Why the French said “non”:
Creditor-debtor politics and
the German financial crises of 1930 and 1931

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Abstract

Why did France delay the Hoover moratorium in the summer of 1931, thus escalating the German financial crisis? In most accounts the announcement of an Austro-German customs union issued in March 1931 is cited as the crucial event that made the French reluctant to continue their cooperation with Germany. We suggest a more comprehensive explanation. While acknowledging the negative impact of the customs union, we think that the collapse of mutual trust came much earlier, namely with the evacuation of the Rhineland in the summer of 1930. It explains why as early as the autumn of 1930 France declined to help Germany mitigate a financial crisis. We use the prisoner’s dilemma to illustrate our argument.

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1. Introduction

The German crisis of 1931 is one the crucial moments in the history of the world economic slump of the 1930s. It led to a global liquidity crisis, bringing down the British pound and a number of other currencies and causing a banking crisis in the United States. The economic turmoil also had negative political consequences. The legitimacy of the Weimar Republic further eroded, Chancellor Heinrich Brüning became even more unpopular. The British historian Arnold Toynbee had good reasons to call the year 1931 “annus terribilis”.

The crisis might have been contained, if the French authorities had immediately supported the debt and reparations moratorium suggested by US President Herbert Hoover on June 20, 1931. Instead, they chose to tie political conditions to their support. In the end, the US forced the French to go along after winning a few concessions from Germany, but it was already too late. By early July, when Paris agreed to the deal, the crisis had gotten out of control. In the third week of July, Germany faced a full-blown banking crisis.

Why did the French delay the Hoover moratorium, thus escalating the financial crisis? Surprisingly, the economic history literature has hardly dealt with this crucial question in a systematic way. Usually the episode is mentioned in the run-up to the collapse of the German banking system in July of 1931, but explanations are mostly given in passing. In particular, most accounts largely ignore the empirical works by political historians and the theoretical international relations literature, although the failure of the Hoover moratorium was ultimately a political, not an economic event. This is not to say that the explanations put forward by economic historians are not plausible. But they fail to foster a deeper understanding of the French “non” in the summer of 1931.

More specifically, three explanations are plausible, but incomplete. The first one highlights the negative impact of the announcement of an Austro-German customs on March 20, 1931.\(^2\) The plan upset France, Czechoslovakia and Italy, causing a severe diplomatic incident. The French Minister for Foreign Affairs, Aristide Briand, usually choosing a measured tone, lambasted the Austro-German agreement in the French parliament. Thus, there is no doubt that the plan complicated negotiations during the financial crisis 1931, not only in Germany, but also in Vienna during the attempts to stabilize the Austrian financial system after the

\(^2\) E.g. Ferguson and Temin (2003).
Creditanstalt failed. But focussing on the customs union is too narrow. Political historians have repeatedly made the point that mutual trust between France and Germany collapsed much earlier, namely with the evacuation of the Rhineland in the summer of 1931. Knipping (1987) speaks of a “sudden fall in temperature” in the summer of 1930. For Heyde (1998) the summer of 1930 marked “the end of the Locarno era”. The way German officials celebrated the return of the occupied territories deeply disturbed French politicians and the public alike. The focus on the customs union also fails to explain why the French did not help Germany mitigate the currency crisis occurring in the fall of 1930. Clearly, a short-term explanation misses important elements of the story.

A second explanation emphasizes the resistance of domestic politics precluding international cooperation. Again, the evidence for this explanation is overwhelming. The President of the Council (Prime Minister) Pierre Laval and Briand were willing to endorse the Hoover moratorium, leaving the negotiations of details to a later date, as the Belgian government did. But resistance in the cabinet and the parliament were too strong. What this explanation fails to elucidate, however, why the French public opinion was intransigent. A more comprehensive explanation is needed.

A third explanation hints to the accounting. France received no alleviation, while Germany profited to an enormous extent. This explanation highlights a central element of the Franco-German malaise as well. Nevertheless, this explanation does not go far enough. The Hoover moratorium may not have brought an improvement for France, but it is not hard to imagine that France would have supported the deal if relations with Germany would have been more cordial. This observation shifts the question back to the origin of the collapse of mutual trust in the summer of 1930. Furthermore, the French had already profited from a war debt reduction by more than 50 percent vis-à-vis the US (Mellon-Berenger Accord ratified by the French parliament in July 1929).

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5 E.g. Tooze (2014).
Thus, there is reason to believe that a more comprehensive explanation could provide a better understanding as to why the French said “non” in the summer of 1931. In this paper, we attempt to combine the three explanations discussed above with insights by political historians and to illustrate the dynamics of the Franco-German relationship by using a basic microeconomic concept that is often used in the analysis of international relations: the prisoner’s dilemma. The basic idea is that once Germany destroyed the mutual trust that had been established by the Locarno agreements of 1925 the parameters of cooperation changed in a fundamental way. By celebrating the evacuation of the Rhineland as first step towards a more muscular foreign policy and not as a sign of reconciliation with France, President Hindenburg and the Brüning cabinet precluded a great bargain as the economic crisis deepened in 1931.

Consequently, the French government did not support the Hoover moratorium because they knew that domestic public opinion would not understand why Paris was supposed to help a country that, from the French perspective, took compromise for weakness. As long as cooperation consisted of loosening the conditions set by the Treaty of Versailles, there was room for mutual agreement and improvement. Once these steps had been taken in terms of reparations (Young Plan) and territorial adjustments (evacuation of the Rhineland), cooperation became much more complicated and ultimately impossible. From this perspective the French “non” of June 1931 was part of a general failure of cooperation after the world war as highlighted by Wolf (2010).

