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**The 1933 World Economic Conference
As an Instance of Failed
International Cooperation**

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The 1933 World Economic Conference is a classic example of failure to achieve international agreement. In June of that year the nations of the world assembled in London to negotiate a coordinated response to the economic crisis of the 1930s. They achieved nothing. The issues that led them to convene the conference included exchange rate instability, deflation, tariffs, and external debts. They made no significant progress on any of these fronts. Following the conference, the already fragmented international monetary system splintered into yet additional currency blocs. Deflationary pressure on the gold standard countries intensified accordingly. International trade remained lodged at low levels. The problem of intergovernmental debts remained a bone of contention among the Allies, while the overhang of defaulted commercial debts impeded the recovery of international capital markets. The economic crisis lingered, doing nothing to nurture political moderation at home or to encourage collaboration in the diplomatic sphere.

No existing explanation for the failure of the conference is entirely satisfactory. One thesis is that American insistence that certain issues (war debts, tariff rates) be declared off limits doomed the conference to failure. Unfortunately, it is not clear why this should have made more difficult agreement on issues such as exchange rates and monetary reflation. A second popular thesis is that Roosevelt's decision to take the dollar off gold torpedoed the conference. Again, it is not clear why, if it was possible to envisage an agreement prior to dollar devaluation, Roosevelt's action should have so dramatically transformed matters. Nor is there in the literature an adequate explanation for Roosevelt's decision.^{1/}

In this paper we reassess the failure of the 1933 World Economic Conference. We add what are, relative to the existing literature, two novel elements. The first is domestic politics. In 1933, we argue, domestic politics severely restricted the scope for agreement. They rendered the win set, to the use terminology of Putnam (1988), all but nonexistent. Those who, prior to the conference, thought that they envisaged the outlines of an agreement

neglected this critical influence.

The second element is the conceptual framework that negotiators brought to the table. Policymakers were unable to agree on a concerted response to the economic crisis because they perceived it in very different ways. Lacking a shared diagnosis of the problem, they were unable to prescribe a cooperative response. Actions that are commonly portrayed as perverse appear logical once the absence of a common conceptual framework is recognized.

Our analysis has implications for several separate literatures in economics and political science. It illustrates some of the uses of the literature on issue linkage (Haas, 1980) and of that relating domestic and international politics (Putnam, 1988; Alt and Eichengreen, 1989). Its emphasis on the importance of negotiators' conceptual framework bears on the role of ideas in policymaking (Hall, 1989; Goldstein and Keohane, 1990). It provides an application of the literature in economics concerned with the scope for cooperation when national policymakers subscribe to different models (Frankel, 1988; Frankel and Rockett, 1988). But it transcends that literature by endogenizing policymakers' choice of model.

Section 1 of the paper sketches the background to the period and provides a narrative of events. In light of this account, Section 2 indicates the limitations of existing explanations for the failure of the conference. Section 3 introduces the role of competing conceptual frameworks. Section 4 adds domestic politics. The conclusion attempts to relate these strands to the recent literature on diplomacy and domestic politics.

1. An Account of the 1933 World Economic Conference

In this section we provide an account of the 1933 World Economic Conference.^{2/} This serves to familiarize the reader with the principal events that we seek to explain below. It documents the ways in which those events have been analyzed by previous scholars and allows us to identify some limitations of the interpretations that dominate the literature.

A. Background

1932 marked the trough of the business cycle downturn that began in 1929. By 1932 the volume of global manufacturing production had fallen to less than 60 per cent of 1929 levels. Primary production fell less dramatically, but it too reached its trough in 1932.^{3/}

The collapse of foreign trade and finance encouraged the belief that the crux of the problem lay in the international sphere. By 1932 the value of trade had fallen to less than half of its 1929 value. Following the imposition of the U.S. Smoot-Hawley Tariff in 1930, trade barriers around the world reached new heights. International lending, which had peaked in 1928, evaporated with the outbreak of sovereign default in Latin America in 1931 and its spread to Central and Eastern Europe in 1932. Debtor countries such as Argentina, Australia, Brazil, New Zealand and Venezuela had been forced off the gold standard soon after the Depression struck. With Britain's devaluation in September 1931, international monetary instability spread to the core of the gold standard system. By the end of 1931, more than two dozen countries were off the gold standard. What had been once a unified international monetary system was, like Gaul, divided into three parts: countries with devalued currencies, those under exchange control, and a residual bloc still on the gold standard.

These problems pointed to the issues that would form the agenda for a prospective conference: deflation, trade barriers, external debts and exchange rate instability. Discussions of deflation emphasized not only the collapse of price levels; the decline in output and of the rise in unemployment also fell under this heading. There was a tendency to impute a causal connection to the simultaneous collapse of prices and production. Action to stabilize prices, and ultimately to raise them, was viewed in some circles as necessary and sufficient to bring the depression to an end.

The problem of trade barriers encompassed both tariffs and quotas. The United States had imposed the Smoot-Hawley Tariff in the summer of 1930. Within months of sterling's devaluation, Britain had imposed a general tariff and negotiated tariff preferences with the members of her Commonwealth. France, Belgium and the Netherlands responded with increasingly comprehensive import quotas. Particularly troubling to contemporaries was the growing prevalence of clearing arrangements. Starting in 1932, Germany negotiated clearing agreements designed to maximize her market power internationally and balance her trade bilaterally. Central and Eastern European nations in Germany's orbit followed suit.

Under the heading "external debts" fell a potpourri of financial obligations. The most controversial item remained German reparations and Allied war debts to the United States. Germany's obligation, established originally at another London conference in 1921, had been ~~scaled~~ backed under the Dawes Plan in 1924, under the Young Plan in 1930, and at the ~~Lausanne~~ Conference in 1932. Controversy arose from the fact that war debts had not been reduced proportionately. To gain access to the American capital market, the European Allies had negotiated war debt settlements with the United States, generally between 1923 and 1926. These agreements remained in place until in June 1931 the Hoover Moratorium suspended war debt and reparations payments for a year. At Lausanne in the spring of 1932, Germany's obligation was extinguished in return for her promise to deliver 3 billion Reichsmarks of bonds. But the French and British publics objected to an agreement eliminating German reparations without also writing down Allied war debts to the United States. The representatives of the European Allies therefore signed a gentleman's agreement not to ratify the Lausanne convention until a settlement had been reached with the U.S.

The exchange rate problem was the most contentious of all. Sterling fell from \$4.86 on September 19th, 1931 to \$3.25 by the beginning of December. It fluctuated between \$3.15 and \$3.70 over the course of 1932. In the absence of significant inflation in Britain, this

was a dramatic shift in relative prices to be accommodated by the remaining gold standard countries. In addition to the Commonwealth, most of Britain's foreign trading partners depreciated their currencies along with sterling.

The 1933 World Economic Conference was not the first international meeting at which such problems were discussed. Previous economic conferences at Brussels in 1920 and Genoa in 1922 had been less than totally successful, however. Neither led to reconstruction of the international economic system along the lines envisaged in the delegates' resolutions. It was some years, therefore, before another such meeting was convened. Finally in 1930, Germany, dissatisfied that the Young Plan negotiations had been limited to a subset of economic issues, proposed a world economic conference. The possibility was raised again in 1931 during the Franco-American dispute over the Hoover Moratorium and in 1932 during Anglo-American discussions. The Lausanne Conference set the stage. The delegates at Lausanne, in addition to annulling Germany's reparations schedule, called upon the League of Nations to convoke an "International Monetary and Economic Conference" to address economic problems on a global scale.

B. Objectives of the Participants

The central participants at the London Conference were the U.S., the U.K. and France. Dozens of other nations attended, and some, such as Germany, were prominent in the proceedings. But the U.S., Britain and France were the central players. Any cooperative response to the economic crisis hinged upon their agreement.^{4/}

France attached priority to the restoration of international monetary stability, by which she meant a return to the gold standard by Britain and her trading partners and the removal of exchange control by Germany and other Central European countries.^{5/} Monetary stabilization along orthodox lines was, in the French view, the only means of reviving

investor confidence and laying the basis for sustainable growth. The French regarded tampering with the gold standard as inconsistent with this end. Hence they opposed schemes to redistribute the Bank of France's excess gold reserves to other countries, to reduce gold cover ratios, to encourage central banks to hold foreign exchange reserves, and to moderate the central bank independence. The Bank of France and its Governor, Clement Moret, were even more hostile to these expedients than was the Treasury under Georges Bonnet. The French also wished to preserve their freedom to use instruments such as tariffs and quotas which insulated them from financial and economic disturbances abroad.

Britain's priority was reflation, which meant freedom from external constraints on the policy of cheap money.^{6/} By 1932 the Treasury, which took the lead in international negotiations, had been converted to the advantages of low interest rates and rising prices. Unless Britain received a guarantee that other countries would adopt a similar posture, she was unwilling to return to gold. To insure that the stabilization of sterling would not prevent Britain from pursuing reflationary policies, the British asked for four specific concessions: a war debt settlement, which would stem the drain of gold to the U.S.; a commitment by foreign central banks to initiate expansionary open market operations, which required changes in the statutes preventing the Bank of France from engaging in such actions; a redistribution of existing gold to countries with insufficient reserves, enabling them to relax their exchange controls and stabilize their currencies; and finally commercial policy concessions by the U.S. and France, which would prevent their trade balances from moving into strong surplus and keep them from draining gold from other countries pursuing reflationary policies.

