary Sparring

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

24 Quoted in Schlesinger, 1959, p. 203.
measures in other areas. Without exchange stabilization, no country could undertake monetary expansion or the reduction of trade and exchange restrictions without exposing itself to unpredictable changes in its external position.

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

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


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

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

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

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

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

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

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

{\textsuperscript{28}} Hull, 1948, p. 255.

{\textsuperscript{29}} Memorandum by Feis, Apr. 17, 1933, Foreign Relations 1933, pp. 574–575.
that the Cabinet with the possible exception of MacDonald has now little real faith or interest in achieving this. MacDonald is the facade which they use in order to work out a proper setting for dealing with us. . . . They feel that the restoration of England to its proper position . . . is now blocked by only two things, namely, war debts and the fluctuating dollar. They feel that with Ottawa and the other preferential treaties that they have negotiated or are now negotiating they would be in a position to face the future with equanimity apart from these two obstacles even if the Economic Conference proved a failure or its practical benefits were long delayed.30

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

**The Exchange-Stabilization Negotiations**

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

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

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

31 French Embassy to Department of State, May 16, 1933, *Foreign Relations* 1933, pp. 608–609.
liaison between the stabilization negotiators and Hull's delegation, the activities of the two groups were hopelessly uncoordinated.\textsuperscript{32}

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

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


\textsuperscript{34} Foreign Relations 1933, p. 626.

\textsuperscript{35} Feis, 1966, Chap. 14.

\textsuperscript{36} French Embassy to the Department of State, May 16, 1933, Foreign Relations 1933, pp. 608–609.
the formal opening of the general conference, and were completed during the following week. By Friday, June 16, a two-part agreement was negotiated and submitted to the governments. Both parts were to be effective only until the adjournment of the conference, by which time more permanent stabilization arrangements were expected to become operative. Under the first part, the three central banks agreed in effect to expend up to 3 million ounces of gold (equivalent to some $60 million at the $20.67 parity of the dollar) in order to maintain the existing pattern of market exchange rates for the three currencies. The middle rates for the dollar were to be $4.00 against sterling and $0.0466 against the French franc. The margins of fluctuation on either side of the middle rates were set at 1½ per cent. Corresponding sterling/franc rates would be maintained by Bank of England operations in the London gold market. Upon the expenditure of 3 million ounces of gold by any of the three central banks, the agreement was to be terminated but could be renewed subject to agreement on exchange rates and on further amounts of gold to be used in support operations. In order to ensure its effectiveness, the terms of the agreement were to be secret.

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

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

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

39 Roosevelt to Hull, June 17, 1933, and Roosevelt to Acting Secretary of State, June 19, 1933, *Foreign Relations 1933*, pp. 646, 649.
context, meant exchange-rate stability. Cabling Washington to recommend approval of the two-part proposal, Sprague explained that this commitment meant that, except in an emergency, the United States would refrain from using the Thomas amendment.40 Supporting this interpretation, Warburg cabled to the President:

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

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

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

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

Against this background, the President became increasingly skeptical about any commitment to stabilize the dollar. At first, his cables to the United States delegation in London suggested that he might consider temporary stabilization with a middle dollar/sterling rate of $4.15 and 2.4 per cent margins or, alternatively, an informal arrangement under which the United States would consider unilateral action of an unspecified nature to keep the dollar/sterling rate from depreciating below, say, $4.25.43 Interspersed with these suggestions were reminders from the President that "far too much importance is attached to exchange stability by banker-influenced cabinets. In our case it means only a very small (perhaps three) percent of our total trade as measured by production."45 At the same time the President continued to emphasize the need to avoid external constraints on domestic recovery. The declaration by the three governments included in the stabilization proposal might, he felt, be "construed by us as general and permissive in scope but is so worded that London and Paris might later charge us with bad faith if we decline later to go along with their interpretation of it."46 The United States could accept no commitment that would bar "full freedom of action under [the] Thomas amendment" in order to deal with any incipient decline in United States commodity prices.47

