Debt Diplomacy in the 1920s: The Case of the French and Hellenic War Debts

Vincent Carret

It is therefore up to the French ministers, as M. Michalacopoulos rightly declares, to judge whether it is in France's interest to lose the sympathy, unshakable for centuries, of the Hellenic people in order to gain a few millions. And it is up to them to exert all their influence and all their pressure on the services of the Ministry of Finance - which certainly cannot understand the broader political importance of the question - so that these services reduce their unjustified demands.[1]
(*Le Messager d'Athènes*, September 23, 1927, p. 1)

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[1] "C'est donc aux ministres français, ainsi que le déclare très justement M. Michalacopoulos, de juger si la France a intérêt à perdre la sympathie, inébranlable depuis des siècles, du peuple hellène pour gagner quelques millions. Et c'est à eux d'exercer toute leur influence et toute leur pression sur les services du ministère des finances—qui ne peuvent certes comprendre l'importance politique plus large de la question—pour que ces services réduisent leurs exigences injustifiées."

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On September 23, 1927, the diplomatic relations between Greece and France were at an all time low. Both countries held that they had a claim on the other on account of the financial debts accumulated during World War I, and the debate was raging in French and Hellenic newspapers. In *Le Messager d'Athènes*, it was claimed that the French minister of finance, in its stubbornness to ask for "a few millions," was neglecting the bigger political problem. But considering that the finance minister of the time was Raymond Poincaré, the *Président du Conseil* (chief of government), it is highly unlikely that political problems were disregarded by the ministry of finance. In fact, the entanglement of the political issue with the technical settlement of debts was a burning problem in France, one that guided many diplomatic policies adopted during this period.

What were the Greeks so mad about? After more than a dozen years of war and a long crisis of the Drachma, their national currency, they were on the verge of joining back the international monetary order, and about to emit a loan under the aegis of the League of Nations, who had just signed with them a protocol to reform and stabilize the Greek financial system. But the French were threatening to throw it all away and to block the emission of the crucial loan if the Greeks did not repay their debts toward them.

This intransigent position was part of a larger debate on war debts and the reparations that Germany was supposed to pay after the war, which were a contentious issue in France (Kooker 1976). The situation was aggravated on the domestic side by the crisis of the *franc*, which was only starting to improve since Poincaré's return as prime minister in July 1926. Behind the technical and economic questions about financial reforms, debt amounts and monetary stability, lurked the political motives of a country, once a Great Power, that felt its influence over Europe dwindling. Already losing grip on the question of German reparations, the French were witnessing Americans replace British bankers in the heart of Europe, and the Financial Committee of the League

V. Carret (✉)
Creighton University, Omaha, NE, USA
e-mail: vincentcarret@creighton.edu

of Nations falling into British control. The war debts between France and Greece became an instrument of political pressures through the diplomatic work of the League of Nations Economic and Financial Organization (EFO). In the late 1920s, when Greece came back to Geneva to secure a loan, the French saw in the subsequent diplomatic discussions a way to force the Greeks to repay what they claimed they owed them, and a means to project the waning influence of the country in Eastern Europe.

In this paper, I consider how the political negotiations of the Greek loans unfolded, from the visit of a group of League experts in the Spring of 1927 to the flotation of the loan the following year. Based on the archives of Jacques Rueff, a French economist who was in Athens in 1927, as well as some archives found in the Bank of France, I trace out a narrative of the political two-level game played by France and Greece. The idea of a two-level game was proposed by Robert Putnam (1988) to describe how domestic and international pressures act on negotiators to shape their positions and the ultimate outcomes of their discussions. Through this lens, I argue in the following that although the League is typically typecast as a feeble actor that failed in its task to promote peace, its mechanisms and in particular the general assembly was able to enact some of the liberal ideals that it embodied, especially by protecting the rights of small nations such as Greece.[2]

This perspective helps us to revisit the different opinions that were held about the League during the 1920s, especially among liberals, who were its natural defenders. In France, the foremost liberal promoter of the League was Louise Weiss, who founded the weekly newspaper *L'Europe Nouvelle* in 1918 and subsequently published thousands of pages of documents and analyses of the League, defending its role and its successes to promote peace and defend the rights of individuals. An early feminist, Weiss's liberalism was a defense of individual freedoms against the pressures of a rigid society (Hirsch 2007: 39). She represents the optimistic wing of liberals, while her fellow European Ludwig von Mises represents the more pessimistic wing, one that believed the League of Nations to

[2] In the following, I use the term "liberal" in its classical meaning; see e.g. Mises (2007: vii) who summarizes the principal features of liberalism as such: free enterprise, market economy, constitutional representative government, freedom of individuals.

be unable to overcome the nationalistic tendencies of its member states. In *Liberalismus*, originally published in 1927, Mises judged harshly the League of Nations, in part because it created an inequality of status between its member states, and perpetuated nationalism through the recruitment of functionaries selected by national governments (Mises 2005: 114; Mises 1974: 312). He called instead for a more forceful application of international laws to protect the political order in the society of nations, and recognized only begrudgingly that the League "promises–again very cautiously and qualifiedly–protection to national minorities" (Mises 2005: 115). The protection of minorities against the wills of majorities is a central point throughout the history of liberalism, and one that was emphasized by Mises in his analysis of the foreign policy of a liberal society, by calling for the creation of a peaceful society of nations, "so constituted that no people and no individual is oppressed on account of nationality or national peculiarities" (Mises 2005: 110). Liberals could join forces on this point, as we will show later with the example of Jacques Rueff, another important proponent of liberalism in France. As we will show, for all its shortcomings, there did exist some mechanisms in the League that were destined to help peripheral nations, to help them gain access to financial markets and to resist the pressures of larger and more powerful countries.

Most of the studies of the financial and economic work of the League has come from its former members (Hill 1931, 1946; Loveday 1938), but this state of scholarship changed in the 1990s, with the work of economists interested in the reconstruction of the 1920s in the context of the transitions of the 1990s. Santaella (1993) studied the plans enforced by the League in the countries that asked for her help, and how they helped them achieve stability and obtain credibility. For instance, Endres and Fleming (1996, 1998) presented the work of the economists in Geneva, mainly at the International Labor Organization, but with some incursions in the work of the Financial Committee, and Louis Pauly (1996) showed the debt that the IMF owed to the plans of the EFO and its previous work.

