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*Documents de travail GREDEG*  
*GREDEG Working Papers Series*

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**GREDEG WP No. 2014-43**

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# Pierre Quesnay (1895–1937) from the League of Nations to the Franc Poincaré: Financial Discipline and Monetary Pragmatism

(preliminary version)

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GREDEG Working Paper No. 2014–43

## Abstract

In a 1958 article, Pierre Dieterlen refers to a “triumvirate” in order to qualify the team formed in France during the Poincaré stabilization by Emile Moreau, Governor of the *Banque de France* (BDF), Charles Rist, Professor at *La Sorbonne* and Deputy-Governor and Pierre Quesnay, his former PhD student, Head of the Department of the Economic Studies and Chief Adviser of the BDF. Pierre Quesnay is the youngest of the trio and has been quite neglected by the historians until the recent paper of Olivier Feiertag (2009) on the Monetary Internationalism during the Inter-War period. From the end of the war in 1918 until 1937, the short life of Pierre Quesnay is fully concerned by the monetary disorders generated by the suspension of the Gold Standard, the difficulties to find alternative monetary solutions, and the management of the monetary consequences of the Great Depression. Building mainly on the Quesnay’s papers of the *Archives Nationales*, the purpose of this paper is to evaluate the effective contribution of the young money doctor to the monetary stabilization process of the interwar period.

*JEL Classification:* N24, B22

*Keywords:* Money Doctors, League of Nations, *Franc Poincaré*, monetary stabilization, Benjamin Strong, Open market policy.

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# 1 Introduction

Pierre Quesnay was born in 1895 in Evreux. He studied Law at *the Sorbonne* faculty where he was introduced to “monetary facts” by Charles Rist, himself then just nominated. After being involved in the First World War, he is just 26 years old when he is nominated in Vienna, initially near the Commission in charge of the supply committee, then confirmed from June 1920, as a member of the Commission for the reparations of war.

He has his first experiences in Vienna and Budapest first as a member of the commission for the Austrian supplying, then since 1920 as a member of the inter-allies reparations commission. From 1922 to 1925, the career of Pierre Quesnay as a young money adviser really starts when, on the behalf of the League of the Nations, he comes in charge of the financial reconstruction of Austria. It is also during that period that Quesnay meets international monetary experts like Montagu Norman, the Governor of the bank of England, but also Jean Monnet who will also integrate the *Banque de France* under Moreau term. As expert of the League of Nations, he also occupies for few months a position in Geneva, at the economic and financial department, which also contributed to develop his international network (see Mouré, 1998, and Feiertag, 2004).

The topic of this paper is to connect these years of learning of Quesnay and its young maturity as an Economic Adviser at *Banque de France*. The section 2 characterizes the League experience. The rest of the paper is devoted to the *Bank de France* years. Section 3 presents Moreau administration and the role of Quesnay in the triumvirate in charge of monetary stabilization. Section 4 focuses on contributions of Quesnay on monetary decisions and financial innovation. Section 5 concludes on Quesnay views concerning international monetary regulations.

## 2 The mission of the League of Nations in Austria

After the First World War, Austria is struck by the lost of a great part of its territory. It is restricted to the huge city of Vienna, now reduced to be the big capital of a small mountainous country. The economic crisis which develops in Austria has then several components. There is a public finance crisis generated by a severe cut of fiscal receipts of a narrowing country, associated with the increase of expenses associated to all sorts of post-war payments to make. An over-production crisis is also the direct consequence of the incapacity of public authorities to adapt immediately the economy to the restricted territory. After various attempts of the

Austrian authorities to solve by themselves the crisis and to ask rescue of different western countries, the new League of Nations is requested by the Allies in 1921 to take in charge the Austrian situation. Austria is not the only country to obtain the rescue of the League. Other ones will be Bulgaria, Estonia, Greece and Hungary but Austria is the first, and a sort of laboratory of the next experiences of the League.

## 2.1 The situation of Austria after the war

The situation of Austria during the immediate after-war is precisely depicted by Charles Rist who is in charge, from the Carnegie foundation of a mission in Austria and writes a report, first published in the *Revue politique et parlementaire*, then marginally rewritten and re-published in 1933 in a book bothering various Charles Rist essays: *Essais sur quelques problèmes économiques et monétaires* (Rist, 1933). Rist points out that, beyond purely Public Finance problems, the crisis is in reality a generalized crisis of reconversion. Austria endured problems with the bad supply on coal by Czechoslovakia, on wheat by Hungary, and railway transports were quite blocked between its shortened national territory and those of its previous vassals or allies. To this economic situation, Rist adds relevantly the national problem, with a population divided on the objective to reconstitute an autonomous republic or to join under a more or less precise form the Pan-Germanist option. Rist, who - like many French intellectuals of this generation - is fluent in German, quotes the accepted formula to depict this situation: “*Oesterreich ist nicht lebensfähig*” (“Austria is not viable”). In this situation, the National Bank and the Treasury increase without reason additional currency<sup>1</sup>. It is realistic to consider that these new notes and accounts correspond to advances of the Central bank to the Treasury, which naturally generate inflationary pressures. It is however also the consequence of (limited) credits obtained by Austria near foreign countries, especially US.

To an initial period of contained depreciation of the Austrian Krone the followed in the mid-1922 a period of harsh depreciation, fueled by speculative attacks against the national currency. During this period “few departments continued to record the expenditure on the one hand, the income of the other. The Ministry of Finance usually just asked each department the amount of funds to cover to calculate the amount of notes that he had ordered the presses issue” (Nisaque, *Revue des Sciences Politiques*, p. 12)

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<sup>1</sup>At this stage the metallism of Rist, yet strengthened during the thirties, recommends to be cautious with its interpretation of this policy.

The well-known mechanism of hyperinflation, with an automatic adjustment of prices and salaries to the external depreciation of the national currency then applies. It is interesting to observe - Rist did it - that, during this period, taxes adjust only with a one year gap, given that they are paid on the profits, interest, wages of the previous year. This delay then increases public deficit when hyperinflation develops. The figures that Rist quotes for the evolution of this public deficit are significant. Even more interesting, Rist notes that while the nominal values of taxes and expenses increase during time, the gold-value of taxes decrease, which seems to prove that hyperinflation has generated a redistributive effect from Government to the economy.

The external deficit of Austria is another cause of the hyperinflation. Rist reports that Austrian exports cover structurally not more than 50% to 60% of the imports from 1920 to 1922. Rist points out that the same is also true for Switzerland for instance, with however the noticeable difference that Switzerland has already a financial role and activity in Continental Europe while Austria is a country among others. Rist speaks about a “disequilibrium between production and consumption” to characterize the other structural problem of Austria. Rist refers a situation such that the value of fixed capital decreases while consumption increases: in a word, the country consumes its own capital, without being able to amortize its buildings, equipments and machines.