Both Britain and France hoped that a war debt settlement might be negotiated in London. Though war debts were formally outside the terms of reference of the conference, they nonetheless figured in the calculations of British and French negotiators. For their part,

some American officials recommended offering war debt concessions if the Europeans acceded to other American demands.^{7/}

U.S. demands were difficult to anticipate. The Hoover Administration was thought to support the French campaign for a generalized return to gold. Hoover's 1931-32 moratorium had demonstrated a new flexibility on the issue of intergovernmental debts. The position of the incoming Roosevelt Administration was less clear. Roosevelt had avoided addressing the merits of the gold standard and devaluation during the election campaign. But by delegating such discussion to hard-money Democrats, he left the impression that he too was sympathetic to the French position. Unlike the Republicans, the traditional party of protection, a Democratic Administration was seen as more likely to press for tariff reductions.

No international conference could succeed without U.S. participation. American isolationists having thwarted efforts to include the U.S. in previous international economic conferences, by 1932 the U.S. had acquired a reputation for boycotting such assemblies. Knowing this, the U.S. could demand a price for its participation. With the dollar still on gold, it was likely to be asked for concessions on war debts and import tariffs. It therefore demanded that war debts be excluded from the agenda and that there be no discussion of specific tariff rates. Neither sanction was binding, however. Tariffs and war debts featured in the informal discussions of Treasury and central bank officials and were alluded to in conference proceedings, starting with British Chancellor Neville Chamberlain's opening address.

C. Preliminary Discussions

At Lausanne it had been agreed to appoint a Committee of Experts to set the agenda for the London Conference. The British and French experts were closely affiliated with their

countries' respective Treasuries. On the British side, they were Sir Frederick Leith-Ross, long-time high Treasury official, and Sir Frederick Phillips, head of domestic financial affairs at the Treasury. On the French side they were Charles Rist, long-time government adviser, and Jean Parmentier, honorary director of the Treasury. The American experts were less intimately associated with the U.S. State and Treasury Departments: they were John H. Williams, professor of economics at Harvard University, and Edmund E. Day, a former Harvard professor currently director for social sciences at the Rockefeller Foundation.

The Committee of Experts convened in Geneva at the end of October 1932. Deep divisions immediately surfaced between countries on and off gold. The French and American experts demanded that Britain restore gold convertibility as a precondition for further talks. Leith-Ross and Phillips countered with a demand for international action to raise the level of prices in gold standard countries as a precondition for currency stabilization. The French dismissed reflationary initiatives, especially when undertaken by countries off the gold standard, as not merely ineffectual but counterproductive. Only currency stabilization on a gold basis, they argued, would succeed in restoring confidence and encouraging investment.

At this stage, the American position had more in common with that of France than with that of Britain, although the experts' statements remained vague pending the outcome of the November presidential election. That outcome was known when the experts reconvened in the second and third weeks of January, but not so the intentions of the president-elect. With the U.S. and France preoccupied by domestic affairs (the interregnum between administrations in the U.S., a budgetary crisis in France), the British experts assumed responsibility for drafting the annotated agenda. Their document, when it emerged, recommended establishing a common international monetary standard, increasing the level of prices, abolishing exchange controls, and removing trade restrictions. Jockeying took place

over the order of the list, but the final version of the agenda made clear that these four objectives were linked.

To achieve them, governments were encouraged to take a mixture of steps, some reflecting French gold standard orthodoxy, others British insistence on cheap money. The former included balancing budgets, removing exchange controls, and enhancing central bank independence. The latter included liberal money and credit policies and steps such as debt settlement to encourage international lending. The question was whether what were in effect two distinct strategies could be successfully reconciled.

D. The Conference and its Breakdown

Roosevelt's decision on April 19th to accept the Thomas Amendment and take the U.S. off gold threw a wrench into conference preparations. It seemed likely that the dollar would fall significantly against gold and that, to keep pace, the Bank of England would depreciate sterling. Exchange rate fluctuations might be considerable. It seemed doubtful that countries would be able to agree to a general currency stabilization or to negotiate a package of bilateral parities and tariff reductions with currencies fluctuating violently against one another.

Hence the Washington Conversations, of late April and early June, in which Roosevelt and his advisors met with representatives of 11 nations, came to be seen as a critical opportunity to negotiate a tariff truce and an exchange stabilization agreement. The truce was successfully concluded: the U.S., the U.K., France, Germany, Italy, Japan, Belgium and Norway agreed not to increase tariffs or tighten quotas for the duration of the Conference. Exchange rate stabilization proved a more difficult nut to crack. Starting on April 25th Leith-Ross, now the British Government's Chief Economic Adviser, met with James Warburg, Roosevelt's confidant on monetary matters, to discuss stabilization. The views

Warburg conveyed to Leith-Ross were personal; they had not yet been endorsed by the President.^{8/} Warburg suggested that the franc and the dollar be stabilized at par and that sterling be stabilized in the neighborhood of \$3.50. \$3.50 was acceptable to the British, who would have also found congenial Warburg's proposal that countries reduce gold cover ratios to 25 or 30 per cent, remove exchange controls and readjust war debts.^{9/}

Unfortunately, neither Roosevelt nor the financial markets were of the same mind as Warburg. Within a fortnight of the Warburg-Leith-Ross conversations, the dollar had fallen to \$4 against the pound. Warburg modified his plan to incorporate a 15 per cent discount of the dollar against gold.^{10/} The French, invited to contribute their opinion, rejected anything less than dollar stabilization at the old gold parity. By mid-May, however, they were forced to acknowledge the unrealism of this demand. They then pressed for stabilization at current levels. Warburg offered a plan under which the three governments each would contribute \$500 million to a joint stabilization fund, without saying anything about the level at which exchange rates would be stabilized. The British refused to peg sterling to the dollar without further information about the new U.S. Administration's monetary intentions. The French feared that if Roosevelt utilized the inflationary powers granted him under the Thomas Amendment, France's \$500 million contribution would be expended immediately in support of the dollar and of the President's reckless monetary experiment. And Roosevelt was not yet prepared to commit himself. Each government held its breath, hoping that the others would give in first.

As May turned to June, still no agreement to stabilize exchange rates had been reached. Responding to French requests, the three countries convened exchange-rate stabilization talks at the British Treasury on June 10th, two days before the conference was scheduled to open. Representatives of the three Treasuries met in one room; Clement Moret of the Bank of France, Montagu Norman of the Bank of England, and George Harrison of the Federal

Reserve Bank of New York met in another.

The French opened with a demand for immediate stabilization of sterling and the dollar within 1 per cent bands, offering no quid pro quo. Stabilization would be feasible, argued the Bank of France's representatives, only if each government issued a detailed statement of intentions. The French Treasury representatives, Jacques Rueff (financial attache to the embassy in London) and Jean-Jacques Bizot, more cognizant of British and American resistance, accepted a counterproposal that the three nations jointly issue only a general statement of their desire for exchange rate stability. The British and Americans agreed on the desirability of 5 per cent bands but disagreed on the appropriate level for the sterling-dollar rate, the Americans preferring more than \$4, the British preferring less.

Within 5 days negotiators agreed to compromise. The British and American governments would limit currency fluctuations for the duration of the conference. The pound would be held at \$4 plus or minus 3 per cent. Only in the event of "exceptional and unforeseen circumstances" would currencies be allowed to deviate from this band.

Rumors surfaced that there existed an agreement, but without confirmation of the rate. On June 16th the dollar gained 4 per cent against gold, and U.S. stock and commodity prices tumbled, anticipating that the Fed would be forced to adopt a more restrictive stance. If Roosevelt retained doubts about the connection between currency depreciation and commodity prices, they were vanquished by these events. On June 17th he instructed his representatives to disown the agreement, rejecting stabilization of the sterling-dollar rate at current levels but leaving open the possibility of future action at a more favorable level. The impression gained by their foreign counterparts was that prospects were bleak for dollar stabilization at any level.

France's fall-back position was a currency stabilization agreement which excluded the United States. The British agreed to consider yet another joint declaration if the French

would draft it and secure the support of the other gold countries. The document resembled nothing so much as the general statement of principles that had been suggested by British and American Treasury representatives at the outset of talks. Specific exchange rates and techniques for achieving them were conspicuous by their absence.

French hopes that Britain would accept even a weak stabilization agreement without U.S. concurrence proved mistaken. The British forwarded the document to the Americans, making clear that their participation was contingent upon that of the United States. Roosevelt's closest advisor, Raymond Moley, recently arrived in London, was favorably inclined. In New York, Treasury Secretary Woodin and Bernard Baruch concurred. Once again, however, Roosevelt ignored his advisors' recommendations. On July 1st, he informed London of his decision. The next day his famous "bombshell" message to the conference, in which he denounced the argument in favor of stable exchange rates as a "specious fallacy" and derided "old fetishes of so-called international bankers," put an end to tripartite talks.^{11/}

In despair, the French suggested immediate adjournment. The British were inclined to agree. To save face, it was decided to soldier on. The subcommission on financial reconstruction issued a vague statement that debtors should pay their debts but that creditors should be understanding if they did not. The subcommission on monetary problems affirmed the superiority of the gold standard over alternative monetary arrangements but offered no useful suggestions of how it might be reestablished. The conference adjourned at the end of July with negligible accomplishments to its credit.