The structure of the paper is as follows. Section 2 describes the crisis of 1931, the Hoover moratorium and the French reluctance to go along. It also shows that it was mainly domestic political opposition that made the French government hesitant to support the Hoover moratorium. Section 3 shows how a similar type of crisis occurred in the fall of 1930 and how Paris refused to support the participation of French bank in the loan provided to Germany in order to contain the crisis. Again it shows that domestic political opposition was responsible for the failure of cooperation. Section 4 describes how the evacuation of the Rhineland fundamentally changed the terms of foreign policy. The section also tries to make our argument more systematic by using the prisoner’s dilemma. The paper ends with a short conclusion.
2. The failure of the Hoover moratorium

On June 20, 1931, President Herbert Hoover made an attempt to stop the unfolding German crisis by proposing a one-year moratorium of all payments on intergovernmental war-related debts. The moratorium covered both principal and interest, but excluded government debts owed to private creditors. The purpose of the initiative was, as Hoover explained, “to give the forthcoming year to the economic recovery of the world and to help free the recuperative forces already in motion in the United States from retarding influences from abroad.”

Hoover’s decision came after the German crisis reached a critical stage, and with Wall Street banks being strongly exposed to Germany, there was an immediate incentive to act on the side of Washington. In the first three weeks of June, the Reichsbank lost more than RM 1 million – corresponding to about 40 percent of its reserves. In the third week of June the cover ratio was barely above the statutory limit of 40 percent. The price Young plan bond reflecting Germany’s solvency in the eyes of investors continued its slide that had begun in mid-May. In the second week of June it fell by almost 10 percent (see figure 1). Confidence in Germany’s ability to solve the crisis was fundamentally undermined.

The rapid decline of reserves was triggered by a public statement of the Brüning cabinet, issued on the evening of June 6 in the German newspapers. The deteriorating fiscal position had led the Chancellor to launch another austerity program that, as he believed, would not be accepted by the German electorate unless it was combined with a declaration aimed at relieving Germany of its reparation burden. To signal its willingness to take a tougher stance vis-à-vis the creditor nations, the Brüning cabinet declared that “the limits of the privatisations we have imposed on our people have been reached.”

The statement was the result of a longer process that dated back to the late winter of 1931. A crucial meeting was held on March 6, 1931, when Finance Minister Dietrich and State Secretary Schäffer informed Chancellor Brüning of the rapidly deteriorating fiscal position.

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9 James (1985), pp. 359 ff.: Table 1c.
11 AdR, Nr. 255, pp. 926-927.
Hans Luther, the President of the Reichsbank, confirmed this assessment.\textsuperscript{12} Brüning responded with a strategic change: „The German people does not tolerate a further compression in the financial domain without being offered crucial steps in the reparation issue.” He was determined to act in early May and asked his ministers to keep silence as to this new strategy.”\textsuperscript{13} State Secretary Pünder, aware of the break with the past, noted in his diary that his meeting may once turn out to be of historical importance.\textsuperscript{14}

In May, the cabinet agreed on linking the announcement of new austerity measures to a statement signaling that the cabinet was aware of the heavy burden it put on the shoulders of the German people. Brüning also accepted the invitation by the British Prime Minister Ramsay MacDonald for a meeting in early June. Finally, in early June, the cabinet decided to announce the austerity measures when Brüning and Foreign Minister Julius Curtius were in England and to combine it with the statement that the “limits of privations” had been reached. Curiously, Brüning thought he could confine the effects of this statement to the domestic political arena, but, of course, it also unsettled foreign diplomats and investors. It triggered a financial crisis that ultimately sent shockwaves across the whole world economy.

Many contemporaries criticized Brüning’s move, not least Herbert Hoover. When hearing the statement for the first time, he believed that the statement „seemed to knock all our plans into a cocked hat.”\textsuperscript{15} However, given the strong domestic opposition to further austerity measures and the Young Plan, it was not entirely surprising. In any event, it did not prevent Hoover from going forward with his plan of a debt moratorium. After informing Congressional leaders of his idea, he decided to act on June 20.

Hoover’s announcement had an enormous impact on financial markets. On Monday, June 22, the first trading day, the Young plan bond shot up more than ten percent (figure 1). The capital outflows as reflected by central bank reserves was reversed. The Hoover plan had such an enormous impact because at this point the German crisis was essentially still a

\textsuperscript{12} AdR, Nr. 255, p. 927.
\textsuperscript{13} AdR, Nr. 255, p. 928.
\textsuperscript{14} Pünder diary, 9 March, 1931, p. 93.
\textsuperscript{15} Cited in Heyde (1998), p. 201.
currency crisis, not yet a banking crisis. This meant that it could be contained by capital inflows. No banking holiday was required.\textsuperscript{16}

Another reason why Hoover’s announcement had such a strong impact was that it was preceded by Brüning’s parliamentary success. On June 16, at 6 p.m., the Council of Elders of the Reichstag met and decided not to reconvene the Parliament that had adjourned since spring 1931 for a period of six months. Within the Council of Elders the radical parties were isolated after several rounds of discussions, with the DVP and the Social Democrats endorsing Brüning.\textsuperscript{17} This meant that the austerity measures could not be overthrown by the Reichstag anymore. This was reassuring to investors. Capital outflows markedly slowed down already prior to the announcement of the debt moratorium.