## **2.2 The success of the mission according to new-classical views**

Austria initially thought about an external rescue from 1919, the year when the value of the crown suffered a big depreciation on the external exchange market. The decision has been postponed due to the temporary improvement of the situation. At this moment, Austria only benefited a credit of 30 Millions £ to be able to pay exports of first necessity goods from abroad. Then began a second phase of depreciation of the crown. This phase, as explained by Pietri (1983), is partly due to Government subsidies to maintain at a low level the prices of consumption goods. The second and more consequent plan of rescue (named Ter Meulen plan, after the name of the Dutch banker who conceived it) was decided by the League with a joint agreement of UK, France, Italy and Japan. It was devoted to help Austria to import raw materials and to increase its capacity to reconvert and produce.

Austria was then “the first country that appealed for the League almost as soon as the EFO was settled up [...] The League pursued a set of inquiries between

1921 and early 1922, and among a set of recommendations in terms of economic policies and institutional needs, they strongly recommended a long-term loan to provide a definitive solution to Austria's financial needs" (Flores and Decorzant, p. 11). The first helps provided by the League were short term loans in May and June 1922 that maintained the capacity to cover short term engagements.

This plan was not sufficient to stop inflation and external depreciation of the Austrian crown. Allies choose to make the League directly in charge of a second plan in August 1922. These decisions and the subsequent contacts between Chancellor Seipel and the League end up with the 4 October agreements that allow the application of the second plan.

After few month, the plan of the mission is considered as a success. "One year after the beginning of the action, while the program is still a deficit on the basis of 150 million gold crowns a year, a monthly surplus is observed. In 1924 and in the early months of 1925, the budget deficit is below the new incurred capital expenditures" (Nizaque, p. 18).

During the "high years of credibility paradigm", the missions of the League have been discussed extensively. "The basic premise was simply that, in order to stabilize a currency, fiscal equilibrium was of paramount importance. If the budget was balanced, there was no need for the central bank to extend credits to the government or to increase the note issue beyond the amount that was demanded at a stable price level. Thus, the centerpiece of financial reconstruction was a set of fiscal and administrative reforms intended to eliminate the budget deficit" (Santarella, p. 595). Then, the League program included generally recommendations of fiscal discipline and, to some extent, measures of monetary orthodoxy.

The new-classical vision of these programs was that this credibility were provided by three features and mechanisms:

- A precise intervention of Commissioners of the League in the countries undertaking a sponsored-League stabilization. This Commissioner had generally the control of the external loan and the power to draw resources from the revenue sources that was agreed to serve as security for the foreign loan.
- The orthodox action of other delegates of the League, for instance near the Central Bank.
- The capacity of the League to enforce stabilization programs.

Representative of the orthodoxy of the Commission was for instance this injunction from November 1921 to restrict the issuance of new notes to finance the

needs of Austrian Government. The new Central Bank status integrated the necessity to keep a gold counterpart for at least 20% of the circulating currency, which limited its capacity to issue new bills. This disposition generated confidence at a moment where the limited quality of gold and its limited international movements and stopped speculation.

But the orthodox measures did not limit to monetary ones. The mission, under the British influence, encouraged also the Government to adopt restrictive decisions, for instance reducing the number of civil servants, to simplify administrative procedures and to undertake a taxes reform. No doubt that these objectives and the beginning of their realization had a part in the success of the mission.

From these observations, Santanella thesis can be defended and the success of the League in Austria - where the hyperinflation was stopped and the Public Finances restored -, attributed to the joint effect of discipline and credibility. However, next subsection presents another supported by Rist and Quensnay.

### **2.3 The success of the mission: Quesnay ad Rist views**

It is well established that in the Austrian case, the British influence was the strongest in the elaboration of the first and second plan. Niemeyer, then Strakosch had the leading role in the staff and controlled the way Austrian Government and Financial authorities applied the plan of the League. During this period, through the role of the two British advisers of British government and Austrian Central Bank, it is the leading influence of Norman that appears. Avenol and the other French members of the mission had however a role, frequently to moderate the British orthodox position and to make the objective more gradual in the road of Austrian recovery, even after a new financial crisis in 1824.

The plans had as final goal to restore currency circulation. But this final objective was always targeted through the achievement of intermediate goals as restoring reliable public finances and transforming the old Central Bank in a modern and independent institution able to gain resist to government influences. The long-term loan decided in 1922 for instance the double objective to manage the transition between the situation of structural period of budget deficit and the objective to increase taxes and decrease expenses, and to give the Central Bank ways to acquire external currency reserves. The agreement is to obtain as a counterpart of the loan, a commitment from the Austrian Government to reform its budgetary practices (see also Pietri, p. 322). It is however to be noted that the delegates of the Commission who presented Ter Meulen plan to Austrian authorities chose

to let Austrians define themselves their recovering plan. They also insisted on the necessity to target a viable solution, to accept a depreciation of national currency in order to find a competitive issue for Austrian goods on external markets. It was then clear not only for French members of the Commission but also for British ones, that the pre-war parity was no longer a goal to define and pursue for the Austrian monetary authorities. The 150 Millions \$credit that Austria could obtain will be devoted to fund external imports of Austria but also to provide a reserve against new economic difficulties.

During all this period, the role of Quesnay is initially obscure: during the first part of his stay, he is too young and inexperienced to participate to the decisions. He is learning his future work of monetary and financial adviser. But this hands off attitude is not natural for Quesnay who progressively influence, explain, negotiate, promote the French position inside the League teams.

When he can take some distance with his charge, he is more lucid on the effect of this gradualism.

“The balance of payments equilibrium in 1923, was not left at a permanent equilibrium. Among assets, there were for instance the return of emigrated capital for example, that even if it was a definitive return, was not reproducible year after year, others ones like speculative capital, were mostly temporary and should be followed, after some time, by new capital movements, in an amount greater than the primitive contribution” (Nisaeque, p. 24). This reality didn’t make Quesnay anxious: it is reasonable to be gradual and to accept help of windfall benefits if it help to make gradualism more efficient.

Another objective, developed by Quesnay as by Rist, is to help Vienna recovering its pre-war role, as the big economic and commercial center of center Europe, a sort of link between Western and Eastern countries. Reaching this objective will take time: not only it requires that Austria could continue to open its frontiers and markets to the Nations that escaped from its protection, but those last have to admit that an organization of exchanges with Vienna as center is more efficient than all other arrangement in the Balkans or around.

It is then a sort a pragmatic views of nominal and real stabilization that Quesnay constituted during those years in Vienna. He will have to test their advantages in the following period, when with Rist they will access to the highest monetary charges in France.

