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The Little Paris and the New Berlin : The French Money Doctors' Unsuccessful Mission in Romania, 1929-1933*

Raphaël CHIAPPINI[†] Dominique TORRE[‡] Elise TOSI[§]

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Abstract

The *Banque de France* (BDF) conducted a mission to the National Bank of Romania (NBR) and the National Romanian Government between 1929 and 1933, acting as adviser the Romanian monetary and financial authorities. It took place in complement to two loans provided in 1929 and 1931 respectively to stabilize the leu and to develop the Romanian economy. Despite a few months of relative stability, the mission was ultimately unsuccessful. After 4 years of cooperation, the Romanian authorities were obliged to restrict convertibility to defend the leu. The Romanian Government was also unable to follow French advice and finally defaulted. This episode has already been studied by Kenneth Mouré (2005), Philipp Cottrell (2003), the authors (Torre and Tosi, 2010), and Ileana Răcianu (2012). This paper contributes to the existing literature in two dimensions : (i) In addition to *Banque de France* archive documents in French, it draws on various sources in Romanian for the most part never previously explored ; (ii) more importantly, it complements the strictly economic analysis of the episode by means of sources depicting the changes of views of intellectuals and politicians and the evolution of the international situation in Central Europe during the period. With this increased distance from the studied events and access to hitherto unavailable source material, this opens up new insights into how France was able to prolong this sterile cooperation phase beyond all reasonable consideration.

JEL Classification : N24, B22

Keywords : Money Doctors, Nominal stabilization, Central Banks cooperation, National Bank of Romania, Agrarianism, Little Entente.

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[†]Université de Bordeaux - BSE - CNRS, Avenue Léon Duguit, Bureau H2 331, 33608 Pessac, France., E-mail : raphael.chiappini@u-bordeaux.fr

[‡]Université Côte d'Azur - GREDEG - CNRS, 250 rue Albert Einstein, 06560 Valbonne, France., E-mail : dominique.torre@univ-cotedazur.fr

[§]SKEMA Business School, 60 Rue Fedor Dostoïevski, 06560 Valbonne, France., E-mail : e.tosi@skema.edu

Résumé

La *Banque de France* (BDF) a effectué une mission auprès de la Banque Nationale de Roumanie (BNR) et du gouvernement roumain entre 1929 et 1933 pour conseiller les autorités monétaires et financières. Cette mission s'est inscrite en complément à deux prêts accordés respectivement en 1929 et 1931 à l'Etat roumain pour stabiliser le leu et développer l'économie. Malgré quelques mois de relative stabilité, la mission s'est soldée par un échec. Après 4 ans de coopération cahotique, les autorités monétaires ont été obligées de restreindre la convertibilité pour défendre le leu. Le gouvernement roumain n'a pas non plus été en mesure de suivre les conseils de la France et a finalement fait défaut. Cet épisode a déjà été analysé par Kenneth Mouré (2005), Philipp Cottrell (2003), les auteurs (Torre and Tosi, 2010), et Ileana Racianu (2012). Cet article incrémente ces analyses dans deux directions : (i) il associe à l'exploitation de documents d'archives de la Banque de France diverses sources inexploitées, en roumain pour la plupart ; (ii) de façon plus fondamentale, il complète l'analyse strictement économique de l'épisode étudié par un examen des changements d'opinion des intellectuels et des politiques, mais aussi de l'évolution de la situation internationale en Europe centrale pendant la période. Ces éléments permettent de mieux comprendre comment la France a pu prolonger plus que de raison cette phase de coopération stérile.

Codes JEL : N24, B22

Mots-clés : Money Doctors, Stabilisation nominale, Coopération entre Banques Centrales, Banque Nationale de Roumanie, Agrarisme, Petite Entente.

1 Introduction

After its independence at the end of the 19th century, Romania redeveloped and embellished its new capital, Bucharest : the *Calea Victoriei* was remodeled into an equivalent of the *Champs Elysées*, the central bank was housed in the most beautiful building in the city, designed by a French architect Paul-Louis Galeron. After the war a triumphal arch was erected. Intellectuals, politicians and bankers studied in France and spoke excellent French : Bucharest was referred to as *The Little Paris*. When the French Money Doctors of the *Banque de France* (BDF) arrived in Bucharest at the end of the 1920s, it was this city that they discovered, and not without a degree of condescension. They were ready to conduct a mission recently decided on by the two partners, Romania and France. **The French side was represented by the *Banque de France*, chiefly in relation with the National Bank of Romania (NBR) but also the Romanian Ministry of Finance.** The objective of this mission was to stabilize the economy in nominal terms, and to contribute to the modernization and development of the country. The chosen method was pegging the Romanian *leu* to gold, disciplining fiscal policy, providing liquidity, and, on this basis, lowering interest rates and enhancing the climate of confidence and ability to attract domestic and foreign investors.

A stabilization loan was provided with the intercession of French central bankers and the contribution of a consortium of international banks. France imposed an agenda beginning with a rapid return to gold without deflation, a sort of acceleration of the method already experienced in France with the Poincaré stabilization. This return of the Romanian *leu* to convertibility was followed by a short period of nominal stability in the country. However, quite rapidly, the climate deteriorated and dissensions appeared between French and Romanian counterparts

regarding the financial measures to adopt and development objectives. The public deficit was not reduced and financial advice was less and less easily accepted or correctly followed by the Romanian authorities. Despite these unsuccessful episodes, cooperation did not cease and a development loan was provided in 1931. This new loan was however unable to ensure that economic advice translated into an accompanying implementation of policy. Finally, the Romanian authorities introduced a strict control of exchange which from 1932 rendered official parity artificial, and officially stopped servicing the debt in 1933, after a 2-year moratorium. *The Little Paris* lost its French advisors who returned to *rue Croix des Petits Champs* in 1933 : although it was not immediately recognized as such by the two countries, the partnership had failed both to achieve a sustainable nominal stabilization and to generate a climate of confidence able to attract foreign investors.

This example of cooperation between central banks to achieve national stabilization was not isolated during the period. Some cooperation schemes brought together systemically important central banks, such as the Bank of England, the Federal Reserve of New York, or others that were gradually becoming so, such as the *Banque de France* or the *Reichsbank*. (Ahamed, 2009; Bordo et al., 2016; Cassis et al., 2016) Others were more asymmetric in nature, with one of the systemic banks or the League of Nations serving as an adviser to a peripheral central bank benefiting from its recommendations. This latter scenario was very common in Central Europe and in the Balkan countries. It is generally considered that new central banks learned a lot from these episodes (Flandreau, 2002; Lutfalla and Flandreau, 2005; Tooze and Ivanov, 2011; Gomez Betancourt, 2022). The League of Nations was for the most part in charge of cooperation in the early 1920's (Nenovsly and Dimitrova, 2006; Flores Zendejas and Decorzant, 2016). From the success of the British, then the French stabilizations - with different methods and consequences -, the two major European Central Banks later competed to drive these attempts or guide them (Flandreau, 2005). The advice of the New York Federal Reserve and Wall Street loans were generally interpreted as sources of encouragement to develop these interventions. The BDF, directly or through its influence in the nascent Bank for International Settlements, became the most active institution from the late 1920's, partly due to the emerging strong position of the French Franc after 1926.

The cooperation between the BDF and the Romanian administration to stabilize the *leu* and to advise the Romanian Government is one of these episodes. Kenneth Mouré (2005), Philipp Cottrell (2003), and the authors (Torre and Tosi, 2010) have already used French sources, mostly from the BDF, to document this instance of cooperation between the two banks and to help explain the reasons for its failure. Ileana Nicoleta Racianu (2012) contributed original and relevant references from the Romanian side. She also provided interesting details and analyses concerning the final phase, resulting in the discreet withdrawal of the French mission and the arrival of League of Nations advisers. All converge around the argument that the mission did not understand early enough that the cooperation could not continue on the basis initially planned. This paper agrees with these conclusions but adds to the literature in two dimensions. Firstly, concerning the events, it uses previously unexploited documents (many of them in Romanian) which help to improve the perception of the episode from a Romanian perspective. Secondly, and more fundamentally, it complements the strictly economic analysis of the situation provided by previous presentations by considering the changes in the intellectual and political environment that occurred during the period of the mission. It thus adopts in a broad sense a “political economy” approach. The Great Depression remains the main reason behind the inability of French advisers to achieve their goals, but the crisis does not explain everything. In 1929, Romanian economic orthodoxies were very different from those of the French or British : at this time, French advice and methods were already unadapted. However, overall,

from 1931/1932, international political realities rapidly changed : Romanian intellectuals and policymakers started to think differently in *The Little Paris*, and soon their actions coincided with their views. We point out these changes in the second part of this paper : they should be considered at least as important as a strict policy-mix analysis in explaining the failure of the mission.