2. Limitations of Existing Explanations

The two leading explanations for the failure of the conference both blame the United States. One emphasizes U.S. insistence that war debts and specific tariff rates be excluded

from the agenda, the other Roosevelt's bombshell rejecting stabilization. Neither is wholly satisfactory.

The first explanation has two limitations. First, it is not obvious why the exclusion of war debts and tariff rates rendered impossible agreement on exchange rate and monetary questions. Excluding war debts and tariff rates from the agenda did not prevent the three countries from agreeing to stabilize their currencies, reduce their gold cover ratios and expand their money supplies. France would have obtained the exchange rate stability she desired, the U.S. and Britain the reflationary initiatives to which they attached priority. The U.S. would not have granted war debt concessions, nor would she have been forced to reduce her tariffs. Thus, one can plausibly argue that the U.S. could have emerged from the conference as well off as in a counterfactual in which both war debt and tariff revision had been negotiated. Other countries would have obtained neither debt relief nor improved access to the U.S. export market. Hence their enthusiasm for a prospective agreement surely was dimmed by the U.S. strategy. But it was the U.S., not other countries, that refused to stabilize. The problem was not that the U.S. had too little to offer; rather, it was that Roosevelt regarded France and Britain's counter-offer as inadequate.

The second limitation of this explanation is that, in the case of war debts at least, it is not clear that the exclusion rule was binding. The U.S. wished to separate discussion of war debts from other issues but not to prevent such discussion entirely. This was the same approach taken to tripartite exchange-rate stabilization talks, namely to segregate them from the proceedings of the World Economic Conference on the grounds that they directly involved only a subset of countries. During the Washington Conversations, extensive discussion of war debts had ensued, covering reduction of capital, elimination of interest and other options. Formal cancellation may have been impossible, but this did not necessarily exclude close substitutes. When the June 15th payment came due, in the midst of the

conference, the U.S. agreed to accept token payment of \$10 million. The U.S. strategy prevented a war debt settlement from being negotiated at the conference itself, but it did not prevent the negotiation of debt revision as part of a broader agreement.

The other explanation, emphasizing Roosevelt's refusal to stabilize, is not so much flawed but incomplete. That the president's bombshell halted negotiations is indisputable; the question is what led him to take that step. The literature tends to portray Roosevelt's action as idiosyncratic. In the remainder of the paper we suggest that two more systematic factors were at work: the incompatibility of the conceptual frameworks that informed national negotiating positions, and domestic politics.

3. The Role of Competing Conceptual Frameworks

A. The Nature of the Frameworks

One reason that French, British and American representatives found it difficult to agree was that their negotiating positions were informed by different conceptual frameworks.^{12/} By 1933 the interpretation of the slump presented by Keynes to the Macmillan Committee three years earlier had been taken on board by the British Treasury and, with reservations, by the Bank of England. In this view, Britain's depression had resulted from a deflationary shock imported from abroad. World prices had collapsed starting in 1929. The decline of international prices had not reduced domestic prices commensurately; instead, rigidities in the domestic wage-price structure had produced the macroeconomic slump. Financial contracts were nominally denominated and ran many years to maturity. Hence the fall in prices had raised the real burden of debts, eroding the creditworthiness of borrowers and discouraging investment. The failure of money wages to fall proportionately had inflated real labor costs, discouraging production and employment. The growing market power of unions had reinforced labor's traditional desire for a wage structure that was stable across

workers and over time; this had contributed to the failure of money wages to adjust. Trade Boards, established just prior to World War I, set minimum rates of pay for unskilled workers, effectively placing a floor below the entire structure of labor costs. The authorities' failure to reduce unemployment benefits along with wages further exacerbated the problem.^{13/}

This interpretation of the crisis pointed to an obvious policy response. Monetary policy should be used to stabilize prices and eventually to restore them to 1929 levels. Starting in 1932, the Bank of England had begun to take the necessary action. Bank rate had been reduced to 2 per cent. Credit had been provided in quantities sufficient to halt the decline of prices.

Central to the British view was a preoccupation with the external constraint. If the exchange rate was fixed, it was impossible for any one central bank to pursue reflationary initiatives. Measures to raise the domestic price level would erode international competitiveness, undermining the balance of payments. If the central bank reduced domestic interest rates, capital would flow out, worsening the capital account of the balance of payments. If it stimulated domestic demand, imports would flow in, worsening the current account. In effect, a central bank committed to defending a fixed exchange rate lacked the capacity to run independent reflationary policies. Unless reflationary initiatives were coordinated internationally, currency depreciation was a necessary concomitant of cheap money.

French policymakers attributed the crisis neither to deflation nor to the passivity of policymakers but to monetary instability. Unlike the British, who argued that under the gold standard monetary authorities possessed inadequate discretion, in the prevailing French view the opposite was true. Growing reliance on foreign exchange reserves had relaxed the gold standard constraints. Central banks had willingly accumulated sterling and dollar balances

over the second half of the 1920s, allowing the Bank of England and the Fed to indulge in excessively expansionary monetary policies. In this view, since 1913 productive capacity worldwide had expanded more rapidly than the supply of monetary gold. Since the demand for money rose with the level of activity, lower prices were necessary to provide a matching increase in the supply of real balances. Under the gold standard, a smooth deflation like that of 1873-93 was the normal response. But in the 1920s central banks had used their discretionary power to block the downward adjustment of prices. They recklessly pyramided domestic credit on foreign exchange reserves. Liberal supplies of credit had fueled speculation, raising asset prices to unsustainable heights and setting the stage for the stock market crash. Following this shock, central banks rushed to liquidate exchange reserves, and prices fell abruptly. One point on which French and British experts agreed was that this ~~sudden~~ deflation was far from smooth: it produced bankruptcies among debtors, discouraged ~~investment~~ and disrupted activity. The insufficiency of investment that resulted was the proximate source of the slump.^{14/}

In France, then, the Depression was seen as an inevitable consequence of the unrealistic policies pursued by central banks in preceding years. To now prevent deflation from running its course threatened to inaugurate another era of speculative excess and, ultimately, another depression. It was better to allow excess liquidity to be purged and prices to fall to sustainable levels. Only then would the confidence of investors be restored. Only then could sustainable recovery commence.^{15/}

Nothing more dramatically symbolized this problem of financial instability than disarray in the international monetary sphere. Exchange rate instability discouraged domestic investment and international trade. Restoring the international gold standard was the single most important step policymakers might take to promote investor confidence.

In contrast to France and Britain, there existed no dominant economic model in the United States.^{16/} In part this reflected the ongoing transition from Hoover to Roosevelt Administrations. In part it reflected Hoover's eclecticism and Roosevelt's taste for experimentation. In part it was symptomatic of deep disagreement in academic and official circles. The American model, insofar as the label has content, incorporated elements of both its French and British counterparts, taking on a more British flavor with the passage of time. In addition, however, the American framework had distinctive elements of its own.

Hoover shared the French explanation for the slump that emphasized the abuse of credit.^{17/} He blamed excessively accommodating Federal Reserve policy between 1925 and 1927 for provoking the stock market boom and the crash to whose effects the economy was still striving to adjust. But Hoover and his colleagues supplemented the French explanation with one akin to the British, holding that the unregulated economy was inherently unstable. Economic activity, they held, was given to periodic slumps that should be offset by measures to stimulate demand. Demand could be sustained during cyclical downturns by accelerating the rate of public works spending, by reducing interest rates and by preventing management from cutting wages. The appropriate policy response to the slump was to cut interest rates and stabilize prices in order to stimulate capital investment, to persuade employers to pay stable wages in order to stimulate consumer demand, and to increase government spending to stimulate employment directly.^{18/}

When the Hooverites contemplated the external constraint, the inconsistencies in their conceptual framework became apparent. Adopting the French explanation of the slump as a result of a massive abuse of credit, they attached priority to maintenance of the gold standard. Gold convertibility was essential for the maintenance of investor confidence and to prevent renewed speculative excesses. During the 1932 electoral campaign, Hoover continued to tie his political fortunes to the gold standard. An absence of speculative

excesses was not sufficient, however, to stabilize an unstable economy. Demand stimulus was also required. But each of the demand-side measures the Hooverites proposed threatened gold convertibility. Increased public spending promised to suck in imports. Low interest rates threatened to provoke a capital outflow. High wages eroded the competitiveness of U.S. exports. The two strands of Administration thought proved incompatible.

Previous authors have noted that the Hoover Administration had in its portfolio all the policy instruments needed to counter the Depression but was strangely hesitant to utilize them on the requisite scale.^{19/} Public works spending remained tentative. Aside from the spring of 1932, the Fed engaged in few expansionary open market operations. The Administration's high wage policy was abandoned in 1931. The explanation is simple enough. Deficit spending, monetary expansion and high wages threatened the gold standard. Absent a willingness to abandon gold, demand-side policies could be used only with moderation.

The relationship of Hoover's model to Roosevelt's is a contested issue among historians. Most writers have portrayed the Roosevelt Administration's model circa June 1933 as a revolutionary break with its predecessor. In fact, Roosevelt's model can be seen as essentially the same as Hoover's in its emphasis on high wages (the NIRA codes), on farm purchasing power (the AAA), on slowly rising prices (the gold buying program and industrial price maintenance schemes), on public spending (the TVA and other New Deal programs), and on the need for financial stability (to be obtained through banking reform). Roosevelt, like Hoover, apparently shared the diagnosis of the Depression as a reflection of insufficient demand.^{20/} Roosevelt simply reversed the priority Hoover had attached to exchange rate stability over demand stimulus.

