2 Money doctors between the wars

The competition between central banks, private financial advisers, and multilateral agencies, 1919–39

Stephen A. Schuker

World War I produced a caesura in the history of international finance. The previous half-century had witnessed rapid industrialization in the world's leading nations, the rise of managerial capitalism, and the development of financial intermediaries capable of coordinating domestic economies and lending abroad on a large scale.[1] Contemporaries, especially those who had not examined adjustment mechanisms closely, attributed the smooth working of international exchanges to spreading acceptance of the classical gold standard (see, for example, Kemmerer 1944).

The war undermined both the political institutions and the conceptual framework that had sustained the credibility of the system (Eichengreen 1992). Liberal governments of the early 20th century still had underdeveloped tax bureaucracies, and the belligerent countries resorted to deficit finance to meet unprecedented expenses. The resulting inflation distorted relative prices. It also disrupted existing patterns of commerce and investment. State controls replaced free trade. Outside the United States, the gold standard, as it had traditionally operated, broke down. Britain, France, and America maintained firewalls by pegging their exchanges while hostilities lasted. Once those temporary arrangements ended, all European currencies depreciated against the dollar to a greater or lesser degree. The disordered exchanges served as one barometer of the shifts in financial power, changes in industrial competitiveness, and structural adjustments in trade patterns that had taken place during the war.[2]

The postwar years provided increased scope for "money doctors" of several sorts to help recast the international financial system. Throughout the prewar era, the London "City," as the undisputed leader among financial centers, had channeled long-term capital flows, accommodated trade, and provided shipping and insurance services worldwide. Joint-stock and merchant bankers in the City developed considerable expertise in defusing financial crises and in acting as lenders of last resort.[3] London bankers continued to boast unrivaled expertise in trade finance after 1918; Wall Street never developed a comparable acceptance market in the interwar years. Nevertheless, the deterioration in the balance of

Commonwealth countries, at first through capital controls and later through moral suasion, irregularly for most of the 1920s (Moggridge 1972: 199–227). By 1930 Great Britain had already concentrated 58.7 per cent of its portfolio investment within the Empire.[4] Accordingly, even after the immediate postwar emergency had passed, public borrowers in Europe and Latin America had to seek reconstruction loans through international cooperative arrangements or directly on the American market.

During the 1920s, League of Nations agencies, central banks, investment banks in the money centers, and academic economists played complementary, if occasionally competitive, roles as "money doctors" to deficit countries. Some theorists contend that the international economy remains stable and most efficient when a single hegemon provides the coordinating function.[5] Charles Kindleberger has famously argued that no country undertook the responsibilities of the hegemonic stabilizer in the 1920s. Britain no longer possessed the clout to act as the lender of last resort, the buyer of distress goods, and the discounter in a crisis. The United States lacked the political institutions, educated public sentiment, and proportional involvement in world trade that would oblige it to take Britain's place (Kindleberger 1980). All the same, in the 1920s, private and central bankers, international civil servants, and consulting economists alike made efforts to fashion an informal cooperative system. Until the Depression struck, those informal networks registered modest success in overcoming political stalemates, relieving liquidity crises, and recycling capital to where borrowers might employ it efficiently – or, at worst, where it might promote systemic stability.

How did the "money doctors" change their postulates and practices from the prewar to the postwar period? Marc Flandreau demonstrates that late-19th-century economic theorists and the investment bankers who applied their ideas possessed a surprisingly modern grasp of the causes of, and remedies for, structural disequilibrium. They understood that fiscal profligacy, whether deriving from fiat money creation or compulsory advances by central banks, led over time to inflation and an imbalance in relative prices. They acknowledged that capital flows responded to maladjustment much more quickly than trade flows. They realized that, as forward-exchange markets developed, expectations played an increasingly significant role in such movements. Finally, they imposed a form of "conditionality" on official clients in less-developed countries by regulating their access to capital markets.

Whether under fixed or flexible exchange rates, money-center bankers managed the flow of financial information. They examined the fiscal performance of adjusting countries, assessed their "credibility," and distinguished between illiquidity and insolvency. Almost always, they proposed a reform package that included fiscal stabilization and limits on high-powered money. Though aiming to make a profit in the long run, they assumed risk by damping down the contagion of financial crises. Thus they provided a public service. In short, without extensive oversight from their home governments, they performed a function much like that of interwar money doctors or their post-1945 successors at the International Monetary Fund (IMF) (see Chapter 1).

Globalization reached a peak in the generation before 1914. By most measures, it would not approach those levels of integration again until the 1990s (O'Rourke and Williamson 1999). The interdependence of economies increased. That enhanced the ability of money-center bankers or consortiums to impose Western notions of private property, the rule of law, and the obligations of contract. This implied the transmission of cultural values as well as the institutional rules that emanated from them. In their own interest, the bankers encouraged the responsibilities of rulers to subjects in polities overseas or on the European periphery that had heretofore operated along strictly Hobbesian lines. Political scientists describe this development, perhaps too clinically, as the "convergence of expectations" in the international regime (Lipson 1985: 3–33).

The convergence, naturally, remained imperfect. Governments in lending countries rarely deployed military force to reinforce market discipline on misbehaving states. Countries that flouted financial conventions in one decade regained access to capital markets in the next.[6] Still, money doctors had an incomparably easier time performing their duties in the generation before World War I than after it. First of all, financial relations among the major countries remained relatively stable. As will be discussed below, that stability derived more from common discipline and active management of the system than from the intrinsic merits of gold convertibility itself. But stability at the center allowed money doctors to focus their ministrations on the periphery. With occasional exceptions, they could work to restore the finances of Portugal, Spain, and Greece, the Ottoman Empire and Latin America, even Austria and Russia, without endangering their own economies. Moreover, as Flandreau and associates have shown, new gold supplies after 1896 set off a gentle inflation that moderated real debt burdens everywhere. Even absent effective taxation, debtor governments did not need to rely so heavily on seigniorage. They perceived increased advantage in accepting the market discipline involved in adhering to the gold zone (Flandreau *et al.* 1998).

If the assumptions and techniques of money doctors did not change radically as a result of the war, the political context in which they operated was transformed. Not only had the gold standard discipline and the web of understandings that sustained it fallen into disuse, but globalization went into reverse. Wartime barriers to the free flow of capital, goods, and labor persisted stubbornly during the 1920s and mounted further in the adverse economic climate of the Depression decade (James 2001). What's more, the financial center failed to hold. Every country except the United States (and arguably the United Kingdom) had emerged as a deficit land in 1919, in need of external help to restore its fiscal equilibrium. Traditional remedies proved inadequate and sometimes counterproductive. For example, the sheer magnitude of social disruption and decline of wealth in most combatant nations ruled out the venerable deflationary nostrum of compressing the money supply back to previous levels as a corrective for fiscal profligacy. When France adopted such a "starving" scheme through the 1920 François–Marsal Convention, the Banque de France yielded to temptation and eventually cooked the books.[7]

Finally, notions of moral standards and social justice underwent a transformation, in the West and among the rest. Revolutionary regimes in Russia, Mexico, and the Ottoman Empire thumbed their noses at traditional property rules and got away with it. Their success emboldened other countries that encountered payments difficulties to do likewise (Lipson 1985: 84–5). Lenin may never have said in so many words, "The capitalists will sell us the rope with which we shall hang them." Yet, almost everywhere, exporter lobbies prevailed over bondholder interests. The ability of money doctors to take the concerns of existing investors into account while shaping stabilization plans in defaulting countries declined accordingly.

Within Western societies themselves, the notion of financial "credibility" underwent a transformation. When the Pujo Committee of the U.S. House of Representatives investigated the so-called money trust in 1912, J.P. Morgan, Sr. explicated the traditional concept to the committee counsel. "Is not commercial credit based primarily upon money or property?" asked the muckraking Samuel Untermyer. "No sir," Morgan shot back; "the first thing is character."[8] The Morgan partners and like-minded confrères in other banking centers marshaled similar rhetoric in the 1920s. "England will go back to the gold standard because that is the honest thing to do," observed Russell Leffingwell of Morgan's in 1923. "All Keynes and that ilk can say about social justice is beside the mark."[9]

Socialist and Labour parties, which commanded the increasing adherence of the urban proletariat, industrial unions, intellectuals, and the progressive middle class, disagreed. It is difficult to chart the precise trajectory of social change. Yet over the course of the interwar decades, public opinion in every industrial country came to rank full employment, maximum output, and provision of government services ahead of faithfulness to financial obligations, at home or abroad. This marked a reordering not merely of political, but also moral, preferences, and money doctors had to take account of it.