### **3 Emile Moreau administration and Pierre Quesnay**

Quesnay is still working at the League / Geneva when Charles Rist proposes him the position that will make him the first active economic adviser of the *Banque de France*. From 1926 to 1928, he then participates / initiates the stabilization of the French franc, uses his previous Austrian experience to intervene in the French case, and motivates the main measures taken in France to stabilize.

#### **3.1 The first days of the triumvirate**

Under Governor Georges Pallain, who was still in charge of *Banque de France* in the after-war, the return to Gold was considered as a middle term objective for the French Central Bankers: the difficulties of United Kingdom to restate the pre-war definition of the sterling however made progressively the Bankers less enthusiast. The objective was maintained under the relatively short term of Georges Robineau from 1920 to 1926. The French franc had nevertheless suffered from the necessity to finance the war, partly by advances from *Banque de France* to the Treasury. After the war, the choice of inflation against recession and unemployment transformed progressively the external value of the French franc in an adjustment variable submitted to a differed stabilization. In this period as in other ones, “the inflationary strategy is a long term strategy located in extended geographical space: it is a transfer strategy which fits or is no longer promoted when it leaves any efficiency. The stabilization option which imposes in 1926 closes this period” (Debeir, 1980, p. 624).

#### **3.2 Moreau, Rist and Quesnay**

The decision to stabilize was only the last step of a sinuous process. From 1919 to 1926, while the politicians are generally reluctant to all sort of monetary restriction which would have reduced growth and increased unemployment, the advocates of monetary orthodoxy of a return to gold recurrently recommend to deflate sharply to restore the pre-war gold-content of the French franc. In 1919, France is one of the economies the more affected by the 1914-1918 war. French franc has been made inconvertible and inflation has progressively moved the French franc / US dollar or the French franc / UK sterling exchange rates far from their pre-war levels. Inflation maintains high and increasing during the 1919-1920 period when French economy recovers a positive rate of growth of GDP. With the fiscal efforts made with Frédéric François-Marsal as Finance Minister from 1920, then with the

effects of the 1921 crisis, prices begin to deflate and the objective to recover the pre-war gold content of French franc makes a come-back in the French opinion. But a strong recession is the companion of this deflation: from 1922, the dominant opinion is then generally to choose growth and employment against deflation. The results are rather positive in nominal terms but while growth accelerates with a moderate inflation until 1925, French GDP stops its progression in 1925-1926 whereas France experiments a simultaneous pick of inflation. It is time to consider a new monetary (and fiscal?) policy which would promote nominal stabilization without cutting growth - and if possible avoiding instability.

Charles Rist, and Pierre Quesnay, his previous student at *La Sorbonne* are convinced that if stabilization was necessary, it has to be realized without deflating. The conception of Rist and Quesnay integrates *Banque de France* when Emile Moreau is nominated Governor in 1926. Charles Rist becomes Deputy-Governor while Pierre Quesnay integrates the team, first as cabinet director of Emile Moreau, then as economic adviser. Few months after, with the comeback of Poincaré, Moreau progressively imposes his style, a mix of intuition, an extreme cautiousness, but also a capacity to make the right decision, frequently after he has been himself convinced by Rist and Quesnay that his own initial views were wrong. In the first months, under the influence of Rist and Quesnay, Moreau progressively convinces politicians that the good solution is to stabilize without deflating: a new gold-content (and external exchange rate in sterling and dollar) is chosen for the French franc, after an official devaluation of the old Germinal definition of the French currency.

On June 25<sup>th</sup> 1926, when Moreau is designated by Caillaux to succeed Robineau as the Governor of the *Banque de France*, he chooses the same day as his Second Deputy <sup>2</sup> Charles Rist, who is like him a member of the experts committee for the financial and monetary reform. Rist is probably at the origin of the choice of Quesnay but Moreau mentions on July 7<sup>th</sup> the cooperative attitude of “M. Avenol, Assistant Secretary of the League of Nations, that I know long time, accepts my request, to free for me M. Quesnay, his best collaborator, as my chief of staff during two months” (Moreaux, 1954, p. 19). Quesnay and Moreau meet for the first time on July 11<sup>th</sup> <sup>3</sup>. He will then be the first Head of the Department of Economic Studies newly created at the Banque de France. During that period, Moreau, Rist and Quesnay will always interact closely. When Poincaré rapidly succeeds both

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<sup>2</sup>Moreau promotes indeed the previous second Deputy Governor Omar James Leclerc, “in whom he is fully confident” (Moreau, 1954, p.3.)

<sup>3</sup>Moreau explains that during this discussion, “Quesnay comments extensively the secrete intentions of M. Montagu Norman who would have imperialist views on European Central Banks” (Moreau, 1954, p.24.)

Briand as *Président du Conseil* and Caillaux as Finance Ministry, the trio want to convince Poincaré about the necessity to adopt the plan of stabilization proposed by *le Comité des Experts*. Rapidly, a second debate starts concerning the question of the determination of an exchange rate for stabilization. The main and the more innovative initiatives of the trio are from Quesnay. Dieterlen and Feiertag have already reproduced the way Quesnay comments his role during this period: “J’ai les idées, Rist les filtre et Moreau tape du poing sur la table pour les faire aboutir” (Dieterlen, 1955, Feiertag, 2004).

Quesnay is inside the *Banque de France* the main advocate of the innovative positions of Benjamin Strong, the experimented Governor of the Federal Reserve Bank of New-York; we also develop other fundamental contributions of Quesnay as his role on the rate of stabilization, on the new Banque de France practices on external exchange or internal money markets. His role inside the banque must not be neglected. During the relatively short time he spends at *Banque de France*, as Head economic studies department, Quesnay initiates a deep reform of this department, is a member of the French delegation preparing the Young Plan and thereafter, also becomes a member of the committee in charge of proposing the definitive status of the Bank of International Settlements (BIS). In 1930, the BIS is created <sup>4</sup> and Quesnay is nominated as its director. His international career then continues (see Feiertag, 2004), less dominated during this last period by the strictly national objectives of the *Banque de France* environment.

