

THE POLITICAL LEGACY OF THE EUROPEAN CENTRAL BANK AUTHORITIES SINCE THE GREAT DEPRESSION

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Research Article

Abstract

*This study unfolds the political legacy of European monetary authorities in peripheral countries since the Great Depression. The argument is that a specific form of European economic governmentality was created by the European central bank governors and extended to the periphery of the world system. Despite the inextricable nature of politics and economics, the money authorities have not been popularly mentioned so far among the founding fathers of any international order, but are usually overshadowed by the political actors. This study focuses on the European monetary authorities as the key decision-makers determining in the restoration of the liberal international order following the Great Depression. It is indicated that the European central bank authorities drafting different bail-out programs in the 1930s are revisited today as part of a quest for post-Cold War international system alternatives. This *longue-durée* historical approach exposes the cyclical turns of the European economic recovery programs and their global reach. Approaching these programs as a political dialogue sphere across times and societies, this study tests the durability and resilience of the European economic governmentality and its political legacy today.*

Keywords: *Great Depression, global order, world-system, economic governmentality*

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Büyük Buhran'dan Günümüze Avrupa Merkez Bankası Otoritelerinin Siyasal Mirası

Öz

Bu çalışma, Büyük Buhran'dan bu yana Avrupa para otoritelerinin çevre ülkelerde oluşturduğu siyasi mirası ortaya koymaktadır. Avrupa merkez bankası yöneticileri tarafından belirli bir ekonomik yönetim zihniyetinin yaratıldığı ve dünya sisteminin çeperlerine yayıldığı iddia edilmektedir. Siyaset ve ekonomiyi birbirinden ayırmak zor olsa da, para otoriteleri bugüne kadar herhangi bir uluslararası düzenin kurucu babaları arasında anılmamış, genellikle siyasi aktörlerin gölgesinde kalmıştır. Bu çalışma, Büyük Buhran'ın ardından liberal uluslararası düzenin restorasyonunda kilit karar alıcılar olarak belirleyici rol oynayan Avrupa para otoritelerine odaklanmaktadır. Avrupa'nın merkez bankası yetkililerinin 1930'larda hazırladığı farklı kurtarma programlarının bugün Soğuk Savaş sonrası uluslararası sistem alternatifleri arayışının bir parçası olarak yeniden ele alındığına dikkat çekilmektedir. Bu uzun dönemli tarihsel yaklaşım, Avrupa ekonomik kurtarma programlarının döngüsel hareketlerini ve küresel kapsamını ortaya koymaktadır. Bu programlara dönemler ve toplumlararası bir siyasi diyalog alanı olarak yaklaşan bu çalışma, Avrupa ekonomik yönetim zihniyetinin ve onun günümüzdeki siyasi mirasının dayanıklılığını ve direncini test etmektedir.

Anahtar Kelimeler: *Büyük Buhran, küresel düzen, dünya-sistemi, ekonomik yönetimsellik*

Introduction

Politicians have been portrayed so far as the determinant actors of international order. In modern times, Napoleon, Metternich, Wilson, Lenin, and Yeltsin can be listed among the key political figures changing the rules of the game in the international order. However, this study argues that the money authorities behind the stage can be as influential as the political actors. The Great Depression is a telling case to test this assumption because the interwar monetary authorities not only offered temporary bailout programs for economic recovery but also determined the main tenets of a new international order in the long run. Based on their recovery receipts, they are treated as relevant international relations actors making strategic decisions.¹

It is argued that the economic governmentality developed in response to the Great Depression by the central bank authorities of Western Europe laid

¹ Jeffrey A. Frieden, "Actors and Preferences in International Relations," in *Strategic Choice and International Relations*, ed. D. A. Lake and R. Powell (Princeton: Princeton University Press, 1999), 9-76; John Maclean, "Towards a Political Economy of Agency in Contemporary International Relations," in *Politics and Globalisation*, ed. M. Shaw (Routledge, 2003), 174.

the basis of the new international order and left indelible marks on post-Cold War politics as well. The political legacy of these interwar authorities is still observable through the contemporary quests for global system alternatives.² This legacy manifests itself in a particular mindset conceptualised in this study as ‘economic governmentality,’ in reference to Foucaultian discursive analysis.³ However, the integral analysis framework of this study challenges the Foucaultian understanding of economics formulated as a decentralised space (Stäheli, 2010). Instead, the European central bank authorities are described as the ‘center’ of a world-systemic restoration and reproduction.⁴ From the analytical point of view, the study offers structuration of the notion of economic governmentality to provide a solid ground for contemporary debates.