Prosopography

Interwar money doctors hung their respective hats in many agencies, public and private. They formed, however, a remarkably cohesive social group. A large number became acquainted while assigned to the interallied agencies set up to coordinate allocations of food, shipping, and vital resources during the war. Others got to know each other while raising American loans or handling procurement for the Allies. Still others met initially as expert advisers at the Paris Peace Conference. The personal links forged in wartime comradeship endured and frequently facilitated a common approach to problems. To give just a few examples, Arthur Salter, Jean Monnet, and Dwight Morrow worked together in 1917–18 on the Allied Maritime Transport Council. Salter then served as head of the League of Nations Economic Section; Monnet became deputy secretary-general of the League and subsequently a banker for Blair & Co., handling stabilization loans; and Morrow returned to his Morgan partnership, though paradoxically he emerged as the main antagonist to bankers' views of debt refunding when appointed ambassador to Mexico.

At the 1919 Peace Conference the leading Morgan partner, Thomas W. Lamont, advised the American delegation in Paris on reparations, while Assistant Secretary Russell Leffingwell performed economic analysis for the Treasury Department. Five years later, both men had switched to analogous duties in the private sector. Lamont represented the bankers at the 1924 London Conference to reschedule Germany's reparation debt; Leffingwell elaborated the economic projections at home, this time as a partner at Morgan Corner. Leffingwell's wartime assistant, S. Parker Gilbert, effectively ran the U.S. Treasury as Mellon's undersecretary in the early 1920s, and then was tapped by Leffingwell to become Agent-General for German Reparations before elevation to a Morgan partnership himself. Another Lamont protégé, Jeremiah Smith, turned up as commissioner-general for the League reconstruction of Hungary.

Governor Benjamin Strong of the New York Federal Reserve Bank (FRBNY) developed a personal friendship as well as a strategic alliance with Montagu Norman, governor of the Bank of England. Earlier, Strong had learned his trade at Bankers Trust, a frequent participant in Morgan syndications; and Henry P. Davison, the anchor partner at Morgan's in the older generation, had become the joint patron of Strong, Lamont, and Morrow when all four adorned the same social circle in the New Jersey suburb of Englewood. Norman, meanwhile, enjoyed the closest of personal relations with J.P. Morgan, Jr. and his New York partners, as well as with Edward Grenfell, the leading light at Morgan, Grenfell. A Threadneedle Street regular, the latter served thirty-five years as a director of the Bank of England, including two terms on its inner Committee of Treasury. Lamont collaborated with one key partner of Lazard's London branch, Robert Brand, in abortive negotiations for post-Versailles reconstruction loans, and he worked with the latter's compeer Robert Kindersley on German currency reform five years later. Still another Lazard partner, Frank Altschul of the New York branch, conceived the anti-speculative action that Morgan's executed in 1924 to save the franc, notwithstanding the tendency of old-school bankers to consider such operations *ultra vires*. Owen D. Young, the conceptual point man for the Americans on the Dawes and Young committees of 1924 and 1929, wore another hat as director of the FRBNY. Charles G. Dawes, the first American delegate to the 1924 Committee of Experts, not only remained personally close to Sir Josiah Stamp, his British counterpart; their respective children united in matrimony.[10]

One could extend this prosopographical analysis indefinitely. Even some Germans gained limited entrée to the dense web of interconnections as wartime animosities subsided. Carl Melchior, financial counselor to the German delegation at Versailles, struck up an intimate relationship with John Maynard Keynes and drew the latter into monetary advising in Berlin. Max Warburg, Melchior's partner, became a logical interlocutor on New York markets because his brother Paul, a co-founder of the Federal Reserve, maintained close links with Kuhn, Loeb & Co. Academics, of course, moved in less exalted social circles, but even there personal connections reinforced a commonality of outlook. W.W. Cumberland and Arthur N. Young, successively foreign trade advisers at the U.S.

State Department, had done graduate work with Edwin W. Kemmerer at Princeton. The two brought Kemmerer into the Washington axis as a consultant on Latin American monetary problems and later as staff adviser to the Dawes Committee. Cumberland and Young, like their predecessor Arthur Millspaugh, eventually left the department themselves for lucrative careers as financial advisers to foreign governments.

The rise of New York as a financial center inevitably meant that lawyers would advance from technical advisers in the preparation of flotations to principals in the dispensation of financial advice. In no other nation, as Alexis de Tocqueville classically observed, has the legalistic cast of mind penetrated so deeply into institutions and culture alike. The career of John Foster Dulles, a senior partner of Sullivan & Cromwell in the interwar years, illustrates that conflation of law and finance emblematically. As a legal adviser to the American delegation at the Paris Peace Conference, Dulles essentially drafted the reparation terms of the Versailles Treaty. In the 1920s he crafted many of the agreements through which Americans bankrolled state and municipal borrowers in Central Europe, Latin America, and Asia; on the side, he counseled Washington regarding the vexed question of priority between private and reparation debt. Through his intimate friendship with Jean Monnet, among other connections, Dulles became deeply involved in debt workout negotiations throughout the following decade.[11]

Only when the Depression overwhelmed traditional banking structures did a true outsider penetrate the closed circle of the financial cognoscenti, and then with unfortunate results. In the early 1930s Ivar Kreuger, the Swedish match king, mobilized credits for Germany and a dozen other countries in return for the concession of match and telephone monopolies. The normally sober *Economist* waxed lyric about a potential complement to the League of Nations Finance Committee: "Technically this conception of wedding the acquisition of markets to the provision of capital for borrowing governments was an inspired notion, which seemed to hold all the 'inevitable simplicity' of great ideas." The innovation seemed less genial after the match conglomerate went bankrupt; Kreuger committed suicide when accounting fraud came to light. In retrospect, Keynes had over-dramatized by claiming that Kreuger lay crushed "between the icebergs of a frozen world which no individual man can thaw and restore to the warmth of normal life." Still, the Kreuger collapse served as one more indicant of a gradual shift in the tectonic plates of international finance. Increasingly, as the Depression decade proceeded, it became clear that the greatest of merchant houses and private banks lacked the scale and scope to succor defaulting debtors. Solutions could emerge, if at all, only at the level of governments.[12]

The prerequisites for monetary reconstruction

It is hardly surprising that continuity in personnel resulted in substantial consensus on the prerequisites for monetary reconstruction after 1918. The Cunliffe Committee on Currency and Foreign Exchanges after the War, chaired by the governor of the Bank of England, embraced the basic assumption that the British government should balance the budget, reinvigorate capital markets, and restore sterling to convertibility at the prewar par as soon as that became feasible. Only the timing of the requisite policy measures remained open for serious debate.[13] Ralph Hawtrey, the civil servant who drafted the bulk of the Cunliffe Report, may already have doubted whether precious-metal reserves would prove adequate to reinstitute the gold bullion standard; significantly, Hawtrey shortly emerged as one of the earliest advocates of the gold-exchange variant (Kindleberger 1984: 332–3). Officially, however, the Cunliffe Report embraced David Hume's price-specie-flow model, under which gold movements and internal price changes would automatically balance external accounts.