Another important work in reconsidering the role of the League of Nations was from a British historian, Patricia Clavin (2005; Clavin and Wessels 2004, 2005) who studied in depth the mechanism of the EFO and how it worked to reconstruct indebted and marginalized countries. This was the start of a second wave of works that addressed the work of the League of Nations from a more socioeconomic and critical point of view; for instance, Yann Decorzant (2011a, 2016) traced back the construction of an epistemic community from the first world war to the 1920s, a community that reunited private and public bankers and financiers together. The importance of bankers and financiers in the reconstruction of a capitalist international order along the lines of the monetary orthodoxy of the time, revisited in the context of the 2008 crisis in Europe, led others to a focus on the mechanisms and consequences of austerity plans (Fior 2008a, b). Thus the focus in the 2000s–2010s was much more on the political economy of reconstruction than on the struggle against inflation, as was the case in the first classic on the interwar reconstruction (Maier 1975). Most of this literature emerged as part of the wider "neoliberal" studies movement, and has presented the work of the League as a top down imposition of austerity measures to peripheral countries constrained by their inability to access markets on their own. In this paper, I go against this critical stream by arguing that the political process of the League was able to protect the interest of smaller nations who could play the international diplomatic game to their advantage.[3]

The first section of this paper summarizes the main elements of the financial reconstruction in Europe after the war, and the role of the League of Nations Financial Committee in this reconstruction. Jacques Rueff, the character that allows us to enter behind the scenes of the negotiations between France, Greece and the League of Nations, is presented next. After a brief overview of the political and economic development of Greece that led to its predicament of the 1920s, we delve into the account of the diplomatic process of the Greek reconstruction loan of 1927–1928. The last section interprets the events and what they tell us

[3] A similar idea can be found in a study by Flores and Decorzant (2016: esp. 677), who argue that the League was able to give credibility to otherwise debunked countries unable to access financial markets, and that its intervention resulted in better loaning terms as well as spillover effects on the political sphere. They take, however, a bird's-eye view on the matter, while I detail how the two-level game played by the French and Greek government between domestic concerns and international negotiations led to a compromise that protected Greek interests.

on the working of international financial diplomacy in the 1920s, and the relationship between the economic and political work of the League during this decade.

The League of Nations and the Financial Reconstruction of Europe

After World War I, governments were eager to find the lost stability that had prevailed in the pre-1914 international monetary system. As a consequence, during the 1920s many efforts were put into reconstructing an international monetary order centered around the gold exchange standard, and some view the policies adopted to that end as one of the main causes of the Great Depression that followed (Eichengreen and Temin 2000). Indeed the return to a lost order was not an easy one: England led the way with a deflationary policy that allowed a return to pre-war parity between pound sterling and gold, at the cost of a new and durable unemployment that raised many concerns among economists. France on the contrary, after fighting the battle of the *franc* for the better part of the decade, decided to abandon the *franc Germinal* created more than a century before, and adopted the *franc Poincaré* in 1928, thereby devaluing its currency to one fifth of its pre-war value. New international tensions resulted from these imbalances, and exploded later on when the depression hit the old continent, with England eventually abandoning the gold exchange standard in September of 1931. It was even harder for peripheral nations to manage to stabilize their economies and to get back into the new monetary system. It is in helping this process that the League of Nations played an important role in the financial reconstruction of the afterwar, through the work of its Economic and Financial Organization at the center of which was the Financial Committee.

The Paris Peace Conference of 1919 had not directly addressed economic and financial questions, which were postponed to ulterior conferences, in particular the Brussels conference of 1920 and the Genoa conference of 1922, both landmarks on the way to the financial reconstruction of the 1920s.

The Brussels conference has gained renewed attention since the 1990s, in particular by Yann Decorzant (2008, 2011a,b, 2016) and Michel Fior (2008a,b), who both noted the important role of bankers and financiers in the creation of new international economic and financial regulation. While the United States refused to participate in the political work of the League, it is noteworthy that they were very invested in its economic and financial action, and that they had a delegate at the financial committee from 1927 on. While many accounts blame the ultimate failure of the League on the absence of an official American presence, someone like Mises also recognized that the support for peace of the United States was well-known, and an official participation would have mattered little (Mises 1974: 313).

The Economic and Financial Organization of the League was put into place at the Brussels Conference of 1920, which was attended by 86 delegates from 39 countries, who were nominated by their governments but spoke only for themselves. The preparatory work for the conference was done by a committee of five internationally renowned economic experts (G. Cassel, A. C. Pigou, C. Gide, G. Bruins and M. Pantaleoni), who redacted different memorandums and a collective declaration that included four core ideas: "inflation must absolutely be stopped, currency exchanges stabilized, international exchanges must be revived as soon as possible, and it is necessary to define rapidly a global policy for international credits" (Decorzant 2008: 113). These ideas are the grounds on which the financial and economic work of the League was built, and to enact them, the conference adopted the creation of a Provisional economic and financial committee. However, one of the most important questions of the time, the problem of the war debts between the allied countries and Germany, was set aside because France did not want that question to be settled in Geneva.

These ideas about the ills that plagued Europe and the way to stop them were widely shared at the time, and we find them for instance in an article from Ralph Hawtrey written in 1921, where he claimed that: "Public opinions, especially since the Brussels Conference, has everywhere progressed in the understanding of the ill and the remedy. The primary need of affected countries is, as we know, to balance their budgets. Their weakness comes from budgetary deficits, and it will continue as long as those deficits will continue. As soon as an end will be put to the printing of money, the rest will follow" (Hawtrey 1921: 206).

Hawtrey continued his analysis by discussing the problem of controlling prices, and concluded on the necessity to enact financial programs able to stabilize the economies of devastated countries who could not access international capital markets, and who had no other resources than to print more money: "the true root of the illness is a lack of economic power. It is because of this that deficits are compensated by monetary emission. If we could find a real resource, and not a fictive one, to compensate them, this ill would disappear. … The collapse of credit is to blame, and this collapse comes itself from the discredit of currencies" (Hawtrey 1921: 220). This is also the view expounded by Gustav Cassel in his memorandum on the *World's Monetary Problems* submitted to the Brussels Conference, in which he argued that "the *primus motor* to the enhancement of prices has always been the creation of an artificial buying capacity" coming from the creation of money by treasuries (Cassel 1921: 19–20).