The rest of the paper is organized as follows : Section 2 discusses the conditions of the constitution of the partnership between France and Romania. Section 3 analyzes the conditions of reception of the French mission's first recommendations by the newly in-charge Romanian Agrarian administration. Section 4 considers the impact of the 1931 financial crisis and the Great Depression on the partnership's degradation. Section 5 depicts the two parallel realities in which the two parties evolved during the final months of the partnership. Section 6 proposes a discussion of the reasons behind the failure of the mission, before providing conclusions in section 7.

2 Partnership and partners

As in the case of other currencies, the Romanian *leu* became inconvertible during World War I. Romania was among the winners of the conflict, but with an increased territory poorly controlled and managed by the central government, an inefficient fiscal system and a rapid increase of public debt funded partly by advances from the NBR. Inflation developed, and the Romanian *leu* depreciated considerably in relation to major currencies (see Table 1). Various attempts sought to reinstate normal relationships between the government and the issuing bank, and to restore stability and convertibility to the *leu* by capping the issue of the currency and settling the state debt with the NBR.

Despite these efforts and temporary results, the level of fiduciary circulation did not diminish, and while the national economy had adapted to the existing monetary circumstances, any decline in the quantity of notes in circulation would have jeopardized the existing equilibrium. The objective of the authorities was thus to obtain an international loan devoted to help the government reduce all financial dependence on the NBR, and to help the NBR to stabilize the *leu*, thanks to a regained credibility.

2.1 A challenged stabilization

The first initiative of the Romanian administration was to apply to the League of Nations for a loan, while the second was to call on the help of the British financial institutions. However, in both cases, establishing contacts was not fruitful.¹ The third potential partner was France. The French *Banque de France* Governor Emile Moreau, mandated Pierre Quesnay, the young Head of the BDF's Department of Economic Analysis in Bucharest to analyze Romania's monetary and financial situation. This visit established the groundwork for a future cooperation mission, which was approved by the Federal Reserve System and the main European central banks after intense negotiations between the staff of the BDF and their counterparts in the corresponding monetary institutions (see [Moreau and Rueff, 1954](#); [Rist, 2006](#)).

A "stabilization" loan would be provided to the Romanian government, with the goal of reaching monetary and financial stability. Advisory tasks were proposed by the French side, which

1. All these episodes are related with precision in the PhD thesis by Iliena Nicoleta [Racianu \(2012\)](#)

was a condition from the BDF to provide the NBR with a second international loan. This second “development” loan **was intended to contribute** to the modernization of the economy and, in particular, to the extension of the railways. **This sequence stabilization loan/development loan was however already challenged in the first discussion between the Romanian side and its various partners from 1927-1928. It was for instance the case during the initial interactions between the Liberal administration in charge in Bucharest and the French central bankers.** For instance, on 23 November 1927, referring to a meeting with Charles Rist - his second Deputy Governor -, Governor Moreau wrote :

“M. Rist tells me that M. Louis-Dreyfus [a major French grain trader and banker with whom Moreau had a trustful relationship] is back from Romania. M. Ion Brătianu [then Prime Minister of Romania] still hopes to raise a loan for public works, but is not currently interested, for the moment, in the stabilization of the *leu*.” (Moreau and Rueff, 1954, p. 432, 23 Nov. 1927)

The Paris discussions of December 1927 confirmed that the Romanians’ preferences for the use of the loan were unchanged (see Moreau and Rueff, 1954, pp. 452-453, 15 dec. 1927). **Romanian reticence regarding an immediate stabilization could have synthesized opposite points of view. Some revaluationists among the liberals still had in mind a British-style return to gold, while other members of the political class would have preferred to take time to implement a stabilization strategy *à la française*.**

However, despite these initial divergences in the use and content of the “stabilization loan”, the two partners finally adopted the French sequence : the first loan would be mainly devoted to reach nominal stability and to reform the public finance system, while only the second was intended to develop the economy.

While the discussions between the French and Romanian sides focused on the purpose and the use of the first loan and on the nature of the French stabilization plan, the content of the interactions between the *Banque de France* and the other main central banks was different and more formal. The Bank of England, which did not agree to providing the loan at the conditions requested by the Romanian side, was in favor of a solution involving the League of Nations. But the degree of determination of the *Banque de France* was higher on this occasion. After tangled interactions between The Federal Reserve of New-York and the Bank of England, and the explicit support from Benjamin Strong to the French project², the New York Fed helped *Banque de France* to raise funds on the New York stock/financial market for the stabilization loan. This diplomatic success for the French side was also diplomatic failure for the Bank of England, still dominant international relations between central banks in Europe.

2.2 A questionable partnership

In view of the difficulties that the partners had to overcome in order to set up this cooperation procedure, one must question the nature of their motivations. From the Romanian side, the reasons were explicit : throughout the decade, prices remained difficult to control, the

2. A memorandum written by Benjamin Strong (1928, pp. 4-18, Memorandum re Bank of England - Bank of France relations) after interactions with Walter Stewart - who was American, previously Economist at the Federal Reserve of Washington but from 1928 economic advisor at the Bank of England - demonstrate the communication difficulties between the Bank of England and the Fed that preceded the NY Fed’s support for the French project. Kenneth Mouré (2005, p. 153) relates these episodes in a synthetic way, and points out that “relations between Strong and Norman suffered [from this] irregular conduct of central bank relations by the Bank of England” (Mouré, 1992, pp. 272-273), which the length and tone of the exchanges between Strong and Stewart do indeed show.

leu depreciated against the main international currencies, and Romania attributed its difficult economic recovery and its financial difficulties to this nominal instability (see Table 1).

TABLE 1: Exchange rates, prices, industrial production, GDP and debt

Year	Nominal ex- change rate leu/French Franc	Nominal ex- change rate leu/Pound Sterling	Retail Price Index (1929=100)	Industrial general produc- tion index (1929=100)	GDP at cur- rent prices (thousands of lei)	GDP at constant prices index (100=1929)
1921	6.62	342.50	31.14	43.20	70140.56	79.16
1922	12.22	660.99	39.60	58.00	108935.50	96.69
1923	12.54	944.02	62.42	64.40	169830.20	95.63
1924	10.67	897.10	75.28	70.40	198341.88	92.61
1925	9.99	1007.02	83.47	74.50	234955.35	98.94
1926	7.12	1065.79	94.22	83.50	265749.72	99.14
1927	6.61	816.90	100.20	88.70	272816.32	95.70
1928	6.44	797.79	99.86	97.40	272082.24	95.77
1929	6.58	815.56	99.98	100.00	284466.84	100.00
1930	6.63	817.15	88.36	98.10	286823.46	114.09
1931	6.60	768.78	72.70	90.90	232170.47	112.25
1932	6.59	592.95	62.20	96.90	173778.50	98.20
1933	6.59	564.10	56.10	110.40	164242.88	102.90

Note : Constant GDP is constructed using the retail price index and the GDP at current prices.

Source : South-Eastern European Monetary and Economic Statistics from the Nineteenth Century to World War II, published by : Bank of Greece, Bulgarian National Bank, National Bank of Romania, Oesterreichische Nationalbank, 2014, Athens, Sofia, Bucharest, Vienna.

On the French side, given that the *Banque de France* was not driven by supranational interests as per the tendency of international organizations, one must question its motivations. It could be considered that economic motivations predominated. Romania was one of France's main partners in Central Europe and the Balkan countries. France bought agricultural products from Romania and from the early 20th century until relatively recently invested in oil extraction in Romania, either operating alone, as for instance in the case of similar operations in the French company *Columbia*, or in collaboration with the Belgian company *Petrofina* in *Concordia* (Loth and Paun, 2014, pp. 70-71). Philippe Marguerat (1987; 2004), through the archives of the *Banque de Paris et des Pays Bas*, pointed out the role of this particular bank in the appropriation of German interests in the Danube basin in the aftermath of the First World War. The French government had initially supported the *Banque de l'Union Parisienne* in this project and did not facilitate the initiatives of its competitor in the first months (Pelletier, 2016), but finally French interests, in spite of, or thanks to, this antagonism between the two Parisian investment banks, were well established in the Danube basin from the early 1920s. However, three years before joining the *Banque de Paris et des Pays Bas*, Moreau never referred to French interests in the Danube delta in minutes of meetings with Horace Finaly or Emile Oudot from the *Banque de Paris et des Pays Bas*, or with other main executives of the major banks in Paris. He only mentioned a telephone conversation with Clément Moret, his future successor as Governor of *Banque de France*, but at this time in charge of the *Mouvements Généraux des Fonds* at the Ministry of Finance, that 250 million francs among the 1.500 billion that Romania would receive in loans would be allocated to purchases made in France (Moreau and Rueff, 1954, p. 432). On the other hand, there is nothing in Rist's or Quesnay's correspondence and writings which suggests any strictly economic interest motivating the French side in the Romanian operation.