### 3.3 The stabilization process

Quesnay plays an important role in the stabilization process. He appears as a good economist but also a skillful technician. His analysis of the various factors which may contribute to the determination of the rate of exchange and his conclusion about the relevant interval can be considered as a proof of his technical competence as well as of his sense for economics. Quesnay plays also a specific role through his international network. Indeed, his first important position was Austria where he already tested his method for monetary stabilization. One should also not neglect that such a position was also an opportunity to meet people who, like him, will later get strategic international positions. The *Comité des experts* devoted to evaluate the monetary and financial situation and to propose solutions in order to stabilize the franc diffuses its reports on July 4<sup>th</sup> 1926, just before the official integration of Quesnay in the team. But these conclusions are not unknown from Quesnay who has served as secretary of the Committee. More than

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<sup>4</sup>Established on May 17<sup>th</sup> 1930, the BIS is the world’s oldest international financial organization.

a pure stabilization process, the report is a clear attack against the policy (or the absence of policy) of the *Banque de France* under Robineau and the previous first Deputy-Governor and Chief Economist Aupetit. The report points out that one could not expect any efficient intervention from the *Banque de France* before a deep financial and monetary reform would be implemented.

If Poincaré was aware about the Committee position, his own strategy was much more influenced by political pressure. Then, if he agreed on the necessity to come back quickly to the gold system and he also admitted - thanks to the persuasion of Moreau - that the franc may have to find a new parity, he was nevertheless not keen to sign any agreement concerning the debt of France. Tension between Poincaré and Moreau was then evident. Nevertheless, Poincaré promoted on August 7<sup>th</sup> a law giving to the *Banque de France* the right to sell and buy currencies, as well as gold, directly on the market without being limited by the circulating amount of money. As we will see, this law is largely the result of the interactions between Benjamin Strong and the *Banque de France*, mediated by Quesnay, and of the persuasion of Quesnay inside the Bank.

### 3.4 The growing influence of Pierre Quesnay

Quesnay was in charge of concrete proposition / agenda for the stabilization. His idea was that such a process should be developed through three distinct periods. First of all, France would need a period of pre-stabilization during which *Banque de France* would intervene in order to maintain the franc within a given interval. Then, a *de facto* stabilization would intervene, in which the rate of exchange would have been identified and the *Banque de France* would sell and buy external currencies at fixed rates. The last period or *de jure* stabilization would be concerned by the legal environment, a legal gold definition of French franc being defined together with its fixed rate of conversion in sterling and dollar.

Finally, the effective stabilization merged the two initial periods, the pre-stabilization and *de facto* stabilization periods. After 18 months, Poincaré still wants that the Franc could stabilize at a high value while Moreau would have preferred to follow strictly the plan formulated by the committee. However, as it is emphasized by Mouré (1991, p. 71), Poincaré has learned how much he could benefit from stabilization *de facto* and Moreau is forced to admit that stabilization does not need international commercial credits in order to be effective. Poincaré who was initially in favor of a deflating and turning to the pre-war parity of the franc never really diffuses his opinion. On the other side, Quesnay never expresses publicly his deep desire to stabilize the franc around a rather low level, in order to avoid as much as possible the negative impact of a fully expected low rate of

stabilization.

After the *de facto* stabilization period, then comes the *de jure* stabilization stage. A new tension then appears among Central Bankers and politics. If Poincaré can easily see the benefits of the *de facto* stabilization, the success of the *de jure* chapter is deeply rooted in the relevance and efficiency of the monetary and financial reform. The objective of this reform is to avoid the threat of a new franc devaluation. Perhaps with some irony, this creates a political issue: the problem lies in the fact that if Poincaré manages to maintain a minimum degree of solidarity or union within his government and inside the Parliament, it is only because his personality is at that time the main guarantee against a new devaluation. If the devaluation ceases to be seen as an (immediate) danger, coalition has no more justification. But the pressure coming from both the *Banque de France* and the industrial sector is really important and finally efficient. The monetary reform is nevertheless voted on June 25<sup>th</sup> 1927 with a large majority.

## 4 Pierre Quesnay and the new French way of managing convertibility

The trio constituted by Moreau, Rist and Quesnay is only in charge since few weeks when important decisions are already to be taken. During summer 1926, the visit in Paris of Benjamin Strong, the Governor of the Federal Reserve of New-York is not only the first moment for the team to be accepted in the expert and influent circle of those who take the main macroeconomic decisions in the world, but more simply to choose the relevant options for the future French stabilization and convertibility management. Retrospectively, Quesnay appears to have the more advanced position, adapting the views of Benjamin Strong to the French realities and convincing, months after months the other members of the team to the solutions that he has imagined in the first months, after the summer 1926 discussions with Strong.

### 4.1 Benjamin Strong and Pierre Quesnay

During the summer 1926, Benjamin Strong spends quite two months in Europe, mainly in France, a three weeks break in mid-August surrounded by weeks of meetings with French partners and of visits, among other to Vissering in Amsterdam, to Schacht at Berlin and to Normann at London. Strong seems astonishingly concerned by the *Banque de France* project of stabilization. His experience (he is in charge since 1916 as Governor of the Federal Reserve Bank of New-York) but

also his personality put him in the position of a super-advisor for the French team, all the members of which having less than three months of service as managers of one of the world major central bank. Pierre Quesnay is particularly impressed by the experience of Strong and his capacity to delineate the main features able to determine the success of the undertaken stabilization. Three necessary conditions are immediately pointed out by Strong to make a successful stabilization: (i) the Bank de France must be independent from government and fiscal policy; (ii) the Bank must intervene on the external exchange market not only to adjust the level of its reserves at the level required by the need of internal circulation but also to control the nominal exchange rate on the free market; (iii) the Bank must take the control of the money market to be the main partner of commercial banks in the domestic credit market.

During the 31<sup>st</sup> July meeting at Chatham hotel, he develops each point more precisely. For instance, the managers of the *Banque de France* must not be easily fired: if a condition of this nature is legally introduced, Strong considers that French franc will instantaneously appreciate when expressed in sterling. Strong also precise the way *Banque de France* must control in the future the French external exchange market: “it should be necessary to issue French franc as a counterpart of external currency, even beyond the legal ceiling” (2615, *Travaux du Comité des Experts*, 1926-1927). This is in the same time a way to support the future regime of convertibility and a management tool for the future external rate of exchange.