Economic historians have long acknowledged that the late-19th-century gold bullion standard involved substantial hands-on management. It did not function so differently from postwar gold-exchange arrangements as textbook models would incline us to suppose. Paper currency and bank deposits accounted for 90 per cent of world monetary circulation by 1913, gold for merely 10 per cent. Monetary authorities in nations on the periphery already held sterling and dollars as de facto substitutes for gold reserves, albeit not to the extent practiced later. Moreover, countries in deficit infrequently forced wages and prices down through higher discount rates in order to adjust the trade account. Nor did they ship gold to creditors, except as a last resort. Instead, capital movements accommodated deficits or surpluses for long periods without requiring rectifications on current account. The regime worked satisfactorily most of the time because bankers in the financial centers adhered to a common doctrinal ethos and shared a commitment to sound money. The London City buttressed mutual agreement on the rules of the game by training elites from abroad as well as by extending counter-cyclical credits and facilitating trade.[14]

Critics of the gold standard point out that regime credibility required political as well as economic harmony. The much-touted advance of democracy meant that labor unions and trade associations could make it hard for postwar governments to sacrifice domestic interests for abstract balance-of-payments goals (Eichengreen 1992: 4–12). And yet postwar experience drove home the parallel lesson that fiduciary inflation and external adjustment through currency depreciation set in motion a cumulative, often irreversible, downward spiral. The margins for government policy choices had narrowed in both directions.

Even the strongest proponents of the gold standard did not claim that it would bring about automatic price stability. Precious metals varied in price like all other commodities. Kemmerer reminded the Dawes Committee that the purchasing power of gold in terms of a basket of commodities had risen by 50 per cent from 1873 to 1896 and then fallen back to the original level by 1913. The purchasing power of gold had tumbled another 60 per cent from 1913 to 1920; the trend reversed owing to postwar deflation, and the value of gold rose by 66 per cent from 1920 to 1924.[15]

Nevertheless, conventional thinking held that the restoration of confidence through a common monetary standard would itself facilitate trade revival

despite a residual maladjustment of prices. Russell Leffingwell of Morgan's roundly criticized the maverick economist J.M. Keynes for considering price changes a disease instead of a symptom. Urging a prompt British return to gold in 1923, Leffingwell likened postwar disturbances to a simple bank run:

> When a bank's doors open again after a period of trouble, there are always heavy withdrawals at the outset by people who have been prevented from making withdrawals by the suspension. The trick is to pay everybody very promptly, and...to assure the world that the bank is open to stay.[16]

In short, while statesmen, bankers, and economists might differ about the quantity theory of money or the methods of accommodating political constraints, most conceded that the world needed some agreed blueprint for stabilization (Silverman 1982: 40–61).

At the Paris Peace Conference of 1919, American experts acknowledged that the war-ravaged European Allies required credits to purchase commodities, restore transport facilities, and overcome production bottlenecks. They perceived that Germany and the Habsburg successor states also needed working capital and help in mastering hyperinflation. However, President Wilson had stood firm against French schemes for pooling raw materials during the war. And afterward his economic team rejected the disguised contrivance of Louis-Lucien Klotz, the French finance minister, for pooling war costs through a "financial League of Nations." The American authorities likewise dismissed the British Treasury plan, authored by J.M. Keynes, for recycling American resources to Europe by means of a guarantee of German reparation payments to the Allies. As Assistant Secretary Leffingwell encapsulated domestic sentiment, Americans believed that they had "performed heroic deeds and borne great sacrifices" to save Europe from "annihilation by the Hun." They did not propose to maintain taxation at wartime levels in order to cancel war debts or to pay German reparations through the back door. The Treasury had secured permission to assist Europe during the post-Armistice transition only through intensive lobbying. The Republican-led Congress would never write a blank check along the lines of the Klotz plan or the Keynes plan to recycle American surpluses (Schuker 1976: 176–7).

The practical question, as Leffingwell expressed it, was whether Europeans possessed "adaptability enough and vigor enough to work out some business transactions and [to] interest American businessmen in their financial and economic restoration." In May and June 1919, Lamont explored those possibilities with Robert Brand, Jean Monnet, and other European colleagues. If the Europeans would block out national requirements and arrange guarantees, the Morgan team at home would found a giant trading corporation grouping the main export industries to extend credit and meet vital needs on a generous scale. The New York bankers had in mind an administrative structure in Paris roughly along the lines given substance a generation later by the Marshall Plan. Such arrangements would enable the better-situated European nations to address monetary stabilization themselves. Lamont intimated, however, that the offer

came with political strings attached. The Americans insisted not only on Open Door principles in third countries, but also that American credits be employed for the purchase of American goods. If the British needed liquidity beyond that, they should draw down their overseas holdings. In effect, Wall Street demanded a financial condominium that would encroach on British preserves in Latin America and the Far East. As Lamont expressed the idea in his inimitable silky manner, "America has ample credit resources, Great Britain has wonderful credit machinery all over the world. Why not make a combination of the two?"[17]

Both Whitehall and the City bankers poured cold water on the idea of an export syndicate given the terms on offer. The U.S. Congress subsequently provided a modest consolation. It eased the requirements for foreign-trade financing in a limited way by statute. The 1919 Edge Act permitted Federal Reserve member banks to set up foreign-trade investment corporations exempt from antitrust constraints, and Paul Warburg achieved a modicum of success in shipping raw materials to Germany through his International Acceptance Bank. American producers of wheat, cotton, copper, oil, and fertilizers met Europe's commodity needs through a variety of singular expedients (including speculation in depreciated currencies) during 1919–21. Yet although the cumulative trade surplus approached $9 billion in those years – and helped mitigate a fall in domestic demand – Washington steered clear of formal institutional efforts to stabilize currencies overseas.[18]

In any event, the window for ambitious ventures quickly closed. The British wager that they could hold their own against the inroads of U.S. finance overseas proved correct, at least in the short run. In Latin America, for example, British institutions successfully resisted a competitive thrust from the burgeoning branch system of the National City Bank (Parrini 1969: 101–37). A number of British, Dutch, and German bankers organized the Amsterdam Memorial in 1920 in order to foster a public consensus for war-debt forgiveness; Paul Warburg and like-minded bankers proclaimed it "a mortification and a crime" that the United States would not put its shoulder to the wheel.[19]

Such rhetoric played poorly on Main Street, however, as business failures multiplied during the U.S. business depression of 1920. It took no special insight to realize that the Amsterdam Memorial spokesmen had an agenda of their own. German-Americans sought to undermine the reparations settlement, and neutrals who stigmatized "political debts" as counterproductive hoped to recoup their commercial loans and revivify trade with the Reich. Soon enough, the American election season produced a recrudescence of popular isolationism. Attempts at monetary reconstruction overseas would have to proceed piecemeal, or not at all. The delay, in any case, yielded compensating advantages. With the benefit of hindsight, most analysts consider the postponement of stabilization desirable as well as inevitable. Richard Meyer points out that formal devaluation before European nations had repaired wartime damages might have led to a choice of exchange rates inappropriate for normal conditions. On the other hand, forced deflation to restore the prewar par would have produced intolerable shortages of domestic goods (Meyer 1970: 7, 157).

The limitations of multilateralism

In the absence of a trans-Atlantic deus ex machina, the League of Nations arranged a conference of thirty-nine nations at Brussels in September 1920 to articulate the principles that should govern monetary reconstruction. One should not exaggerate the political importance of that confabulation. The largest creditor and the greatest defaulter, namely the United States and Russia, would for different reasons have no truck with emanations of the League. The Germans were still officially excluded. And the French resented the overbearing role of the British Treasury in shaping the agenda. Robert Boyce has likened the proceedings to "sermons against sin."[20] All the same, the League bureaucracy regarded the resolutions that the Brussels Conference unanimously adopted as "the Law and the Prophets" for money doctors everywhere.

Although the term "conditionality" had not yet come into vogue, the Brussels precepts encapsulated the common wisdom of the day (League of Nations 1945: 9–13). Nations seeking to stabilize must balance their ordinary budgets through taxation and meet extraordinary expenses through loans raised out of savings. Central banks of issue should be insulated from Treasury influence, with international supervision if external financing was required. The Dutch banker C.E. ter Meulen elaborated an international credit scheme providing that deficit governments earmark the customs or other hard-currency revenues to meet the service costs on foreign stabilization loans (Silverman 1982: 283–8). The League of Nations Financial Committee opened an office in London to solicit ter Meulen credits on a wholesale basis. Yet, unsurprisingly, no potential lenders showed up. After eighteen months, the League terminated the effort in embarrassment.