Periodisation and conceptualisation of systemic turns in international relations are usually articulated through the world wars. Although periodisations like the post-WWI, post-WWII or post-Cold War are not considered empty signifiers, this study puts forward the Great Depression as an equally relevant episode for the restoration and promotion of modern internationalism. This critical turn is explicated through the programs of the European central bank governors. Their relations with one another and with the political authorities of the less developed nations are analysed in depth to depict the state of the world system after the Great Depression and its political legacy today.

The USA has often been portrayed as the sole hegemonic power of the world system. Some scholars approached the monetary domination of the USA under the title of ‘dollar diplomacy.’⁵ While others like Howe, Dumenil

² Peter A.G. Van Bergeijk, *Economic Diplomacy, Trade, and Commercial Policy* (Edward Elgar Publishing, 1994).

³ Joe Painter, “Governmentality and Regional Economic Strategies,” in *Habitus: A Sense of Place*, ed. J. Hiller, and E. Rooksby (Routledge, 2017).

⁴ Immanuel Wallerstein, “The Three Instances of Hegemony in the History of the Capitalist World-Economy,” in *Current Issues and Research in Macrosociology*, ed. G. Lenski (Brill, 1984), 100-108.

⁵ Bruce Zagaris, “Dollar Diplomacy: International Enforcement of Money Movement and Related Matters: A United States Perspective,” *Geo. Wash. J. Int'l L. & Econ*, no. (1988): 465-466; Emily S. Rosenberg, “Revisiting Dollar Diplomacy: Narratives of Money and Manliness,” *Diplomatic History* 22, no. 2 (1998): 155-176; Jeanette P. Nichols, “Roosevelt's Monetary Diplomacy in 1933,” *The American Historical Review* 56, no. 2 (1951): 295-317; and Cyrus R.A. Veese, *A World Safe for Capitalism: Dollar Diplomacy and America's Rise to Global Power* (Columbia University Press, 2002).

and Levy called it simply ‘US imperialism.’⁶ However, the US hegemony had not emerged yet in the interwar years. Therefore, this study focuses mainly on the central bank authorities of London, Paris and Berlin, who were called the “international bankers,” when the Great Depression broke out.⁷

Following this framework of mind, the study explains how a specific form of economic governmentality was produced and extended to the world through the bailout programs of a few knowledgeable European central bank authorities after the Great Depression. After this prologue, the monetary and as well as political influence area of the European central bank authorities are mapped out to display their global reach. Then, the peripheral governments' responses to the suggested economic receipts are analysed in detail. Finally, contemporary repercussions of these inter-war money authorities and their receipts are highlighted to contribute to the discussions on the current global order, its setbacks and alternatives. Above of all, this historically documented theoretical reflection intends to reinstate politics into the hard data driven contemporary political economy literature.

I. Back to the Great Depression: Restorators of the Economic Crisis

Historical records demonstrate that grassroots political changes in the international order and the transformation of the monetary system occur in parallel. These systemic ruptures generally follow the wars or revolutionary developments destabilising the existing order. As the Bretton Woods Conference in 1944 suggests, economic restoration can sometimes take precedence over political agreement. It should be underlined that the Bretton Woods Conference was convened before the Yalta Conference. That means international economic restoration was more urgent than the political agreement among the 'Big Three' powers.

The critical significance of economic consensus among the nations can be tested through other groundbreaking historical developments. For example, the International Monetary Conference held in Paris in 1878 can be suggested

⁶ Frederic C. Howe, “Dollar Diplomacy and Imperialism,” *Proceedings of the Academy of Political Science*, May 24-29, 1915, (New York Academy of Political Science, 1917), 73-79; Gerard Duménil, and Dominique Lévy, “The Economics of US Imperialism at the Turn of the 21st Century,” *Review of International Political Economy* 11, no. 4 (2004): 657-676.

