

Rist, Quesnay, and Mizakis: Different French ways to stabilize the peseta 1929-1931 (preliminary draft)

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Abstract

After French franc resumed to convertibility in 1928, the development of speculation against Spanish peseta developed and decided Calvo Sotelo, then minister of Finance under Primo de Rivera dictatorship, to plan a stabilization of the peseta. The reputation of the French “money doctors” and their new positions in the international financial institutions made them involved in the new project, even under the following Damaso Berenguer administration. First, Charles Rist, the former Deputy Governor of *Banque de France* and professor at La Sorbonne was in charge of a report on the monetary and financial situation in Spain, which concluded on the necessity to stabilize and provided suggestions on the ways to stabilize. This report was published in its French version but was not applied nor followed by many discussion in Spain. Then, Julio Wais, minister of Finance of Berenger Government asked for the new BIS, with Pierre Quesnay as director. Pierre Quesnay was the former student of Charles Rist but also the main *Banque de France* internal adviser during the franc Poincaré reform. Quesnay also wrote a report, and motivated a mission of Banque de France near Bank of Spain, then conducted by Michel Mitzakis.

The objective of the paper is to compare the advices and propositions of Rist and Quesnay and the own Mitzakis analysis during his stay in Madrid. The main motivation of this study is that Rist and Quesnay agreed for the most in the French case but also had contrasted views on the relevance of the way central banks could / must control the money market. Is there any sign of this debate in their respective plans and in which ways Mitzakis chose to arbitrate among the “old” Rist orthodox position and the “new” Quesnay Open Market discretionary attitude. How Mitzakis will arbitrate among the two positions and for which good or bad reasons? We use for the most French Archive documents, from *Banque de France*, and analyzes of the monetary situation in Spain during this time by Spanish specialists.

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1 Introduction

Gold convertibility was suspended in Spain in 1883. The First World War delayed the efforts to resume pegging the peseta to Gold. Spain was out of the conflict which caused Gold reserves to increase during the war. Despite this advantage over all belligerents except US, the instable external parity of the peseta was considered as an obstacle to the development of the economy. Different attempts were made during the twenties to stabilize or reevaluate the peseta, and to peg it again to Gold (Martin-Aceña, Martínez-Ruiz, Nogues-Marco, 2011).

After French franc resumed to convertibility in 1928, the development of speculation against Spanish peseta developed and decided Calvo Sotelo, then Minister of Finance under Primo de Rivera dictatorship, to plan a stabilization of the peseta. Sotelo asked the support of a syndicate of British banks and of another one from New York with Morgan to constitute a fund devoted to intervene on external exchange market. He also asked Charles Rist, previously at the origin of the franc Poincaré and of its implementation in France to write a report on the financial situation on Spain (Martin-Aceña, 2006). This report was made public by Rist on May 1929 but during the same period, a Spanish committee of experts, chaired by Antonio Flores de Lemus, suggests to avoid any too rapid stabilization, mainly to avoid deflation. During the term of the provisional government of Dámaso Berenguer, the first ministry of Finance Manuel Argüelles was obliged to resign due to the depreciation of the peseta.

Julio Wais followed him and decided rapidly to return to an objective of monetary stabilization. With Federico Bas who he appointed to chair the Bank of Spain, he looks for the same international support than Sotelo few time before. After different contacts and meetings in Paris with the BRI and *Banque de France* in October 1930 (Martin-Aceña, 2006, p. 8), the Spanish delegation - headed by Federico Bas - admits the necessity to take sufficient measures and to make public announces devoted to convince partners and speculators of the Spanish objective to stabilize. Pierre Quesnay, who was the main collaborator of Rist during the Poincaré stabilization but is now the first director of the BIS will write a report, devoted to update Rist advices concerning the stabilization of the peseta. The report is communicated in November 1930. He is greeted with enthusiasm in Spain and initiated a phase of cooperation between the BRI/*Banque de France* and Spanish monetary and financial authorities. Michel Mitzakis appears for the first time in this story during the stay of the Spanish delegation in Paris. Mitzakis is a member of *Banque de France* where he met Quesnay before this last joined BRI. Their relation of confidence maintained after Quesnay resigned to join BRI and one cannot imagine that Quesnay did not

influence *Banque de France* when this last decided to send Mitzakis for a stay in Madrid. This will be the occasion for Mitzakis to formulate its own advices on the situation.