The League Financial Committee then shifted to targeted attempts at helping deficit countries one by one in those geographical areas where its writ would run, namely Central and Eastern Europe. The Financial Committee eventually played a constructive role sponsoring rehabilitation of Austria and Hungary, particularly after the Bank of England found it expedient to operate under League cover. Working through Sir Otto Niemeyer in London and Arthur Salter in Geneva, the British pulled the leading strings at the Financial Committee. Austria's initial attempts to obtain a loan on ter Meulen principles by pledging the Gobelin tapestries carried the overtones of comic opera; the House of Morgan regretted that the deal might create a "pawnbroking impression."[21] Nonetheless, in the final analysis, Whitehall perceived a political interest in ending financial chaos in Vienna and keeping French influence out. Once League officials produced a scheme for budgetary reform, and when Austria pledged customs revenues and accepted foreign control of its central bank, Montagu Norman threw himself into the effort. The Bank of England discounted Austrian Treasury bills in March 1923. Some months later, it floated a long-term loan for Austria in tandem with the House of Morgan.[22]

The next year, after Salter masterminded an accommodation between Hungary and its Little Entente creditors, the Bank of England again took the lead in floating a loan for Hungary. The Austrian stipulations served as a model: Hungary undertook financial reform, raised matching funds internally, accepted an American commissioner-general, and created an autonomous central bank with Norman's close associate, H.A. Siepmann, riding herd as adviser (Sayers 1976: 171–3). Subsequently, the League provided its imprimatur for small-scale syndicated loans to resettle Greek and Bulgarian refugees and to complete currency reform in Estonia and Danzig.

Despite the presence of a League administrative apparatus, in several cases for a decade or more, League reconstruction generally failed. Attempts to prevent renewed capital flight proved unavailing. Hungary, Greece, and Bulgaria defaulted outright in the early 1930s; Austria avoided technical default only because the creditors granted fresh advances under duress. Royall Tyler, who represented the Financial Committee in Budapest over fourteen years, waxed philosophical about the outcome. "In particular," he observed,

> the words *pledge*, *security*, *mortgage*, and *guarantee* may create the wrong impression…in the mind of the holder. A moment's reflection makes it clear that the implementation of such pledges cannot be achieved in the same conditions…as in a domestic loan, unless the pledged assets or revenues are situated outside the national territory of the borrower.

The specific terms of the loan contract made little difference: "As long as both sides have a will to collaborate, no one looks at a contract, and as soon as either side starts claiming rights under a contract, collaboration is at an end."[23] In modern parlance, the Geneva authorities failed to sustain domestic coalitions that asserted "ownership" of their structural adjustment programs.[24] Given the closely imbricated agricultural, banking, and social crises that convulsed Eastern Europe, however, a more felicitous outcome scarcely seems imaginable.

The Young Committee on German Reparations set forth another cooperative model in 1929 by proposing a Bank for International Settlements (BIS). The BIS would act in the first instance as a trustee for German outpayments and provide a forum where central bankers could exchange views. Montagu Norman hoped that the BIS might develop additional functions, and Emile Francqui of Belgium and Hjalmar Schacht of Germany each roughed out analogous ideas. W. Randolph Burgess, on loan from the New York Fed to the Young Committee, then adumbrated an ingenious plan to create special-drawing rights deriving from reparation payments at the BIS. That facility could be used to increase global liquidity when gold production lagged behind the needs of trade.

The League Gold Delegation had just begun to study the possibility that the world stood at the brink of crippling deflation. Experts disagreed whether an inadequate supply of new gold or falling industrial production costs had the greatest effect on prices, and the three successive reports of the Gold Delegation failed to clarify the matter. The Burgess plan suggested how a combination of creative thinking and enlightened cooperation might produce solutions for otherwise intractable monetary problems. There seemed no obvious reason why the "gold fetters" of which Keynes later spoke so disdainfully need lead ineluctably to deflation.[25] Burgess's seniors on the Young Committee waxed enthusiastic. Still,

nothing practical came of the plan. President Hoover, furious that the Young Committee had accepted a link between debts and reparations contrary to his instructions, blocked Federal Reserve participation in the BIS. In the end, the BIS served as a useful club for central bankers, but it accumulated neither the financial resources nor the authority to address massive defaults in the 1930s.[26]

Central bank cooperation and conflict

While the Geneva and Basle institutions registered scant success as money doctors, the central banks compiled a stronger record, at least before the winds of Depression blew their achievements away. Indeed, the period 1924–31 figures as the great age of central bank cooperation.[27] Benjamin Strong, governor of the New York Fed, began to cultivate his opposite numbers in London and Paris as early as 1916. In the 1920s, he devoted much of his energy to collaborating with Montagu Norman of the Bank of England in herding the key countries toward a stable-currency regime. A generation later, Allan Sproul, also a president of the FRBNY, would complain that "the United States has a funny central banking system, with most of the power in Washington, and most of the knowledge in New York."[28] Strong likewise labored chronically under the captious criticism of small-town bankers who dominated the Federal Reserve Board in his day. Herbert Hoover, as secretary of commerce, derided Strong as a "mental annex to Europe" who had initiated easy-money policies in 1924 and 1927 primarily to assist his European "allies."[29] In fact, Strong insisted, domestic and foreign imperatives worked together in both episodes: lower discount rates stimulated business and relieved hard-pressed Western farmers at the same that they opened U.S. markets to foreign borrowing and laid the foundation for monetary rehabilitation abroad. Strong readily conceded that a central bank must privilege domestic monetary management in the event of conflict.[30] In that spirit, the New York Fed advocated restrictive measures in 1928–9 to curb stock-market speculation, even though higher rates would place additional pressure on sterling.[31]

The biographers of Lord Norman, governor of the Bank of England, have fulsomely documented his tactical alliance with Strong, yet they understate his gnawing jealousy of U.S. financial preeminence.[32] From the beginning of his tenure, Norman burned with nationalist fervor to restore the place of sterling in international transactions. Norman framed the central bank resolutions for the 1922 Genoa Conference with a political purpose in mind. Under his proposed "gold-exchange standard," only the lead countries in the monetary system would maintain reserves entirely in gold. The others would hold part of their reserves as foreign-exchange claims on gold centers and stabilize domestic prices through cooperative credit policies.[33] Strong felt mounting qualms about the suggested scheme. It might facilitate a pyramiding of credit on limited gold holdings. Even more alarming, if major countries undertook to manage the system by preventing fluctuations in the price of gold, that might amount to "handing a blank check to some of the impoverished nations of the world…whose government finances are in complete disorder."[34]

Strong evaded a central bank conference to institutionalize such a system and argued instead for tackling stabilization country by country sequentially – what John H. Williams (1947) would later denominate the "key currency" approach. Bank of England records suggest that Norman really aimed to link as many nations as possible to sterling, even before the pound had returned to gold. When the Dawes Committee drew up a Reichsmark stabilization plan in 1924, Norman fought a rearguard battle to avoid basing the new currency on the dollar. "I am aware…that sterling is depreciated in terms of gold," he lectured the head of the Netherlands Bank,

> but it remains the main basis on which European exchanges are operated, and I am most strongly of the opinion that, as Europe obtains no financial assistance or cooperation from America, Europe should no further attach herself to the basis which for the present America controls.[35]

Nonetheless, Norman saw the return of sterling to the prewar par in 1925 as his finest accomplishment. He labored indefatigably to arrange a Federal Reserve Bank credit and a Morgan loan to ensure a smooth return. The London authorities had multiple reasons for hurrying stabilization before relative prices became fully aligned, but international considerations placed high on the list.[36] Not merely Germany, but also South Africa, Australia, the Netherlands, and Switzerland planned an imminent return to gold. As Winston Churchill explicated the policy considerations underlying the Treasury view in May 1925:

> If the English pound is not to be the standard which everyone knows and can trust,…the business not only of the British Empire, but of Europe as well, might have to be conducted in dollars…. That would be a great misfortune.[37]

Following sterling's return to gold, Strong and Norman continued their collaboration to stabilize the continental countries between 1925 and 1928. At the same time, Norman endeavored to foster central banks in the British Dominions.[38] Although France stabilized de facto in 1926 without obtaining either outside Treasury or central bank loans, Strong provided moral support and quietly detailed Robert Warren to render technical assistance. (For reasons of *amour propre*, the French hesitated to acknowledge publicly just how much help they needed.)[39] The cooperative ventures to stabilize Belgium, Italy, Poland, and Rumania, by contrast with the French operation, have come in for trenchant criticism.