The positive effect was only temporary, however. While most nations supported the initiative, the French government delayed a final agreement by more than two weeks. They resented Hoover for not consulting them during the decision making, and they were outraged by the violation of the Young Plan which made a clear difference between conditional and unconditional annuities, with the latter being exempted from all emergency conditions. Hoover ignored this clause.

Still, despite the negative public reaction, Prime Minister Pierre Laval and Minister for Foreign Affairs Aristide Briand wanted to endorse the Hoover moratorium as swiftly as possible and negotiate the details later, as the Belgian government had done. The majority of the cabinet was opposed to such a procedure.\textsuperscript{18} It wanted to negotiate, proposing to pay the unconditional annuity into an account at the Bank for International Settlements (BIS) which could be used by Germany and other crisis-stricken countries in Central Europe. Other nations that were recipient of a part of the unconditional annuity were encouraged to pay into the BIS account as well. In a separate communication, the French cabinet also wished Chancellor Brüning to come to Paris to negotiate.\textsuperscript{19}

\textsuperscript{16} Here we follow Ferguson and Temin (2003) against Schnabel (2004).
\textsuperscript{17} AdR, Nr. 334, 16.6.1931, p. 1214, Fussnote 6: „Der Ältestenrat des RT lehnte am 16.6. kurz vor 13 Uhr mit den Stimmen des Z., der BVP, DVP, DStP, SPD und des Chr SVD die Einberufung des RT ab. Für eine RT-Sitzung stimmten NSDAP, DNVP, Landvolkpartei, WP und KPD.”
\textsuperscript{18} Heyde (1998), p. 213.
\textsuperscript{19} FRUS, 1931, Volume 1, p. 60.
The main reason why the cabinet opposed the Hoover moratorium was the expected opposition in the parliament. The American ambassador told Stimson on the phone: “They [French ministers], of course, are in the position of having Party opposition and of having the proposal, which they present in their note, passed unanimously in the Council, with all practically supporting their present position, and they point out in their note the angle that they are in; that is, in the same position that we are but reversed, or that we are with Congress supporting the President’s proposal. Their Parliament still has to pass on it and is inclined to oppose it.”

The American ambassador was right. The debate in the Chambre des Deputés was extremely difficult for the Laval cabinet. It started on Friday afternoon, June 26, at 3 p.m. and did not end until 6:30 a.m. the next morning. In the end, the vote of confidence was rejected by 386 to 189 votes, but it was clear that Laval had little room of maneuver in the face of this strong opposition. The German ambassador reported to Berlin that „the French parliament had not been in such an excitement since the Armistice“.

A fast understanding between France and the United States had become highly unrealistic. The parliament was in principle against including the unconditional annuity into the Hoover plan. The motion adopted by the majority stated: “The Chamber, approving the reply of the French Government to the proposition of the President of the United States, counts on the Government to assure simultaneously the intangibility of the unconditional annuities accepted at The Hague by the powers signing the Young Plan and the necessities of a policy of peace and economic cooperation and refusing any additions, passes to the order of the day.”

After almost two weeks of negotiations, the French government eventually agreed, with the Hoover administration employing a strategy of political arm-twisting. It simply threatened to leave out France from the moratorium of war debts, in case the French government was not willing to go along. This threat had a strong effect. It was also of crucial importance that the French parliament left for vacation in early July. The solution consisted on a sort of ghost

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20 FRUS, 1931, Volume 1, p. 62.
21 FRUS, 1931, Volume 1, p. 82: Edge to Acting Secretary of State.
23 FRUS, 1931, Volume 1, p. 83. Edge to Acting Secretary of State.
payment scheme. Germany paid the unconditional annuity to the BIS which in turn lent the exact same sum to the German railway company.

The agreement came too late, however. Once investors realized that negotiations stalled, markets turned sour. The Young plan bond began to decline towards the end of June. Capital inflows decelerated and finally reversed course in early July. The Darmstädter and Nationalbank (Danatbank) began to show signs of illiquidity. Finally, a panic escalated on Monday, July 13, when the doors of the Danatbank remained closed. On July 15, Germany introduced capital controls, thus prompting an international liquidity crisis.

Summing up, there is no doubt that the Hoover moratorium failed because of a hostile French public opinion. The room of manoeuvre was very small for the French government. Obviously, there was no willingness to make a concession to Germany in order to avert a full-blown financial crisis. Most French observers also showed little respect for Hoover. In his first reaction, Paul Claudel, the French ambassador in Washington, cabled that the proposal “porte toutes les marques de la soudaineté et de l’exagération, qui sont les caractéristiques de toute action américaine, mais il n’y a pas de doute qu’elle répond à une pression justifiée des milieux financiers“. For Claudel it was clear: Hoover had bowed to the purely materialistic interests of Wall Street.

3. France and the currency crisis of 1930

Why was French public opinion so strongly opposed to a debt moratorium that favoured the Germans? Some economic historians highlight the negative impact of the planned Austro-German customs union that became known in March 1931. This foreign policy blunder of the Brüning cabinet certainly played an important role. But was it crucial? Given that the French declined to help Germany contain a financial crisis six months prior to the customs union incident raises some doubts. Obviously the collapse of mutual trust between France and Germany had occurred earlier than March 1931.

The crisis started in mid-September 1930 and was ended by a loan from the US bank Lee, Higginson & Co. (LHC) signed on October 11 and by a set of austerity measures passed by the Reichstag on October 19.\textsuperscript{25} In contrast to the German crisis of 1931, crisis management was successful, although the French were not supporting the rescue. In this section, we first provide a description of the 1930 crisis, then compare it with 1931.