Strong is particularly insistent on the question of the discount policy and more generally on the *Banque de France* interventions on the money market: “greater is the discount portfolio, smaller are the price changes needed for an intervention of the Bank on the market” (2651, *Conversations avec M.Strong, du samedi 28 août 1926*). He comments the pre-war discount policy of the *Banque de France* arguing that their fixed rate of discount policy generated at this moment a tendency for the banks to constitute a portfolio in London or Berlin. that they used to adjust their positions when the conditions on the money market in France. This possibility was caused by the impossibility for *Banque de France* to hold its own portfolio which the Banque

On August 31<sup>th</sup>, a new meeting is organized between Moreau and Strong. This last gives to Moreau assurances on the potentiality of *Banque de France* to obtain the payment a of \$150 million loan from the US government, with the complement of \$50 million more from the European markets. This long term loan could be completed by a short term one of the same amount from the US government and a consortium of private banks. Strong has also prepared a note synthesizing his

major recommendations for the French stabilization. Moreau memories and Quesnay's notes contrast on the initiative and the interpretation of this note. Moreau relates the episode in a very neutral way: "M. Strong gave me a note summarizing the main points of our exchange: full independence of the *Banque de France*, which is a condition for the continuity of the our stabilization policy; measures for preventing the dangers of the floating debt, end of the issuing of monetary paper for the government, new control of the money market by the Bank, though the mobilization of the government debt..." (Moreau, 1954, p. 92). The document is confirmed by a memorandum sent by Strong himself from London. The memorandum enumerates 16 dispositions to be followed by the monetary authorities and government for the franc restoration. These dispositions can be summarized in 4 subjects: (i) the Bank must be independent and all structural / financial links with the government must be cut, (ii) the convertibility must be managed by the use of modern devices able to control the inter-bank and exchange markets, (iii) a stricter orthodoxy must be promoted for budget and tax policies, (iv) international cooperation must be developed between central banks.

A new phase of correspondence between Strong and Banque de France begins in Spring 1927. At this stage, the financial inflows are already important, from Germany and overall from UK to France. the British Pound is in danger. Strong no longer encourages *Banque de France* to stabilize but rather to relax the pressure on the London market. Strong suggests to reduce domestic interest rates or to sell French public bonds in open-market operations in order to reduce the upwards pressure on French franc. Rapidly, in his mailing exchanges with Moreau, Strong proposes to host the French team in the next summer.

In July 1927, when *Banque de France* administration continues to purchase external currency, Strong suggests to French partners to decrease discount rate to sustain economic activity, and - even if he does not develop the motive - to reduce the speculation on French franc (Conversations from 1 to 7 July 1927 in New York and Washington between Strong, Norman, Schacht and Rist,...)

Benjamin Strong health deteriorates rapidly in 1927. In Spring he refers to a stay in the South of Spain (Algeciras) and French Riviera in November. In a letter to Moreau dated from August 30<sup>th</sup>, he now mentions January and February. His direct influence on the French plans then reduces as he is obliged to manage breaks in his activity and to delegate a part of his tasks and representations. Strong will just have time to observe the first effects of the official French stabilization of the French franc on June 1928 before his death in October.

## 4.2 Independence and discipline

During the discussions of summer 1926, Strong repeatedly exhorts the French Central Bankers to acquire a entire independence from the government policy (see for instance Quesnay report of the July 20<sup>th</sup> meeting at Moreau home at Versailles). The content of this independence is however not really what we nowadays mean using this term. The objective is mainly to prevent all temptation for government to ask advances from the Bank, to find a solution for the existing debt of the Treasury to the Bank and even to eliminate all possibility for Treasury to obtain an credit account near *Banque de France*.

Strong then proposes rapidly to mobilize government claims by issuing public bonds. These emissions should free the Bank from any link with the Government but they can also “absorb liquidity” and thereby create deflationist pressures (2650, *Conversations avec M.Strong, du samedi 28 août 1926*).

It is interesting to report an exchange between Adolphe Landry and Pierre Quesnay on the question of the management of the *Advances from Banque de France to the Government*. Landry considers that the . . . country have nothing to win from the settlements of the government position near the bank. The measure would generate deflationist (and recessionist) forces while the Bank would lost the interests payed by the government. The answer of Quesnay is that “reducing the government debt to the Bank is an necessary measure to recover a sound money. Refunding the loan does not implies automatically a harsh deflation and a complete re-evaluation: the objective of the measure is overall to give back to *Banque de France* the liquidity that it have before these advances, in order to obtain additional ways of control currency into circulation” (4710, *Réponse à un article de M. Landry dans l'Information*).

A law from August 7<sup>th</sup> 1927 creates an autonomous entity, labeled *Caisse autonome de gestion des bons de la défense nationale* to manage the *Bons de la défense nationale* and circulating *Bons du trésor* and to receive the benefit from the taxes on tobacco to redeem progressively the *Bons de la défense nationale* at maturity. The Caisse autonome will have to power to determine the rate of interest of the newly issued *Bons de la défense nationale* and the level of taxes on tobacco.

Quesnay, under the supervision of Rist and Moreau, however imagine to generalize the principle of independence of the Bank from government. He then conceives in August 1926 a “convention between the State and *Banque de France* to apply the program of monetary stabilization”. The first article of the program, written by Quesnay, indicates that *Banque de France* “is in charge of the opera-

tions of stabilization. As a consequence, it takes the responsibility of the national monetary policy”<sup>5</sup> (2722, *Eléments d’une convention entre l’Etat et la Banque Centrale pour l’exécution du programme de stabilisation monétaire*). He requires the “possibility to work in continuity”. The government “renounces during the stabilization period to use freely of its right to modify the managing staff of the Bank: the Governor and the two Deputies-Governors” will be irremovable during a minimum of three years. The third article indicates that the level of stabilization will be decided by agreement between the Bank and the government. Given the expertise Rist and Quesnay, compared with the ignorance of monetary and macroeconomics mechanisms of Poincaré and his staff, no doubt that with this article, Rist and Quesnay will finally decide if the level of stabilization. After more technical developments, Quesnay introduces also in the article 11 the following specifications “During all the stabilization period, the government commits to raise to new loan, except to consolidate its existing debts. As a consequence, the Treasury Bonds and public debt ceiling will be determined in a definitive way” (2724, *Eléments d’une convention . . .*).

Although Quesnay and Rist agree to defend the independence of the *Banque de France*, Quesnay seems however having progressively developed a more extremist position than its older teacher. In January 1928, Moreau then reports that, according to Quesnay, “Rist considers leaving the Banque de France in next August. M. Rist does not approve that the advances to the Bank would be refunded to the Bank, and unfortunately, he developed this thesis in writing documents. He does not want any deflation. And he considers that my policy [Moreau writes] is in opposition with all that he taught himself at the Faculty of Law. The reality should however prove that the Bank can be redeemed without any deflation” (Moreau, 1954, p. 466).