B. Origins of the Frameworks

It seems extraordinary that policymakers in these three countries could have perceived the causes of the slump in such radically different ways. In fact, their divergent conceptual frameworks directly reflected their nations' different historical experiences. Britain had endured deflation throughout the 1920s. The Bank of England had first pursued restrictive policies in order to restore the prewar sterling parity in 1925. Prices had continued to fall, albeit at a slower pace, over the second half of the 'twenties. Recorded unemployment had hovered in double digits, suggesting an association between deflation and joblessness. Britain had experienced a series of exchange rate crises, in 1927, in 1929 and most seriously in 1931, each of which had forced the Bank of England to tighten the monetary screws.

A decade of high unemployment and labor disputes had focused attention on nominal wage inertia as a central factor in the propagation of the deflationary impulse. The downward inflexibility of money wages, it was widely believed, reflected the spread of unionism and the growth of labor militancy. Union density declined in the 1920s from its immediate postwar peak, but levels of labor organization continued to exceed those reached before the war.

Just as the 'twenties had sensitized the British to the dangers of deflation and fixed exchange rates, the abandonment of gold in September 1931 and its aftermath had impressed them with the advantages of the alternative. At last the Bank of England had been able to relax its monetary stance. Following a short period of adjustment, industrial production had begun to rise. The efficacy of monetary reflation and of a floating pound sterling was readily evident to British observers.

British insistence that an international commitment to reflationary measures precede the restoration of fixed parities similarly reflected the experience of preceding years. At the Genoa Conference in 1922, British Treasury experts had warned that restoration of the

international gold standard might give rise to deflationary pressure. They had proposed a convention to supplement gold reserves with convertible foreign exchange. But the resolutions adopted at Genoa had not been systematically implemented, and consequently, the British believed, the disaster of which they had warned had come to pass. Starting in 1929 the British Treasury and the Bank of England had urged the Federal Reserve System and the Bank of France to expand and thereby to relax the external constraint on British monetary policy. Neither foreign central bank had cooperated. This experience led British policymakers to demand an explicit commitment to internationally coordinated reflationary initiatives before agreeing to return to gold.

Financial instability was the dominant characteristic of French experience in the postwar decade. During the period when gold convertibility was suspended, France had experienced persistent inflation accompanied by financial and political chaos. The Bank of France had used its discretion not to stabilize the economy but to finance government budget deficits through domestic credit creation. French observers consequently associated monetary discretion with financial instability. Only following the reestablishment of constraints on monetary policy, in the form of gold convertibility and statutes prohibiting the Bank of France from undertaking most open market operations, had inflation been halted and a basis for sustainable growth been laid. It is not surprising, then, that discretionary monetary policy was associated with financial instability in general and exchange rate instability in particular, and that the French sought an explanation for the slump in the breakdown of the international monetary system.

French observers did not share the worries of labor-market inflexibility characteristic of the British. Recorded unemployment had been low throughout the 1920s.²¹ Mobility between the urban and rural sectors remained higher than in Britain. Nor did France possess an unemployment insurance system comparable to Britain's. Unemployment benefits were

strictly limited, and public relief was provided locally. French experts such as Jacques Rueff ascribed British unemployment to the excessive generosity of her unemployment system and attributed the smoother operation of its French counterpart largely to the absence of such a system.^{22/}

The recent historical experience of the United States similarly helps to explain the Hoover Administration's failure to appreciate the conflict between the gold standard and demand stimulus. Ever since 1914, the U.S. gold standard had been secure. The U.S. was the one belligerent that had not been forced to suspend the gold standard during World War I. She had enjoyed persistent balance of payments surpluses throughout the 1920s. Gold reserves continued to flow toward the United States during the first two years of the slump. By 1931, there existed an entire generation of American policymakers without first-hand experience with threats to gold convertibility. The situation changed following sterling's devaluation in September 1931, but policymakers were slow to incorporate this new information.

C. Effects of the Frameworks

For competing conceptual frameworks to influence negotiations, they had to be embraced by government ministries. Officials from those ministries had to be vested with responsibility for negotiations.

The leading proponents of the French model were Charles Rist and Jacques Rueff. Rist was the preeminent French academic economist of his generation. He had been Assistant Governor of the Bank of France from 1926 through 1929 and advised a succession of governments. He had provided a fully articulated statement of the French model of the Depression as early as 1931.^{23/} The authority of Rist, combined with his connections to government, facilitated the acceptance of his views. Jacques Rueff played an important role

in disseminating Rist's views within the French Treasury. Rueff, also a professional economist, was long-time financial attache to the French embassy in London. He authored a series of memoranda analyzing the international economic situation that circulated widely within the government.

Rist was appointed to the Committee of Experts and conferred with Ministry of Finance officials in the interval between the successive meetings of the preparatory committee. At the critical stabilization negotiations, Rist's views were ably represented by Rueff.

Evolution of the British model was more complex. As mentioned above, Keynes had offered a statement of the model in private evidence to the Macmillan Committee. The Economic Advisory Committee, established by the second Labour Government in 1929, provided a vehicle through which Keynes and his followers within government were able to disseminate his views.^{24/} The Bank of England and, to a lesser extent, the Treasury resisted aspects of his analysis. The Bank continued to evince a strong preference for currency stabilization, but once establishment of the Exchange Equalisation Account transferred much responsibility for exchange rate management from the Bank to the Treasury, its views carried less weight. The Treasury prepared the memoranda that informed the British negotiating position. Treasury officials represented Britain on the Committee of Experts and at the London Conference.

The absence of a dominant U.S. model was reflected in American representation at the London Conference. John H. Williams, though a leading academic authority, was not a member of Hoover or Roosevelt's inner circle or an intimate of the U.S. Treasury or the Federal Reserve Board. He was a strong proponent of fixed exchange rates, a fact indicative of his distance from Roosevelt. Oliver Sprague, a Harvard professor who previously advised the Bank of England on exchange rate questions, had recently taken up a similar position in the U.S. Treasury, but his influence over Roosevelt's opinions was not great. James P.

Warburg, son of Paul Warburg and Vice-President of the Bank of Manhattan, was the source of a series of creative proposals, but these were resisted by Roosevelt's other advisers and rejected by the President. Raymond Moley, Roosevelt's closest advisor, had been "a professor of Criminology at a girls' college" and was "almost completely lacking in detailed [financial] knowledge," as Leith Ross disparagingly put it.²⁵ The composition of American representation seemed designed to maximize the distance between London and Washington.

The adherence of national representatives to these different models led to both general disagreements and specific misunderstandings. General disagreement made it impossible for the three national delegations to adjust exchange rate and monetary policies in ways they all preferred. Had the representatives of the three governments all subscribed to the British model, it would have been straightforward to trade a French commitment to reflate for British and American commitments to stabilize their exchange rates. All three countries would have been able to expand supplies of money and credit, at the same time avoiding the disruptive effects of exchange rate instability. All three, according to the British model, would have been better off.

Alternatively, had the representatives of all three governments subscribed to the French model, it would have been straightforward to agree to stabilize exchange rates and restore gold convertibility. Having eliminated the debilitating effects of exchange rate instability, they all would have been better off. But lacking a common model, it was impossible for the three parties to agree on a package of exchange rate cum monetary policies.

The predominance of different models also led to specific misunderstandings that disrupted communication and impeded negotiation. An instance of the phenomenon was following Roosevelt's bombshell when the French attempted to negotiate a separate stabilization agreement with the British. French officials, Georges Bonnet in particular, assumed that their British counterparts shared their belief that exchange rate variability

handicapped recovery efforts. Bonnet had discussed financial issues with the British Chancellor, Neville Chamberlain, during a preconference visit to London. Chamberlain, in the British view, had agreed only on the desirability of limiting international financial instability. He had avoided the issue of what Britain would do in the event of dollar devaluation.26/

In the French view, however, Chamberlain and the British shared the priority France attached to minimizing financial instability. Bonnet's impression was that he and the British Chancellor agreed completely on the need to restore exchange rate stability. Bonnet came away convinced that the British soon would return to gold, presumably in the summer of 1933. The question was merely whether, before returning to gold, they would require an international convention on the operation of the monetary system or whether British officials would settle an informal understanding. The French misinterpreted British concern that dollar devaluation would transfer Britain's competitive advantage to the U.S. for an aversion to exchange rate flexibility in general. Hence they were misled into believing that the British might agree to exchange rate stabilization without U.S. participation.27/

Similar factors appear to have influenced the perceptions of the American members of the Committee of Experts. Their cables to Washington did not provide a sense of British skepticism regarding stabilization or of the priority British negotiators attached to monetary reflation. They implied that their British counterparts shared their own desire for exchange rate stabilization. Some of these cables mentioned in passing war debt forgiveness and tariff concessions as the price that the British might demand for agreeing to stabilize sterling. When the American experts returned to Washington, even these caveats receded from view.28/

4. The Role of Domestic Politics

Incompatible conceptual frameworks prevented the negotiation of a mutually acceptable package of exchange rate and monetary reforms. In return for agreement to stabilize sterling, the British demanded structural reforms that guaranteed monetary reflation by France and dollar stabilization by the U.S. The French viewed monetary reflation as counterproductive and therefore as an unacceptable price to pay. The U.S. refused to stabilize the dollar because it did not see what it would get in return.