The immediate cause of the 1930 crisis was the outcome of the Reichstag elections held on September 14. Many expected a victory of the radical parties. Yet, the result surprised almost everyone, including the winners themselves. Out of the 577 seats of the Reichstag, the National Socialists won 107 seats (+95), thus becoming the second largest party after the Social Democrats who won 143 seats (-10). The second winner was the Communist Party gaining 77 seats (+23). Of the parties forming the cabinet, only Brüning’s Catholic Centre Party did well by adding 7 seats. It was simply a fiasco. The only comfort was that the radical German National People’s Party (DNVP) led by the media tsar Alfred Hugenberg lost 32 seats.

[Table 1 about here]

The elections were held outside of the normal schedule. The last elections had been in 1928, the next ones were supposed to take place in 1932. One reason for the early elections was the end of the Great Coalition under Chancellor Hermann Müller (Social Democrat) in late March of 1930. It was the last cabinet of the Weimar Republic that was based on a majority in the Reichstag. Disagreements over austerity measures proved too divisive for the coalition. President Paul von Hindenburg mandated Heinrich Brüning, the leader of the Catholic Centre Party in the Reichstag, to form a minority government without the Social Democrats. Hindenburg wanted to have a technocratic government that was able to restructure public finances and to endorse the rearmament of the Reichswehr.

The Brüning ultimately failed to win a majority for his austerity program, just like his predecessor Müller. Not only the radical parties, the German National People’s Party (14.3%), the National Socialists (2.6%), and the Communists (10.6%), voted against the bill, but also the Social Democrats (29.8%). Brüning then asked President Hindenburg to convert the draft bill into an emergency decree on the basis of Article 48 of the Weimar Constitution,

\textsuperscript{25} Hardach (1976), p. 121.
but the Reichstag came up with the votes necessary to overrule it. Again the Social Democrats joined forces with the radical Right and the radical Left. As a result, Brüning on July 18 asked Hindenburg to dissolve the Reichstag and to call for new elections.

Not surprisingly, the radicalization of the German electorate unsettled investors. In the week following the Reichstag elections the price of the Young Loan in London dropped by several percentage points (see figure 2). It then stabilized, until another dramatic decline occurred, until the crisis bottomed out in mid-October. The Young plan recovered within one week from its lowest point, but did not climb back to its pre-crisis level. The weekly data of the Reichsbank’s gold and foreign exchange reserves confirm this picture. Following the election results, they declined for four consecutive weeks before levelling out in mid-October. Obviously, commercial banks were not able to cover the withdrawal of the foreign short-term funds.26

What led to the convulsions of the German financial markets? The data show that it was not the election result itself that triggered the currency crisis, but the spread of rumours of an impending “putsch” by the National Socialists (see table 2). The news broke on Friday, September 19, and was immediately embraced by London and New York newspapers. It took public denials both by President Hindenburg and Chancellor Brüning to stop the rumours. Towards the second week after the elections the young plan bond recovered. This short-term reversal was not visible in the weekly statements of the Reichsbank, however.

What caused another fall of the YPB and a further reduction of central bank reserves was a combination of an external shock and political problems within the Brüning coalition: Brazil experienced a financial crisis, and the Staatspartei, a part of Brüning’s coalition, broke apart. Only after the German government on October 11 signed the loan provided by the US bank LHC and the Reichstag on October 19 passed the so-called amortization law, the crisis ended. The YPB (London) never fully recovered, however. Before the elections it had been quoted at 85, after the end of the crisis at 79. Similarly, the Reichsbank did not succeed in replenishing its reserves back to the pre-election level.

26 Cf. Schäffer diaries, 4 October, 1930, p. 239.
How was it possible to end the crisis? Brüning succeeded by passing three decisions. First and foremost, he secured the support of President Hindenburg immediately after the elections. On Monday, 15 September, he visited Hindenburg who assured him to continue with the current government. The cabinet met the following day and concurred with Brüning’s opinion that a collaboration with the radical Right, the NSDAP and the DNVP, was impossible. No single minister resigned.

Secondly, the Brüning cabinet made far-reaching concessions to LHC in order to secure a loan. In particular, it promised to introduce new austerity measures to be passed by the new Reichstag and to accumulate an amortization fund, a device that earlier German governments had rejected. The commitment to bring new austerity measures through the new Reichstag was risky. The Brüning cabinet had failed to pass austerity measures by the old Reichstag in which the pro-Weimar parties were still in a large majority. They now controlled it only by a slim margin.

Thirdly, Brüning delivered on these promises by convincing the Social Democrats to vote for a new round of austerity measures. Their leadership recognized that a new phase in the history of the Weimar Republic had started in which they had to choose between Brüning and Hitler. It was a hard pill to swallow, but the Social Democratic deputies followed the advice of their leaders. Brüning also managed to find a majority that postponed the next session of the Reichstag for a year.

Why did the French reject a participation in the loan organized by LHC? The idea to include French banks came early in the process. Apparently, the initiative came from the Paris subsidiary of LHC. On October 1st, Schäffer mentioned the French side for the first time in his diary and strongly favored a French participation. Even Bernhard von Bülow, the State Secretary of the Foreign Office, who had always been against a rapprochement with France, endorsed a French participation, even though only for tactical reasons. Schäffer noted in his diary that Bülow endorsed the idea to send a high German official to Paris when negotiations were stalled. Chancellor Brüning who was not involved in the negotiations did not oppose

27 Pünder diary, 16 September, 1930, p. 60.
30 Hans Schäffer diaries, 1st October, 1931, pp. 234-235.
31 Schäffer diaries, 5 October 1930, pp. 240-242.
Schäffer’s endeavor to find an agreement with the French, although he wished a fast conclusion of negotiations.