After the Brussels Conference, the Provisional committee took on its first mission, namely the reconstruction of Austria. Following several months of negotiations, the first protocol was signed by the League's Council and a loan was emitted "under the aegis" of the League of Nations, who was entrusted to monitor the application of the agreement, and to manage the resources affected to the payment of the loan. The first "League loan" was a success, and the Committee was made permanent in 1923, after the Genoa conference endorsed the creation of an international platform for multilateral reconstruction.

The Genoa conference was not organized by the League, which sent some of its experts to attend it. Once again, the necessity to stabilize prices was recognized, and one of the main results of the conference was the adoption of the Gold exchange standard, a system where gold was only held by economically powerful countries, while other countries emitted their money based on their reserves of foreign currency. By 1922, the League thus had a program for financial reconstruction, an institution to lead it, and could tackle the problems of countries that started coming to the Financial Committee to receive its support in order to access international financial markets. One major obstacle on this path was the question of the war debts that plagued international relations between ally and enemy countries alike. Although it was not the mission of the League to settle those questions, which were discussed by the Reparations Commission, the Economic and Financial Organization played an important role in their settlement by integrating them in the negotiations toward a League Loan.

After its successful mission in Austria, the League received a demand from Hungary, where another stabilization plan was successfully executed, and a loan emitted. These were the two most important loans, and by 1924 the reputation of the Financial Committee was already established, for better or for worse: on one hand it was possible for countries to access international markets by striking a deal with the Committee, on the other such a deal implied a foreign intrusion and an "austerity" program that was generally not well perceived by the populations. Led by the British delegate and its Commonwealth allies, the Committee was often seen as dependent on the will of the Bank of England and its governor, Montagu Norman, and became the lieu of a battle of influence.

After Austria and Hungary, the Committee signed protocols for the installation of Greek and Bulgarian refugees (1924 and 1926), with the free city of Danzig (1925 and 1927), with Estonia (1927) and again for Greece and Bulgaria (1927 and 1928), this time for a more complete reform (League of Nations 1945). In each case where a monetary and stabilization reform was undertaken, the Committee adopted the same guidelines that arose from the Brussels Conference: an effort to balance the budget, a reduction of the inflation, and the adoption of the tenets of central banking, usually depending on the creation of a new, independent central bank. This approach to stabilization and the importance of central banking led to several textbook expositions of the doctrine, for instance in Kisch and Elkin's *Central Banks* which went through four editions between 1928 and 1932 (Kisch and Elkin 1932).

Finally, one important condition in order to access international financial markets was the settlement of war debts. In that regard, although the Committee was held responsible for harsh constraints imposed upon the demanding countries, it also allowed them to escape much harsher clauses from their creditors (Flores Zendejas and Decorzant 2016). In the case of Greece, the Committee and the League helped bypass the French veto on the reconstruction loan. Before we look at this process in more detail, we introduce Jacques Rueff, one of the actors of the negotiations that surrounded the Greek stabilization process, who arrived in Geneva in February 1927, as the Greek government was approaching the Financial Committee to obtain a League Loan.

Jacques Rueff: A Classical Liberal in Geneva

Monetary problems and practical solutions to resolve them were an early interest of Jacques Rueff who, according to his autobiography, spent some time in the immediate aftermath of the war in central and eastern European countries where he witnessed the consequences of financial destabilization and inflation (Rueff 1977). Born in 1896, he served as an officer during the war and integrated the *Ecole Polytechnique* in 1919. In 1921 he joined the elite *grand corps* of *inspecteurs des finances*, where he started a career in financial administration. After a few years working outside of Paris, he was called in 1926 to the cabinet of Raymond Poincaré, the head of government who was also minister of finance, to help determine the right level at which to stabilize the *franc*. This was his first direct experience of monetary stabilization, one of many as he went on to work on the same kind of monetary problems at the League, and then again in France during the second part of the 1930s, and yet again in 1958 when he was instrumental in creating the *nouveau franc.*

In 1926 it was not the first time he thought about monetary stability; indeed, aside from his career in public administrations, Rueff published more than a dozen articles during the interwar on money, credit and international exchanges, as well as several books on monetary issues, the methodology of social sciences and his *magnum opus* in 1945, *L'ordre social*, an essay to integrate his economic views in the larger realm of society and its evolution.

His first published article (Rueff 1922) was concerned with exchange rates, and was closely related to Gustav Cassel's previous works on purchasing power parity, although Rueff claimed he had not read it at the time. Shortly after, he published another article looking at the link between inflation and an exponential rate of paper-money emission, using as a theoretical basis the Fisherian formulation of the quantity theory of money (Rueff 1925b). During the 1920s, he proposed several explanations for the unemployment that plagued England, linking with a graphical argument the variations of unemployment with the downward rigidity of wages during the 1920s British deflation, sparking a heated debate with French and English socialists (Rueff 1925a). He was also very concerned with the problems of German reparations, and debated with Keynes at the end of the 1920s, criticizing the position of the British economist and presenting arguments in favor of automatic adjustments of the balance of payments (Rueff 1928, 1929a,b).

In February 1927, at the end of his mission in the cabinet of Poincaré, one of his supervisors offered him to work in Geneva for the Secretariat of the League of Nations, to assist the Financial Committee in his endeavors to reconstruct Europe. He was immediately convinced, and moved to Geneva early in March. As a member of the Secretariat, he was not an official delegate of France, but as it will appear later on he kept in touch closely with the diplomatic services of the foreign affairs ministry and with his hierarchy at the ministry of finances.

His tasks were diverse and included information gathering missions in countries asking for the help of the Financial Committee, that he led at the request of the latter in 1927 in Greece, 1928 in Bulgaria and 1929 in Portugal, but also theoretical and practical works in different special commissions, on double taxation, on the problems of the purchasing power of gold, or on statistical gathering by central banks. Although he did not stay long in Geneva, and was sent to London in the spring of 1930, this stay was important for him to nourish his ideas about economic cooperation, monetary stability, and financial reconstruction. Rueff was still relatively young, and his experience in Geneva essentially confirmed what he had learned in Paris during the *franc* crisis about the importance of budgetary equilibrium and monetary stability.