### 4.3 How to stabilize?

In a text untitled *Le Crédit de la France* written in 1926, Quesnay presents three possible plans of stabilization. The second is the easier to manage: France will stabilize at its current market level or close to it. Convertibility will be restored for external transactions and new gold coins stamped. We will present in section 4 the third method. The first one is probably hard to manage - it will not be chosen by Moreau and the politics - but it is to be mentioned because of its originality. This stabilization process would involve the parallel circulation of two currencies, the “old” or “traditional” and the “depreciated” franc. This introduction of new francs

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<sup>5</sup>The international experience of Quesnay appears in the exerts that he uses in the draft to quote other national conventions (of Germany, Hungary, Czechoslovakia, Finland. . . )

in the circulation would be realized by issuing new bonds denominated in pre-war currency (*le franc-or*) defined by its pre-war weight of gold. The *franc-papier*, *i.e.* the depreciated franc would continue to circulate until its stabilization. At this moment, a rate of conversion will be defined between the *franc-or* and the previous *franc-papier*. The later having also a gold content (Quesnay takes an example and supposes that it could be 7 times smaller than the content of the *franc Germinal*), prices could be labeled equally in the two franc, with a stable rate between them. The final objective of the operation would be to introduce a sort of *nouveau franc* consisting in the old *franc Germinal* consisting in dividing by seven all current prices expressed in the newly stabilized franc (previous *franc-papier*). The system will be applied in France in 1960 with the switch from the *ancien franc* to the *nouveau franc* or *franc lourd*<sup>6</sup> under the initiative of Antoine Pinay and Jacques Rueff.

#### 4.4 At which level to stabilize?

During the autumn 1926, Quesnay discusses the level of stabilization. The basis assumption of the exercise is that no reevaluation would be targeted but that the rate of exchange chosen as a long term reference (the fixed exchange rates regime was supposed to maintain stable for a long period). this long term objective motivates for Quesnay an analysis in which many - sometimes contradictory - elements are considered. Quesnay begins by “budget considerations”: this first evaluation considers diverse scenarios relative to the amount of GDP and considers the rate of exchange between the French franc and the UK sterling that would maintain the pre-war proportion of 13.3% between public expenses and GDP. The second estimation takes as hypothesis that the Bank is obliged to maintain a legal proportion between the amount of its reserves and the money into circulation. The third estimation is obtained after calculating the increase of monetary circulation which could result from the enhanced gold reserves of *Banque de France* after the return to gold. The liquidity then made available must not generate inflationary pressures: an exchange (or a range of variation of possible exchange) rate if the French franc is considered on this level. The last estimation is then linked to external considerations and should maintain domestic prices at their international level. Quesnay ends up by providing an average value that he considers between 160 and 170 French francs / UK sterling.

During the end of 1926, the floating exchange rate of the French francs however begins to appreciate and moves in few months from more than 200 to 120 francs / UK sterling. The debate then continues on the opportunity to stabilize the franc

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<sup>6</sup>In 1963, *nouveau* will be skipped from the official appellation of the French franc.

at a depreciated level or to stimulate market forces to make possible a stabilization at the pre-war level or close to it. In a manuscript included in the personal documents of Quesnay, Georges Lacout, a specialist of the British stabilization <sup>7</sup>: “a stabilization decision which would place instantaneously French prices at the level of world prices [...] would most likely fail. It is essential to set rate of exchange of the Pound at such a level as there it could maintain some delay between the moment of the stabilization and the moment where French price will reach world prices” (“Le retour à la monnaie saine”, 4677, *Etudes générales, notes diverses...*).

With such a market appreciation of the franc, the estimations of Quesnay are now without interest. It is no more reasonable to imagine a rate of conversion around 165 francs / UK sterling. On January 15<sup>th</sup> 1927, Charles Rist then signs a internal note entitled *Différences au point de vue des facilités techniques d'une stabilisation, du choix du cours de 125 ou de 150 à la Livre*. (4691 and following, *Etudes générales, notes diverses...*). The debate will develop during all the year 1927 and a part of 1928. Finally, the Loi monétaire is published on June 25<sup>th</sup> 1928 and the franc is stabilized at £124.21.

#### 4.5 Interventions on the external exchange market to control the rate of exchange...

The comments of the 1926 *Loi concernant des opérations en vue de la stabilisation de la monnaie* by Quesnay show that, already on August 11<sup>th</sup> of the same year, just after the first part of the summer exchanges with Strong in Paris, he already intends to use the future purchases of dollars and sterling to facilitate the intervention of the *Banque de France* on the external exchange market. On August 4<sup>th</sup> 1926, has already noted that “the bank will be authorized by a special law to buy gold and convertible currency against notes which will not be included in the usual limit of issuance [...] When the law will be adopted, *Banque de France* will have, to intervene on the market, quite an unlimited reserve of francs; this reserve will allow to absorb, in case of necessity, all excess of external currency on the market and, thereby, to control the exchange rate market, when the tendency will be an external appreciation of the French franc” 2725, *Loi concernant des opérations en vue de la stabilisation de la monnaie*.

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<sup>7</sup>Georges Lacout published in 1926 a book entitled *Le retour à l'étalon-or. La politique de l'Angleterre (1914-1926)* seems to express and rationalize the opinion of Quesnay. His book presents a “vigorous attack against the English policy. From his views, the return to gold was too rapidly concluded by UK in 1925 and the running conditions of the new monetary regime seem to him artificial” (Report ou *Le retour à l'étalon-or. La politique de l'Angleterre (1914-1926)* in *Revue de Sciences et de législation financière*, 1926, p 748)

In 1927, when the *Loi concernant des opérations en vue de la stabilisation de la monnaie* is up to be adopted, Quesnay writes that “the law supposes that the convertible currencies - dollar and sterling - of *Banque de France* will be bought without the possibility to be resold. Now, in the spirit of the legislator, the Bank of France would have the difficult task of controlling the exchange market, which involve intermittent interventions. One could, with some margins, have to sell the notes previously acquired and reciprocally” (4647, *Note sur l'article 3 de la Loi concernant des opérations en vue de la stabilisation de la monnaie*, August 11<sup>th</sup> 1927). On August 26<sup>th</sup>, in a note on the *Organisation à la Banque de France de dépôts d'or et de devises*, he also develops the idea that the external currency deposits could be accepted near *Banque de France* and remunerated at a rate of interest fixed by it, while it is not legally possible for *Banque de France* to remunerate deposits in domestic currency since *Banque de France* is not a commercial bank.

On November 4<sup>th</sup> 1926, Quesnay writes a new report synthesizing the purchases of foreign currency by *Banque de France* since July. These movements begin to be active and regular. Some months after, in June 2<sup>nd</sup> 1927, Quesnay continues to comment the purchases of English Pounds which have accelerated during the first part of the year. He is still obliged to explain to Moreau that “there is nothing alarming in itself. A bank of Issue may continue its purchases of gold without limit, as has proved the Federal Reserve Bank” (4236, Moreau to Strong, June 2<sup>nd</sup>, 1927). These movements finally slow down when begins to diffuse the idea that the French franc will be stabilized not at the current market rate but at a calculated rate that could be around £120.