The negative evaluations focus less on the monetary aspects of stabilization than on the political conditions in which they took place. Most of those operations, after all, followed some variant of the financial model adumbrated in 1920 at Brussels. They involved balancing the budget, consolidating the floating debt, shoring up the prerogatives of the target country's central bank, and selecting a realistic exchange rate. In return the foreign central banks provided their imprimatur by subscribing to a credit and by tapping the capital markets for a

follow-on long-term loan. Richard Meyer contends that, although visible official intervention may prove indispensable from time to time, neither Belgium, Italy, Poland, nor Rumania absolutely needed the credits and loans accorded to them except for development purposes. In practice, the target countries played the participating banks off against each other to obtain the least onerous conditions and the minimum of control (Meyer 1970: 16–160). In other words, the money doctors proved too eager to register political success. Hence bargaining terms moved in favor of individual client nations at the expense of the global financial architecture.

Belgium, for one, took advantage of its diminutive size to stabilize below purchasing-power parity; when France followed suit, that aggravated the putative misalignment of sterling.[40] By contrast, Italy was allowed, for reasons of prestige, to stabilize at a high rate that proved unsustainable at full employment. In addition, Montagu Norman, carried away perhaps by the Morgan interests' admiration of Fascist efficiency, dropped his insistence on central bank independence in Rome.[41] The Polish and Rumanian stabilizations, even worse, exposed the political fissures among the central banks. Allowing political sympathies to warp his judgment, Norman collaborated with the Reichsbank's Hjalmar Schacht in an effort to impose the odium of League control on Poland. The Poles, professing to find the Americans "disinterested," warded off that threat, first by inviting Professor Edwin Kemmerer to investigate, and then by placing themselves under the protection of the FRBNY and a second-tier American bank syndicate. The Poles obtained the funds they desired without accepting fiscal discipline and with a mere simulacrum of control. Not surprisingly, after providing a transitory stimulus, the spigot of new loans turned off (Pease 1986: 40–129).

A controversy over Rumanian stabilization completed the alienation between the London and Paris central banks. Norman, invoking precedent, sought to force Rumania to accept League dictation. Governor Moreau complained to Premier Raymond Poincaré that Threadneedle Street practiced financial "imperialism" all over Europe and employed the Financial Committee at Geneva as the instrument of that "domination."[42] The franc had meanwhile regained de facto stability, and the British grew increasingly dependent on the Banque de France not to draw down sterling balances in London. The French bargaining position had therefore improved. Moreau seethed with outrage when Norman, pretending that nothing had changed, still sought to block France from combining political influence with economic leadership in the Little Entente.

Benjamin Strong deemed the whole matter a tempest in a teapot. The sums at issue were small. Nevertheless, the New York Fed thought it best in principle to encourage France as a capital lender. In the end, the Rumanians got their money without serious reform, and relations between Paris and London continued to worsen. The Bank of England would never again rely on French bona fides, even when a crisis of momentous proportions arose in 1931. The breakdown of cooperation between two key money centers had large implications. By 1927 it had dawned on insiders – even those who had not studied

prewar experience closely – that the gold-exchange standard did not adjust to shocks automatically. Rhetoric aside, the central bankers presided in effect over a managed-currency standard.[43] No doubt France's policy of gold accumulation constituted the gravest perceived threat to sterling's stability and thereby to systemic equilibrium. Yet the Rumanian contretemps exposed the manifest political limits to central banks acting as money doctors more generally.[44]

Wall Street to the rescue?

While central banks set the tone, the leading investment banks of the 1920s provided the bulk of the capital for foreign loans. The most important ones, like J.P. Morgan & Co. and Lazard's, maintained representation in all three major money centers and offered one-stop shopping for countries in need of financial assistance. Morgan's still figured incomparably as the dominant banking house of the era. Specializing in "relationship banking," it had strengthened its position by representing the British and French governments during the war and by overseeing purchasing as well as the first mass marketing of foreign loans.[45] Although the Wilson administration began with a deep populist suspicion of Morgan influence, it came increasingly to rely on the talents and contacts of the firm. Thomas W. Lamont assumed a commanding position in the economic group that assisted President Wilson at the Paris Peace Conference (Glaser 1998: 371–400).

Nevertheless, the partners at 23 Wall Street became somewhat troubled during the 1920s by the quasi-public duties that the institutional structure of capitalism had thrust upon them as private citizens. "The Morgan firm is an anachronism," Dwight Morrow once admitted; "it is accountable to nobody but its own sense of responsibility." Partly as rationalization, J.P. Morgan preferred to think of himself as a type of high-level bond salesman, "simply an expert…upon the marketability of securities."[46] Even in private correspondence, the partners preferred to speak of the investment markets' requirements, and of themselves as their mere interpreters.

At the same time, American finance underwent massive structural change in the postwar decade. The transmogrification of Wall Street ultimately circumscribed Morgan leadership. Having witnessed the government's success in mass marketing Liberty Bonds in 1917–18, bankers no longer placed their flotations among a small coterie of the wealthy. Instead, they tapped the burgeoning savings of the middle class. Upcoming firms hungry for business, chief among them Dillon, Read & Co., Harris, Forbes & Co., and Halsey, Stuart & Co., repeatedly undercut Morgan's position by offering easier conditions on foreign loans packaged for retail distribution. The security affiliates of national banks, with deeper pockets than private bankers, took a growing share of the debenture business as well as leading in stock placement. Although Morgan's and its East Coast "establishment" allies continued to set the terms for high-visibility loans to West European governments, their ability to impose conditionality on smaller flotations elsewhere declined (Carosso 1970: 240–99). Challengers stood ready to meet the public appetite for securities without finely calibrating risk against

return. As one of the new breed unashamedly told a Congressional committee, "The banker is like the grocer. He supplies what the customer wants."[47]

In 1921 the Harding administration sought to impose public oversight on foreign loans. Commerce Secretary Hoover repeatedly pressed to enlarge that scrutiny. But State and Treasury Department officials feared that, if they passed judgment on any loans as a business proposition, they would incur a potential legal liability for those flotations to which they posed no objection. They accordingly restricted themselves to passing on the political appropriateness of loans (for example to nations that had failed to fund their war debts). When the speculative boom of the middle 1920s threatened to get out of hand, bureaucrats became uneasy about the volume of German and Latin American flotations for unproductive purposes. Still, aside from cautioning the borrowers indirectly, they dared not interfere.[48]

When Congressional committees called them to account in the 1930s, the Morgan partners justly boasted that only two of their own issues had ever gone into default. The exceptions were the Dawes and Young loans, which they had floated at the behest of the U.S. government. Certainly the House of Morgan concentrated on relationship banking and gave a wide berth to risky syndications for most developing countries. At State Department behest, Lamont traveled to the Far East in 1920 to secure Japanese adherence to the International China Consortium, yet the firm confined its own Asian lending in the following years to Japan.[49] Maintaining a prewar ethos that bid fair to disappear among the newer Wall Street conglomerates, J.P. Morgan prided himself on applying strict moral as well as financial criteria to the activities of the firm. Ten years after the war, he resisted pressures to consider a lucrative contract advising the Deutsche Reichsbahn. "From what I see of the Germans," he counseled his partners in the home office, "they are second-rate people, and I would rather have their business done for them by somebody else."[50] All the same, on occasion Morgan's fared no better than less prudent lenders when it encountered the problem of political risk. Marc Flandreau suggests that, even in the 19th century, relationship banking did not foster a very effective form of conditionality.[51] The weaknesses of such arrangements became spectacularly more open in the world after the war, as the Mexican example demonstrates.