French cultural influence was still very strong during the 1920s in many Balkan countries, such as Bulgaria, Greece and Serbia (and even Turkey after 1918) but the case of Romania, a Romance-language country, was distinct. Not only was the French language still predominant in intellectual circles in Romania, but in areas such as law or medicine, studying in France was highly regarded by the Romanian elite, and available to a select milieu seeking to emulate the French role model in the pursuit of the country's cultural and economic development (Nastasă, 2008). Hence, French cultural diplomacy usually took various forms (Pitsos, 2016) : *francophile* newspapers, cultural or ideological associations and networks, French high schools promoting the dissemination of French ideas and France's vision of the world, and also branches of French-speaking humanitarian and scientific networks. Cultural objectives are obviously not mentioned by the initiators of the *Banque de France's* mission, but they are part of an implicit whole : an intervention in Hungary, for example, a country where French cultural influence was weaker, would not have meant the same thing or involved the same determination. Kenneth Mouré found the right words when he wrote that "action by the Bank of England in the Balkans challenged French influence in a region where France had longstanding diplomatic interests" (Mouré, 2005, p. 148).

These 'actions of the Bank of England' were certainly an essential cause of the determination of the French authorities to intervene in Romania. The years 1927-1928 were pivotal moments. The French stabilization was already effective, although it had not yet been translated into a return to a fixed parity of the franc. The British stabilization was predated that of the French, but the pound appeared to be overvalued. Both the Bank of England and *Banque de France* found it opportune - with different timing - to invest in the nominal stabilization operations of smaller economies. For the Bank of England, it was a way to compensate its internal difficulties through increased international influence. The French side was trying to regain ground against its historic rival and offer its own technical methods and solutions to Central Banks in need of assistance. The nominal stabilization of Poland was a first semi-victory for French central bankers ; thanks to his position at the Blair Bank in New York, Jean Monnet was able to associate his French banker friends with the initiative taken by the Federal Reserve Bank of New York to stabilize the zloty. René Pleven's comments on this operation at the time in the columns of the *Revue d'Economie Politique*, the leading French academic journal in economics (Pleven, 1928) show how much this contribution of the *Banque de France* was viewed as its comeback in terms of monetary and financial diplomacy. Then came the time of the interventions in Romania and Yugoslavia, and the tension between the *Banque de France* and the Bank of England on these issues. The stiffness of Montagu Norman - the governor of the Bank of England - and the brutality of Emile Moreau - his French *alter ego* - are barely tempered by the diplomacy of Harry Siepmann and Pierre Quesnay, their young respective advisers. As a result of these terse exchanges, Cecil Lubbock - the overly accommodating First Deputy Governor of the Bank of England - would effectively lose all hopes of some day succeeding Norman (For more information on these episodes, see Moreau and Rueff 1954, pp. 504-514 ; Boyce 2002 ; Mouré 2005 ; and Chadwyck-Healey 2009).

On 31 July 1928, in the wake of the *Banque de France's* diplomatic success, an agreement was finally signed with the Romanian government, in which the NBR was authorized to enter into conventions with foreign banks for issuing loans designed for the legal stabilization of the *leu*, to purchase without limitation foreign currencies convertible into gold, and to increase the issue of notes subject only to their coverage in gold or 'gold currencies'. As in the case of the measures to implement the *franc Poincaré*, the solution adopted was to stabilize the national currency at a level close to its current value. With the agreement of Benjamin Strong, a credit convention was also implemented with 14 issuing banks that committed to keeping a stabili-

zation credit of 25 million dollars available to the NBR. Despite this apparent harmony, no one can certify nowadays that the stabilization advocated by the major banks as a counterpart for the loan was really justified. Likewise, despite France’s diplomatic victory over the British, it is certainly not evident that the solution granting the *Banque de France* rather than the League of Nations the responsibility for controlling operations was more adapted to the context.

3 The stabilization loan and its non-consensual objectives

While the first 80 million dollar loans were promised to the Romanian side, the *Banque de France*’s policy recommendations were contained in a “stabilization plan” presented by Quesnay to Vintila Bratianu, head of the last Liberal government, in February 1928. (Rist, 2006, Quesnay, Note dictée par Quesnay et remise par Monnet après accord avec Jeze à M. Vintilla Bratianu, 2 Feb. 1928). They targeted (i) monetary stability, (ii) the consolidation of public finances, (iii) the modernization and the reorganization of the railway industry.

However, a new coalition soon came to power in Bucharest. This new political alliance, dominated by the National Peasants’ Party, was less francophile than the previous Liberal administration and even more skeptical than the former government as to the relevance of the stabilization plan’s financial component. Charles Rist, who headed the French delegation during the first phase of the cooperation, perceived the lack of conviction of its partners, but considered it a sign of inconsistency.

“The leaders do not have any fixed program except for a few sentences. More precisely, they have only one objective : obtaining the loan as soon as possible. In this context, they are ready to follow whatever suggestion, even opposed to their program, or even, apparently, to their interests” (Rist, 2006, Deuxième séjour, novembre 1928, p. 3).

Despite the discrepancy which emerged between the expectations and objectives of partners, the cooperation did not come to an end, partly because of its initial successes. But disagreements slowly invaded all spaces of interaction between the two partners.

3.1 The discussed financial component of the French plan

The gold convertibility of the *leu* was rapidly restored and the Romanian currency’s market value fluctuated smoothly around its official parity. The NBR progressively increased its reserves of foreign currencies and convertibility appeared sustainable (see Tables 1 and 2). The first objective fixed by Quesnay was thus temporarily reached. Thanks to the stabilization loan, the National Railways company benefited from extra funds to finance productive investment and to pay off a fraction of its debt. It was a first positive result contributing to the attainment of the third objective defined by Quesnay. Institutional and financial adjustments were however not so immediate. Public deficits were maintained and public debt continued to increase despite monetary stability. Indeed, between 1929 and 1933, the public deficit has known an average annual increase of 3%, whereas the public debt has risen by 47% between 1927 and 1931. Hence, there were no indications that the second objective was being reached.

The French part began to deplore the slow adaptation of the Romanian administration to the prevailing financial orthodoxy. Furthermore, Romanian politicians were increasingly skeptical as to the relevance of the stabilization plan, essentially challenging for the moment the

second objective, i.e., its public finance component. They were especially reluctant to raise new taxes, which would impose particularly heavy sacrifices on Romania's emerging economy. These divergences are indicated by both sides, by Charles Rist in his correspondence but also by the Romanian liberal practitioners who sought to apply the public finance component of the French plan. (Argetoianu, 1997, VIII, p. 153)

In October 1929, the monetary situation also began to deteriorate due to the massive and regular withdrawals of external capital from Romania. The decline was exacerbated in 1930 at a moment where no signs of the Great Depression were yet detected in Romania or in any other Central European countries. Between November 1929 and May 1931, capital flight amounted to *lei* million 8.047 (Madgearu, 1930, p. 29) (US\$ million 48). Although Romanian exports increased in quantity, the decrease in the prices of Romanian exported goods, coupled with protectionist measures imposed by other states, led to a massive reduction in the entry of foreign currencies. In 1930, the state serviced the external debt from the NBR's stock of currencies and by the partial sale of its stock of gold. For the French side, the causes of this adverse evolution were threefold : (i) the government's difficulty in controlling budget receipts, (ii) the lack of commitment of the Romanian authorities as to the need to repay the loan, and (iii) the decrease of the size of the NBR portfolio, which indicates the imminent difficulties of maintaining the rate of gold convertibility. (Rist, 2006, 1929, Correspondance avec Auboin et autres, Bolgert, Letter to Rist, 23 June 1930, Guitard, Letter to Rist, 2 December 1930)

An increasing number of Romanian observers during this time challenged the way the stabilization of the *leu* was conceived. Were fixed parity and economic orthodoxies adapted to the country and to the situation? Many Romanian economists and practitioners were already aware that convertibility limited the flexibility of internal economic policy decisions. (Bădulescu, 1931, pp. 263-264, Slăvescu, 1932, pp. 384-388) They also objected to the fact that Romania was finally paying the interest and the amortization of a loan amounting to more than one billion *lei* yearly, to maintain a stock of metal and convertible currencies which was clearly not useful to the development of the country. Without referring explicitly to the competitive advantages provided by floating exchange rates, they began to regret that those reserves could not be adjusted to the needs of Romania's external exchanges. (NBRA, 1933, 37/1930, p. 454). Furthermore, was it not an incorrect measure to start repaying the loan immediately when its economic effects were not yet perceptible? Other objections included the French methods as to the way to stabilize. (Madgearu, 1935) Critics also viewed the resources allocated to the liquidation of public debt as insufficient, the actual amount of that debt being unknown to those who conceived the plan. Another critique was the lack of measures for the reformation of the banking system, especially the failure to create an agricultural credit institution able to provide medium and long-term resources to the peasantry and, thus, to solve the problem of rural debt, and to relieve the private banks of the loans extended to this sector. Overall, the view developed that the liquidity of the commercial portfolio discounted at the NBR, obtained via the resources allocated from the loan, could not be maintained. (Argus, 1932, 20 August 1930)