On October 3, the French side responded positively to the initiative.\(^{32}\) Nothing came out of it, however. On the contrary, the French behavior delayed the conclusion of the negotiations with LHC. Brüning wanted to sign on October 5.\(^{33}\) The French maneuver delayed this moment until October 11. It was precisely in this week in which the YPB suffered from another sharp drop (more than 6 percent). Thought not the only reason for the deterioration of market conditions, the French delay certainly had a negative impact on investors.

As in the summer of 1931, the main reason for the French “non” was the concern over domestic policies. On October 14, 1930, three days after the signing of the loan contract with LHC, Schäffer reported that Émile Moreau, the former governor of the Banque de France, had told a German banker in Paris that the French banks had favored a loan to Germany, but they feared that demonstrators would have smashed their windows. Furthermore, according to Moreau, the Tardieu cabinet would have fallen, if it had endorsed a loan to Germany. “You cannot imagine how agitated the atmosphere in France has become.”\(^{34}\) Schäffer also noted in this diary on 6 October, 1930 that Pierre Quesnay, the general secretary of the BIS and a former director at the Banque de France, had transmitted the message to Berlin that “in political circles the French fear that the money will possibly benefit Hitler.”\(^{35}\)

A survey of French newspapers confirms the impression that the public was frightened by the victory of the extremist parties, fearing that further concessions would only strengthen their position.\(^{36}\) At the same time, the editorials and statements make it clear that many French did not understand the depth of Germany’s economic and political problems. And most of them did not even pay attention to the loan negotiations, because they did not recognize their crucial importance for the containment of the currency crisis. They rather focused on the personality of Hitler and the National Socialists. For example, when the Reichsbank increased the discount rate to 5 percent, the left leaning daily newspaper Le Petit Parisien

\(^{34}\) Schäffer diaries, 14 October, 1930, p. 254. Cf. The statement by Flandin supporting French cooperation: Frankfurter Zeitung, 5 October, 1930: „Französische Beteiligung am Überbrückungskredit?“.
\(^{35}\) Schäffer, diaries, 6 October, 1930, p. 243.
\(^{36}\) See Banholzer (2014), pp. 53-54.
wrote: „Le succès des fascistes de Hitler et consorts se traduit déjà, pour l’ensemble du peuple allemand, par une tension des taux d’escompte et par une augmentation des prix correspondants.“ Obviousely the paper believed that Hitler was the cause of the currency crisis. At the same time, there was no word about the potential role of France in the crisis and the idea of participating in the loan to Germany. Only the nationalist newspaper L’Écho de Paris dealt with the question whether or not France should provide a loan to Germany. Of course, the answer was negative, fearing that the money would eventually strengthen those forces that wanted to revise the Young Plan. The conclusion was: „Toute la politique de Locarno et du plan Young fut atteinte par les élections hitlériennes du 14 septembre. Verser de l’argent au Reich en détresse, c’est infuser à cette politique une dose d’oxygène, lui permettre de se soulever sur son grabat.“

Thus, as in the summer of 1931, the French government declined to help mitigate a financial crisis in the fall of 1930. At first sight, the similarities between the two crises may be superficial. We argue, however, that besides the French non-cooperation there are three reasons to view the 1931 crisis as a sort of rerun of the 1930 crisis. First, both crises were triggered by political changes occurring in Germany: the increase of radical seats at the elections in September of 1930 and an austerity package combined with a statement that further austerity would not be tolerated by the German people. And both these events had the same effect: they made investors nervous about Germany’s solvency. Accordingly, both crises were of the same type, namely currency crises.

Second, the first phase of the 1931 crisis may have been more severe than the 1930 crisis, but the difference was gradual, not fundamental. In June of 1931, the Reichsbank was able to maintain the gold standard and was not yet forced to start curtailing its discount policy until after Hoover announced the moratorium on 20 June. And in both cases, the Reichsbank felt itself forced to increase the discount rate when the crisis gained momentum: on October 9, 1930, from 4 to 5 percent and on June 13, 1931, from 5 to 7 percent. Only in the second phase following the French reluctance to go along the crisis became more severe than in 1930. In our comparison we focus on the first phase of 1931.

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37 Le Petit Parisien: La Bourse de Berlin a enregistré de gros tassements, 10 October, 1930, p. 3.
A quantitative comparison appears to support our view. We always compare the evolution of these data from the start of the crisis. As for the fall of 1930, the start of the crisis is on the day after the elections, i.e. on Monday, September 15, with the last day before the elections serving as benchmark date (100). As for 1931, we start on May 26, when the Berlin stock exchange dived following rumours of an impending moratorium. The benchmark date is thus the day before. The comparison shows that the two crises are similar with regard to the YPB price (Amsterdam) plotted in figure 3. In the first three weeks the 1931 crisis took a similar course as the 1930 crisis. The price fell by roughly 15 percent relative to the day immediately before the crisis. The big difference is that afterwards the 1931 crisis took a completely different course. In 1931, the YPB price steeply recovered in the fourth and fifth week, going back to the pre-crisis level, but then completely collapsed, whereas in 1930 it slowly went back upwards.