In 1921 Lamont had the misfortune to become chairman of the International Committee of Bankers on Mexico. Over the next two decades he spent more time defending the interests of external creditors dispossessed in the Mexican Revolution than on any other matter. He visited Mexico City in October 1921 with the hope of making President Alvaro Obregón a refunding offer he could not refuse, but departed with empty hands. Having observed the success of the Bolsheviks in repudiating foreign obligations, the Mexican negotiators perceived no need to pretend they might make macroeconomic adjustments. "I did not think any government of modern times would so frankly proclaim its complete dishonesty or its abandonment of all decent finance or morals," fumed Jack Morgan from his suite at the Paris Ritz. He congratulated Lamont disconsolately on at least "getting out before they stole your pocketbook or watch."[52] Ever the

preternatural optimist, Lamont resumed talks with the Mexican finance minister in 1922 and reached an apparent understanding on annuities secured by oil export taxes and railway revenues. The Obregón regime sought U.S. recognition and hoped to restore its credit rating in order to qualify for a new loan – all without yielding the essence of its revolutionary claim to subsoil rights.

To no one's great surprise, the 1922 agreement did not stick. When the *Yanquis* failed to cough up new money, Finance Minister Alberto Pani withheld Mexican remittances on the grounds (still unusual in the postwar decade, but increasingly common from the Great Depression onward) that "human rights" trumped "legal" considerations. One partial default followed another. In 1930 Ambassador Morrow, placing national-security concerns above bondholder interests, fought to scuttle a revised agreement worked out by his former partners on the ground that it provided no comprehensive settlement of Mexican obligations, both foreign and domestic. The 1930, 1931, 1938, and 1942 refundings proved no more durable than their predecessors, particularly after Washington began to advertise its "Good Neighbor Policy" for Latin America. Neither portfolio investors nor the oilmen recovered more than a miniscule fraction of their original investments or accrued interest. Twenty years along in the process, Lamont reminded a new Mexican finance minister of his boyhood experience seeing a woman skinning eels alive. When he remonstrated, the woman replied: "Oh, they get used to it." As money doctors found so often in the interwar era, political risk loomed larger than financial risk.[53]

Academics and freelancers

Consulting economists constituted the fourth category of "money doctors" between the wars. The Progressive era in America popularized the idea of disinterested public service. Reformers held that the rigorous application of scientific principles could produce advances in public administration as striking as those in the hard sciences. The same generation saw the rise of economics as a credentialed, professional discipline at U.S. universities. Economists made equal theoretical advances elsewhere, of course. And the British were the first to institutionalize independent economic advice to government with the formation of the Economic Advisory Council in 1925 (Howson and Winch 1977). But the unique status of the "expert" became a particular ingredient in American popular culture, where economists, like other social scientists, obtained recognition in the media and special admiration as authorities in their field.[54]

Europe boasted some well-known independent economists too, but it was not always transparent who employed or what motivated them. Charles Rist carried out a number of missions to Eastern Europe – to Rumania in 1927–8 and to Austria in 1931 – nominally wearing his expert hat, but in practice representing the French government, which sought to extend its influence in the region on the cheap.[55] Russell Leffingwell of Morgan's derided "publicist-economists" like Keynes, Gustav Cassel, and Verrijn-Stuart, who made their living mostly through journalism or speculation and who thought, "in their wisdom," that they

could control the price level better than the Bank of England or the Federal Reserve. Those iconoclasts' advocacy of a managed currency made them *persona non grata* in orthodox banking circles during the 1920s. From the Peace Conference onward, moreover, the French perceived Keynes as a highly adroit polemicist who placed his unusual talents and knowledge in the service of German diplomacy.[56]

Keynes nurtured a close relationship with the Hamburg financier Carl Melchior throughout the post-Versailles lustrum, and like-minded German industrialists subsidized the influential *Manchester Guardian Commercial* supplements in which the Cambridge economist purported to present a neutral analysis of European stabilization issues. Keynes found himself drawn into the vortex of *haute politique* when Melchior's shipping friend Wilhelm Cuno of Hapag became chancellor of the Reich. In November 1922 the Reich government cast about for a mechanism to head off a declaration of default by the Reparation Commission. It decided to invite seven "independent financial experts," including Keynes and Cassel, to make recommendations for stabilizing the Mark. Arriving in the German capital early, Keynes advanced his own ideas in finished form while his fellow experts were still engaged in "preliminary nail-biting." He persuaded the majority to support a two-year reparation moratorium as a precondition to thorough-going monetary reform, just as the host government desired.[57]

In June 1923 Keynes again rode to the rescue. This time he visited Berlin surreptitiously and worked with Cuno, Melchior, and Foreign Ministry officials preparing a crucial German reparations note. Then he scurried back to London to praise his own handiwork in *The Nation and Athenaeum*. The alternative to the Cuno offer, he warned, would be a reign of tribute and rapine extracted by France, "as the Goths did in the fifth century."[58] It is hard to imagine that Keynes failed to catch on to indications that the Reich government had sustained the hyperinflation as a matter of national policy. After all, Cuno did not mince his words about stabilization in private conversation with his Hamburg friends. Shortly afterward he confessed: "If the reproach is made that we didn't get our tax system in order, well naturally our wish had been to solve the reparation problem first and the tax problem only afterward."[59] What satisfaction did Keynes derive from his German ventures? He kept his pulse on exchange rates and used that knowledge to advise a British textile firm as well as to speculate for King's College and on his own account, but those were secondary gains. Mostly, one can speculate, he acted for the narcissistic gratification of pulling the strings behind the scenes and advancing a political cause in which he believed.

Rather more prosaically, a number of academic economists in the United States turned their expertise to the modernization and reform of monetary conditions abroad. Professor Edwin W. Kemmerer of Princeton figured as the most prominent of his cohort. Other foreign advisers, including W.W. Cumberland, John Parke Young, Arthur N. Young, Arthur Millspaugh, and Frank Fetter, were either Ph.D. students or close colleagues of Kemmerer (Curti and Birr 1954). Kemmerer obtained his first experience as a money doctor in the Philippines, where he served as currency adviser to the U.S. mission in 1903, shortly after receiving his Ph.D. (Glaser-Schmidt 1988: 359–75). Between 1917 and 1934 Kemmerer led financial missions to seven Andean countries as well as to South Africa, Poland, China, and Turkey – in short, to an assortment of nations that lay in the U.S. sphere of influence or disdained potentially humiliating advice from the League. Although Kemmerer, along with Joseph Davis of Harvard, won public plaudits advising the Dawes Committee on German currency reform, he specialized in the transfer of American expertise to developing countries. Indeed, Emily and Norman Rosenberg portray the Kemmerer missions as velvet-glove colonialism, suitably repackaged for liberal sensibilities (Rosenberg 1999: 59–83). While not wholly wide of the mark, that interpretation does less than justice to third-world business notables who embraced modernization as a way to leverage economic growth on their own initiative.[60] In any event, Kemmerer preached the same type of orthodox reform program adumbrated by the Brussels Conference and applied by the League Financial Committee. He cast that program, however, as part and parcel of a more ambitious modernization project. He advocated balanced budgets, scientific collection of taxes, the elimination of corruption and subsidies, the equilibration of exports and imports, and, most important of all, the creation of an independent central bank as a stepping-stone to adoption of a currency linked to gold.[61]

Kemmerer habitually arrived on site with a team including accountants, customs specialists, and men skilled in public administration and finance. He marketed a style of modernization that appealed to local elites who favored an open, export-oriented economy, and in that way pioneered the "ownership" adjustment programs that would become best practice at the IMF half a century later. At the same time, Kemmerer missions provided a stamp of approval to reassure potential U.S. investors. Although the relationship remained secret, Kemmerer accepted an annual retainer from Dillon, Read & Co. from 1924 onward (conflict-of-interest standards were less rigorous then than they have since become).[62] Notwithstanding the efforts of the Kemmerer teams to maintain academic integrity, State Department officials feared by the later 1920s that the publicity attending his missions often facilitated irresponsible borrowing for unproductive purposes (Rosenberg 1999: 155–65). As it turned out, without deep structural and social change in borrowing countries, the Kemmerer reforms tended not to stick. Like IMF programs in a later era, they signaled the creditworthiness of borrowers, but they provided no guarantee of sustainability if commodity prices turned down or political preferences changed (Drake 1994: 128).