#### **4.6 ...or to avoid any over-evaluation of the French franc**

As the Pound depreciates in 1927, it is necessary for Quesnay, Moreau and Rist to prevent any over-evaluation of the franc which would have contained the seed of a future depression / recession: “Faced to the supply of foreign Currency, we wish to control international speculation on French franc. To that end, we sale sterling against dollars in order to avoid our balances in London serve to the use of European countries” (4283, Cable from *Banque de France* to Federal Reserve Bank of new-York, May 16<sup>th</sup> 1927). In a cable of May 17<sup>th</sup> to Harrison, Moreau is obliged to concede that “gold purchases that take place at this time require the Bank to grow its stock of foreign currency to a point that creates some concerns here” (4277, letter to Harrison, commenting a cable of May 16<sup>th</sup>). Without the new *Banque de France* discretionary movements on the external market, the stabilization would have probably failed. But they also create a gold drain from London to Paris and

will generate with the beginning of the Great Depression non-cooperative behavior, then without the perspicacity of Quesnay, with new responsibilities at BIS when his intellectual adaptability would have been useful in these new and dramatic circumstances.

## 4.7 Quesnay and Rist

Charles Rist had the pragmatism to choose a stabilization at a depreciated level instead of deflation. He also developed a propensity to defend low rates of interest, as the old French *radical* he was. His monetary conceptions were however complex and sometimes not so academic when considered with our modern glasses: despite he was a great supporter of Tooke conceptions that he discussed and popularized in his Handbook of History of Monetary Thought, he was also, in opposition with Keynes, Cassel or Aftalion one of major supporter of the return to Gold in Europe, with or without pre-war parities. He expressed these views in front of Strong, Norman and Schacht during the famous July 1927 discussions between the 4 governors / deputy-governors of the four main Central Banks: “Bank of France is convinced that the Gold Exchange Standard - *i.e.* a system in which reserves are maintained abroad under the form of external currency, - the same Gold amount serving as the counterpart to issue the equivalent of two times its value in two different countries - can only be a temporary expedient. The Gold Standard is the complete end to which *Banque de France* tends, and we are pleased that other banks represented here agree with us to admit this superiority” (Conversations from 1 to 7 July 1927 in New York and Washington between Strong, Norman, Schacht and Rist).

## 4.8 *La valeur de l’or*

Among the papers of Quesnay of the late 1927, we find a file entitled “La valeur de l’or et le Gold Exchange Standard - Etudes générales - Correspondance avec la Federal Reserve Bank et la Banque d’Angleterre (postérieure à 1927)” (The value of gold and the Gold Exchange Standard - General Studies - Correspondence with the Federal Reserve Bank and the Bank of England). It is the attempt to rationalize his own monetary views, which he progressively made the *Banque de France* views. In the first versions of the paper, he develops a synthesis of a commodity conception of money and of a quantitative approach. He presents and uses Jevons and Sauerbeck indexes numbers to compare the decrease of prices in UK between 1826 and 1850 and the increased scarcity of gold during this period. Similarly, like other contemporaneous, he refers to the Kitchin series and justifies the increase of the prices between 1850 and 1873 by the discover of new mines. Quesnay then attributes the new decrease of prices between 1873 and 1896 to the generalization

of the Gold Standard during the eighties and the nineties. The “struggle for gold that follows and its tendency to disseminate explains the movement of prices of the last years of the nineteenth century.

With the same logic, Quesnay explains also the post-war inflation: the simultaneous move from Gold Standard to Gold Exchange Standard and from a the use of gold coins to their withdraw from circulation has changed the proportion of currency to gold: from 1919, the yellow metal is concentrated in the Central Banks reserves and “the power of a single central gold reserve is much higher than that of scattered resources. Consequently, a volume of credit - and of money - much larger was generated on the basis of growing stocks of Central Banks” (The value of gold and the Gold Exchange Standard - General Studies - Correspondence with the Federal Reserve Bank and the Bank of England).

Other considerations are also devoted to the distribution of gold around the world. Two arguments dominate: (i) the free market for gold helps to distribute gold where Central Banks need it, and (ii) the war has concentrated more gold than optimal in the Federal System reserves. However, in this case, the arguments are not fully acceptable: when Quesnay writes this text, the inflows of gold from the Bank of England to *Banque de France* have begun in indirect form: the free market has played a role in this movement at a moment where the decrease of gold in the Bank of England reserves has clearly a deflationary and recessionist effect.

Quesnay ends up with a prospective analysis on the evolution of the uses of gold supposed able to predict the evolution of the monetary regimes backed on a commodity reserve. His predictions seem quite reasonable on the evolution of the production of gold-metal but look from our time although completely dated on the demand side. He then examines on another project of article the propositions of Fisher and Lehfeldt relative to the regulation of the value of gold. The project of Lehfeldt tends to regulate the gold production by an international committee devoted to maintain a stable relation between the amount of gold reserves and the level of international prices by regulating extraction. The main objection of Quesnay is that there is no strict relation between the monetary expansion and the gold reserves.

Quesnay exposes and discusses also the older propositions of Fisher: the gold reserves could be monopolized by the governments and serve as a counterpart managed by them (and not by Central Banks). Commenting Fisher proposition, Quesnay adopts then - even more clearly than in the Lehfeldt discussion - an extended version of quantity theory, arguing that, in these conditions, the level of

prices will be regulated not by the amount of gold but by the amount of circulating means of payment. According Fisher proposition the gold content of each national currency would have to be adjusted month after month, according the level of prices and the amount of means of payment. Each national government has complementarity to adjust the level of its “gold certificates into circulation” in the opposite sense, then creating a stabilizing effect on credit and prices, and finally stabilizing the gold value of national currencies close to its long term level. Quesnay challenges Fisher solution in three respects: (i) it is hard to imagine an automatic link between the amount of means of payment and the gold reserves, even with the help of the gold certificates imagined by Fisher, (ii) an inflexible cooperation must be imagined between governments and Central Banks to maintain the system effective, and (iii) the only advantage of metallic systems is the long term permanence of the gold content of national currencies: “if the Society is able to accept the “compensated dollar”, it will as well be able to adopt a “fiat money”, without the useless disadvantages linked to a money unit expressed in a weight of gold varying according a predetermined principle” (4431, The value of gold and the Gold Exchange Standard - General Studies - Correspondence with the Federal Reserve Bank and the Bank of England).

Later, still in the summer 1927, but in the fourth part of the text devoted to the *Midland Bank Monthly Review*, Quesnay presents more distant conceptions concerning the presumed regulatory properties of Gold Exchange: “Since the war, the world has witnessed the entry into the U.S. tons of gold, without resulting in a comparable increase of the volume of credit. This shows much more clearly than could make a theoretical argument based on a pre-war reality, as the gold standard is not and has never been ‘automatic’, but that the movements of gold have never exercised their so called ‘normal’ effects without the consent of the Central Bank, consent that the Central Bank was and is always able to refuse” (4463-4464, *Le problème de la valeur de l’or - Projets nationaux et internationaux de stabilisation. Revue Mensuelle de la Midland Bank*, Juillet-Août 1927, The value of gold and the Gold Exchange Standard - General Studies - Correspondence with the Federal Reserve Bank and the Bank of England).