The objective of this paper is to compare the analyzes and advices of Rist, Quesnay and Mitzakis, concerning the stabilization of the peseta in 1929-1931. All three were at the origin members of the same team: they all led or participated to the French stabilization experience. Rist and Quesnay had fundamental roles, but sometimes, particularly from 1927, diverged in the definition of the good monetary policy techniques to develop. Their necessary unity in the French case could not completely hide some of their divergences on the way to conduct monetary policy. This unity is no longer required when they formulate advices on the way to stabilize the peseta. The objective of this paper is then to compare their analysis of a situation which did not change radically between the two reports. We chose to consider also the views of Mitzakis because it is both close to Quesnay, but also in contact of the Spanish reality given his stay in Madrid. What will be his attitude? Will he choose to defend rigorously the recommendations of Quesnay when they will differ from those of Rist, or will he advocate a more syncretic attitude, with a mix of both positions?

The rest of the paper falls in four sections. Section 2 presents the content of Rist report. Section 3 presents Quesnay's own recommendations and section 4 synthesizes Mitzaki's views. Last section concludes.

2 Rist report

The report of Charles Rist is dated from November 7th 1929. It is written in French, probably without a joint translation in Spanish. This is a double-spaced typed document of 89 pages, including 32 pages of annexes, essentially statistical tables related to public finance, nominal and real monetary aggregates, legal acts, conventions and statutes. After an introduction which also summarizes the conclusions of the report, it is divided in five sections. The first one examines the disadvantages of a monetary instability for Spain. The second develops the specificities of Spanish situation. The third discusses the question of the optimal rate of conversion of the Spanish peseta in Gold currencies. The fourth details the technical measures which are to be taken to stabilize or simultaneously to stabilization. The last section focuses on the movements of capital and on question of the revision of balance sheets that he considers as necessary at the moment of the return to Gold. These 5 sections finally encompass three subjects: (i) the analysis of the situation, (ii) the solution provided, including technical aspects, (iii) the advices on the way to manage monetary, exchange and financial policies after the stabilization.

2.1 Rist analysis of the situation

This part of the report is a simple description of the situation of the Bank of Spain at this moment. Fundamentals are described as good. Rist speaks about an “in-

creasing prosperity” of Spain (Rist, 1929, p. 6) and obviously the state of Gold reserves is qualified of excellent: Bank of Spain ranks immediately after Bank of England concerning Gold reserves. He evaluates Gold reserves representing around 67% of the money in circulation (*Ibid*, p. 17). He has the same positive opinion of the financial situation of which “many States could be envious” (*Ibid*, p. 7).

Contrasting with this, Spain is also presented as the only big country where the currency is not stabilized. At this point, Rist expresses explicitly the French position about stabilization:

“This is not, as it could be thought, the more or less difference with its theoretical parity which constitutes the disadvantage of an unstable currency, but this instability itself. The exchange rate at which is pegged a given currency has in itself no importance” (*Ibid*, p. 7).

It develops the advantages to the solution consisting in choosing the new conversion parity as close as possible to the current market rate.

“The lowest rates, as it has been observed in Belgium, France or Italy, offer in most of the cases the biggest advantage and contribute to maintain at a low level the cost of life. On the contrary, the rise of prices in the countries which have kept as Netherlands, Norway, England or Swiss their pre-war parity, imposed them very laborious periods of readjustment of their costs.” (*Ibid*, p. 7).

Rist rather strangely attributes the depreciation of the peseta to the “regular issuance of banknotes in counterpart of the inflows of Gold associated to the trade surplus”, but, and this more important, he points out the disadvantages of a deflationary policy. He then asserts, this way convincingly, that a return to the pre-inconvertibility parity of the peseta is difficult if not impossible, at least in the short/middle term.