[Figure 3 about here]

The evolution of central bank reserves on a weekly basis show that the 1931 crisis was more dramatic than the 1930 crisis (see figure 4). In 1931, within five weeks the level of reserves was reduced by 40 percent, in the fall of 1930 reserves decreased by 20 percent over six weeks and then levelled off. In addition, in 1931 the Reichsbank went with a lower cover ratio into the crisis than in 1930, mainly due to the reduction of foreign exchange reserves by 50 percent since September of 1930. This undermined its ability to provide the banking system with foreign currencies and gold reserves. But was this difference crucial? We would argue that it was a gradual, not a fundamental difference.

[Figure 4 about here]

Third, there was a similar combination of rescue measures. The first element was political. In both instances, Brüning needed to win a majority for his austerity measures. In 1930 the austerity measures were a consequence of the currency crisis. The German government needed to commit to them in order to get the loan from LHC. In 1931 Brüning needed to prevent the Reichstag from reconvening in order to preserve the main elements of the Second Emergency Decree. The second element was outside help, and in both instances it came from

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the United States. In 1930 it was private help in the form of a loan from the US investment bank LHC, in 1931 it was public help in the form of the Hoover moratorium.

The reason why it was more difficult to obtain a foreign loan was that Germany’s economic and political outlook had deteriorated even before June 6 so that foreign banks became reluctant to lend. Figure 5 illustrates the correlation between political instability and foreign deposits at the large Berlin banks. Political instability is measured by the share of votes for extremist parties in Germany’s local, regional and national elections between 1929 and 1931. Clearly, the increasing polarization of the German electorate weakened the liability side of the large banks.

[Figure 5 about here]

It did not help that the US market was drying out anyway. There is some controversy of how strong this effect was. But there is no doubt that in 1931 it was harder to get foreign funds than in 1930, not only for Germany, but for other countries as well. Ritschl (2002) argues that the difficulty to obtain foreign loans was also linked to the seniority of reparations over private debts as stipulated by the Young Plan, whereas the Dawes Plan had an implicit guarantee of private debts relative to reparations. This change further undermined Germany’s credit rating. Yet, not only foreign investors had become more reluctant to Germany, but also the German government had decided to renounce foreign loans. Starting in December, Brüning argued that it would weaken the German position when it came to renegotiate or abandon the Young Plan, if Germany were still suffering from short-term funding crises. He wanted to reorganize Germany’s public finances as soon as possible.

Summing up, there were three similarities between the two financial crises. And most importantly, in each instance France declined to cooperate for the same reason: domestic politics. The only difference was that the French cooperation did not matter in 1930, because the LHC loan was private, while in 1931 being of crucial importance, because it involved the change of existing treaties between sovereign nations. These observations suggest that the mutual trust between France and Germany had already collapsed before October 1930. In the following section we try to develop our argument.
4. Explaining the French “non”

To account for the whole complexity of the Franco-German relationship we would have to go back to the world war and the peace treaties thereafter. This is not feasible in a single paper. Instead we seek a more simplified picture to understand why the French government hesitated to endorse the Hoover moratorium in the summer of 1931. The international relations literature has often used the prisoner’s dilemma to illustrate the difficulties of building international trust and commitment (Kydd 2015).

We distinguish four phases that reflect different positions for France and Germany. Of course, the structure is schematic, but we hope to advance a more analytical perspective on the political origins of the German financial crisis of 1931. Our main hypothesis is that in June 1931 when Hoover launched his plan of a moratorium both France and Germany had defected for some time. France tried to rebuild a new structure of cooperation in early 1931, but this attempt failed when the news broke that Austria and Germany planned to form a customs union. In the following we describe the individual phases in more detail.

[Figure 6 about here]

In the first phase the mode of cooperation was still operating – i.e. France and Germany were in the upper left corner. The phase lasted from 1925 when the Locarno Treaties were signed until May 1930 when the Young Plan was put in motion (retroactively to September 1st, 1929) and the Bank for International Settlements (BIS) located in Basle began to operate. May 1930 was also the month when the French government announced that it would leave the Rhineland at the end of June. And thirdly, the French foreign minister Aristide Briand emphasized once more that France was interested in improving relations with Germany by circulating his plan for closer union in Europe.41

But the Young plan in combination with the agreement that the French would evacuate the Rhineland five years ahead of schedule – in 1930 instead of 1935 – bore already the seeds of destruction. The German government was highly reluctant to accept the Young Plan. It had hoped for more relief with respect to the reparations bill. And the French government knew that an early evacuation of the Rhineland would be met with enormous domestic resistance,

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41 Survey of International Affairs 1930, p. 137: „A memorandum, sur l’organisation d’un régime d’union fédérale européenne, dated the 1st may, 1930, was duly circulated on the 17th May by Monsieur Briand, …“
due to security fears. In the end, however, Briand, then President of the Council (Prime Minister) and Minister of Foreign Affairs, had to cede. Not only Germany, but also the British Labour government pushed for an acceleration of the process. The US remained neutral in the background.

Briand paid dearly for this concession. As soon as he agreed on the early evacuation of the Rhineland, he lost his majority in the French parliament. And his successor André Tardieu rushed to put a plan in place that had been discussed for years: the construction of the Maginot line. On December 28, 1929, both the Chamber of Deputies and the Senate appropriated the first tranche of credits. On January 14, 1930, President Gaston Doumergue signed the law.