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

43 Copy of telegram to the President from the Committee for the Nation sent to Governor Harrison for his information, June 17, 1933, File C 260, Records of the Federal Reserve Bank of New York.
44 *Foreign Relations* 1933, pp. 646, 649.
45 Roosevelt telegram to Hull, June 20, 1933, *Foreign Relations* 1933, p. 650.
46 Roosevelt to Hull, June 17, 1933, *Foreign Relations* 1933, p. 646.
47 Roosevelt to Hull, June 17, 1933.
CHANGES IN DOLLAR-STERLING EXCHANGE RATE AND IN PRICES ON UNITED STATES STOCK AND COMMODITY MARKETS, MARCH 1-JULY 15, 1933

Index: March 1, 1933=100

Notes: Arrows indicate the magnitude and direction of change during each week ended Saturday, where weekly change is negligible, a point appears at the level.
* The closing of the banks, beginning Saturday, March 4, 1933, resulted in closings of the stock market through March 14, the foreign exchange market through March 11, and the commodities markets through March 6.
† The commodities markets were closed for holidays April 14, 15; the indicated change is for the week ended April 13.
Sources: Moody's staple commodity price index from Commercial and Financial Chronicle.
Dollar-sterling exchange rates from Record of Foreign Exchange Rates, Certified to the Secretary of the Treasury, 1933, Foreign Department, Federal Reserve Bank of New York.
to limit exchange speculation, but he imposed the crippling proviso that any such attempts should lead to no United States gold losses.\textsuperscript{48} Then, on July 2, the President brushed aside a proposed declaration on stabilization that did no more than repeat the substance of the instructions he had given to the American delegation a month earlier. In the so-called “bombshell” statement that was released to the press the following day, the President declared that he would regard it as a catastrophe amounting to a world tragedy if the great Conference of Nations, called to bring about a more real and permanent financial stability and a greater prosperity to the masses of all nations, should, in advance of any serious effort to consider these broader problems, allow itself to be diverted by the proposal of a purely artificial and temporary experiment affecting the monetary exchange of a few nations only.\textsuperscript{49}

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

“\textit{No World Solution}”

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

\textsuperscript{48} Roosevelt to Acheson, June 28, 1933, and Roosevelt to Hull, July 1, 1933, \textit{Foreign Relations} 1933, pp. 663, 669–670.
\textsuperscript{49} Roosevelt telegram to Hull, July 2, 1933, \textit{Foreign Relations} 1933, p. 673.
\textsuperscript{50} Roosevelt telegram to Hull, July 1, 1933, p. 669.
\textsuperscript{51} Roosevelt telegram to Hull, July 2, 1933.
complicated cooperation by taking the United States off the gold standard. He favored a tariff truce but sanctioned restrictions against imports under the National Recovery and Agricultural Adjustment Acts. After the gloomy immobility of the Hoover administration, the new regime was experimenting, keeping its options open, and choosing its course according to the immediate effects of diverse policies on the economy. And it was on the domestic economy, perforce, that the President focused most of his attention. Preparation of the position that the administration expected to present at the conference was left in the hands of a very few subcabinet officials who had had little or no previous diplomatic experience. In this preparation, guidance from the President was minimal. When Roosevelt gave his formal written instructions to the delegation prior to its departure for London, James Warburg, who had drafted them, experienced an "uncomfortable feeling" that the President had, for some reason, lost interest in the conference.52 Roosevelt's insouciance may also account for the poor quality of his appointments to the United States delegation, whose members were unable to work in harness, were diplomatically inexperienced, and were sometimes totally uninterested in the work of the conference. The success of a cooperative recovery effort would have been problematic in any event; with such a delegation it was altogether unlikely.53

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

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

52 Warburg, 1964, p. 125.
Britain and the United States in order to alleviate the pressure on the franc. For Britain, the conference was a facade behind which to obtain the elimination of war debts and to prevent competitive depreciation of the dollar. While pre-conference negotiations had been going on, Britain and France, along with other countries, had equaled or surpassed the United States in erecting trade restrictions that made a mockery of the tariff truce. The prospect that currency stabilization would be followed by cooperative measures that would help sustain the American recovery was therefore nebulous at best.

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

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

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

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

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

\(^55\) Warren and Pearson, 1933, esp. p. 174; Schlesinger, 1959, pp. 234–235; on pp. 219–220 Schlesinger discusses other authors who influenced Roosevelt’s views at this stage.

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

\(^57\) Quoted in Davis to Hull, May 9, 1933, Foreign Relations 1933, p. 598.
IV. CONCLUSION

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

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

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

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

\(^1\) Keynes, 1933, Chaps. 5 and 6.
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