3.2 Agrarianism in the Romanian style

Romanian political life was dominated in the post-war period by the alternation of two major parties, the National Liberal Party, and the National Peasants' Party. The first one was a center-right bourgeois party, dominated by Bratianu family which gave to the country many Prime Ministers as well as government ministers in coalitions during the 1920s and 30s. Their

TABLE 2: International Portfolio of NBR

Year	Gold foreign currencies out of the stock (in thousand leu)	Commercial bills denominated in a foreign currency in the NBR portfolio	Foreign exchange provision for the Autonomous Monopolies Institute
1929	45746.934	74302.115	988375.106
1930	1912722.143	21861.163	452470.187
1931	126927.896	14839.103	229013.929
1932	719199.6117	3606.5	229013.929
1933	184313.095		57219.864

Source : South-Eastern European Monetary and Economic Statistics from the Nineteenth Century to World War II, published by : Bank of Greece, Bulgarian National Bank, National Bank of Romania, Oesterreichische Nationalbank, 2014, Athens, Sofia, Bucharest, Vienna.

conception of the country’s development promoted industrialization and trade with Western European democracies. Their Francophile and elitist conceptions, combined with the sudden death of their main leaders³, led to the decline of their influence in the early 1930s. These cumulated difficulties of the Liberals contributed to the rise of agrarian parties, more in tune with demographic realities and the common sentiments of the population. The National Peasants’ Party (NPP) was newly born from the fusion of the Transylvanian conservative Romanian National Party and of the left-wing Peasants’ Party, influential in the historic regions (Wallachia and Moldavia) and in Bessarabia. “The new unified party program showed how [...] the clear leftist orientation of the old Peasants’ Party (outlined by Mihalache and Stere) had shifted to a center-left position which claimed that agriculture should not in any way be subordinated to the forced industrialization policy of the NPL.” (Livezeanu, 1995, p. 38).

From November 1928 until November 1933, *i.e.*, during the entire period of the mission, the NPP was in charge of all the successive governmental teams, directly under the three cabinets headed by Maniu, the two Mironescu administrations, the two Vaida-Voevod alternative cabinets, or as a dominant force under Nicolae Iorga’s premiership. Gabriel Puaux in charge at the French Embassy in Romania at the time of the French mission, described the Maniu’s personality after the notification of his death in Sighet Prison in 1953 :

“Tuliu Maniu appeared to me as a democratic doctrinaire, a bit stiff, with clear eyes, a lawyer in love with logic, a former irredentist deputy, matured in the opposition, a catholic puritan, quite secret, provincial and mystical, somewhat disoriented in a big city with contrasting aspects, at the same time Parisian and Oriental.” (Puaux, 1956, pp. 424-425)

Gabriel Puaux continues by emphasizing that Maniu had done everything to make the mission’s stay pleasant. Nothing in the relation of contemporaneous sources, both Romanian and French, can support the idea that he would have complicated the work of the French mission in Bucharest (see Rouček, 1932). However, like other politicians of the NPP, Maniu was not an economist. As with other agrarians, he obviously did not share the convictions of Charles Rist or Pierre Quesnay on the necessity to consolidate in priority public accounts. The remark applies also for Mironescu who limited himself to following Maniu’s policies.

Agrarians were not completely opposed to the idea of stabilization : they even defended nominal stabilization against re-evaluation during the 1920s. However, over time, they became less and less convinced as to the advantages of the solutions specified by the French team. The

3. Ion(el) Bratianu, Head of the Liberal party and of the Romanian Government dies in office in November 1927. His brother Vintilila who succeeded him after his death, passed himself away on 22 December 1930.

figure of Virgil Madgearu, who occupied leading roles in the Economics and Finance ministries during the period provides a good example of pragmatic application of agrarian views.

“His ideas were strongly influenced by his studies in economic theory in Germany, where he received his doctorate in 1911 from the University of Leipzig, and then from his studies of classical English economists and practical experience in financial management in London.” (Hitchins et al., 1994, p. 360)

In many public or written interventions⁴ he defended the creation of a sort of IMF devoted to intervene as a coordinator of international intervention in a country, a way to accept international intervention, but also to promote multilateral relations instead of the bilateral French model. Confronted with the *a priori* view that Agrarians should be protectionists and isolationists, he explained in contrast that

“the first corollary of the new agrarian orientation is the opposition of the principle of economic interdependence illusion of economic self-sufficiency. Consequently the National Peasants’ Party favors the ideal of international economic cooperation.” (Madgearu, 1930, p. 91)

He advocated and applied a decrease of tariffs, a de-nationalization of oils companies, and promoted a “Free Zones Law” to facilitate the transit of commodities between Europe and the Black Sea via the mouth of the Danube. All these measures are presented and defended in his 1930 article in the *Journal of the Royal Institute of International Affairs*, but there is nothing on public finance and the necessity to consolidate the taxation system. As per other agrarians, he considered that the 7% stabilization loan was concluded at unfavorable conditions, was very expensive for the borrower, and was repaid too early. (NBR, 2002) Madgearu was too ‘orthodox’ to admit that this loan was finally hindering the consolidation of fiscal balance, but this conclusion was easy to draw from his line of reasoning.

4 1931 : the development loan and the Great Depression

Divergences between partners were maintained at a reasonable level until the second loan planned for 1931. In preparation for this loan, the *Banque de France* proposed a text according to which the Romanian government and the National Bank of Romania would be linked by more precise commitments than they were after the first loan. (Rist, 2006, Correspondance avec Auboin et autres, Farnier delivered by Auboin, Notes sur les garanties d’ordre général demandées au Gouvernement Roumain, 13 January 1931) “The NBR will set out to reorganize and maintain, in the conditions defined by its new statutes, the liquidity of its assets. The Government will, for its part, complete the reorganization of public finance [...]” (*Ibid.*, Correspondance avec Auboin et autres, Memorandum du Gouvernement roumain sur l’application du programme de stabilisation monétaire et de développement économique, [early] 1931). The memorandum lays out the accounting practices considered acceptable or not and insists on the necessity to make the budget more transparent. It also refers to a French BDF “expert” in close contact with the NBR who “could be consulted [...] on all the monetary and credit issues” that could emerge in the relationship between NBR and the foreign markets and will have the objective of preparing one to two reports per year regarding the financial situation of Romania. (NBRA, 1933, 31/1931, p. 135). This episode triggered a crisis within the NBR. The second major event of the year was the banking crisis that affected Central Europe and in particular Balkan countries. Its sinuous development in Romania and the divergences that resulted between central bankers and political staff end up undermining the relationship of

4. See for instance his intervention in the name of agrarians during the Stresa 1932 Conference, precisely related in Schirmann (Schirmann, 2011, chap. XIV)

trust between the political staff and French advisers.

4.1 Money governance and the banking crisis

The BDF memorandum and in particular the proposition to maintain of French adviser at the NBR was the origin of strong tensions inside the NBR. Dimitrie Burillianu, Governor of the bank from early 1927 considered the French proposition as a direct challenge to his competence and authority. He refused to prolong the presence of the French *Conseiller Spécial*. The disagreement led to heated correspondence between the BDF and the political and monetary authorities in Romania. (NBRA, 1933, 31/1931). The conflict was resolved by the Romanian Government, which, disregarding the NBR's official independence, submitted a letter to the BDF Governor Moret, requesting in the name of the Romanian Government and in agreement with the issuing house, a collaboration with Auboin as technical expert. His mandate entailed preparing half-yearly reports during 1932-1933 on the financial situation of the country for foreign creditors. No further reference was made to the possibility of the NBR consulting with him regarding monetary and credit issues, but the Central Bank would be obliged to give its full support to the respective technical expert. Governor Burillianu, who persisted in his inflexible attitude, was removed from office before the termination of his mandate.

The equilibrium of public finance was momentarily restored by the service of the development loan in early 1931 (see Table 4). However, once again the situation began to rapidly deteriorate from the end of the spring. A banking crisis in Central Europe, the crash of *Creditanstalt*, and the massive withdrawal of foreign capital highlighted the deficiencies of the Romanian banking system, causing the bankruptcy of several prestigious banking institutions in mid-1931, the most prominent of which, due to its longevity, prestige and business volume, was *Marmorosch Blank Bank*.