We are concerned here with his mission to Greece, which reveals how financial diplomacy was conducted in the 1920s, and how economic concerns were linked to political influences in the work of the League of Nations. Jacques Rueff explained on several occasions his perspectives on the financial work of the League, including during a 1929 radio-conference. According to him, "It was the first task of the economic organization of the League of Nations, created in 1921 after the international financial conference of Brussels, to establish a sound money in countries deprived of it. In all of those countries, … the currency was stabilized, the budget balanced and financial order reestablished."[4]

During this conference, he expounded on the means of financial reconstruction used by the Committee, insisting on the themes that were at the center of his economic writings: "To achieve the financial consolidation of a country, the first thing is to suspend the banknotes emission, this disorganized emission that constituted this afterwar ill, inflation, at the source of so many disruption in the countries that fell to it. But in order to suspend this inflation when the budget equilibrium is not yet secured, the state looking to consolidate its financial structure needs to have resources allowing him to cross the difficult steps of budgetary purification. He must also have resources to settle past engagements, in a word, to liquidate the past and thus erase the remembrance of an irregular management."

The role of the League in this liquidation was to provide the guarantee necessary to obtain financial resources on international capital markets, to cover the budget deficit and to stop, in one strike, the printing of money and its inflationary consequences. The international "seal of good approval" of the League allowed otherwise debunked countries to gain access to international markets, via a loan emitted "under the aegis" of the League:

> What is a loan emitted under the aegis of the League of Nations? It is a loan that bears the solemn commitment of the borrowing state in front of the League of Nations Council and some dispositions … by which the borrowing government is committing before the League of Nations Council and only before it to ensure regular repayment of the loan. … there lies for me an essential fact that allows us to measure the moral

[4] Notes of the conference found in the Fonds Rueff of the Archives Nationales, 579AP/42 D13. Quotations in the next paragraphs are also drawn from this conference and translated by the author.

> force that the League of Nations represents in the world, and the value that the world opinion gives to it.

In the 1920s, the "moral" credit of the League was indeed still important, and the organization played an important role in the power struggles of national powers. The League gave a voice and financing means to peripheral countries, who accepted it somewhat reluctantly or even refused it, lest they would fall under the authority of Geneva, but did so scarcely to their own benefits. Although Flores Zendejas and Decorzant (2016: 674) remarked that the first loans were issued under very harsh conditions, they argued that they had nevertheless far better conditions than those who were issued without the help of the League.[5]

The ideas that Rueff presented during this conference were common, and they can still be found in more recent scholarship on the problems of credibility, in the league (Santaella 1993), or elsewhere (Bordo and Rockoff 1996; Obstfeld and Taylor 2003). However they say little on the political role of the Financial Committee, a role in which Rueff was an active participant when he was sent to Greece in 1927. Before we explore the mission he conducted in Athens and the negotiations he started on behalf of the French government, the next section reviews the main points of the history of Greece from the war to its demand of financial support in 1927, and the reasons that led the country to Geneva.

[5] Pauly (1996: 13) reports that in 1922 in Czecho-Slovakia, the bank Baring Brothers "had demanded the right to control directly the administration of customs and tariff receipts pledged as security, a condition that had earlier been successfully imposed on Turkey. Czecho-Slovakia refused to accede, and a compromise was struck on the basis of its suggestion that the League be appointed as arbitrator in case of future disputes."

Greece from the Balkan Wars to the Second League Intervention

Greek history is made of wars, frustrations, and crises. After the hard-fought independence from the Ottoman empire at the beginning of the 1830s,[6] Greece was already in dire financial troubles. The independence war had taken up many resources and the country was caught up in a crisis at the beginning of its new journey of independence. Greek financial records thus started with a bad omen, and the convertibility of its currency was suspended eight times between 1828 and 1936, while the Greek government unsuccessfully adhered to the gold standard three times (1885, 1910 and 1928).

Throughout this history, the Greeks showed a lot of creativity in order to sustain their public finances. As soon as 1910, the governor of the National Bank of Greece, Valaoritis, developed a monetary system where the circulation of money was backed not only by metals, but also by foreign assets, a system passed into law in 1910 and implemented worldwide after the Genoa conference of 1922. This monetary system allowed for a stable exchange rate during the first part of the 1910s, while Greece was starting its decade of adventurous wars in southeastern Europe and Asia Minor.

The country's position was subsequently deteriorated by half a dozen years of armed conflicts, and a domestic situation tilting toward civil war. By 1917, the country stepped out of its neutrality in the European war, led by its prime minister Eleftherios Venizelos. But the engagement was not at all on the agenda of the ruling monarch, Constantine I, who felt much closer to Germany's interests, as a member of Wilhelm II extended family. The situation deteriorated to the point that Venizelos found himself fighting the monarchy, with the support of the Allied Powers who eventually obtained the abdication of the king in favor of his son, Alexander.

[6] For a brief account of the history of modern Greece, see Clogg (2013). For a more economically centered history of the country, I used the works of Sophia Lazaretou. For the interwar period, an important work is Mazower (1991).

By the end of the European conflict, Greece had gained substantial territorial and population extensions. Its leaders, thinking it was time for revenge against the Turks (after their last defeat of 1897), decided to follow through on the *megali idea*, a nationalist motto to unify all Greeks scattered across the Aegean sea, and to invade the crumbling Ottoman empire. The latter was in fact in the midst of its own nationalist revolution, with the Young Turks of Mustafa Kemal Atatürk leading a successful revolt. While the invasion started well for the Greeks, growing war expenditures and financing difficulties, coupled with a defeat of the liberal leader Venizelos in 1920 and the return of the king Constantine after the untimely death of his son in the same year, amidst inflationary pressures and exchange rate depreciation, led the country to a debacle in the fall of 1922 that came to be known almost immediately as "the great Catastrophe."