Charles Rist then advocates the possibility for Central Banks to use discount rate to control capital movements with a convertible currency. Even this argument could now be considered with perplexity, as we have in mind the strong and negative repercussions of this use during the before and during the EMS in Europe, central Banks’ discount rates were indeed effective the Twenties, at least those of the main Central Banks. Then, a notable part of the first section is devoted to examine the interest of the exchange rate stability. This development could be considered as rather modern in its argumentation as it equally balance the bad effects of increases and decreases of the exchange rate (*Ibid*, p. 14), this view being also shared nowadays by commercial partners, then by Governments.

Public finances seem to be in a sound situation, as the floating debt issued during the early twenties has been consolidated in 1927 and converted in amortizable bonds. Rist has the same good appreciation of external balances of Spain. Without any clear reason, he for instance minimizes the effect of the commercial deficit of

Spain: “this deficit can largely be compensated and it seems to already be by opposite capital inflows: interests of Spanish capitals invested abroad, remittances from expatriates, expenses of tourists in Spain” (*Ibid*, p. 17).

Only three difficulties are finally identified: the liquidation of silver balances of the Bank of Spain, the special budget, and the liquidation of external credits devoted to defend and stabilize the peseta. The losses associated to the reevaluation of the silver stock will be far most covered by the gains associated to the reevaluation of the gold stock.¹ The pre-war, war and interwar periods were moments of intense fluctuation of relative prices of gold and silver).

Rist position on the special (or extraordinary) budget is probably one of the less popular among Spanish partners. While the “normal” budget is balanced and even slightly in surplus, there is a “special” budget with a deficit financed by public loans for an amount more than two times larger than the surplus of the normal account. Rist whose views are very orthodox concerning public finance advises to reduce the consolidated deficit as he also advises more orthodoxy in other cases of other deficit or commitments of Central Government in loans concluded by public companies.

2.2 At which rate and how to stabilize?

A large part of the report is devoted to the rate of conversion of the peseta in Gold. Rist compares the level of prices in “Gold” in Spain, France, UK and Italy and concludes that Spanish prices are slightly higher than French ones but lower than English and Italian ones. He then advises to maintain the peseta future rate around 34/35 peseta per Pound which corresponds to its market rate at the moment of the report publication. For Rist, many reasons converge to choose a rate of exchange close to the market one, and more likely weaker than stronger.

At first, he rejects for instance stronger rates of exchange that would impose to deflate because he considers that prices will not adjust immediately to equilibrium international prices (*Ibid*, p. 27). He proposes to adopt a rather low and easy to defend rate of exchange which would advantage Spain commercially speaking and would help Government to reach financial equilibrium (*Ibid*, pp. 28-29). He surprisingly calculates the rate of Gold counterpart of bank notes in circulation, considering that the internal convertibility will be offered to bank notes holders (*Ibid*, pp. 28-29). Without surprise, he then explains that a rather weak level of exchange will be more easy to defend for the Spanish Central Bank than a stronger one (*Ibid*, pp. 29-30, p. 32). He also develops psychological motives to maintain the peseta close to its current rate: nothing will change fundamentally in the economic life and there will be no redistribution among debtors and creditors. A high rate of exchange

¹The peseta was created in 1868, with the French Franc as reference, in the Latin Union environment. It was then born with a bimetallic reference as it was the case for the founding members of the Latin Union. Only two years after, the increase of the price of gold and the political decision of Germany to join the Gold Standard club probably made Spanish Government regretting their decision but the economic interactions with France and other south European countries did not allow to modify their monetary choices

of the peseta would for instance make less easy the situation of Government as a debtor (*Ibid*, pp. 33-34). All those arguments were already developed during the French stabilization and made the *Banque de France* choosing to devalue instead of deflating. This is the same solution that Rist propose in the Spanish case. He concludes this part of the report (i.e. its section 3) precisising that the ideal rate of conversion should be 34.50 peseta/Sterling (*Ibid*, pp. 36-37).