The banking crisis was the last episode of cooperation between the two teams and in particular between Mihail Manoilescu, the Governor at the time, and the French advisers, frequently united against the Government on the way to rescue banks and to address the crisis. (see Torre and Nenovsky, 2022, for details and analysis of these episodes) But the profound disagreements between Manoilescu and the government led to his dismissal from the Head of the NBR, leaving an isolated French delegation in place facing a now uncooperative government. In early 1932, Auboin still tried to convince its partners that it was still possible to proceed together (Rist, 2006, Note sur les réformes restant à réaliser ou à achever en Roumanie, Auboin *et alii*, Annexe au douzième rapport trimestriel du Conseiller Technique, 7 Feb. 1932). In the French delegation, Jean Bolgert, his main collaborator who from 1932 would go on to conduct a mission at the Bank of Yugoslavia, expressed the following opinion :

“In the current crisis, Romanian people are aware of the advantages that our activity provides for their relations with Western countries [. . .]. It is also evident that, as soon as the situation improves, our involvement will be perceived more negatively.” (Rist, 2006, Correspondance avec Auboin et autres, Guitard, Bolgert, letter to Moret, 31 Dec. 1931)

He then suggested a suspension of the mission which “would favor a strict interpretation of the 1931 program, *i.e.*, a suspension of all permanent presence in Bucharest and the implementation of a system of periodic inquiries” (*Ibid*). The alternative was that “for the main point in debates, one of the members of the delegation could have a right of veto.” (*Ibid*). And he concludes that “the mission would have been able to succeed only if the Romanian Government

had clearly expressed its desire to welcome the work of the mission for its own benefit and not merely as a counterpart of the loans” (*Ibid*).

4.2 The effects of the Great Depression

How is it not possible to identify the side effects of the Great Depression in these growing disagreements? A re-evaluation of historical data on the evolution of deposits and the intervention levels of French banks from 1929 to 1933 shows that, at least in its strictly banking aspect, the Great Depression affected France earlier than it was detected and written about (Baubeau et al., 2021). It seems however that the members of the French mission were not aware of it or at least did not take it into account in their observation of the situation in Romania. In Central Europe and the Balkan countries, the situation had obviously deteriorated since 1930 and the crisis of 1931 was directly imported from the delayed consequences of the 1929 crash on the Austrian and German banking systems. (see Torre and Nenovsky, 2022) French advisers may have underestimated the force of the 1931 banking crisis in Romania and its real premises on the level of activity.

Slăvescu, at this time ministry of Finance⁵ published in 1934 an interesting attempt to quantify the effects of the Great Depression in Romania. (Slavesco, 1934) His data are not always homogeneous given the low level of professionalism of statistical services during this period. Concerning agriculture which was still the dominant sector in Romania, he however tried to express yields and incomes per hectare for different categories of cereals. Quantities and prices seem on occasion to move in opposite directions given the effect of good/bad harvests, but prices and overall wages indexes both decreased from a base of 100 in 1930 to 66 and 66.5 respectively (see Table 1). The same indexes show that production costs also decreased during the same period, but not in the same proportion, with a drop in margins as a consequence, an increase in deficits and huge difficulties for farmers to pay taxes or to reimburse their loans. This price collapse also lowered the value of exported cereals between 1929 and 1933 despite an increase of exported volumes. Using alternative more recent Romanian sources, Stoenescu, Blejan, Costache and Aloman (Stoenescu et al., 2010) complete these figures by providing an evaluation of the purchasing powers associated to agricultural products or to export goods : both decreased during the period, especially between 1929 and 1931, which indicates that the effects of the Great Depression are quasi-immediate in Romania and not delayed as in France.

The situation was less critical for the industrial and oil extraction sectors. (Botescu et al., 2017; Slavesco, 1934) With the exception of petroleum, indexes in the other industrial branches decreased, with production in the manufacturing sector on the whole diminishing from 100% in 1928 to 53.4% in 1932, and its value decreasing to 48.8%.” (Buzatu, 2016) In parallel, the cost of living increased by 47.2% in Romania. (Josan, 2004, pp. 137-138) In this context, rescheduling the repayment of the loan would have been more than justified.

5 1932-1933 : parallel realities

In 1932, both partners became gradually convinced that there was nothing positive to expect from further cooperation. However, for the French side, it was necessary to do things properly : to produce ‘objective’ reports stating that the other party was responsible for the failure. The French team was probably already aware that nothing else was more important

5. The report is in French like important Romanian official documents at this time, with a ‘French orthography’ of Slăvescu appearing as Slavesco.

than justifying the failure of the cooperation due to the lack of discipline of the Romanian side. The models of political and philosophical inspiration were changing, the opportunities for economic partnership too. For the Romanian side, maintaining close relations with France was not as important in 1932-1933 as it was in 1927-1928. Partners were interpreting the same reality differently and accompanying each other step by step to the end of the cooperation phase.

5.1 The French reports and the last months

Two important reports were produced by the French mission and communicated to the Romanian authorities between the end of 1931 and May 1932. The “Report on the first two years of implementation of the program of stabilization and economic development” (Rist, 2006, Rapport sur les deux premières années d’application du programme de stabilisation et de développement économique) adopted the point of view of a central banker. The second report, titled “Report on the public finances of Romania” (Rist, 2006, Rapport sur les Finances Publiques de la Roumanie) is signed by Rist, though Auboin, Bolgert and the rest of the mission members likely contributed to its elaboration as well. It is addressed to Argetoianu, who was in charge of the Treasury. These reports consider three points : central bank management, public finance management, and industrial policy. (see Torre and Tosi, 2010, for a detailed content of the reports)

Regarding monetary policy, Rist and his co-authors pointed out the illegal practices of hidden advances from the NBR to the government. Critics of public finance practices were more disparaging. They related to the lack of financial orthodoxy of the government actions : no wish from the Government to reduce deficits, use of the new external loans to repay previous loans, over-evaluation of certain receipts and under-evaluation of certain expenses. These problems were already voiced by Rist in 1929, then confirmed in Auboin’s correspondence in 1931-1932, but were now contained in official reports. In the 1932 report, Rist also mentions the forbidden reporting practices of engagements without order, unpaid orders and the many cases in which the government dangerously committed itself as collateral in private contacts and prefigured future increases of public debt. Rist also regrets the government intervention in this long-term management of its long term debt in the hands of NBR.

Critics of the industrial policy referred to the lack of implementation of the objectives of the stabilization program in the re-organization of the administrative and financial management of the railways. Concerning this sector of activity, the report also suggested the creation of an autonomous management of the network, recommended reforms to accounting and reporting practices, and proposed removing gratuities and discounts and introducing control of management practices to rationalize the use of human resources. More generally, echoing previous suggestions made by certain Romanian economists, the report also recommended the creation of two specialized banks : (i) a bank specialized in financing agriculture and (ii) a system of short-term advances on harvests.

In 1932, to pay the external debt coupon and maintain the cover stock, several short-term loans obtained from the BDF, Bank of England, Union des Banques Suisses, and Banque de Paris et des Pays-Bas, as well as by the sale of gold from the stock, were used. (Madgearu, 1935, pp. 36, 50) During this time, Auboin continued to maintain a strict opposition to all forms of monetary depreciation (Rist, 2006, Auboin to Tardieu, Flandin and Moret, 7 March 1932), while Virgil Madgearu, obviously in agreement with the creditors, argued in favor of the resizing of the amount related to the external debt annuity, in accordance with Romania’s payment capacity. (Madgearu, 1933)

In a third report in October 1932, Auboin refers to new difficulties faced by the NBR regarding the issue of advances to the Treasury. He particularly stresses the conditions of the advances in June during which “the NBR has accepted to temporarily transfer 1 billion lei to the Government, from the gain resulting from the issuing of currency, then 400 million lei from a non-affected part of the loan. These accounts have not been associated to any efficient guarantee. They had the sole objective of giving the Government time to implement a serious financial recovery plan. However, this plan remained on stand-by and the Treasury still could not face up to their commitments. Moreover, in August the NBR agreed to provide 50 million Swiss francs to the Government from a blocked foreign account. The counterpart, i.e., lei 1.600 million Swiss francs, has been immediately transferred to the Government, without any guarantee apart from the promise of a long term repayment”. (Rist, 2006, Auboin, Note sur la Situation Monétaire de la Roumanie en Octobre 1932, 22 Oct. 1932) Concerning the monetary situation, Auboin also seemed pessimistic. He now considered that providing a new exchange reserve to NBR could not improve the situation if new measures of budgetary orthodoxy were not imposed by the government.