The year 1922 started with a desperate attempt to obtain resources to finance the war: Greece being unable to collect funds on international markets nor in the domestic market, and the situation being too urgent to take the time to collect new taxes, the government decided to carry on a forced loan on the population (see A.G.P. [1922], or the *dossier spécial* of *L'Europe Nouvelle* on the financial stabilization of Greece [Caphandaris et al., 1928]). The law of April 7, 1922 authorized the government to contract an interior loan of 1600 million drachmas. To make this possible, all the banknotes in circulation had to be cut in two parts, the first part, the Stavros (from the name of the founder of the bank whose portrait was on the left side of the banknote) remaining in circulation for half of its facial value, while the other part, the crown (on the right sides of the notes was the seal of the royal house of Greece), was a provisional coupon for the new bond, with a value equal again to half the nominal value of the banknote.

This solution was not enough to counter the turning tide of luck on the eastern front, and by the summer it became obvious that the Greeks were going right into a major defeat against the Turks. In mid-September, they lost control of their centuries-old colony of Smyrna on the western.

Anatolian shores, a defeat that marked the beginning of the exile of hundreds of thousands of Greeks from Asia Minor to the other side of the Aegean sea. While those disastrous events unfolded, a group of

Greek generals took the opportunity of the monarchy's defeat to launch a revolution and seize power. On the brink of another civil war and a currency crisis brought on by the events, a provisional peace treaty was signed in mid-October with Turkey, and the following months saw the refugee crisis worsen rapidly, while the new government tried to ascertain its power on its internal enemies. At the end of November, the "Trial of the six" came to an end with the condemnation to death of five highly ranked army officials and politicians that were held responsible for the Asia Minor defeat, and the exile and abdication of the king Constantine, succeeded by his second son.

It is worth noting that foreign powers never ceased to be involved in Greek affairs, which they viewed increasingly negatively, especially after the return of the pro-German king in 1920, a return that was followed by increasing tensions with Western European Powers, and the first deterioration of the drachma exchange rate. After the fall of the king, these countries led the negotiations at Lausanne with Turkish representatives, while giving emergency loans to alleviate the refugee crisis. One of the new player around the table was the League of Nations, who was involved at first mainly in the refugee crisis, with its special envoy Dr Fridtjof Nansen at the heart of the international relief aid, but who saw its role extended by the formal appeal of distress launched by the Greeks in February 1923. The League's financial committee sent a delegation to Athens in the spring of that same year to evaluate under which conditions an international loan could be given to Greece to help settle refugees.

The announcement of a loan that was to be emitted under the aegis of the League of Nations at the beginning of the summer was a huge relief for the government. The protocol signed with the League of Nations by the Greek government at the general assembly of September 1923 provided for the establishment of a Commission for the settlement of the refugees, and the emission of a loan to help finance their installation in the following summer (see Société des Nations [1923]; the loan was postponed to December 1924 and emitted in London, New York and Athens). In the meantime, England was to furnish the necessary funds.

Growing discontent towards the monarchy in the interior front led to the victory of the liberal party in December 1923, and the consequent ousting of the king. In March, the new assembly voted in favor of the Republic, a vote confirmed by the population on April 13th after a plebiscite. The Second Hellenic Republic was born and a relative political stability was established, amidst the continuing settlement of the refugees by the Commission. This era of relative political peace was brought to an abrupt end in June 1925 (Black 1948: 92), when General Pangalos seized power in a military coup. His regime did not bring a formal end to the Republic, and it is worth noting that the first presidential election (supposedly) open to the whole electorate was held under his rule in April 1926.

The military government of Pangalos, who had been embroiled in new military adventures against Bulgaria, had resorted yet again to a forced loan in January 1926 to face depleted public finances. The loan followed the same principles as the 1922 forced loan but this time "only" on 25% of the value of banknotes in circulation, with exemptions under 25 drachmas and for bank deposits (Caphandaris et al., 1928: 281). Public finances continued to deteriorate under the dictatorship;

Tsouderos, an important actor of this period who became governor of the new central bank in 1931, noted that there was a third forced loan at the beginning of 1926, when the government decided that treasury bonds in circulation were to be converted into obligations for one half and reimbursed for the other half, after the degradation of the state's public finance triggered a new confidence crisis in the drachma, while a new emission of money seemed the only possible escape (Caphandaris et al., 1928: 282).

In late August 1926, General Kondylis led another coup against Pangalos to restore the Republic.

Elections were held in November, and the liberal party gained a majority of seats. In early December a government of National Union was formed, leading the country to unprecedented political stability, with only one change of prime minister until 1932 (the election of Venizelos in 1928).

This interior political stability paved the way to restore the financial stability of the country, which had been severely undermined by the coup of Pangalos against the Republic. The Greek government returned to the League of Nations to ask for another, more ambitious plan to restore Greece's finances and stabilize the drachma, and finish to settle the refugees. A new delegation of experts was sent in the spring of 1927, and the plan proposed and negotiated in the summer was adopted at the general session of September, leading to the emission of a new loan in early 1928 and the creation of a Central Bank that started operating in may 1928, while the drachma was officially devalued to 375 pounds, pegged to gold and allowed to fluctuate between the 372.5 and 377.5 gold points.

According to Georges Mantzavinos, the Greek budget director at the time of the 1928 stabilization, "the regime of monetary instability … will be definitely eliminated by the restoration plan patronized by the League of Nations, and we will then see realized as a whole the financial purification fortunately begun in 1927–28" (Caphandaris et al., 1928: 281). But under this optimistic outlook, lied the reality of political struggles during the financial reconstruction of Europe. In order to explore it, we will be going with the aforementioned delegation of experts that was sent to Greece, stepping into the shoes of the chief of the mission, Jacques Rueff, to understand how the financial matters of the reconstruction were linked to political struggles, via the question of war debts.

Rueff's Mission to Greece and the Question of French and Hellenic War Debts

The question of war debts and the importance of its entanglement with the issuance of successful loans has been noted by Flores and Decorzant (2016), who showed the importance of the League to negotiate the settlement of debts in order to obtain the support of foreign governments and bankers for a stabilization loan (for example in the case of Bulgaria), and the role the organization played to facilitate the relations with the Reparations Commission. They do not however document the Greek case for the settlement of war debt, and it is interesting to note that in that case, the agreement was jeopardized by the opposition of France.