Yet exchange rate and monetary policies were not the only variables that might have been bartered in London. In return for British and American agreement to stabilize their exchange rates, France might have agreed to relax its tariffs and quotas. Additional French imports from the U.S. and Britain would have permitted the Bank of England and the Federal Reserve System to expand domestic credit and stimulate demand without driving the British and American balances of payments into deficit and renewing the conflict between internal and external balance. France would have gained the exchange rate stability she desired. The U.S. and Britain would have been able to engage in the monetary reflation to which they attached priority. French gold would have been redistributed to other countries without infringing on the autonomy of the Bank of France.

This chain of quid pro quos remained no less feasible after the U.S. abandoned gold. Before April 1933, a mutually acceptable package would have entailed British agreement to stabilize, French agreement to liberalize, and U.S. agreement to forgive war debts or reduce tariffs. After April 1933, it would have required Britain to stabilize, France to liberalize, and the U.S. to stabilize the dollar and perhaps grant war debt or tariff concessions. Roosevelt's preemptive strike may have increased the tariff reductions that France (and perhaps also Britain) would have to offer, but it did not obviously alter the nature of the package.

The terms of this deal had been foreseen by Treasury Secretary Ogden Mills in the final months of the Hoover Administration.^{29/} The exchange of tariff concessions for exchange rate stabilization had been implicit in the Draft Annotated Agenda of the Committee of Experts. Officials within the French Finance Ministry anticipated that the government would be asked to barter trade liberalization for monetary stabilization by countries that blamed French import quotas for the instability of currencies.^{30/} French officials envisaged the outlines of a trade in which Britain stabilized sterling, the U.S. forgave war debts, and France reduced its trade barriers and perhaps also adopted measures to redistribute her excess gold reserves.^{31/} Here, however, was where domestic politics entered the story. Domestic pressures made it impossible for France to offer tariff concessions. Pressures for reflation and silver monetization in the U.S. made Roosevelt hesitate to stabilize the dollar. Though there may have existed a policy trade acceptable to negotiators, it was not acceptable to those on whose support they relied.

A. French Politics

The Daladier Government was in an extremely tenuous political position. It was one in a series of 11 ministries to hold power in the period of political instability from May 1932 to May 1936. Throughout the period, the Radical Party occupied the center of the political spectrum.^{32/} Though it gained 200,000 votes from the moderates and lost none to the Socialists in 1932, the party was still a minority in the Chamber of Deputies. To govern, a Radical premier had to satisfy the demands of his own constituency and at the same time retain the support of the Socialists and Rightists whose votes were needed to sustain the government.

The dominant characteristic of this polity was its fragmentation. The Right was split into two major parties, the Alliance Democratique (representatives of big business who

embraced the rhetoric of economic modernization) and the Federation Republicaine (large landowners and notables from predominantly catholic regions). The Socialists were split between the more moderate Vie Socialiste, which favored cooperation with the Radicals, and the Bataille Socialiste, whose members advocated collective action and collaboration with the Communists.^{33/}

The Radical Party is itself best thought of as a loose coalition of moderate politicians representing rural, provincial regions. It was the party of the independent peasants and lower middle classes (independent proprietors, farmers, artisans and civil servants).^{34/} Perhaps reflecting this diversity, the Radicals lacked a consistent economic program. The one economic goal that united them was the priority they attached to the maintenance of financial stability. A Radical Government had presided over the inflation of the 1920s and had been brought down by the franc's collapse, opening the door to six years of conservative rule. At each party congress the one issue on which there existed consensus was the need to prevent this from happening again.

The composition of the Cabinet was critical to the formulation of economic policy. Until Leon Blum created a Ministry of National Economy in 1936, there was no office responsible for economics. The office of under-secretary of state for economic affairs created by Andre Tardieu in 1930 possessed little influence. The economic policy of the Herriot and Daladier Governments emerged from bargains between ministries representing different interest groups.^{35/}

From Poincaré's return to power in 1926 until the 1932 elections, France had been led by governments of the right. The 1932 elections then returned a left-wing majority. A coalition government of Radicals and Socialists would have possessed a comfortable majority. But the massive reduction of defense spending, tax increases and national wheat and fertilizer boards demanded by the SFIO as their price for participation in a Cartel des

Gauches were unacceptable to the executive committee of the Radical Party. Instead, Edouard Herriot formed a Radical Government to pursue a more orthodox economic program in which the SFIO refused to participate but to which it lent support. Herriot's Government was continually harassed from the Left for its failure to raise taxes and reorganize the economy and from the Right (including from conservative Radicals) for its inability to cut public spending. Its downfall began in June 1932, when a bill to balance the budget which included a five per cent reduction in the salaries of public servants was demolished by left-wing Radicals and Socialists on the Finance Committee of the Chamber. Herriot fell in December 1932, ostensibly over his willingness make another war debt payment to the United States, in reality over his inability to break the budgetary deadlock.

Though Daladier was to the left of Herriot, the composition of his government was little different. Daladier was forced to make repeated concessions to both the Socialists and ~~the~~ moderate Right to retain their support.

For its survival, the Daladier Government depended in particular on the support of Deputies from predominantly agricultural departements, who returned Radical, Federation Francaise or Vie Socialiste Deputies to the Chamber. This particular constituency was in dire straits. The crisis of French agriculture intensified as the London Conference approached. Since 1931, agricultural prices had been supported through the application of import quotas.^{36/} In 1932, an abundant harvest put further downward pressure on domestic prices. French wheat prices fell by 40 per cent in the year ending in April 1933. A variety of measures had already been taken by previous governments to support the domestic wheat market. But in the spring of 1933 Daladier came under intense pressure from Socialists and Radicals in the Chamber of Deputies to introduce more comprehensive measures establishing a minimum wheat price. Though the bill was passed quickly, it was not clear that the government would in fact intervene to set a binding floor on domestic wheat prices, since it

lacked financial resources. What was clear was that any attempt to support domestic wheat prices would be futile if import restrictions were relaxed.^{37/}

The French were perfectly aware that they would be asked at the London Conference to offer commercial concessions.^{38/} Georges Bonnet had in fact implied a willingness to consider relaxing French quotas in his preconference meeting with Chamberlain in London in March.^{39/} Agricultural interests were vigilant to this possibility, and made their objections known.^{40/} Each departement had a Chamber of Agriculture which met regularly and lobbied elected representatives and ministerial officials. Following the example of the Confederations Generale de Planteurs de Betteraves (1921) and the Association Generale des Producteurs de Ble (1924), special associations were formed to represent the interests of producers of particular products. By the 1930s one half of farmers belonged to such agricultural unions. These organizations have been called the "first really effective farm pressure groups France had ever known..."^{41/}

Despite the inability of the farmers to unite behind a single political party, their interests were ably represented in the Chamber of Deputies. Though they made up only a third of the national electorate, rural voters accounted for the electoral majority in more than half of all districts. According to Gordon Wright, only one in four Deputies could safely ignore rural interests if he hoped to be re-elected. The electorate for the Senate was if anything even more disproportionately rural.^{42/}

The effectiveness of the agricultural lobby is illustrated by an incident in early 1933. On February 27, Jacques Rueff had spoken to a conference at the Sorbonne presided over by Charles Rist. Rueff had emphasized the merits of trade liberalization. The speech provoked "acerbic" and "emotional" responses in the agricultural press, according to the Minister of Agriculture, Henri Queuille, who on March 11 sent a letter denouncing Rueff for his "total ignorance and lack of comprehension" of the question to various members of the government

and specifically to Rueff's superior, Georges Bonnet.^{43/}

Along with Queuille, the leading Cabinet spokesman for the protectionists was Louis Serre, the Minister of Commerce. In early April, at an interministerial conference to determine the French position for the London conference, Serre noted that other countries would demand the suppression of quotas and the reduction of tariffs. He proposed raising tariffs immediately to provide scope for reducing them later without undercutting the protection afforded agriculture and industry. Those present unanimously agreed that the French government could not adopt an entirely negative attitude on trade liberalization which would isolate it at the conference. At the same time it was regarded as unacceptable to renounce the policy of tariffs and quotas.^{44/}

The National Confederation of Agricultural Associations petitioned the government in April, protesting against the adoption of measures of trade liberalization proposed by the Preparatory Commission of Experts.^{45/} Departmental Chambers of Agriculture and Commerce bombarded the Finance Commission of the Chamber of Deputies with letters denouncing commercial concessions. The Finance Commission forwarded these letters to the Ministry of Finance.^{46/} Most of the letters are dated late May and early June, as if the local Chambers had the London Conference in mind. The text of each letter contained the resolution adopted (often unanimously) by members of the Chamber. Many of these resolutions were virtually identical, suggesting a coordinated, concerted campaign.