Conclusion: disintegration of the reconstructed order

The Great Depression swept away the financial edifice laboriously reconstructed in the 1920s. The gold-exchange standard collapsed; increasingly economists began to question the expediency of restoring it. In the United States, France,

and even in England, the respective Treasuries acquired increased leverage at the expense of central banks. In the United States, the Glass–Steagall Act of 1933 worked in tandem with the implosion of capital markets to undermine the functions and prerogatives of private investment banks. There was "no business doing" either in New York or London, lamented J.P. Morgan disconsolately as late as 1938.[63] The Latin American nations that Kemmerer had advised used the excuse of falling commodity prices to suspend his reforms, even though some of those same nations experienced an unprecedented industrial boom (Díaz Alejandro 1983: 5–40). Certain independent financial advisers, for example Arthur Young in China, continued to find employment, but New Deal silver policy undercut whatever wisdom Young could dispense on the spot (Young 1963). In short, the Depression decade offered little scope for the ministrations of money doctors, even in the major countries.

Britain proved a notable exception to the rule. The British Treasury rejected the novel reflationary ideas of Keynes, yet it relied heavily on other economic expertise in crafting its recovery strategy of balanced budgets and easy money. The Bank of England extended its purview not only to advise Commonwealth central banks but also to foster financial rehabilitation at firm level through its Securities Management Trust.[64] Elsewhere, populist governments of every stripe exuded suspicion of the ideology and cultural assumptions embraced by money doctors even when they had to call upon their carefully circumscribed expertise. Franklin D. Roosevelt crafted his bombshell message denouncing the "old fetishes of so-called international bankers" and torpedoing stabilization at the 1933 World Economic Conference without advice from anyone except his Dutchess County neighbor, the gentleman apple grower Henry Morgenthau. Declaring that the bankers had "fooled" him over abandoning gold, he turned the next fall to a heretical agricultural economist, George Warren, for counsel on devaluation. The country was in "agricultural revolution," he maintained; it could stand losing its bonds, but not its homes and farms. When Undersecretary of the Treasury Acheson sniffed that "no reputable economist agreed with the milk farmer who was proposing this," Roosevelt delightedly appropriated the slogan: "the program of a milk farmer."[65]

Economic policymaking in Germany and France also reached phantasmagoric levels at times. Reichsbank President Hjalmar Schacht insisted that Hitler had one idea about finance and a very good one indeed. "It was, leave it to Schacht."[66] In fact, although Hitler lacked the time to read Keynes and Cassel, he repudiated liberal economics and talked of overcoming "a monetary system already attacked by Moses and Christ." He aimed somewhat vaguely at a full-employment socialist economy deriving its innermost essence from a new "moral understanding" and "ethical conviction," in the management of money and credit as in other spheres. He would employ Schacht so long as he proved useful to maintain the credibility of the Deutsche Mark abroad; after that "the Moor would have done his duty."[67] The French Popular Front also created a mental universe far removed from Brussels Conference ground rules. The voluble meridional orator Vincent Auriol, finance minister in 1936, envisaged a

simple solution to an imbalance in French external accounts: "*Les banques, je les ferme; les banquiers, je les enferme.*"[68] For good measure, Auriol ordered a telephone tap to monitor conversations at the Banque de France.[69] The civil servant at the Finance Ministry who executed Auriol's orders conceded privately that "the financial aspects of the government's plan are completely subordinated to their social ideas."[70] The measures taken did not increase government credibility, and three devaluations followed within the next two years, leading to rumors of foreign machinations among those already conspiracy-minded. The precepts of the 1920 Brussels Conference had little appeal in a world suffering from mass unemployment, the atrophy of world trade, capital controls, competitive currency devaluation, and premonitions of a new war to come.

Significantly, the default experience of the major creditors in the 1930s, as contemporary analysts recognized, depended mostly on the geographical distribution of their assets. Systemic default in Central and Eastern Europe, China, and Latin America took place in part for political reasons. Countries in the British Commonwealth suffered from the same economic ills as comparably situated nations elsewhere. All the same, they avoided default. In 1935 London Stock Exchange loans issued seven years earlier for Empire governments stood on average at 119 per cent of par, loans for corporations at 116 per cent of par, and even loans for commodity producers at 84 per cent of initial value.[71] Obviously the Dominions that generated an export surplus with Great Britain helped preserve export markets by maintaining a reputation as good borrowers. But it is too simple to say that those borrowers crudely weighed the pecuniary advantages against the costs of delinquency. The imperial visionaries who crafted the Ottawa Agreements of 1932 saw preferential tariff arrangements as a first step toward the larger coordination of trade, migration, and capital movements. The bankers and industrialists who managed the system mutually shared schooling, training, and moral assumptions (Drummond 1972: 17–120). The multiple linkages of interest and sentiment that bound the Commonwealth together evidently militated against interruptions of debt service on grounds of political expediency. Common values proved a more durable tie than the technical stipulations of the money doctors.

In summary, few interwar money doctors, individual or institutional, registered a lasting success. But it does not follow that their failures derived from unsophisticated theory or inadequate technique. Money doctoring always figures as a complex enterprise. It requires political as well as economic judgment. IMF money doctors of the current day have access to better statistics and more elaborate econometric models than did their interwar predecessors. Yet they too must wend their way among conflicting political pressures. Money doctoring, like skillful landscape architecture, requires vision and planning, but also ongoing attention to detail and a modicum of luck. A perfect storm can devastate the most artfully designed construction. To put this another way, the outcome of any macroeconomic stabilization program depends on the specific structure of the economy and the prospects for political accommodation within the target society.

It has become fashionable nowadays for economists to blame the breakdown of the world economy in 1929–33 on the purported rigidities of the gold-exchange standard.[72] The perspective of contemporaries rested on closer acquaintance with the political contingencies that underlay the monetary regime. "The gold standard is sound policy," Leffingwell advised his contacts on the Court of the Bank of England in 1929, "but it is not an insurance policy against all the ills the body political is heir to."[73] The Great Depression brought about a change in political sensibilities that 21st-century economists take virtually for granted. The old model, Eichengreen and Jeanne remind us, hypothesized that "excessively expansionary monetary and fiscal policies were widespread problems." Inflation created chronically overvalued currencies and, with incomplete liberalization of capital markets, limited the ability of central banks and governments to borrow.[74] Enter the money doctors.

In the second-generation model to which current practitioners adhere, central banks and governments are assumed to "maximize a welfare function" in which "domestic variables like output, employment, and the stability of the banking system" outweigh the commitment to any exchange-rate peg. As Eichengreen and Jeanne explain the situation in the value-neutral diction characteristic of the profession today, "the government may be prepared to pay the cost of opting out of its exchange-rate commitment when a high level of joblessness increases the urgency it attaches to the pursuit of reflationary measures." What's more, heightened devaluation expectations under those circumstances can add a devaluation premium to interest rates. An external shock has feedback effects on both unemployment and currency stability. The quantitative data indicate that this is precisely what happened in England in 1931.[75] The premises of bankers from the 1920s about "honest money" have only limited applicability in such a brave new world. That is why the progenitors of the IMF began talking from the outset about allocating the burdens of structural adjustment fairly between debtor and creditor nations (James 1996: esp. 27–84, 309–466). Who adjusts, how, and how much becomes a function of political bargaining.

Notes

1 Feis (1965); Milward and Saul (1977); A. Chandler (1990).
2 Brown (1940, vol. 1: 7–164); Hardach (1977).
3 Kindleberger (1978); Cassis (1992, 1994); Kynaston (1994–99, vols. 2 and 3).
4 Royal Institute of International Affairs [RIIA] (1937: 142–326).
5 Keohane (1980, 1984).
6 Lipson (1985: 37–64); Platt (1968).
7 Lachapelle (1932); Netter (1994). Arthur Raffalovich, who played a central role in the turn-of-the-century "starving" debate, also helped shape public opinion toward the François-Marsal scheme. Compare the discussion in Guyot and Raffalovitch (1921) with Flandreau's treatment in Chapter 1 of this volume. (Raffalovich is published as Raffalovitch in France.)
8 Strouse (1999: 13).
9 Leffingwell to J.P. Morgan, 10 Sept. 1923; analogous comments concerning France in Leffingwell to N. Dean Jay, 16 Oct. 1925, both in J.P. Morgan-Partners file, J.P. Morgan Papers, Pierpont Morgan Library, New York.