Some of the technical conditions that Rist suggests could seem unessential, like for instance the regulation of the silver coins in circulation. More fundamentally and concerning silver, he proposes that the product of the reevaluation of Bank of Spain Gold reserves will be devoted to two different uses. The major part should compensate the liquidation of its silver reserves at a new and depreciated rate and to constitute a reserve devoted to manage the possible liquidation at loss of its silver holdings. A small part would be used to clear the position of Government against the Central Bank. Again in this part of the report, Rist considers that when the stabilization will be achieved, the Bank of Spain should commit itself to convert on demand bank notes into Gold.

2.3 Orthodox views on future monetary and financial policy

Rist report is finally a sort of extreme version of his views related to stabilization, monetary policy and even public finance management. Rist approach has two components: pragmatism during the stabilization phase, the strict monetary and financial orthodoxy once the stabilization achieved. His advices seem even orientate policy makers toward more and more rigorous solutions during time. The Spanish case is not isolated but it is especially characteristic of this tendency.

Concerning stabilization, Rist defends indeed a strict “French view” which summarizes in two objectives: stability and competitiveness. This justifies both the necessity to peg the currency and the “devaluationist” method against the deflationist British option. For this part of its proposals, Rist could be considered as a pragmatic: British experts would probably have recommended more rigorous and unpopular policies before the *de jure* stabilization. However, one observation could temperate this presentation of Rist views concerning the objectives and methods: the monetary way to stabilize and make the stabilization sustainable seems to limit for Rist to the gold standard mechanisms. Nowhere in its recommendation figure any attempts to encourage the transition toward new practices and methods, either on the exchange nor the monetary market. The date of the publication of the report attests that it was delivered after the black Friday to which there is no mention in the text. The financial disorder it generates seemingly no other effect than increasing the reference to the strict application of convertibility principles. One of the most surprising and extremist recommendation of Rist is then this advice that the Bank should maintain a strict internal convertibility.

“The bank of Spain will commit itself to convert its notes in Gold. A minimum nominal will be asked at the beginning to avoid any metallic hoarding” (*Ibid*, p. 43)

There is no mention of the length of this “beginning period” but it has to be suspected that Rist imagined that the increase of the Gold reserves of the Bank of Spain would progressively increase until the nominal requirement could be lower or simply suppressed. The following lines of the report tend to strengthen this interpretation:

“The Bank of Spain would be missioned to buy gold [on the commodity market]. It will do so at a price integrating the issuing costs on which it could give a discount to the seller” (*Ibid*, p. 43)

More generally, Rist proposes to fix in a drastic way the proportion of Gold reserves of the Bank of Spain compared to the monetary basis (and not only the Bank notes in circulation). Given that he includes all the current accounts, without any precision about the consolidation among those accounts, the rate of 40% of gold counterpart of this monetary aggregate seems unrealistic.

One of the major recommendation relates to budget orthodoxy. In many points of the report, he points out the necessity of a strict budget orthodoxy, with two different measures, as difficult to apply for a Government faced with the necessity to develop infrastructures and to work for the development of new economic sectors: limiting or stopping to fund the “special” budget by public bonds and amortizing the advances to Government concluded in the past years.

Concerning the future monetary policy, Rist only mentions the traditional discount measures. No reference to open market operations but only the incentive to limit the risk of the Bank in its discount policy.

Rist also insist on the necessity to “agree”² with the other central banks. These international interactions would generate and improve confidence but, they have finally as only objective to “restore the broken link between the national currency and the international one, Gold” (*Ibid*, p. 44-45). Obviously, the liquidation of credits obtained from foreign banks in order to stabilize is a condition of this restoration of international confidence and this liquidation must be achieved as rapidly as possible.