These pressures clearly affected the negotiating position of the French delegation to the Conference. In his opening statement, Daladier stressed the importance of currency stabilization but made no mention of trade restrictions. He linked the plight of the farmers to the depression in other sectors, asking, "How could the hundreds of millions of farmers, who had been suddenly deprived of their purchasing power and their ability to consume, continue as customers of industry, banking and finance?"^{47/}

The tenuous political position of the Daladier Government also reinforced its commitment to the gold standard. 1933 saw the first glimmerings of resistance on the Left to gold convertibility and monetary deflation.^{48/} Though it could not afford to antagonize the Socialists, the Daladier Government did not budge. Its allegiance to the gold standard reflected the government's failure to contain the fiscal crisis and the price extracted by the Bank of France for continued assistance. Persistent budget deficits burdened the Herriot and Daladier Ministries alike. The Right successfully resisted tax increases, while the Left rejected cuts in public services and veterans' pensions. There existed no viable parliamentary coalition to restore fiscal balance. Given the narrow French money market, it was difficult to finance deficits through sales of bonds to the public. Banks were willing to absorb Treasury bills only if they were assured of Bank of France rediscounts in the event they needed additional cash. Successive governments were forced to rely on the central bank's willingness to discount Treasury bills. Since the Bank of France could refuse to discount government paper, Daladier was forced to negotiate. Its Governor, Clement Moret, attached the central banker's traditional priority to monetary orthodoxy and specifically to maintenance of the gold standard. Moret and his colleagues demanded that Daladier reaffirm his commitment to gold convertibility. Unless it managed to construct a viable fiscal coalition, the government had no choice but to accept the Bank's terms.^{49/}

B. American Politics

Where Daladier's support was narrow, Roosevelt's was broad. Winning 472 electoral votes, he was supported by every region of the country. Urban workers, reacting against unemployment, voted for Roosevelt in large numbers. So did large numbers of Midwestern farmers reacting against the slump in agricultural prices.

Nonetheless, two levels of politics impinged upon decision-making by the American chief executive: congressional politics and internal politics within the Executive Branch. Roosevelt's advisors had diverse views on international economic policy.^{50/} Cordell Hull, Roosevelt's Secretary of State, was the personification of internationalism. His Assistant Secretary, Raymond Moley, was a strong nationalist. Hull believed passionately in the need for tariff reductions; Moley worked to prevent them. The same tug of war occurred in other departments. Contemporaries viewed Roosevelt's appointments as indicative of indecisiveness or confusion; historians have come to view them as his systematic attempt to minimize dependence on particular ideological perspectives.^{51/} Whatever the case, the policy promoted rivalry and maneuvering within the administration, with leaders of each faction attempting unsuccessfully to control access to the president.

Turning to Congressional politics, Roosevelt, like Daladier, was under pressure to do something for the farmers. Western and southern congressmen united in the campaign to secure agrarian relief. Even Republican Progressives from rural districts joined what was traditionally a Democratic campaign. Demands for higher prices by this agrarian bloc complemented those of silver-mining interests urging reflation through silver monetization. A series of bills demanding silver coinage or reflationary open market operations were introduced in 1932.

But it was only in 1933 that the agricultural bloc and the silverites formed an effective alliance.^{52/} In debate over Senator Burton Wheeler's Amendment to the farm bill, senators from silver-mining states repeatedly invoked the plight of the farmers, prescribing monetary measures designed to raise prices. Senators from agricultural states stressed that their constituents' difficulties were shared by the residents of industrial regions as well. On April 17th the Senate defeated, by 33 to 43, the Wheeler Amendment, which would have permitted unlimited coinage of silver at a ratio to gold of 16 to 1. All 14 senators from the

seven silver-mining states of the West voted for the amendment; they were joined by 19 others from the Midwest and the South. The Administration was aware that at least 10 senators had withheld their support only because of the extremity of the measure.^{53/}

Roosevelt sought to channel these pressures by endorsing the more moderate Thomas Amendment. According to Raymond Moley, Roosevelt still had no specific economic program in mind and agreed to the Thomas Amendment only to contain the rebellion of the Senate inflationists. "The cold fact," wrote Moley, "is that the inflationary movement attained such formidable strength by April 18th that Roosevelt realized that he could not block it, that he could, at most, try to direct it."^{54/} The Thomas Amendment and the gold embargo were the most conservative steps that Roosevelt could take in response to inflationist pressure.^{55/}

The Thomas Amendment authorized but did not require the President to stimulate inflation in various ways. He could instruct the Fed to purchase up to \$3 billion of government securities. If the Fed refused, he could authorize the issue of \$3 billion of greenbacks. He could reduce the gold content of the dollar. He could authorize the coinage of silver. Roosevelt had been forced to accommodate mounting inflationist pressure in Congress, but he may have been happy to do so, both because the step was consistent with his own inflationist inclinations and because it permitted him to do so in a way that derailed more radical options.

If domestic politics mandated dollar devaluation, did they also preclude stabilization at a lower level? \$3 billion of open market purchases need not have depressed the dollar by more than 15 per cent, a level at which the French and British were willing to contemplate stabilization. Had Roosevelt opted for additional silver monetization, however, he might have found himself unable to peg the dollar. Thus, silverites in Congress were certain to resist any stabilization plan, as Cordell Hull warned Ramsay MacDonald on June 19th.^{56/}

It is not necessary to argue that domestic political pressures were wholly responsible for Roosevelt's decision. One must consider also the President's model of the economy and the failure of other countries to offer him something attractive in return. Roosevelt was gravitating toward the gold-buying program of the autumn, which was incompatible with a stabilization agreement. Such is the implication of his statement, on June 28th, that it would not be a disaster if France was forced from the gold standard since this would not interfere with his policy of raising domestic prices.^{57/} And France and Britain were unable to offer either commercial policy concessions or a credible commitment to reflate that might permit him to finesse this conflict.

Domestic political pressures also impeded efforts to extract commercial concessions from the United States. The Smoot-Hawley Tariff had been passed in 1930 by an alliance of agriculture (mainly representatives of the grain producers of the Midwest) and light industry (such as New England textile, shoe and glove manufacturers).^{58/} The traditionally protectionist Republicans had lost ground in Congress as a result of the 1932 elections, but pressure for protection emanating from agriculture and light industry had intensified as the slump deepened. The Americans on the Preparatory Committee of Experts, themselves sympathetic to tariff reduction, were instructed to veto statements to this effect because they were unacceptable to the U.S. Congress.^{59/} Tariff reduction was likely to antagonize the same agricultural interests pressing for silver inflation. Congressional leaders warned Roosevelt that significant changes in U.S. tariffs were impossible. On the eve of the conference, Roosevelt informed a disappointed Cordell Hull that the introduction of a bill that would have permitted the President to conclude trade agreements without Senate ratification was "highly inadvisable."^{60/}

C. British Politics

The National Government that came to power in the summer of 1931 was a peculiar coalition led by a Labour Prime Minister, Ramsay MacDonald, but featuring Liberal and Conservative ministers. Following sterling's embarrassing devaluation in September, the Conservatives, campaigning on the need for sound finance and tariff protection, scored a resounding victory. In the new House of Commons, Conservatives occupied 473 of 615 seats. Thus, in contrast to the situation in France and the U.S., the National Government did not have to worry about Parliamentary resistance to its policies so long as these remained consistent with the Conservative Party's election manifesto.

But Stanley Baldwin, the Conservative leader, could not force MacDonald's resignation, since the Conservative supporters of the National Government had campaigned on the need for collaboration in time of crisis. Hence the Cabinet, not Parliament, was the principal battleground on which policy decisions were fought. On one side was MacDonald, an internationalist inclined toward collaboration with the U.S. and France. On the other was the new Chancellor of the Exchequer, Neville Chamberlain, heir to the fair trade campaign initiated by his father, Joseph Chamberlain, and an advocate of tariffs and imperial preference. The Foreign Office and the Bank of England supported the Prime Minister. The Treasury and the Board of Trade fell in behind the Chancellor.

The nationalist position and its advocates were on the ascendancy throughout 1932. Over Liberal opposition and Labour qualms, a general tariff was introduced in the early months of 1932.^{61/} The tariff bill passed its second reading by 454 votes to 78. Sterling was allowed to decline dramatically against the gold currencies. The locus of control over monetary policy shifted from the Bank of England to the Treasury, Chamberlain's bailiwick, following establishment of the Exchange Equalisation Account in the summer of 1932.^{62/}

The depth of support for tariff protection, which most Conservatives regarded as a

matter of principle, would have made difficult the extension of dramatic commercial concessions. Neither Chamberlain nor his followers ruled out modest trade reforms, however. Chamberlain spoke of the need for tariff reductions and for the abolition of quotas in his opening address to the conference.^{63/} No matter of principle stood in the way of agreement to stabilize currencies, which Chamberlain appears to have been willing to commit to in May and June of 1933. The problem was that the concessions offered by other governments were regarded as inadequate to justify this sacrifice.

5. Implications

We have argued that the failure of the 1933 World Economic Conference can only be understood in terms of the importance of competing conceptual frameworks and domestic political constraints. In concluding we explore the extent to which the factors highlighted by our account can be related to the concerns of Putman (1988).^{64/}

The existence of competing conceptual frameworks can be thought of as limiting negotiators' "acceptance set" (the set of policy trades that all negotiators regard as an improvement over the status quo). Trades that involved only exchange rate stabilization by Britain and the U.S. and reductions in cover ratios and authorization to conduct open market operations for the Bank of France were unacceptable because of the different conceptual frameworks that informed national negotiating positions. An agreement that involved only exchange rate and monetary policy would have been acceptable to all three countries had they embraced a common conceptual framework, whichever of the three frameworks they chose. But lacking a common framework, compromise on exchange rate cum monetary disputes required at least one country to accept a position that was worse than the status quo. For such a compromise to lie in its "acceptance set," that country required compensation, generally in the form of foreign commercial concessions.