In his memoirs, Rueff is rather laconic on his Geneva period, and he described rapidly his first mission to Greece, "the pleasures of a faraway mission" (Rueff 1977: 62), and the lessons he took from this experience for the other financial purifications he took part of. He goes on to explain that after the Greek government appealed to the League to obtain an international loan, he was in charge of the budgetary part of a report on the country's finances, and concluded from this that: "our propositions were, all in all, ratified and applied. They reestablished the equilibrium of the Greek economy, and led to a stabilization of the drachma, which was only a bit shaken in 1931, when the pound was depreciated" (Rueff 1977: 63. The Greeks actually defaulted in 1932 and let the Drachma float and depreciate).

These memories are rather selective: indeed, the activities of Rueff during his mission to Greece were far more important and preoccupying than a simple examination of the budgetary situation of the country, and they left him little time to take advantage of "the bedazzlement of the first evening spent at the tomb of Philapopos, before the Parthenon illuminated by the purple light of a summer of may." (Rueff 1977: 63). Almost in passing, Rueff noted in his memoirs "the financial committee, … possessed in Europe an exceptional authority. … [I]n such an atmosphere, I was quickly initiated to the secrets of international financial cooperation, under the sagacious but sober leadership of Joseph Avenol" (ibid.: 62). To these secrets, we now turn.[7]

Greece's second appeal to the League of Nations began at the end of 1926, when the governor of the National Bank (the private bank that had the privilege of emission before 1928), Mr. Diomidis, started on a journey through the European capitals to find financial support for the new republican government. He stopped in Geneva, where he began to probe the possibility of asking for a new loan.

In London, the governor started negotiating with British officials to settle the war debts, hoping for a quick arrangement to strike a deal with London.[8]

[7] This section is primarily based on the documents of the Greece folder in the Fond Rueff of the National Archives in France (reference 579AP/40 D3–1).

[8] See Kostis (1999) on the discussions of Diomidis at Geneva. This account is also based on a document from the Banque de France archives, "Document sur la visite de Diomides à Londres", 31 January 1927 (1370199703/3).[153] The International Financial Commission was created in 1898 after the Greek default of 1893 and the defeat against the Ottoman empire in 1898, which entailed war damages that the Greek government was unable to repay. Foreign governments (France, Great-Britain and Italy mainly), got involved and negotiated with

Rueff, who arrived a few months later in Geneva, wrote in a "Mémorandum sur la Grèce" dated March 18, 1927, that after the Greeks asked for a new refugee loan, the financial committee: "is absolutely decided, albeit only to keep its authority intact, not to recommend a loan to a country where the money could be jeopardized. That is to say, it will not intervene again in Greece's affairs until it has all the guarantees relative to the budgetary situation and the National Bank." But the dire state of Greek public finances, and the bloated balance sheet of the National Bank made it unlikely that the Committee would approve a loan without a larger purification plan for the Greek finances. Rueff noted however that the control would not be "as rigorous as the one imposed to Austria for instance. It has been proposed to give this control to the existing International Commission," which was eventually the solution that came to be adopted. In his memo, Rueff explained that the setup of the plan[153] required the "thorough study of Greece's financial situation by a competent personality."

Joseph Avenol, the under-secretary general of the League of Nations, was chosen for this position, and was sent in the first months of 1927 to Athens. Once there, he asked for the assistance of an information mission from the secretariat of the Economic and Financial section, and this mission was composed of Rueff and his Dutch colleague Jan van Walré de Bordes, who joined the Englishman Felkin, already in Greece with Avenol. In a letter (April 25) to the experts, still in Geneva at the time, Avenol explained the content of their work:

> I consider … that this information work, whereas entirely in the framework of the competence of the economic and financial section, goes well beyond the normal limit of its attributions and that, in this regard, it answers a personal invitation that the Hellenic government sent me and that I accepted. It would be consequently desirable that in the preparatory period that precede my return to Athens, the work of the mission be contained to the documentation work, without discussions or comments that could prejudge the final examination of those results. It is therefore unnecessary to insist, in view of the experience and the tact of the

Constantinople a settlement that created the IFC, charged with administering part of the Greek loans and the resources affected to their repayment.

> members of this mission, on the character particularly delicate of this work and the risks of hurting the vivid susceptibility of the Hellenic public opinion.

But the presence of Jacques Rueff is no coincidence in this mission. A telegram from Avenol (April 13) to Arthur Salter, the head of the financial and economic section of the secretariat, wrote that he "insists strongly necessary presence Rueff in accordance original plan if he is to accept Government invitation to be responsible for inquiry." And the role of Rueff was not only that of an expert of the League of Nations, but also one of a French diplomat, seconding Avenol in his negotiation with the Greek government, especially regarding the war debts still pending between the two countries.

Indeed, for the French government, the Greeks still owed a certain sum that was loaned by France during the war, along with some material lent as well, but the amount was contested by the Greeks who argued that the destruction occasioned by French troops in Salonika counterbalanced those debts and that it was the French who were indebted to the Greeks. These negotiations were not merely[9] incidental, for the French agreement was needed to put the stabilization plan in place, because the International Commission which was under its joint supervision was supposed to take charge of the resources affected to the loan and the payment of its interests. The French thus saw immediately an opportunity to use this position as leverage to link the possibility of a new international loan and a favorable settlement of their war debts with Greece. It should be noted that this is not a speculation, but the strategy exposed bluntly by letters exchanged between Poincaré in Paris, Avenol and Rueff in Geneva and Athens, where the two men were negotiating with the Greeks. Rueff's archives contain letters that show he received his orders directly from Paris concerning the war debts; the French position, summarized in a few lines, is that the 1918 credits must be annulled, the French claim on the National Bank transferred to the state if the Bank is to be privatized, but also some caution on the money used

[9] The historical development of the debts is summarized in an unsigned document dated October 11, 1927 on the state of the French-Greek negotiations, in the Bank of France archives (1370199703/1). See also Mourelos (1992).

to reimburse: "it would be good that Mr Rueff insists nevertheless on his behalf that it can only consist of gold francs, or better that he acts surprised that the question could even raise a doubt" (note for Rueff from the ministry of finances, May 2, 1927). The same letter concludes unambiguously on the real reason for Rueff's presence in Athens: "in conclusion, it would be well-advised that Mr Rueff tests the waters and let us know his impressions. After which our intentions could be defined more precisely, especially regarding our eventual participation to the purification of Greece's finances."