TABLE 3: Taxes

Year	Gross income per capita (lei)	Tax burden per capita (lei)	Effective per head tax rate
1929	11.105	2.285	20.58%
1930	8.099	2.288	28.25%
1931	6.086	1.871	30.74%
1932	5.610	1.422	25.35%
1933	5.327	1.414	26.54%

Source : Victor Slăvescu, *La situation économique de la Roumanie et sa capacité de paiement*, page 106

The defense of the Romanian side was perfectly admissible. It is now evident that the beginning of the 1930s was characterized by a decline in income and very strong deflation in Romania. Tax pressure increased while at the same time, due to the decrease of revenues, the amount of collected taxes dropped at the time the Central Government had to pay back the loans (cf. Tables 1, 3 and 4). It is striking that the French party did not perceive these elements, either from Paris or in the offices of the NBR. An illustration is given by the content of a Letter written by Rist or Auboin⁶ to French Prime Minister André Tardieu, minister of finance Pierre-Etienne Flandin, and Clement Moret, Governor of *Banque de France* in March 1932. (Rist, 2006, Lettre remise à M. Tardieu, M. Flandin, M. Moret, 7 Mars 1932) More than a real letter, the text is a non-technical report of the cooperation between the French team and Romanian authorities until this date. The general tone is moderate; the author recognizes the difficulties due to the international situation, and points out that “the current government has made a real effort to cut expenses and improve financial services” (*Ibid*, p.8). The term “recession” does not appear in the report, but the author uses the term “deflation”, meaning a fall in prices that is not seen as favorable to the pace of business. Despite these facts, the report ends up with conclusions that may seem today surrealistic : “the aim is to maintain Romania’s determination to meet the commitments it has made, and to impose the necessary sacrifices on the country to achieve this (raising public receipts, etc.)”. (*Ibid*, p. 19)

The Romanian administration implicitly considered that it had reaped all the benefits of the second loan and that nothing could be gained from the joint stabilization plan. It is probably

6. The letter is not signed.

at that time that Charles Rist acknowledged, at least to himself if not officially, the failure of mission. From that moment onward, the fate of the cooperation was sealed.

TABLE 4: Budget ordinary revenue and expenditures

Year	Ordinary budget revenue (millions of lei)	Ordinary budget expenditure (millions of lei)	Total debt (in % of current GDP)
1929	36.018	34.607	563.23
1930	31.155	31.578	
1931	27.713	34.702	799.10
1932	23.007	24.891	
1933	18.364	20.741	590.59

Note : Total public debt is the sum of national and foreign public debts.

Source : South-Eastern European Monetary and Economic Statistics from the Nineteenth Century to World War II, published by : Bank of Greece, Bulgarian National Bank, National Bank of Romania, Oesterreichische Nationalbank, 2014, Athens, Sofia, Bucharest, Vienna.

Governor Moret repeatedly obtained permission from the BDF board to postpone the repayment of the 1931 loan and the approval to reduce the amount of interest ([Banque de France, 1933](#)). The September 1933 meeting was largely devoted to the issue of Romanian debt, with the decision to suspend any repayment of its previous loans sharply reducing the credibility of the Romanian authorities and increasing the risk of non-repayment of the loan. Auboin’s intervention, still more moderate than his colleagues and mentioned explicitly by Moret, had only the consequence of softening the content of the decisions. ([Banque de France, 1933](#), Procès verbal de la séance du *Conseil des Régents et Censeurs* de la BDF, 21 September 1933)

5.2 From the *Little Entente* to new convergences between Romania and Germany

In 1918, after the dislocation of the Austro-Hungarian Empire and on the initiative of Tomáš Masaryk, the co-founder of Czechoslovakia, the idea of a “Democratic Union of Central Europe” was formulated. Initially encompassing five countries, Czechoslovakia, Yugoslavia, Romania, Poland and Greece, the *Little Entente* was quickly reduced to Czechoslovakia, Yugoslavia and Romania, united in the goal of preventing any restoration of Austro-Hungarian hegemony in Central Europe ([Namont, 2009](#)). This agreement faced difficulties in the 1920s with border conflicts between Yugoslavia with two neighbors, Italy and Greece. The objectives of building a European federation were however revitalized a few years later under the initiative of France. Aristide Briand, then in charge of foreign relations within the French government, delivered his famous Europeanist speech on 5 September 1929 at the League of Nations :

“I think that between peoples who are geographically grouped together, like the peoples of Europe, there must exist a kind of federal link [...] These peoples must have at all times the possibility of coming into contact with each other, to discuss their common interests, to decide on common resolutions. [...] Obviously, the association will act mainly in the economic sphere : it is the most pressing need. [...] But I am also sure that from the political or social point of view, the federal link, without infringing the sovereignty of any nation that may form part of such an association, could be beneficial.” ([Suarez, 1952](#))

One month before his sudden death, Gustav Stresemann, the experienced German Minister of Foreign Affairs - who had developed a professional partnership with Briand - considered the initiative with interest, despite the fact the Germans favored entrusting its political aspects

to the League of Nations (Baechler, 2013). But other reactions were more skeptical : the United Kingdom, for instance, was less than enthusiastic about the idea of federalism (see Boyce, 1980). In contrast, its reception by the Romanian delegates was positive and the main allies of the Briand project were the representatives of the countries comprising the *Little Entente* (see Namont, 2009), particularly Romania and its agrarian Ministry of Foreign Affairs Gheorghe Mironescu, but also Yugoslavia and Czechoslovakia (see Dobra, 2011, p. 65). The speech was followed by a French memorandum written by Saint John Perse, Briand's closest collaborator at that time, and presented on May 1930 to the 27 European countries interested in the Briand project (Du Réau, 1995, p. 559). The content of the text was now mainly political (working to safeguard peace) and less oriented towards economic objectives than the speech of September 1929. The reception in Romania was then less enthusiastic. Due to the crisis, Bucharest would have preferred to focus on economic problems (Gîdea and Pop, 2011, p. 77) and requested that the European federal union could be integrated into the League of Nations. In spite of these differences of perspective, Romania and King Carol II, who would later not always share the positions of the French mission as during the crisis of 1931, continued to support the French initiative which was also endorsed by the Romanian parliament in autumn 1930. (*Ibid.* p. 78). For some of the supporters of Briand's plan and in particular for the Prime Minister Iuliu Maniu, the main point of interest of the plan was to remove the countries of central and southern Europe from the commercial sphere of influence of Germany. (*Ibid.*, p 80). However, more critical opinions were quickly expressed in Romania : Constantin Petrescu - leader of the Social Democrats and Virgil Madgearu - the agrarian Minister of Industry and Commerce - were critical of the project for different reasons. Finally, the death of Briand in 1932 put an end to an initiative that over a period of a few months had lost many of its initial supporters, not only in Romania but also in other countries in Central Europe.

From this time, the political situation began to change in Central Europe. Germany sought to regain little by little the status and cultural influence it had maintained before the World War I, in competition with France. The cultural links between the Romanian elites, specifically the Agrarian ones, and Germany were however longstanding and deep. (Folschweiller, 2017, 2018). Already in the middle of the 19th century, a “reason to value the German intellectual heritage is the will to counterbalance the weight of French culture, which some [Romanian . . .] consider as pervasive and dangerous for Romanian culture. (Folschweiller, 2018; Olrescu, 2010, p. 147).

Most agrarians were graduates from Austrian or German Universities and were fluent in German : they had studied sociology, economics or political ideas deeply imbued with the influence of by prestigious German authors or under respectable German professors. Iuliu Maniu who was born in Transylvania under Austrian-Hungarian domination, obtained his doctorate in Vienna and served as adviser to Archduke Franz Ferdinand. Alexandru Avarescu studied at the military academy of Turin before becoming a military attaché in Berlin. Virgil Madgearu, Nicolae Iorga and Dimitrie Gusti had studied in Leipzig, Mihai Popovici in Budapest and Vienna, while Constantin Radulescu-Motru had completed his studies in Bucharest but visited the universities of Vienna and Munich, among others. Some of them had already clearly expressed their interest in closer links between Romania and Germany, even before the rise of authoritarian regimes in both countries : “ethnic Romanian individuals such as the charismatic historian Nicolae Iorga⁷, or less well-known known intellectuals such as the Bessarabian Liviu Marian, who ardently supported the Germans' *mission civilisatrice* in shaping the new

7. During the fascist period, Iorga however had the occasion to prove he was able to discriminate between German philosophical and humanist ideas and the ultra-nationalist, dictatorial and criminal ideology expressed by pro-Nazi regimes (like Madgearu, he was shot by the fascist Iron Guards in 1940).