The second phase saw the defection of Germany from a cooperation stance – i.e. shifting to the lower left corner where the defector Germany profited from the cooperative stance of France. The evacuation of the Rhineland on June 30, 1930, was not seen by the German population as a further step towards reconciliation with France, but as a sort of free pass towards a more offensive foreign policy. President Hindenburg and the government in their joint proclamation only thanked the Germans who had given their life for the liberty of the fatherland. They also expressed their hope that the Saarland would be given back to Germany any time soon. It ended with the following words: “After years of bitter distress, after the acceptance of oppressive burdens, we have regained for the Rhineland a freedom that we shall preserve for the welfare and future of our fatherland. Therefore, in this solemn hour, let us be united in the pledge ‘Deutschland, Deutschland über alles’.”

Le Temps, the Parisian pro-government daily, was greatly disappointed: „Par contre, la proclamation du président Hindenburg et des ministres du Reich ne contient pas un mot sur les meilleures perspectives d’un rapprochement avec la France qui doivent logiquement résulter de l’évacuation anticipée et il n’y est fait aucune allusion aux efforts de Stresemann qui ont abouti à la libération du territoire allemand. »

The British were taken aback as well.

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42 New York Times, July 1st, 1930. The original version that is slightly changed by the NYT is in VZ Nr. 304 (Morgen-Ausgabe), Dienstag, 1. Juli 1930, p. 1.
43 Le Temps, 1930/07/02, p. 1 (Bulletin du jour)
Ambassador Rumbold in Berlin viewed the proclamation as a sign of typical German “ingratitude and tactlessness”.44

Soon, the evacuation was followed by acts of revenge. After these excesses the French public was more than disappointed, it was disgusted. Le Temps abandoned its measured tone: “Les lamentable incidents qui se sont produits en Rhénanie au lendemain du départ de nos troupes et qui n’ont pas encore pris complètement fin cinq jour après l’évacuation, produisent dans tous les milieux des pays alliés la plus pénible impression. Des bandes organisées de réactionnaires nationalistes ont commis à Kaiserslautern, à Mayence et, hier, à Wiesbaden, des excès odieux. Elles s’en sont prises à la personne et aux biens d’anciens séparatistes ou de Rhénans suspects d’avoir fait preuve de courtoisie dans leurs relations avec les autorités d’occupation. Des hommes ont été maltraités ; des magasins et des appartements privés ont été saccagés et pillés ; on a assisté dans des centres importants à de véritables scènes de guerre civile et la police allemande n’a guère mis d’empressement à réprimer ces actes de sauvagerie et à rétablir l’ordre.”45

The French cabinet swiftly reacted, though in a somewhat awkward way. Aware that the Minister for Foreign Affairs Briand was vacationing, Prime Minister Tardieu issued a statement saying that Briand had complained to the German ambassador Leopold von Hoesch in Paris. The cabinet also instructed the French ambassador Margerie in Berlin to deliver a démarche to the German government. Hoesch could forestall this escalation, arguing that in an official response the German government would focus on how France had financed separatist movements in the occupied Rhineland in 1923. Margerie then only protested against the violence when visiting foreign minister Curtius. In any case, as a result of what happened in the aftermath of the evacuation, the French public opinion became hostile towards further concessions vis-à-vis Germany.

In reaction to the German change of mind, the French gave up their cooperative stance as well. This move marks the third phase – i.e. by now both sides preferred defection over cooperation. France’s change of position became visible during the German currency crisis in the fall of 1930. French banks were interested in helping the German government to overcome the crisis by participating in a foreign loan under the leadership of the American

44 DBFP, 2/I, No. 308 (cited in Heyde, Ende, p. 87, footnote 39).
bank Lee, Higginson & Co. (LHC). As described in Section 3, the French government initially endorsed this plan, and German officials welcomed it. But in the end, there was no cooperation. The fear of violent opposition on the domestic front led the French authorities to stop any participation in the LHC loan.

In the fourth phase, the French made a few offers of cooperation. Most importantly, they participated in a foreign loan for Germany in late January of 1931 were turning points. They joined LHC in a credit over RM 100 million to Germany. But this was an exception, due to the relative small size of the credit, the participation of Swiss and British banks and the political support of Briand who convinced the French cabinet to allow the credit. It did not mark the beginning of a new form of mutual trust and cooperation.

A conversation between Philippe Berthelot, general secretary of the foreign ministry, and Leopold von Hoesch, the German ambassador in Paris, showed the extent of Franco-German mistrust existing before the announcement of a customs union. Bennett (1961) summarizes the conversation in the following words: “In his interview with Hoesch on February 23, 1931, Berthelot had extolled the merits of a comprehensive Franco-German settlement, and various proposals were discussed in the days before the customs union announcement. But as Hoesch pointed out to Berlin, such financial discussions, envisaged as a way around the insoluble political problems, always came at least to grief on just those problems, the French government was always compelled to make assistance conditional on German abandonment of political aims, while the German government could not give up revision.”

The plan of customs union between Austria and Germany (announced on March 21) destroyed the last hope. As a result, Aristide Briand, increasingly isolated because of his pro-German policy stance, almost completely lost his influence within the cabinet. It also led to his defeat in the presidential elections held on. And what France even more reluctant to start a new initiative of cooperation was that neither Labour government nor the Hoover administration openly condemned Germany. Furthermore, Anglo-Saxon investors did not consider the customs union a major problem. Some even welcomed the formation of a customs union in Central Europe. Accordingly, the YPB did not dive when customs union was announced, and the level of Reichsbank reserves remained stable.