3 Quesnay report

Pierre Quesnay’s main motivation in his monetary policy reform lies, above all, in the need to comply with the new international standards for monetary policy tools. In other words, he aimed at substituting the ‘barbarous relic’ instruments (i.e discount rate) by new ones, notably open-market operations and the setting of international institutions to cooperate with. It is therefore not surprising that Pierre Quesnay took part in the reflection on monetary policy in Spain. When Quesnay wrote his report on November 15th 1930, he was (first) director of the (new) BIS. However, thanks to his background at the Bank of France -and especially as the Director of

²It is interesting to note that he uses the French term *entente* and not the word *coopération* which would have suggested more close links and coordination practices.

the Economic Studies department within the Bank and the various missions abroad he did as monetary policy advisor- he was fully relevant to take part of the Spanish monetary policy debate.

The report is structured in three parts which refers to three different times within the peseta stabilization policy. The report made to the Spanish peseta is close to the article Quesnay wrote to the *Banque de France* (for internal uses) in the late 1926 untitled “Le Crédit de la France”, in which he presented the same approach (i.e. a three step plans of stabilization) for the French franc.

3.1 The pre-stablization stage

The first step in the stabilization policy proposed by Quesnay relies on the ability of the Bank of Spain to be a leading driver on the ForeX. In so doing, the Bank of Spain should, first, hold foreign reserves in its balance sheet. For that specific reason, Quesnay advised Bank of Spain to accept the temporary fluctuation of the peseta. The discrepancies in the external value of the peseta will enable the central bank to set arbitrage’s operations on the ForeX. In so doing, the Bank of Spain will gather foreign reserves which will be helpful for the stabilization policy de facto. This new duty for the Central Bank, the one of the ForeX’s market maker, will be a good opportunity for Spain to cooperate with the BIS. Without any surprise, Quesna, took advantage of this report to recall the leading duties and services that the BIS provide to 19 central banks at that time. The BIS is defined as “exchange clearing for central banks” (Quesnay, 1930: 7) owing to the help provided to many central banks. In fact, Central Banks can open a current account in foreign currency at the BIS so as to secure and invest a portion of its foreign currencies reserves whatever the origin of those foreign currencies (inherited from gold sale or from exchange of peseta against foreign currencies). The BIS plays an international store of value function as the money put into the BIS enables the central banks to earn interest income. The BIS also plays the role of ‘insurer in last resort’ as it secures the gold reserves held by central banks. These latter can transfer a portion of their gold reserves to the BIS in Geneva. According to La Haye Agreement signed in January 20th 1930, all the money held by the BIS can not be expropriated or subject to limitation in imports or exports in war or peace times while being available to pay international exchanges for the account of the countries which ask for it. By advising Spain to open a foreign account at the BIS when the peseta would be stabilized, Quesnay is faithful with his own ambition to transform the BIS into a major international center for foreign exchange clearing.

3.2 The *de facto* stabilization stage

The second step is the most important one among the stabilization policy advised by Quesnay. At this stage, the Bank of Spain will have to set the official pair of the peseta defined by its gold weight (pure gold or 900 thousandths) associated with fluctuation range while preparing the seminal laws that will be voted later on (in the next and last stage). Quesnay warned the Spanish Treasury and the Bank of Spain to fix the appropriate parity in order to prevent deflationary periods driven by

a too ambitious exchange rate disconnected from the realm of the Spanish economy. Quesnay took position for an official parity at 0.18 g of pure gold per peseta (or 0.2 g of gold 900 thousandths)³. Quesnay is not an academic but a policymaker, thus he stresses the practical reasons behind the fluctuation of the exchange rate on the ForeX, namely the coinage fees or transport and insurance fees expressed by the gold points. The Bank of Spain would have to defend its parity by way of the foreign reserves held by the bank of issue. In so doing, Quesnay proposes to create an ‘Economic and Monetary Studies’ department within the Bank of Spain. The latter will have the duty to (1) coordinate the foreign exchange transactions which assure the everlasting official parity of the peseta; and (2) act as a monetary intelligence concerning the evolutions of monetary laws and mechanisms that took place abroad in foreign central bank⁴ and finally (3) to coordinate the foreign exchange policy with the internal needs of the Spanish economy (i.e monetary creation by way of banknotes’ issue).⁵