Romania, enlarged as a consequence of the First World War” (Stelu, 2020 referring to Cercel, 2019, p. 115). In most cases, their attachment to democratic values was for the moment able to prevent their seduction by totalitarian ideologies emanating from the very same Germany which had contributed to their development as intellectual leaders and had helped shape their cultural and humanistic values.⁸

In the early 1930s, cultural affinities and ideological options were not the only sources to justify the decrease of French influence. Economic realities also guided the evolution of international relations : the German government also on occasion emphasized the point regarding Romania’s national interests, which has long been linked to German-speaking countries, to conclude new agreements and economic relations with Germany. “The trade dynamism of Germany, the only country to increase its economic exchanges with the Central European countries during this period, complicate[d] the situation” (Racianu, 2011, p. 21) as well as the cooperation between the BDF and NBR. In early 1932, an anonymous note from the French mission also denounced a general campaign driven by Germanophiles or indirectly by Germany, to convince Romanian politicians that it was their interests to substitute Germany in place of France as the main economic partner.⁹

It is not easy to measure exactly to what extent German initiatives could have influenced the decisions and tactics of politicians in charge during the time of the mission. However “while in the decade following World War 1 cereals dominated Romania’s exports, after 1930 and until the end of the World War II oil has overtaken and maintained that role.” (Botescu et al., 2017, p. 4) The substitution of oil in place of cereals are even more noticeable when exports are considered in value and not in terms of volume. From 1920 to 1939, the share of cereals in value in Romanian exports thus dropped from 67.2% to 31.9% while the share of oil increased from 19.1% to 41.9%. (Stoenescu et al., 2018)¹⁰

This evolution is not surprising given the increase of international oil consumption during the Interwar period. However, “the interest of the main European nations for Romanian oil was unequal during the inter-war period.” (Preda, 2013, p. 327) France and the United Kingdom had diverse possibilities to exploit oil reserves in their colonies (*Ibid.*, p. 326) while Germany did not. The dependency of Germany on imports from non-European countries was a potential source of tension and conflict with colonial powers such as the Great Britain and France. During

8. Later, in power from 1937, the Goga cabinet would strip the Jews of their citizenship, and implement a diverse range of further initiatives which momentarily established Romania as an ally of Nazi Germany. During this period, anti-democratic, ethnocentric and ultra-nationalist ideas and attitudes originating from north of the Danube, finally seduced many leaders : Vaida-Voevod, Manoilescu and Gusti among other, all in responsibility during the mission, soon supported the alignment of Romania with the Axis powers and actively cooperating with the authoritarian pro-Nazi regimes in Central Europe and the Balkans, which may raise questions as to their hidden agendas in the early 1930s.

9. “A violent campaign was launched last year in Bucharest during the Anschluss discussions, associated with commercial proposals made by Germany to Romania. This German-inspired campaign tended to sum up the situation as follows : France is, it is true, in a position to provide Romania with financial and political support, but, from a financial point of view, the state of the market only allows for random support and very expensive counter-claims. From a political point of view, France intends above all to make use of Romania. On the other hand, it cannot give Romania any economic aid. Only Germany can bring this aid to Romania as it is a major client for its cereals. In addition, Germany has offered Romania important advantages in the form of credit for the supply of agricultural machinery, railway equipment, etc. Even today, Germany is still willing to renew these advantageous offers, but France prevents Romania from accepting them.” (Rist, 2006, Anonymous note dated from 11 April 1932)

10. Exports of oil from Romania to the client countries used mainly maritime transport following a transfer by pipeline to the port of Constanța but the transport from Romania to Germany also used the railways and waterways (the Danube river) during the war.

the years of the Mission, France, Great Britain and Italy were the main importers of Romanian oil, but ‘in 1936, Germany became the main importer, surpassing Great Britain and France, as well as Italy (A detailed and engaging history of the strategic aspect of oil in the 1930s in Romania can be founded in [Buzatu, 2016](#))

“Still, by increasing its share of total Romanian exports, Germany was assured of an uninterrupted supply of petroleum. Romania bought where it sold; as Romanian imports from Germany increased, Romania was tied to the German *Grosswirtschaftsraum*, making a refusal to sell petroleum to Germany virtually impossible. From 1934 to 1938 German imports from Romania steadily increased, except for a dip in 1937; in 1934 German purchases accounted for 15.5 percent of Romanian exports; by 1938 the figure had risen to 36.8 percent. German exports to Romania followed a similar pattern; in 1934 German goods accounted for 16.6 percent of Romanian imports; in 1938, 26.5 percent. On the other hand, from 1934 to 1936 French imports from Romania dropped from 11.1 to 5.9 percent; in 1937 the figure rose to 6.1 percent and to 7.7 percent in 1938. French exports to Romania dropped to 4.1 percent in 1935, rose to 8.1 percent in 1936, then steadily declined to 4.7 percent in 1938.” ([Hoisington Jr, 1971](#), p. 469)

Finally, “trade with Germany brought salvation. It raised the level of income, it facilitated the import of cars and other consumer goods, allowed Government to buy weapons, and to the country to become to produce raw materials for the Reich.” ([Pavlowitch and Leuştean, 2002](#), p. 256)

Various French counselors and diplomatic advisers tried in the late 1930s to maintain French economic influence or to prevent German control of oil production and exports : it was too late and these attempts all failed ([Hoisington Jr, 1971](#)¹¹, [Buzatu, 2016](#), [Preda, 2013](#)). In April 1932, the French members of the mission already seemed aware of these episodes to come : “to counteract [German] policy, it would be necessary to organize very close technical collaboration and real economic support. This economic support should have the double purpose of compensating to a certain extent for the massive withdrawals of foreign capital by organizing collaboration on various points from which the Romanian government would benefit (purchase of control, concession of pipelines or other public service operations)” (anonymous author, 11 April 1932). But Paris did not react to these interventions. France was still inactive after the new warnings from experts such as Ernest Mercier, creator of France’s petroleum industry : “to Mercier, in 1935 Romania appeared to be sliding into the German economic orbit” ([Hoisington Jr, 1971](#), p. 468). One of the reasons for this lack of initiative of the French authorities was that objectively, “Franco-Romanian trade was difficult to justify in economic terms. France only purchased foreign agricultural products in times of bad harvests at home” ([Hoisington Jr, 1971](#), p. 470) and both countries were more competitors in agricultural products than commercial partners. **France, like the United Kingdom, now had no chance to win the “Battle of the Lower Danube” against the Germans and Italians. ([Constantin, 2014](#)) Needless to say that the increasing likelihood of a world conflict suddenly amplified the strategic importance of Romanian oil and tightened the bond between the Romanian economy and the military initiatives of Germany and Italy.**

11. Hoisington relates the role of Lemaigre Dubreuil in late 1930, when the French objective was to deprive a definitive control of Germany over Romanian petroleum. “If we continue a *laissez faire* policy, Germany will achieve the conquest of Romania *a la mode hitlerienne*, that is to say, without a fight.” (General Maxime Weygand, “Note relative a une politique alliée dans les Balkans”, Paris, April 9, 1940 (Lemaigre Dubreuil Papers), quoted by Hoisington)

6 Discussion

Finally, within the four year period of cooperation, only the two loans were really requested and accepted by the Romanian partner. Initially, the partnership suited both sides, but as time went on, they could no longer get along. Advice was never considered as adapted by the Romanian side. Budgetary orthodoxy in particular was challenged immediately, even before the onset of the Great Depression in Central Europe, and the debt service considered too heavy given the strong deflation practically ignored by their French partners. The return of the *leu* to gold was not unpopular during the first months but Romanian economists and politicians soon considered convertibility as unadapted to the situation in the country. Despite permanent disagreements among the two partners on the content of the advice and the way to apply it, the collaboration continued for many years, longer than was probably reasonable in view of its effects. It ended up with a final default of the Romanian government and few tangible results, after years of sterile nominal stabilization. During those 4 years of difficult compromises, there were few attempts from the French side to terminate the mission prematurely. The same attitude could be observed on the Romanian side. In this case, the reason is however clearer : the Romanian Government needed the development loan, and no official termination was possible before the payment of this loan in 1931, and even before a convenience period after this payment. What are the grounds for the French side's preference to continue its advisory role in a relationship evidently fraught with tensions and disagreements with the Romanian side, rather than ending the cooperation ? This is the point we now seek to address.

Confronted with Romania's monetary and financial instability, the French plan consisted of two components : cautious and pro-active foreign exchange interventions, and a rigorous budgetary policy. This mix was supposed to generate confidence in the capacity of the Romanian authorities to maintain the convertibility of the *leu* at its new (and devalued) parity, to increase or at least maintain their external balances and to attract investors. From the first contacts before the events of September 1929, the Romanians however declared that they were only interested in loans, without any budgetary/financial commitment and overall external control. Was this option reasonable ? Probably not at the in the period 1927-1929, at a time of strong international growth which helped governments to reduce their deficits and debts. At this moment, the French insistence on devoting an important part of the loan to establish monetary stability was a way to take advantage of the general economic climate in order to encourage structural reforms both from fiscal and monetary point of view. The success of French stabilization, obtained from the application of such a plan, was a justification of the French solution. This option was also implicitly approved internationally, given the participation in the loan of 11 other countries in February 1929, and in particular of New York and London banks. This approval, in a climate which probably overestimated the advantage of convertibility, was itself not a surprise.