During his stay in Athens in May, Rueff was thus leading an uninterrupted activity, as attested by the impressive number of business cards kept in the "Greece" folder of his archives. The letter he sent at the end of his mission (dated 27 May) to the director of the *Mouvement général des fonds* (MGF, the French treasury), Clément Moret, relates this activity. After doing away in one sentence with the technical questions regarding the Greek budget, which are obviously not the purpose of the letter, he presented to his senior colleague his conclusions on the possibilities to link the Greek international loan to the settlement of the war debts:

> The existence of war debts not liquidated between France and Greece makes it rather impossible for us to have any active policy in this country. Every day, there are interventions in the Parliament to demand the payment of the debt. Although the minister of Finances is never associated with these complaints, they create in the country a situation which is unfavorable to us. Yet the eventual operations of financial purification constitute a unique occasion to liquidate, probably in the best conditions that we can hope for, the whole set of French-Hellenic engagements. The English did indeed put as a necessary condition to the opening of parlays on a loan the settlement of their war debt. If we were to authorize the emission in France of part of this loan without having obtained the same satisfaction, we will confirm the Greeks in their opinion that they have a valid claim on us. I fear a lot that if we let this occasion pass, there won't be any more favorable ones in the future.

His conclusions were upheld in a letter from Avenol to the MGF, that is in substance the same as Rueff's, and which adds that the visit to Geneva of the Greek ministers of foreign affairs and finances, as well as the under-governor of the National Bank, will be the occasion to invite them to Paris and to suggest the opening of the French capital market to the Greek Government, while linking it to the settlement of the debts.

Back in Paris, those informations were transmitted to Poincaré, who wrote on June 7 to the minister of foreign affairs (Aristide Briand) that:

> M. Avenol – regarding the financial measures that will accompany the emission of a loan destined to the recovery of Greece – told us that in his opinion, it should be left to the representatives of the investors to decide the conditions of the control of the Hellenic finances. Interested states could then arbitrate any divergence on this point between investors and the Greek government: this attitude would ensure the necessary control of Greek finances and reinforce the positions of the Powers toward Greece, without making them intervene directly in the question of the control which would alienate the Hellenic public opinion.

Poincaré went on to insist that the participation of French investors remained linked to the settlement of the pending questions between France and Greece, especially concerning the “credits in writing, war debts, advance payment in drachmas to our troops.” He then proposed to set up a meeting with the Greek envoys, as was suggested by Avenol and Rueff.

The meeting did take place in Paris, on June 22, 1922. Poincaré remained firm on his positions, writing the next day to Briand that he indicated that French claims were in gold francs, and that the government would oppose “the emission on the French market of a tranche of the next international Greek loan,” if the debt was not settled. If the French were not trying anymore to block completely the stabilization plan, which seemed unfeasible in view of the British backing of the plan, they tried in effect to advance their agenda via the emission of the loan. Indeed, Rueff noted in March that: “it seems that the Bank of England is very anxious to see us participate in this operation … It may be linked to the desire not to see the London market support alone the entirety of the loan and … the unpopularity that would result from the conditional control.”

After a telephone call with Moret, the head of the treasury, Rueff noted that several French Banks, among which *l’Union Parisienne*, the *Comptoir* *d'escompte* and the *Banque de Paris*, were interested by the greek loan, but that the negotiations were not advancing with the Greek government. Indeed they seemed to be completely stalled, with the Greeks refusing to send the experts that they promised to Poincaré to find an agreement over the debts, probably wishing that the problem would go away once the loan was emitted. The exchange of letters between the MGF and the foreign affairs ministry (July 25), the financial *attaché* in London (August 8), and the Bank of France (August 9), shows the growing impatience of the French government, while the annual full session of the Council of the LoN in September, where the stabilization plan had to be approved, was approaching quickly. In his letter to the Bank of France, Poincaré adopted a more menacing tone: "if a settlement were not to intervene in the briefest delays, some difficulties will postpone the help that France can give to Greece, either by the participation of the French market to the emission of the Greek loan, or by the concourse that the Bank of France would surely be asked to give to the stabilization of the drachma."

On August 20, in a letter to Chalendar, the French delegate to the financial committee, Rueff seemed optimistic on the evolution of the stabilization process in Greece: he noted the calm state of the country in spite of a change of government, the circulation of a draft statute for the new Bank of Greece, and added that he was working on "a project of Protocole to link the Greek government with the Council." But he was also aware that "the only difficulty to foresee, are those that will emerge when it will be necessary to obtain from Paris and New York the necessary authorization to emit the loan. In this regard, I did everything I could to stimulate the activity of the Greek government and to encourage it to settle its debts toward Paris and New York. … I truly wish that we could arrive at such an arrangement to avoid the serious difficulties that would arise if no agreement is reached."

But the Greeks had secured the support of the British and on September 9, in a letter to Poincaré, Chalendar recognized the failure of the French strategy: "as was foreseeable, neither text elaborated by the financial committee possess any allusion to the settlement of the war debts. In spite of numerous pressing invitations, summed up in an amendment that I proposed, my colleagues considered that it was very difficult to associate themselves with a pressure, even an indirect one, exerted on the Greek government for the settlement of its war debt."

The Protocol was eventually signed on September 15 by the Greek government and the Council of the League, but France managed to postpone the emission of the loan by refusing to sign the annex that would allow the IFC to handle the resources earmarked for the loan. In the aforementioned document on the state of the French-Greek negotiations, dated October 11, the situation seemed desperately stuck, the negotiations being stalled over the question of the war material that was lost in the Asia Minor expedition, and that the Greeks refused to repay. But the Greeks' resistance was presented as a consequence of internal politics: "Mr. Cafandaris, attacked by the opposition in Athens, tries to maintain a positive balance for Greece." In Paris, the government was digging in its positions to avoid humiliation: "it is impossible to admit that the French refusal to sign in Geneva has for consequence that the French government be compelled to sign… after being recognized in debt." The author went on to add that if the Greeks were to find another way to emit the loan, the French government would ask for the reimbursement of the entirety of an older advance loaned to Greece at the beginning of the war.

The document concluded on some dark notes: "it will thus be impossible to raise the French objections over the Protocol of the League and to allow the reconstruction to succeed. … Either way, the situation presents itself under a rather dark light."