The threefold goal could have been the full responsibility of a deputy-governor within the Bank of Spain. However, without any surprise, Quesnay also mentioned, not to say advised, the Bank of Spain to outsource the exchange rate supervision to an external correspondent located abroad. He/she could have access to the account of the Bank of Spain held at the BIS to assess the foreign exchange policy of the Bank of Spain. Added to the supported that BIS can offer to the Bank of Spain in the training of her workers, Quesnay took advantage of this report to recommend the expertise of a young French inspector from the Bank of France, Michel Mitzakis, to achieve this mission (Quesnay, 1930: 13-14). This advice will be well received as the French inspector will work closely with the Governor of the Bank of Spain to organise and set up the new studies department as advised by Quesnay.

3.3 The stabilization *de jure*, open market practices and international cooperation

The last stage closes the stabilization plan recommended by Quesnay. It consists in providing the seminal laws that assesses *de jure* the stabilization of the peseta as decided in the previous stage (official parity) and to have Parliament vote on it. The most important law is the monetary and banking one in which several leading rules are guaranteed:

1. the official parity is defined: one peseta is worth by 0.18 g of pure gold (or 0.2 g of gold 900 thousandths);

³This exchange rate is close to the one proposed by Rist in his report the year before if we take into account the increasing value of gold and the deflation in prices since 1929.

⁴To Quesnay, specialized journalists, engineers in monetary mechanisms, lawyers or economists could be good candidates to work within this new department.

⁵For instance, when the exchange rate of the peseta is close to its lower limit, thus, the Bank of Spain will have to increase the discount rate so as to dilute the monetary mass. By contrast, the discount rate will be decreased when the exchange rate of the peseta is close to its upper limit on the ForeX.

2. the convertibility of the banknotes is guaranteed at the official pair for a minimum amount equivalent to a gold ingot (or its equivalent in gold foreign currencies);
3. the banknotes (and coins) have unlimited legal tender status;
4. the demand liabilities or deposits should be covered by gold reserves amounted to a minimum of 40%.

The Central Bank's seminal instruments should also be listed.⁶ It was the opportunity for Quesnay to emphasize open-market operations in this report.⁷ This new instrument was favored by Quesnay as it enabled Central Banks to cooperate with the BIS while taking into account the post-war context in which discount rate became a 'barbarous relic' to paraphrase Keynes's 1924 quotation, 'The public debt of the Spanish Treasury should take the form of 3 months Treasury bonds in the Bank of Spain balance sheet. Those assets could, thus, be sold on the money market if the need arisen. For instance, the Bank could sell the Treasury bonds against pesetas, which will reduce the number of banknotes in circulation that can be presented for convertibility. In so doing, the Gold reserves is preserved without having to manipulate the discount rate (as Rist orthodox monetary policy would have advised). On this subject, Quesnay had in mind the possibility for BIS to act as a lender in last resort in the following way: the Bank of Spain sells the Treasury bonds held in its assets' portfolio within its balance sheet to the BIS which, in its turn, provide it foreign currencies in its reserves' account held by the BIS. Such operation enables the Bank of Spain to strengthen its foreign reserves (at the expense of its gold ones) which would be useful to stabilize the peseta and assure its convertibility as defined by the monetary law. Quesnay also advised the Bank of Spain to strengthen her independence from government or whatever other economic organizations.

To conclude, the stabilization plan provided by Quesnay in 1930 fully reflected his own reflexion on the monetary policy's challenges that European countries faced at that time: the necessity for Central Banks to cooperate. The stabilization plan for the peseta pays attention to two leading measures:

1. The setting of open-market operations: the (new) instrument can be seen as a turning point in monetary policy history as it is the most efficient instrument to set up the international monetary policy cooperation (under the BIS supervision) that Quesnay planned. He believed in a clear distinction between internal tools (discount rate in agreement with the foreign currency policy) and external tools (open-market and the BIS), however, the two should be interdependent.

⁶Quesnay also mentioned *en passant* only two reasons behind the monetary creation: the discounting of bills of exchange and the purchases of gold (or others gold currencies).