The domestic political constraints confronting negotiators can be thought of as limiting their "win set" (the subset of policy trades acceptable to negotiators that is also "ratifiable"). The opposition of the Bank of France, which exerted considerable leverage over government policy, in conjunction with the strong preferences of the government's own electoral constituency, prevented France from being the one to adopt an exchange rate cum monetary position regarded as worse than the status quo. At the same time the pivotal political position of farmers and other groups with protectionist inclinations prevented French negotiators, who would otherwise have been willing to do so, from offering the commercial concessions required if other countries were to adopt otherwise unacceptable exchange rate and monetary policies. Domestic political constraints were also operative in the United States. Opposition of the silverites to exchange rate stabilization and of Midwestern agriculture and light industry to trade liberalization raised the costs to Roosevelt of stabilizing the dollar and of reducing U.S. tariffs, at least one of which would have been required by foreign countries.

Relative to other case studies collected in this volume, the role played by interest group politics has two striking characteristics. First, transnational links among interest groups were relatively unimportant. Such alliances were not unknown, but in 1933 they had relatively little impact on negotiations. We conjecture that their relative insignificance reflects the fact that market structures likely to facilitate transnational alliances, such as multinational corporations and foreign branches of domestic banks, were not yet as pervasive as they became subsequently. In addition, in 1933 effective alliances would have had to cut across conventional lines. French free traders would have had to ally not with American free traders but with American advocates of debt forgiveness and the gold standard. These individuals were occasionally but not uniformly the same. Hence previous international contacts between special interest groups did not provide a convenient basis for transnational

alliances in 1933.

Domestic politics would not have posed an obstacle to agreement if side payments could have been arranged for interest groups who would have been adversely affected. Why were additional agricultural subsidies not offered French farmers who resisted trade policy concessions, for example? Here the broader economic and political context in which negotiations took place was critically important. France was suffering through a series of severe budgetary crises that posed a threat to the stability of the franc. Deficit finance of additional agricultural subsidies threatened to drive her off the gold standard. Hence additional agricultural subsidies could be extended only if taxes could be raised. Once again, the fragility of parliamentary support for Daladier and the ability of each member of the coalition to bring down the government through its defection prevented the Chamber from raising the taxes of any interest group.

This study speaks to the question of how to conceptualize the role of chief executive. Is the head of government merely a cipher interested in staying in power? Does he simply mirror the preferences of the majority of interest groups? Or does the chief executive have independent capacity to shape opinion in ways that transform the scope for agreement? This case suggests that there exists no single answer to this question. In the United States the chief executive enjoyed considerable latitude. Possessing a comfortable Congressional majority and with four years until the next presidential election, he could afford to adopt a policy that, in the short run, antagonized a portion of his constituency. In France the prime minister had little independence. A policy which alienated even a small fraction of his supporters promised to bring down the government.

This suggests that the latitude enjoyed by the chief executive in international negotiations depends on the structure of the institutions linking the head of government to his constituency.^{65/} Among the relevant institutional arrangements is the ratification

process. In 1933, an agreement to reduce U.S. tariffs would have had to be ratified by a Congress in which protectionist interests possessed disproportionate influence.⁶⁶ This was regarded as infeasible, and tariff reductions were not seriously discussed at the London Conference. In 1934, with passage of the Reciprocal Trade Agreements Act, ratification was taken out of the hands of the Congress, providing additional flexibility for a chief executive wishing to make trade liberalization part of a package deal. The institutions that structure the ratification process are bequeathed by history, but scope for altering them depends as well on domestic political constraints, as Roosevelt observed in 1933.

But to focus on institutional determinants of "ratifiability," narrowly defined, is to overlook other institutional arrangements that critically regulate the independence of the head of state. Chief among these is the structure of the electoral system. In France, a major part of the explanation for the government's fragility was the modified proportional representation system under which Deputies were elected. This led to a proliferation of political parties and to the election of Deputies who represented highly specialized interest groups. Assembling a viable coalition was difficult. Policies which alienated even a small number of Deputies on the fringes of the governing coalition were infeasible. In the U.S., in contrast, a majority representation electoral system suppressed significant third parties even in the turbulent circumstances of the 1930s. Disaffected voters simply shifted parties, in this case from the Republicans to the Democrats, endowing Roosevelt with a comfortable majority and considerable latitude.

Ultimately, Roosevelt used the latitude he enjoyed not to engineer an agreement but to block one. The U.S. chief executive seems to have been personally uncertain about the comparative merits of dollar stabilization, expansionary open market operations and gold purchases. This uncertainty heightened his desire to keep all options open, which posed an obstacle to international agreement.

Rather than attributing the failure of the World Economic Conference to Roosevelt's personal characteristics, however, it is more useful to focus on the broader context in which the conference took place. It was held at a particular time and place. It occurred when a U.S. president, new to office and confronted with a banking crisis and a rapidly changing economic landscape, was still sifting policy options and only slowly formulating his economic policy stance. It occurred in the wake of the turbulent 1920s, when three very different historical experiences had bequeathed three very different conceptual models of the economy. It occurred at a moment when France was enduring a budgetary crisis that drastically reduced policymakers' room for maneuver. The failure of the conference owed much to this particular conjuncture of historical circumstances. Indeed, the importance of conjunctural factors such as these to any adequate explanation for the failure of the conference calls into question the very notion of a general theory of diplomacy and domestic politics.

FOOTNOTES

1. The first thesis is propounded by Leith-Ross (1968), p.125, for example, the second by Kindleberger (1973). We point to some limitations of these arguments in Section 2 below.
2. Secondary sources upon which this account draws are Hodson (1938), Hasib (1958), Clarke (1973), Kindleberger (1973) and Drummond (1981).
3. See League of Nations (1938).
4. A limitation of this paper is its focus on France, the U.S. and Britain. A comprehensive account would analyze also the role played by other countries. Our emphasis on exchange-rate stabilization negotiations, in which France, the U.S. and Britain were involved to the exclusion of other countries, provides some justification for the disproportionate attention they receive.
5. A clear statement of French priorities is in French Ministry of Finance Archives (Min. Fin.) B32319, "Position Française à la conférence de Londres," 8 June 1933.
6. What follows is based largely on Public Record Office (PRO) Cab 29/140, Committee on the Economic Conference, "Policy of United Kingdom on Main Questions Raised on Agenda," May 1933; and PRO T177/12, "Leith Ross memorandum," 20 December 1932.
7. U.S. Department of State (1933), vol. 1, pp.597-600.
8. Roosevelt had, however, publicly avowed his support for the principle of currency stabilization. A U.S. State Department press release dated May 16, 1933 quoted him as stating that "the conference must establish order in place of the present chaos by a stabilization of currencies." Cited in Traynor (1949), p.114.
9. Details of Warburg's initial proposal are described in Smith (1983), p.47.
10. These incarnations of the Warburg Plan are reviewed in Sayers (1976), appendix 27. See also Howson (1981). British and French objections are described in PRO T175/83, "Declaration by the Bank of England and the Bank of France," 23 May 1933.
11. France made one final attempt to secure separate British agreement, which the latter rebuffed. PRO Cab 29/142, Part II, "Note of a conversation in the Treasury Board Room on Sunday, 2nd July 1933, at 5.45 PM." As Neville Chamberlain explained to Charles Rist, "Now that there had been a public refusal on the part of the United States, the Government of the United Kingdom could not associate itself with a European bloc since this would be taken to mean that in the differences between the gold-standard countries and the United States, the United Kingdom joined with the former, whereas in Credit Policy we were more in sympathy with the United States."
12. Two previous studies of the period which make this same point are O'Dell (1989) and Eichengreen (1990).

13. Frederick Phillips provided an explicit statement of this view as early as September 1931. Howson (1975), p.83. In October 1932, he composed a memo emphasizing the relevance of the relationship between prices and costs and of impediments to cost adjustment to proposals that Britain to return to gold. PRO Cab 58/183, "The foreign demand for the return of the United Kingdom to gold," October 1932. Additional references to Treasury arguments along these lines are provided by Booth (1987).
14. See for example Rist (1933). That the same model was prevalent in official circles is evident, for example, in the minutes of the proceedings of the Regents of the Bank of France. Bank of France Archives, "Procès verbaux," 9 March 1933.
15. Rist (1933, pp.341-342) noted that monetary reflation was the alternative to further price declines. But, he observed, "qui, [après les expériences des quinze dernières années,] voudrait s'engager dans une voie aussi dangereuse?"
16. Barber (1985) and Fusfield (1955) are basic sources on the evolution of academic and official analyses of the macroeconomy in the United States.
17. See Hoover (1952), chapters 1-2 for what is, admittedly, a retrospective view.
18. The demand-oriented aspects of this model were not widely embraced within either the Treasury or the Federal Reserve System. For details, see Barber (1985).
19. Barber (1985) is a good example of the genre.
20. Fusfield (1955), pp.254-255.
21. The low level of recorded unemployment reflected the limited data gathered on the subject as much as the state of the French economy, but this did not modify the outlook of officials. See Salais (1988).
22. His analysis of British unemployment may be found in Rueff (1931).
23. His "Caractère et origine de la crise de 1929," cited above as Rist (1933), was prepared for the League of Nations and published by it in June 1931.
24. Howson and Winch (1977) describe of the activities of the Economic Advisory Council.
25. Leith-Ross (1968), p.165.
26. The British account of the Bonnet-Chamberlain talks is PRO 371/17304, "Notes of Meetings held in the Board Room, Treasury, on Friday, March 17, 1933."
27. Bonnet (1969), pp.161-162. Secretary of State Cordell Hull's European contacts verified that Bonnet took away the impression that Britain was about to return to gold. U.S. Department of State (1933), vol. 1, pp.471-472. The French record of the Bonnet-Chamberlain discussions, Documents Diplomatiques Français (1977), touches on this point on p.10. Similarly, on the eve of the conference the French financial attache in Britain erroneously reported that "British opinion has become almost unanimous in recognizing the necessity of returning to an international standard of values as soon as possible, and the

Treasury as well as the Bank of England declare that this standard can only be the gold standard." Min. Fin. B32321, "From the financial attache to the French Embassy in London," 31 May 1933.