10 See Monnet (1978); Salter (1967); Duchêne (1994); Roussel (1996); Nicolson (1935); Schuker (1976); Boyle (1967); Case and Case (1982); L. Chandler (1958); Jones (1964); Lamont (1994); Chernow (1990, 1993); Burk (1989); Ferrari Bravo (1990); Schuker (1980: 124–6). The author thanks J.P. Hannon for providing evidence from the Frank Altschul Papers, Sterling Library, Yale University, showing Altschul's paternity of the 1924 plan to support the franc.
11 Tocqueville (1969: 264–70); Glendon (1994: 257–94); Pruessen (1982).
12 Shaplen (1960); Gäfvert (1979); quotations from "The Kreuger Tragedy," *Economist*, 19 March 1932.
13 Moggridge (1972: 17–28); Kindleberger (1984).
14 Bloomfield (1959); Triffin (1964); Lindert (1969); Bordo and Eichengreen (1998).
15 Quoted in Dawes (1939: 89–90).
16 Russell C. Leffingwell to J.P. Morgan, 10 Sept. 1923, Morgan-Partners file, J.P. Morgan Papers.
17 Schuker (1993: esp. 385–9); Hogan (1977: 20–37).
18 Warburg (n.d.: 33–65); Holtfrerich (1986: 1–32); League of Nations (1943).
19 Warburg to Brand, 22 Mar. 1920, Box 22, Robert Brand Papers, Bodleian Library, Oxford.
20 Boyce (1987: 39).
21 Chernow (1990: 247).
22 Sayers (1976: 163–71); März (1984).
23 League of Nations (1945: 31, 33).
24 For the post-1945 doctrine of local "ownership" of structural adjustment programs, see Chapter 3.
25 J.M. Keynes, *Essays in Persuasion* (1932: 288); cited in Eichengreen (1992: 21).
26 Sayers (1976: 346–59); Case and Case (1982: 434–54); Schuker (1983: 122–30); Link (1970: 438–85); Johnson (1997); Crocker (n.d.).
27 L. Chandler (1958); Clarke (1967).
28 *New York Times*, 6 Feb. 1966, Sec. 3, F3.
29 L. Chandler (1958: 254–5).
30 Strong to Norman, 22 Feb. 1923, FRBNY; Clarke (1967: 31).
31 L. Chandler (1958: 427–70); Clarke (1967: 144–68); and, especially, on Norman's trip to New York, Charles Hamlin Diary, 4–6 Feb. 1929, Box 16, Hamlin Papers, Library of Congress.
32 Clay (1957); Boyle (1967).
33 Clarke (1967: 35–44; 1973: 4–18); Sayers (1976: 156–63).
34 Strong to Norman, 14 July 1922, Benjamin Strong Papers, FRBNY.
35 Norman to Vissering, 14 Jan. 1924, G3/180; elaboration of this standpoint in OV 34/117, Bank of England.
36 Moggridge (1972: 37–112); Clarke (1967: 77–107).
37 Quoted in Kindleberger (1984: 341).
38 Sayers (1976: 201–10); Plumptre (1940).
39 L. Chandler (1958: 360–80); Moreau (1954); Mouré (1991).
40 Van der Wee and Tavernier (1975); L. Chandler (1958: 332–59).
41 L. Chandler (1958: 381–90); Sayers (1976: 193–5); Lamont (1994). For documentation and analysis from the Italian side, see De Cecco and Francesco Asso (1993).
42 Moreau (1954: 488–9).
43 For an explicit acknowledgement of that fact, see Strong to Norman, 19 Oct. 1927, Benjamin Strong Papers, FRBNY.
44 Meyer (1970: 100–37); L. Chandler (1958: 403–22); Mouré (1991: 46–79); Kunz (1987).
45 Burk (1988: 199–211; 1989); Forbes (1974, 1981).
46 Schuker (1976: 141, 277).
47 Garrett (1932: 13).

48 Feis (1950); Hogan (1977: 78–104); Schuker (1988: 35–40).
49 Cohen (1978); Lamont (1994: 153–70, 236–7, 414–7).
50 J.P. Morgan to J.P. Morgan & Co., 30 August 1929, file 36, J.P. Morgan Papers. Although Morgan's expression grates on modern ears, bankers felt no obligation in the interwar era to address questions of borrower credibility in politically correct terms. No doubt Morgan saw himself as appraising a political culture rather than voicing a prejudice. On the context, see Mierzejewski (1999, vol. 1: 297–326).
51 See Chapter 1; also Flandreau (1998).
52 J.P. Morgan (Morgan Harjes tel. 81.447) to Lamont, 24 Oct. 1921, file 36, J.P. Morgan Papers.
53 Lamont (1994: 175–86, 197–200, 280–7, 385–90, 487–9); Smith (1972); Hall (1995).
54 Ross (1991); Haskell (1977, 1984); Larson (1977); Furner and Supple (1990); Rosenberg (1999: 187–218).
55 See Chapter 5; also Soutou (1976: 219–39).
56 Leffingwell to Morgan, 29 Oct. 1923, Morgan-Partners file, Leffingwell to E.C. Grenfell, 15 Aug. 1929, file 176, J.P. Morgan Papers. The classic biographies by Skidelsky (1992) and Moggridge (1992) project their hero's later veneration backward. For the French contemporary view, see Crouzet (1972: 6–26). On Cassel, note Predöhl (1972).
57 Kocherthaler Notizen für das Tagebuch, 2–9 Nov. 1922, Band 196a, Nachlass Max Warburg, Brinckmann-Wirtz & Co., Hamburg; Robert Brand correspondence with Keynes and Karl Ritter of the Auswärtige Amt, Boxes 25 and 49, Brand Papers.
58 Melchior–Keynes–Cuno correspondence, May/June 1923, in FI/2, Keynes Papers, Kings College, Cambridge; Melchior Notiz für das Tagebuch, 24 May and 4 June 1923, Band 147b, Nachlass Warburg; *The Nation and Athenaeum*, 16 June 1923.
59 Notiz Max Warburg, 1 Aug. 1923, Band 157a, Nachlass Warburg.
60 For examples of such modernizing elites, both before and after World War I, see Beatty (2001) and Chapter 6 in this volume.
61 Drake (1989; 1994: 59–132); Rosenberg (1999).
62 Rosenberg and Rosenberg (1994: 59–83, esp. 74).
63 J.P. Morgan to Russell C. Leffingwell, 18 July 1938, Morgan-Partners file, J.P. Morgan Papers.
64 Peden (2000: 247–302); Middleton (1985).
65 Freidel (1973: 470–89); George F. Warren Diary, 20 Oct.–2 Nov. 1933, Box 5, George F. Warren Papers, Cornell University. Roosevelt could have made better use of James Harvey Rogers, a more sophisticated economist on his own ideological wavelength. Unaccountably, he and Henry Morgenthau chose to sideline Rogers.
66 Sir Walter Layton Diary, 31 Mar.–3 Apr. 1933; cited in Schuker (1988: 71).
67 Turner (1985: 260–3).
68 "I close the banks, I jail the bankers" (Lefranc 1965: 366n.).
69 H.A. Siepmann, memorandum of conversation with Cariguel, 7 July 1936, OV45/86, Bank of England. Popular Front partisans insisted in defense that central bank independence required central bank neutrality. The Bank of France had undermined its claim to independence by subsidizing a political campaign against devaluation (see Mouré 1995: 341–62).
70 Rowe-Dutton memorandum of conversation with Wilfrid Baumgartner, 17 July 1936, OV45/86, Bank of England.
71 RIIA (1937: 322, 356–63); Schuker (1988: 125–30).
72 For an elegant exposition of the party line, see Temin (1989).
73 Leffingwell, 29/2420 for E.C. Grenfell, 15 Aug. 1929, file 176, J.P. Morgan papers.
74 Eichengreen and Jeanne (1998: esp. 1–4, 31–2).
75 *Ibid.*

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