⁷Quesnay took position in favour of open-market in 1928 (and even before) when he conflicted against Rist concerning the monetary reforms to set up at that time to stabilize the French franc and anchor it to gold after WWI. The 1928 Poincaré law will set up only a slight version of open-market which denoted the victory of Rist against Quesnay (see Barbaroux, Dal-Pont and Torre working paper, 2018).

2. The central banks' cooperation with the BIS: in every stage of the proposed plan, the BIS is a necessary monetary ally that serve the monetary order stability in a new context:

“The Bank for International Settlements is neither a European Bank nor a universal global body like the League of Nations; it is an association of the Central Banks of countries whose currencies are based on Gold and which, therefore, all have an interest in others maintaining the same regime (Quesnay, 1931, p.9)”

In short, Quesnay adopts the position of a pioneer as he started to draw the lines of a new monetary order based on independent central banks that favor balance sheet transmission mechanism (at the expense of interest rate transmission mechanism) helped by a supranational institution which gathers the forces from everyone's instead of putting them in competition. All of that as a unique goal: to assess the monetary stability. Such an agenda is close to the one that central bankers are running for following the 'great financial crisis'.

4 Mitzakis views and recommendations

Mitzakis views are concentrated in two notes written for Quesnay, the first only few months after Quesnay own report, and the second in February 1931.

4.1 The difficulties to control exchange rate...

The first available correspondence from Mitzakis is from December 13th 1930, i.e less than one month after Quesnay report date. It is written sometimes after the now Spanish administration took office. He relates the variations of the peseta on the free market since the new administration is in charge: from an initial 51 peseta against 1 Pound on October 15th, it has increased to 44 to fall progressively to 49, which Mitzakis interprets as the sign that “the new Government and the Bank of Spain did not kept control of the exchange rate better than previous ones did” (Mitzakis, 1930, p. 1). For Mitzakis, this inversion in the free exchange rate of the peseta explains mainly by social movements: strikes and protests that Mitzakis imagines able to repeat in the following months. This context justify for Mitzakis to change rapidly the way to manage the transition toward stabilization: “no longer the possibility, as last week, to let peseta exchange rate to appreciate for some small points, then to slow, allegedly for strategical reasons, when a new strike, a military uprising, or a new political uncertainty” (*Ibid*, p. 2). He then tries to convince Quesnay that the transitory flexible solution is not reliable:

“Insofar we let the peseta oscillating as we did last month, between 41 and 49, not only we give the negative impression that monetary authorities have lost the control of exchange rates and that no stabilization plan is running, but we encourage speculation between those too wide limits and we increase the volume f reports instead of liquidating them.” (*Ibid*, pp. 3-4)

In the same letter, Mitzakis points out the high level of Gold reserves of the Bank of Spain, that he finds excessive regarding the risk of “bank run” (*Ibid*, p. 5). The amount of the reserves in convertible currencies also permits, following Mitzakis, to intervene successfully to enhance the rate of exchange of the peseta on the exchange market.

4.2 . . . do not discourage Mitzakis to apply Quesnay recommendations

Mitzakis identifies 3 kind of measures able to prepare the *de facto* stabilization: (i) a “normalization” of exchange rate control services, (ii) a gradual liquidation of reports, (iii) the organization of the Economic Analysis service (*Ibid*, p. 8). The objective of the first measure is to improve the control of the exchange market. The second corresponds to the liquidation of short positions able to generate uncertainty on the amount of future losses of Spanish institutions. The most interesting recommendation is the third one. It is, in the words of Mitzakis, something that follows rigorously the previous propositions of Quesnay. Mitzakis however details the content of the planned Department of Economic Analysis. It will integrate a section of statistical, economic and monetary analysis and a section in charge of the relationship with the press and other Central Banks. He also considers that one of the main objectives of those services will be during the stabilization to study the ways the other European Central Bank have stabilized. This service will also prepare all the documents necessary to the next stabilization of the peseta. In reality, Mitzakis, in the line of Quesnay recommendations, intends to replicate in the Bank of Spain the previous French experience of a service able to manage and control all the steps toward the final stabilization of the peseta.