28. U.S. Department of State (1932), vol. 1, pp.839-840; U.S. Department of State (1933), vol. 1, pp.453-457, 463.

29. Moore (1972), pp.86-87.

30. Feis (1966), pp.33, 116; Moore (1972), p.74; Min. Fin. B32317, "Note sur la 2nd Réunion de la Commission préparatoire de la Conférence de Londres," 29 December 1932; Min. Fin. B32317, "Note au sujet de la Conference Mondiale," 15 November 1932.

31. Min. Fin. B32319, "Note sur la situation de la France à la conference économique mondiale," 1 March 1933.

32. Useful surveys of French politics in this period include Earle (1951) and Dubief (1984).

33. An explanation for this proliferation of parties is the modified form of proportional representation under which Deputies were elected (Campbell, 1958). We return to this point in Section 5 below.

34. Larmour (1964), p.31.

35. Jackson (1985), p.20.

36. See Dietrich (1933) and Haight (1941), pp.163-165.

37. Jackson (1985), pp.63, 69.

38. Min. Fin. B32319, untitled memorandum, 27 February 1933.

39. Drummond (1981), p.142.

40. The 1920s had marked the emergence of a vocal, organized French peasantry. See Wright (1955, 1964).

41. Wright (1955), p.79. Only in Brittany did agricultural unions fail to take root. See Moulin (1988), chapter 4.

42. Wright (1964), p.14.

43. The quotes are Rueff's characterization of the Queuille letter, which appears in Rueff's autobiography. Rueff (1977), pp.114-115. The conference presentation is printed on pp.321-332. Queuille was a long-time supporter of French import quotas, which he viewed as indispensable for the survival of French agriculture in the Depression. Haight (1935), p.100.

44. Min. Fin. B32317, "Compte-rendu de la 2ème séance de la commission interministérielle," 8 April 1933.

45. Min. Fin. B32317, "Observations présentées au nom de l'agriculture française au Gouvernement et à M. le Président Herriot," 12 April 1933.
46. The letters are collected in the Ministry of Finance archives, Min. Fin. B32321.
47. League of Nations (1933), no. 4 (June 14, 1933), p.12.
48. Mouré (1988), pp.274-277.
49. Moore (1972), pp.117-119. Another option was to limit the Bank's independence, as subsequent governments succeeded in doing. But in 1933, memories of inflation a decade earlier remained too vivid to allow Daladier to appoint a replacement for Moret or tamper with the composition of the Council of Regents.
50. A good source on internal politics in the Roosevelt Administration and their relationship to the World Economic Conference is Smith (1983).
51. See for example Freidel (1973).
52. See Nichols (1934) and Brennen (1968).
53. Moley (1939), p.158.
54. Moley (1939), p.157.
55. Brynes (1958), p.77. Some historians question whether Roosevelt was in fact forced by domestic political considerations to accept the Thomas Amendment. See Freidel (1973), pp.331, 333. For present purposes it is necessary only to observe that domestic politics influenced the decision.
56. See Nichols (1933). Cordell Hull alluded to such considerations in international discussions. "After some preliminary discussion Mr. Hull raised the question of stabilisation. He had during the last twenty-four hours become very doubtful as to whether any measure of temporary stabilisation could be achieved. He described the internal situation in the United States which made this doubtful. Speaking in great confidence, he said that the forces of inflation were at the moment rather powerful and had succeeded in preventing an agreement being approved. He thought that the best chance was for this conference to get some broad programme covering both the monetary and economic branches of the work which would be interdependent and co-ordinated." PRO Cab 29/142, "Note of a Conversation Between the Prime Minister and Mr. Hull on Monday, 19th June 1933 at 11.30 AM."
57. U.S. Department of State (1933), vol. 1, pp.660-661. The fact that U.S. prices had risen in the first month following the gold embargo should have worked to strengthen Roosevelt's belief in the efficacy of further depreciation.
58. The composition of support for Smoot Hawley is analyzed in Eichengreen (1989). A different perspective, emphasizing the procedures by which tariff policy were made is Schattschnieder (1935).

59. Leith-Ross (1968), p.153.
60. Hull (1948), vol. 1, p.251; Moore (1972), p.170. Thus, the Reciprocal Trade Agreements Act would have to wait until 1934. See Haggard (1988).
61. The British debate over tariff protection in 1932 is analyzed in Eichengreen (1981).
62. French observers, noting "serious differences" between the Treasury and the Bank, concluded that it was "the position of the Treasury which is actually the one of the British government..." Min. Fin. B32319, "Position du Gouvernement Britannique." According to the French, the Bank of England was skeptical that prices could be raised and prosperity restored simply through the application of a liberal credit policy. While cheap money was necessary for recovery, it was not sufficient. Also required were secure political conditions and a modicum of free international trade.
63. League of Nations (1933), vol. 4 (June 14, 1933), pp.24-25.
64. From this point, all phrases in quotation marks are taken from this source.
65. Readers in international relations will recognize echoes of the strong state-weak state distinction (Kazenstein, 1978), although we qualify this view below.
66. This is the argument of Schattschnieder (1935).

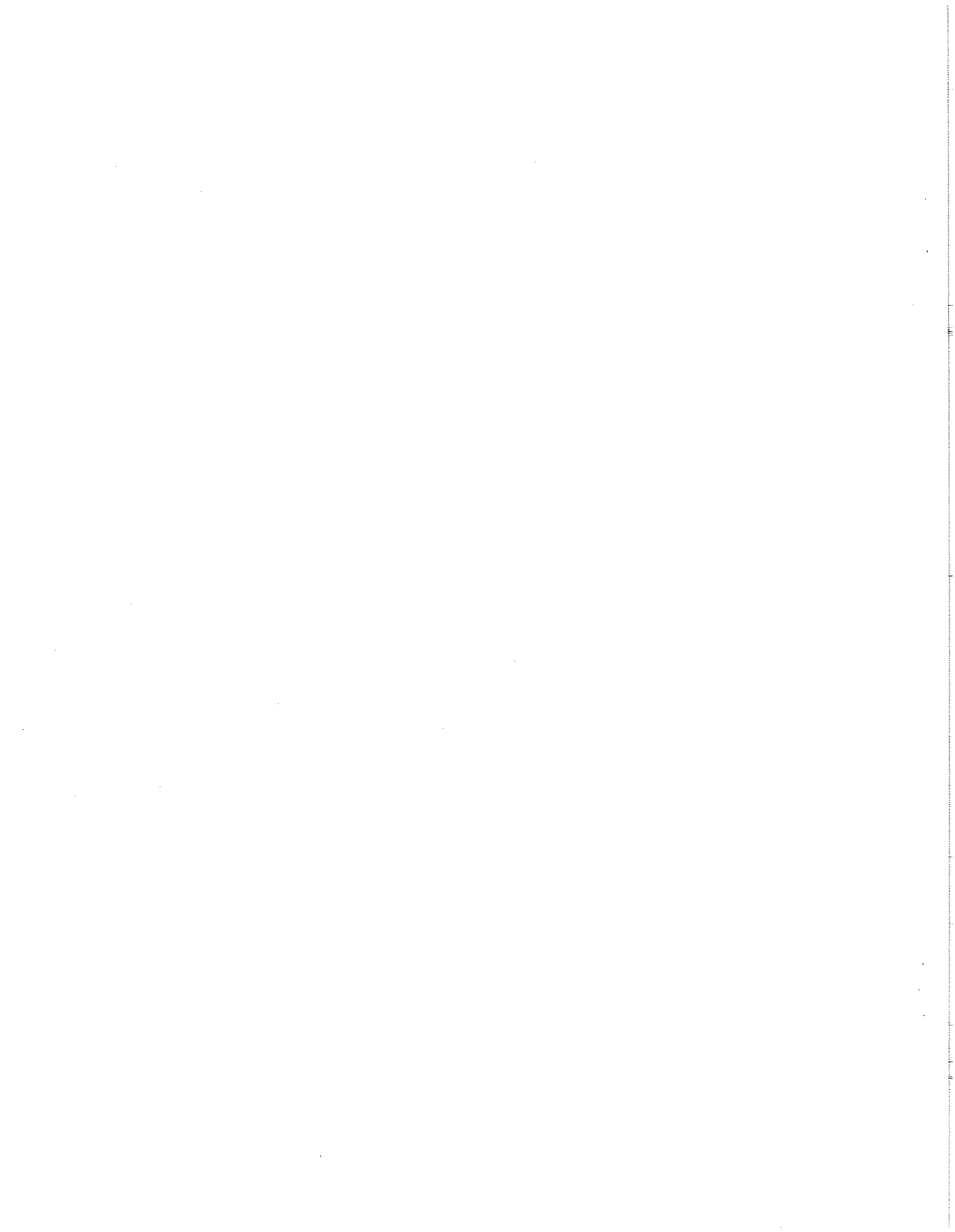
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