Is this general approval indicative that the French way to stabilize was the right one in all contexts ? Today, most economists would argue that while all countries chose to stabilize using fixed anchors, it was probably impossible for a single nation to pursue an alternative strategy. However, promoting a generalization of the principle of gold external convertibility to all countries, central and peripheral, was not for the leading economies of the period (United States, United Kingdom and France) a sustainable choice. Soft pegs like the Gold Exchange Standard necessitated huge exchange reserves and it was not reasonable - especially for peripheral countries - to sacrifice all other objectives to the defense of this peg, especially in a period of instability like dyeing the early 1930s. Furthermore, the role of the Gold Exchange standard in the Great Depression has been highlighted in the historical literature. The literature reveals that the Gold Exchange standard has played a causal role in the world collapse

(Bernanke, 1995) and in the propagation of the crisis (Hamilton, 1988). Moreover, the abandonment of the fixed exchange rate regime has allowed countries to experience a greater recovery (Eichengreen and Sachs, 1985). Furthermore, Eichengreen and Temin (2000) argue that the Gold Exchange standard is even a key factor explaining the Great Depression, especially due to the gold-standard mentality and institutions that have limited the ability of countries to fight against the crisis. The Gold Exchange standard was only viable when few countries adopted it. Even the adhesion of France from 1926 *de facto* destabilized the system whose level of reserves were too low to admit more than 2 or 3 cooperating countries holding gold. The explicit choice of flexible exchange rates for peripheral countries would have certainly restricted foreign investment in the first months for those countries, but would have helped them to see investment return some months after, once financial equilibrium and commercial competitiveness had been restored. Romania's level of development was quite different to that of the group of countries that stabilized in the 1920s.¹² The emerging industry was for the most represented by the extractive sector. In contrast to the liberal position of Madgearu, was the original protectionist option of Manoilescu, probably one of the more original Romanian economists of the period (see Nenovsky and Torre, 2015, 2018). Despite his connections with agrarians during the early 1930s, he was not himself an agrarian but rather an "industrialist". According him, it was necessary to protect industry, not because it was emerging, but because it was a high productivity sector compared to the low-productivity agricultural sector. Manoilescu was at the origin of the custom tariff of 1927. As the traditional version, Manoilescu's anti-Listian protectionism was however not compatible with fixed exchange rates if we refer to the Mundell triangle. It is even strange that Manoilescu accepted in these conditions to chair the NBR for a few months in 1931.

The industrialist position of Manoilescu was not shared by agrarians. Contrasting however with Madgearu liberalism, many of them however were not convinced of the necessity to reduce public expenses and to increase taxes to restore financial equilibrium. In December 1928, clearly before the depression, a letter from Bolgert (already in Bucharest) to Moret expresses the resistances of agrarians then already in charge. Bolgert, who would prove to be one of the most intransigent member of the mission writes :

"Since my arrival, I have been indoctrinating both the Ministry and the Bank on the necessity of temporarily not touching the lei from the German payments." (Rist, 2006, Bolgert to Moret, December 16th 1928)

Some months after, Rist, also from Bucharest, comments on a meeting with Popovici, then minister of Finances as follows :

"Yesterday morning, at nine o'clock, Popovitchi (sic) came to see me. He had all kinds of plans in his head : loans and expenses, a loan for the hungry, a loan for about forty thousand Macedonians that we had the idea to house with the Bulgarians of Dobroudja [...]. A loan to buy greatcoats for the soldiers ; construction of a Mint ; use of the funds of the great loan to extend the universities of Bucharest, Jassy Clug, etc. I had to resist this avalanche, explain to him that all this was impossible." (Rist, 2006, Rist to Moret, March 9)

After the payment of the development loan, there was a second wave of attempts to loosen the rules of budgetary orthodoxy imposed by the mission. Auboin wrote in March 1931 : "I feel like I'm back to the heroic days of two years ago when every morning I used to call Popovici to get approval for new taxes." (Rist, 2006, Auboin to Rist, March 27) French advice became so unpopular that even the development loan which is happily received by the government

12. Bairoch (1995) estimates Romanian GNP per capita at \$316 in 1925 and \$343 in 1938 in Romania vs. \$893 and \$938 in France or \$970 and \$1181 in the United Kingdom the same years.

was denounced by a growing section of experts and commentators. Auboin refers to this negative public reception of the loan in a March 1931 letter to Rist : “I found when I returned a huge mass of articles of the *Adveredul*, the *Cuvântul*, the *Ordinea*, to the point of rudeness, announcing a disastrous loan, humiliating conditions, foreign bankers who want at all costs to conclude the loan in order to rob this poor Romania.” (Rist, 2006, Auboin to Rist, March 15). This campaign stopped, probably after the interventions of politicians, before the banking crisis of Summer 1931, at a time when it was more important to benefit from French international financial connections than to point out disagreements on budget policy. And finally, for politicians only the method changed. Instead of unsuccessful interactions with Auboin, Bolgert, or other members of the mission, they chose to implement tacit actions leading the government to pursue a policy often different to that the French would have wished. When Bolgert regrets Auboin’s weakness or passivity before politicians, one can wonder if the Head of the mission - in spite of the official French position - had not already considered that circumstances had changed and that it was no longer time to impose the policy on the Romanians they had committed themselves to in 1929.

In summary, agrarianism, the Great Depression effect, and the rise of German influence were all unfavorable circumstances for the success of the plans of the *Banque de France*. The main cause of the failure of this sequence of cooperation among central banks was however the inadequacy of the plan and overall the inability of the *Banque de France*’s team to evolve its content over time. Why did they not take into account the fact that deflation and recession were adding year after year to the burden of repaying the two loans? Like other French economists up to the present day, They probably underestimated the crisis that was already affecting the French banks and which, as recently pointed out by Baubeau et al. (2021), spared only the most important institutions. The dogmatic positions of Charles Rist - the leader of the French mission -, on the gold standard in the 1930s (Rist, 1932, 1933; Autier, 2012; Torre, 2015), even after the devaluation of the British Pound, may lend support to this interpretation. Lastly, why did the French mission remain unresponsive to the changing economic and political environment, and to the increasing influence of Germany in Central Europe and Balkans? Ultimately, there was a dramatic coincidence between the wrong choices of French economists reluctant - with the exception of Pierre Quesnay and to some extent Albert Aftalion - to adapt to a changing environment, and an the lack of reaction of French diplomats not yet able to find successors of the calibre of Aristide Briand and Raymond Poincaré’s generations.

7 Comments and conclusion

This paper discusses the causes of the failure of the *BDF*’s mission in Romania at the NBR and the Romanian government during the 1929-1933 period. It complements the works of Kenneth Mouré (2005), Phillip Cottrell (2003), the authors (Torre and Tosi, 2010) and Ileana Racianu (2012) by considering, on the one hand, unexploited Romanian sources and, on the other, elements of political economy which cannot be neglected in this period.

The failure of Romanian stabilization was probably unavoidable, at least under the form proposed by French partners until the end of the partnership. But French advisers had the possibility to modify objectives and means to achieve them along the way. When the international community delegated responsibility for the partnership to France alone, it was probably not the best decision. Poincaré, Moreau, Rist and Quesnay were in a strong position in 1928, facing a Bank of England itself weakened by the French stabilization of 2026-1928. French Central Bankers were then overconfident regarding the potentiality of success of French stabilization 1926. This temporary success had made them blind : they ignored the difference of funda-

mentals between France and Romania, they underestimated the nature of political change in Romania in the early 1930s, with a new political class more aggressively nationalist, becoming more authoritarian and less open to mimic French economic choices and commitments to democracy. They stayed in Romania longer than their disagreements with their partners would have required, and without inflection in the content of the project. They observed, as if paralyzed in their certitudes, the rise of the influence of Nazi Germany and its economic model, unable to contain them, having lost the determination they had expressed to wrest the partnership from the British in 1928. [The failure of the 1929 stabilization plan was largely due to changes in the economic and intellectual context from 1930 onwards. The fact that the French advisors were unable to take these changes into account and adapt their objectives, decisions and actions is their own responsibility.](#)

From the mid-1930s, the construction of impressive buildings was initiated : the Victoria Palace - headquarters of the Ministry of Foreign Affairs -, and the new NBR Palace, both built in the neo-classical style of the Brandenburg Gate and the Altes Museum in Berlin, were gradually changing *The Little Paris* into *The New Berlin*.

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