But France was isolated in Geneva, and around the end of 1927, Rueff admitted that their position was not sustainable without the support of England or Italy which were the other powers involved in the IFC: "whatever the solidity of our financial arguments, the French delegate to the Council could find himself in a rather delicate position if it appeared that, from his doing, the realization of a plan approved by the whole Council would prove definitely impossible."

Only the involvement of the most famous French politician of this period proved able to solve the stalemate, when an agreement was signed in December between Aristide Briand and Caphandaris, the Greek minister of finances. The agreement was a provisional victory for the Greeks, because it put to an arbitrage the remaining question of the war debt, that is, the problem of the material loaned by France in 1918, which was the solution advocated by the Greeks. After the agreement, France signed the annex authorizing the IFC to manage the loan, and it was finally emitted in January of 1928, only in London and New York. London seemed to come out victorious in this political struggle over financial interest, since it was an Englishman who was sent to Athens to monitor the new Bank of Greece.

Conclusion: The League and the Debt Diplomacy of the 1920s

By looking into the diplomatic processes at the heart of the League of Nations reconstruction plans and the loans that were the outcomes of this plans, we showed that a big part of the political role of the League was played in its technical organizations, who served as a buffer between the divergent interests of debtor and creditor countries, and the site of negotiations where international constraints and domestic problems shaped the outcomes of the discussions. Although some would have preferred that the reconstruction work of the League would be restrained to technical concerns solved by experts, the process was political in its essence and economic arguments were often entangled with political concerns. The role of the League experts as agents of their governments was perhaps not ideal, but a reality of the way in which these negotiations were made, as shown by the mission of Jacques Rueff in Greece. The plans drafted by the League were thus not the best solutions thought of by disinterested experts, but rather the results of compromises between different sets of domestic and international constraints.

The opposition that surrounded the role of this new international flock of experts who claimed to have the keys to optimal solutions are illustrated by the fact that two months after the article where the technical stubbornness of the French ministry of finance was castigated, another article in *Le messager d'Athènes* made virtually the opposite claim, that the handling of tense political questions by technical experts was in fact the best way to achieve an optimal solution:

> It is more or less certain that the propositions of the Financial Committee will maintain his authority in the future as in the past, not only for the quality of its members but also because they were and will be recognized as disinterested technicians. In reality, they had to take care of political problems during their technical work. However, one of the most important conclusions to draw from their anterior works is that complex problems, when they are studied under a technical angle by technicians absolutely disinterested in what constitutes their solution, can be resolved more easily and more rapidly. Furthermore, the solutions advocated are put into place with more success than if they were elaborated and applied in a political setting where political preoccupations are dominating.

Was the problem better handled by experts? In the end, this might not be the most important question; experts are never completely disinterested, especially when they are nominated by their government. But they act as an intermediate vehicle, a political buffer through their affiliation to the League, which played a peculiar but effective role in the end to protect the interests of a smaller nation such as Greece. This episode in Franco–Greek financial relations, and their entanglement with the negotiation in Geneva for a loan, shows that behind economic concerns political agendas were always lurking in the 1920s. It can be tempting to separate those aspects and to view external intervention as a smooth process and the League as a "seal of approval," but waiving political concerns does not give a full account of the extent of the work of the League in its technical organization. The League's political process helped to protect the interests of peripheral countries, in this case against France who was forced to reckon with a new multipolar organization of international relations.

The economic and financial organization of the League was thus more a political buffer than a "good seal of approval." Indeed, the League was a great compromising instrument between on one hand the economically and politically weaker member states who wished to have access to international financial markets, and on the other hand bankers and great powers who sought to take control of the former's finances, and to integrate them in their larger spheres of influence. Integrating the political role of the League in the process of financial reconstruction is essential to understand that it was as much its ability to mitigate political dissensions than its stabilization plans that were at the center of the reconstruction. Indeed the plans themselves were rather straightforward, and innovated little compared to what had already been done for the past half century. The true success of the League's work thus lied in its ability to create real multilateralism in the settlement of financial questions.

In this way, the League embodied some of the demands of liberals, who were the main driving force behind it in the 1920s: if it ultimately failed in promoting a peaceful international order, it did manage to create some equality through the general assembly and the competition between powers. The League functionaries decried by Mises (2005: 114) were also those that could act as doctors prescribing a remedy that might be hard to swallow, but with positive effect in the long-run. It was this consideration of long-run effects against short-term consequences that was viewed by Mises and other liberals as one of the central problems of liberalism in its fight against demagoguery (Mises 2005: xxiii).

To conclude, we can draw some parallels between the situation in the 1920s and what came after. First there is the question of the experts and their role in the reconstruction process. After the world economy all but collapsed in the early 1930s, many commentators started blaming these experts for the poor state of the economy, much like it is done nowadays when a crisis sparks discontent against economists. Among others, the French journalist Marcel Ray declared to the Royal Institute of International Affairs in 1932 that:

> For the last ten years we have left things to committees of experts, to irresponsible specialists. I know many of these experts are remarkable men, but they are being used to shelve the responsibility of others. They are useless, if willing to receive orders; they are powerless, if they try to stand or to strive against government and crowds; therefore they paralyse where they are expected to help. (Ray 1932: 315)

But what Ray does not take into account is that it was precisely those experts who allowed for political cooperation between dissenting countries, and a neutralization of the extent to which they could intrude in other states' economic affairs. In fact, the League catalyzed the different interests of its member countries, a view expressed by Loveday (1938) for whom true political cooperation was achieved by gathering experts of opposite countries around the same tables.

Second and more importantly perhaps, are the links between the work of the League in the 1920s and the work of the IMF since the second world war. Flores and Decorzant (2016), drew some parallels between the debate over the effectiveness of the role of international organizations when they intervened in distressed countries, and it may be interesting to understand further the implications of the particular form of the League loans. Indeed they were not provided by the League who was not even active in financial markets, but only acted as a monitor and informational agent to investors. This division between funding and monitoring is very different from the current practice of lending either through the IMF or supranational governments such as the European commission, who provide their own funds and monitor their use. As we demonstrated, peripheral countries had a real voice in the League, and were thus less reluctant to accept control from an organization that they could truly feel a part of, in contrast from an institution where their opinions have little weight and where they have no leverage.

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