4.3 But unexpected difficulties dilute the content of Quesnay principles

The second note of Mitzakis is dated from February 27th 1931. It is formally more structured than the December one. Some of the contents however repeat the previous developments of the December text. For instance, Mitzakis insists on the necessity of an active intervention to stabilize the peseta. An important part of the note is then devoted to explain why it is necessary to increase the available funds to defend the peseta. The second part of the note is a defense of a deflationary policy, which was not previously recommended by Rist and even by Quesnay. But when things are read more precisely, Mitzakis does not refer to a downward pressure on prices and salaries but to the same liquidation of the speculative short positions already considered in the December letter. The following part of the letter introduces new elements: during this time and for legal reasons, the Treasury and the Central Bank must participate conjointly to all operation devoted to manage the peseta. Mitzakis seems to that consider during last months the Treasury took the advantage in the decisional process, confronted to a Central Bank board “systematically opposed to any attempt to stabilize the peseta” (Mitzakis, 1931, p. 4). Despite this strange situation and without explaining why the Board is reticent, Mitzakis

however advocates the necessity to increase the independence of the Central Bank.

“It would be convenient that the Ministry of Finance renounce to drive the interventions on the exchange market and will limit to determine the level at which it wishes to stabilize the peseta, given its sovereign power.” (*Ibid.*, p. 4)

It is interesting to consider that despite his formal declaration in favor of an increased independence of Central Bank, Mitzakis gives to this independence a content far more restricted than Quesnay: it is limited to the means to reach an objective and does not relate to the nature of the objective itself. For Mitzakis, experts who are members of the Central Bank (or of the BIS) in the French case, are still in the Treasury in the Spanish case.

5 Concluding remarks

The object of this paper was to compare the propositions of Rist, Quesnay and Mitzakis to stabilize the peseta between 1929 and 1931. This comparison points out many similarities, all derived from the French experience. All three promote to ‘devalue’ and to avoid any deflation. Similarly, all three propose to increase the independence of the Bank of Spain even if for Mitzakis, the reasons do not seem so robust. In some other points, Rist and Quesnay positions seem to distinguish more or less radically. While Rist continue to advocate the strict advantages provided by the discipline of convertibility, Quesnay suggests open market practices to control the money market. Also, during the transition period, Quesnay recommend to let the market determining the future value of conversion of the peseta. Rist, but also Mitzakis oppositely propose to intervene in order to limit the fluctuations. Last, Rist is far more insistent than his former colleagues on the necessity to maintain a strict budgetary orthodoxy. Monetary and financial disciplines are the remedy for Rist when innovative practices are present in the recommendation of Quesnay, with a real interest for International Cooperation, while international relations are for Rist only a way to verify that each partner follows rigorously the rules of convertibility.

There is another interest of this comparison that our study does not really consider: it is to analyze the mutual influence of the position of the three authors and the evolution of the economic and overall political situation in Spain during the period. All the scene indeed develops while civil war already prepares in an instable environment already visible in the relations of Mitzakis. Spanish economists disagree on the good solutions to adopt, especially concerning monetary situation. In this situation, “the enormous reserves of gold accumulated during the World War I were of no use at all in backing the government intention to join the gold standard. The Bank of Spain resisted any attempt made by the Treasury to use them to defend the exchange rate of the peseta. The Bank of Spain preferred to immobilize its gold in its vaults, and to hold reserves in excess of the already high level of reserve requirements set by the government” (Martin-Aceña, Martinez-Ruiz, Nogues-Marco, 2011,

p. 19). Spain will then never join Gold Standard but the point will rapidly appear as of secondary importance. As a part of Spanish political leaders and intellectuals, French advisers were unable to understand or anticipate the future evolutions in which monetary stabilization will have a secondary role. What is the influence of their interventions - and more generally of the way the international economic and financial community answered to the need of cooperation initiatives of Spain - on the following events? There is maybe the place for a study dealing with the influence of good or bad French advices on the evolution of the social and political situation in Spain during this period.

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