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Thus, when the German crisis gained momentum, leading Hoover to come forward with this moratorium plan, the French government feeling abandoned and used had no incentive to be forthcoming. The rest is history.

5. Conclusion

Why did the French say “non”, when President Hoover proposed a moratorium in June of 1931? Some economic historians think that it was due to Germany’s plan in March 1931 to form a customs union with Austria. Others highlight the unequal treatment of France and Germany: while Germany could only gain from the Hoover moratorium, France did not receive any relief, if acting cooperatively. Still others refer to the strong opposition of the French electorate. The French government could simply not afford to cooperate with Germany in this climate of mistrust and fear.

We think that all these explanations are relevant, but fail to provide a comprehensive picture. Important questions are not answered, in particular why France was not willing to help Germany overcome the financial crisis of autumn 1930. We propose to frame the problem on terms of the prisoner’s dilemma. Our main hypothesis is that cooperation between France and Germany broke down in the wake of the evacuation of the Rhineland in the summer of 1930. From then on, French public opinion and a majority of deputies feared that any money lent to Germany to relieve the burden of reparations and short-term debts would eventually end up in the hands of a right-wing government. In terms of the prisoner’s dilemma Germany defected when celebrating the evacuation of the Rhineland without any sign of gratitude towards the French government, and France defected when refusing to participate in the LHC loan that was crucial for ending the currency crisis in the fall of 1931. Once both sides preferred defection over cooperation it proved extremely difficult to restore mutual trust.

References


Table 1: Results of Reichstag elections, September 1930

<table>
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<tr>
<th>Party</th>
<th>%</th>
<th>Seats</th>
<th>+/-</th>
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<tbody>
<tr>
<td>Social Democratic Party</td>
<td>24.53</td>
<td>143</td>
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<tr>
<td>National Socialist German Workers Party</td>
<td>18.25</td>
<td>107</td>
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<td>Communist Party of Germany</td>
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<td>Centre Party</td>
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<td>German National People's Party</td>
<td>7.03</td>
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<td>German People's Party</td>
<td>4.51</td>
<td>30</td>
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<tr>
<td>German State Party</td>
<td>3.78</td>
<td>20</td>
<td>-5</td>
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<td>Reich Party of the German Middle Class</td>
<td>3.90</td>
<td>23</td>
<td>0</td>
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<td>Christian-National Peasants' and Farmers' Party</td>
<td>3.17</td>
<td>19</td>
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<td>Christian Social People's Service</td>
<td>2.48</td>
<td>14</td>
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<td>German Farmers' Party</td>
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<td>6</td>
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<tr>
<td>Agricultural League</td>
<td>0.55</td>
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<td>German-Hanoverian Party</td>
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<tr>
<td>Total</td>
<td>100.00</td>
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<td>+86</td>
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<tr>
<td>Registered voters/turnout</td>
<td>82.0</td>
<td>–</td>
<td>–</td>
</tr>
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Table 2: Key events

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<tr>
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<th>Event</th>
</tr>
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<tbody>
<tr>
<td>14 Sept.</td>
<td>Reichstag elections: NSDAP wins 18.5% of seats</td>
</tr>
<tr>
<td>19 Sept.</td>
<td>rumours of „Putsch“</td>
</tr>
<tr>
<td>23/24 Sept.</td>
<td>denial of „Putsch“ by Brüning and Hindenburg</td>
</tr>
<tr>
<td>25 Sept.</td>
<td>Hitler's speech at Reichsgericht in Leipzig</td>
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<td>29 Sept.</td>
<td>publication of fiscal restructuring program</td>
</tr>
<tr>
<td>Date</td>
<td>Event</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>4/5 Oct.</td>
<td>revolution and financial crisis in Brazil</td>
</tr>
<tr>
<td>11 Oct.</td>
<td>Lee Higginson loan signed</td>
</tr>
<tr>
<td>14 Oct.</td>
<td>interview of Hitler with London Times and NYT</td>
</tr>
<tr>
<td>19 Oct.</td>
<td>Reichstag passes Schuldentilgungsgesetz, Brüning government wins no confidence vote</td>
</tr>
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</table>

Figure 1: Price of Young plan bond quoted in London and weekly reserves of Reichsbank, 1931-05-15 to 1931-07-31. (Source: Frankfurter Zeitung and Verwaltungsbericht der Reichsbank.)
Figure 2: Price of Young plan bond quoted in London and weekly reserves of Reichsbank, 1930-08-31 to 1930-10-31. (Source: Frankfurter Zeitung and Verwaltungsbericht der Reichsbank.)

Figure 3: Daily index of YPB prices after September 13, 1930, and after May 22, 1930. (Source: Frankfurter Zeitung.)
Figure 4: Weekly index of gold and foreign exchange reserves of Reichsbank after September 13, 1930, and after May 22, 1930. (Source: Frankfurter Zeitung and Verwaltungsbericht der Reichsbank.)

Figure 5: Shares of votes for extremist parties and foreign deposits (creditors) of the German big banks. (Source: http://www.gonschior.de/weimar (retrieved 2015-07-10) and Vossische Zeitung.)
<table>
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<tr>
<th></th>
<th>FRANCE</th>
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<tr>
<td></td>
<td></td>
<td>Cooperation</td>
</tr>
<tr>
<td>GERMANY</td>
<td>Cooperation</td>
<td>Spring 1930</td>
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<tr>
<td></td>
<td>Defection</td>
<td>Summer 1930</td>
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</table>

Figure 6: The evolution of the Franco-German relationship from the perspective of the prisoner’s dilemma.