## 4.9 The money market

During this period, the position of Banque de France can be assimilated to a “total rejection of open market operations” (Barbaroux, 2006, p. 1). Quesnay position contrasts on this point. The Central Bank must control the money market: it is a recommendation of Strong that Quesnay integrates rapidly in his own objectives. In a note of October 1926, he deplores - as pointed out by Blancheton (2001, p. 389) - the weakness of the *Banque de France* on this market. “The Bank must

obtain that, in the future, all new issue of notes will be realized on the money market, in a way that would imply that the Bank could at every moment withdraw these notes in case of need”.

Quesnay integrates rapidly the suggestions of Strong. With the agreement of Moreau and Rist, he makes a visit at the Bank of England in October 1926 to “learn the methods of intervention of the Bank of England on the money market” (Moreau, 1954, p. 129). Moreau does not seem himself convinced that these methods are important since he only mentions in the following paragraphs the news transmitted by Quesnay on the operation driven by the Bank of England and the Bank of Netherlands on the external exchange market <sup>8</sup>. Moreau does not however seem immediately interested by the introduction of those new methods observed by Quesnay near the Bank of England. Nothing in his memories in late 1926 and early 1927 that could confirm that the *Banque de France* now uses open market practices.

In 1927, Strong reformulates his previous recommendations to use the Bons de la Défense Nationale as a way to initiate an open market policy: “as for the mobilization of the Bank’s claims on the government of which we often spoke about together, it is an innovation that still requires careful consideration” (4242, Moreau to Strong, June 2<sup>nd</sup>, 1927). Quesnay then clearly understands the interest of the open market mechanism and explains it in an article published in summer 1927. “A Central Bank has two techniques to control credit: the use of a discount rate policy and of open market interventions. Both affect the volume of available credit, which in turn, within certain limits, determines the volume of credit. The effect of a change in discount rate is indirect, because the initiative belongs to the money market operators, all that can make the Central Bank in this regard is to discourage its customers to present assets for discount or encourage them to do so, as appropriate. However, the open market policy is the initiative of the Central Bank [...] It follows that the second of these two measures is much more powerful because not only it can be used regardless of the official rate of discount, but it is likely to offset completely, and even do more, the effects of change in the rate of discount” (4443, “Le problème de la valeur de l’or - Projets nationaux et internationaux de stabilisation”. *Revue Mensuelle de la Midland Bank*, July-August 1927, The value of gold and the Gold Exchange Standard - General Studies - Correspondence with the Federal Reserve Bank and the Bank of England). Quesnay quotes at this moment a recent study analyzing the main Central Banks management

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<sup>8</sup>After Strong, Quesnay uses indeed Norman and Vissering as advocates of the necessity to hold a large amount of convertible currency before stabilizing. Moreau reports their opinion without any comments. . . but a few days after, writes that “M. Rist who is really obstinate, ask me, one time more, the authorization to constitute a currency reserve (Moreau, 1954, p. 134)

practices and concludes that “the open market policy contribute[s] to regulate the available amount of liquidity, as it concerns the balance of member banks near Central Bank (*ibid*).

Finally, only one week before the official stabilization date, Moreau himself seems having integrated the mechanism: “I had a long talk with MM. Leclerc, Rist, Strohl and Quesnay on the ways to make the bank able both to play its monetary role and to regulate the credit market [...] One could, for instance, endow the bank with a portfolio of negotiable bonds, such as the old Russian bonds taken in charge by *la Caisse d’Amortissement*, which, following the necessity, could be offered to the public or withdrawn from the circulation” (Moreau, 1954, p. 585). As the other major Central Banks, the *Banque de France* will adopt an open market policy to control the money market.

## 5 Pierre Quesnay, nationalisms and internationalism

The *Banque de France* episode is for Quesnay a moment of nationalism inserted between two longer moments of internationalism, corresponding respectively to his previous positions at League of Nations, and his future (and last) charge as first Director of the Bank of International Settlements. As early as he is in charge as *Banque de France* adviser, its previous internationalist visions however move in a clever form of nationalism. The first rival is the Bank of England which in the mid twenties extends its influence among continental Central Banks. Immediately, Quesnay conceives the European cooperation of Central Banks as a way to create or regenerate another network of Central Bankers, with the French *Banque de France* “money doctors” as advisers.

Initially, Quesnay imagines a sort of come-back to the Latin Union regulation principles. In 1926, he conceives something like the future Ecu (or Euro) that could be adopted jointly by many European countries. The system should consist in creating a joint currency - Quesnay proposes to label it the ecu (without capital-letter) with different rates of conversion of the Belgian franc, the French franc and the Italian lira in ecu, all stabilized independently and at different depreciated levels. “When each country will have substituted its old inconvertible currency by the new gold-ecu, we will have the same gold-standard: the gold-ecu of 0.25 grams” (2628, *Méthodes de retour à la monnaie-or dans un régime de papier-monnaie* in *Travaux du comité des experts*). This project is in reality highly unrealistic: Belgium tries to stabilize before the partners, Italy progressively isolates in the

Mussolinian megalomania, Romania is not yet convinced of the necessity to stabilize...and will never be applied. Quesnay then renounces to propose a joint currency to the European partners of France and imagine with Rist to adapt the method of stabilization to the country where they are able to intervene. With different teams and methods, they will intervene in Spain, Romania, Poland, Turkey among others, even when Moret succeeds to Moreau as *Banque de France* governor.

Even when the internationalism of Quesnay is motivated by the strict strategic interest of France and French franc, Quesnay is really convinced that, in order to be successful, monetary stabilization should imply an international monetary cooperation but also convergent monetary and financial reform in the more developed European economies. More than other, his previous League of Nations position at Vienna helped him to understand that international monetary system has strongly evolved after the *Grande Guerre*: Gold reserves are no more located in Great Britain but in the Federal Reserve System and Gold movements no longer regulate credit creation, which is now over the responsibility of Central Banks' control. The concentration of gold reserves in the Federal Reserve System balance sheet, associated to the commercial leadership of the US, makes the US price level a reference for the price level of the European economies. After the 1919 crisis, US Central Bankers and their advisers / statisticians learn new ways to control the exchange and money market, then price level and activity. It is this style of discretionary policy that Quesnay, then other French "money doctors" try to adapt to the European context in the late twenties and the early thirties.

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