⁷ Youssef Cassis, “Financial Elites in Three European Centres: London, Paris, Berlin, 1880s-1930s. *Business History* 33, no. 3 (1991): 53-71.

as one of the most relevant cases on this ground.⁸ The 1870s were also marked by a search for the stabilisation of international order after the mass wars in which the small Balkan states, British-India, Ottoman and Russian Empires were involved. Turmoils of this period were also concluded with an international economy conference. The key subject matter of the International Monetary Conference in 1878 was the transition from the bi-metallic system to the gold standard. The discussions had reached an impasse on the question of how to abolish silver money in Asia if the gold standard was adopted.⁹ Reaching out and convincing the Asian authorities was taken more seriously than the vices and virtues of the gold standard. Since then, the exigencies and pressures related to the world economic integration reasserted itself in different political forms.

The Great Depression in 1929-1930 can be considered as another critical turning point forcing the revision of international order. This economic crisis started in the most developed countries and spread to the less developed ones so swiftly that one can assume so high levels of international economic integration comparable to the current levels. During the Great Depression, national economic recovery programs occupied the political agenda in many countries and international economic consultancy became more of a diplomatic agenda between the developed and developing countries. Presumed objectivity of this new 'scientific' consultancy resulted in further integration of the core and periphery regions of the world system.¹⁰

In this international atmosphere, the key European central bank authorities got reputation as the 'saviours of economy.' They were officially invited by the governments of the peripheral countries to help them with their national economic crises. Indeed, these monetary authorities provided diplomatic alternatives to the peripheral governments with their competitive recovery programs. Thus, the peripheral governments had a chance to choose among the alternative recovery programs according to their existing or

⁸ Henri Cernuschi, *Monetary Diplomacy in 1878* (PS King, 1878); Giulio M. Gallarotti, *History of International Monetary Diplomacy, 1867 to the Present: The Rise of the Guardian State and Economic Sovereignty in a Globalizing World* (Routledge, 2021).

⁹ Cernushi, "Monetary Diplomacy," 43.

¹⁰ Oliveira, É. de Almedia, and Bruno De Conti, "The International Division of Finance: Reassessing the Peripheral Condition in a Financialised Capitalism," *New Political Economy*, published online, (2024): 1-15. Available from: <https://www.tandfonline.com/doi/full/10.1080/13563467.2024.2405522> [Accessed November 12, 2024].

potential political alliances. On the other side, in some cases, European monetary authorities exerted political influence over their peripheral partners by way of their recovery programs.

Banque de France governor and economy professor Charles Rist, Reichsbank governor Hjalmar Schacht, and Bank of England governor, Montagu Collet Norman can be named as the leading ‘saviours’ of the economy during the Great Depression. Although the individual bankers were leaving their place to the central bank institutionalism, Time Magazine titled these international monetary authorities as the ‘international bankers.’¹¹ They were categorically different from the previous generation of private bankers that dominated international finances. They replaced a financial aristocracy based on old family partnerships, which remained intact until the First World War.¹² These international bankers represented a new generation of professionals and acted on a new conception of ‘scientific’ central banking.¹³

To introduce these monetary authorities or world-systemic agents in other words, we can start with Schacht, who is still known as one of the founding fathers of central banking as a concept and institutional mechanism. Schacht started his career in Dresdner Bank in 1903.¹⁴ In the early 1920s, he was at the head of the technocratic cadre struggling with the hyperinflation problem of Germany and was honoured by the title of ‘the Saviour of German Mark.’¹⁵ Later on, he became famous for his MEFO bill, which was a promissory note to defer Nazi Germany’s reparation payment to transfer the money to the rearmament program.¹⁶

In the interwar period, Schacht's reputation crossed the borders of Germany. Some peripheral governments invited him for economic consultation. Dr. Schacht played an important role in the establishment of central banks in Eastern Europe and the Balkans. In the early 1930s, Schacht paid visits to the national bank authorities of Austria, Yugoslavia, Hungary, Greece, and Bulgaria. He was also invited to Turkey during the Great

¹¹ *Time*, November 7, 1927.

¹² Cassis, “Financial Elites,” 55.

¹³ Carl L. Holtfrerich, and Jaime Reis, *The Emergence of Modern Central Banking from 1918 to the Present* (Routledge, 1999).

¹⁴ Hjalmar Schacht, *Confessions of the ‘Old Wizard’* (Houghton Mifflin, 1956).

¹⁵ Amos E. Simpson “The Struggle for Control of German Economy,” *The Journal of Modern History* 31, no. 1 (1959): 37-43.

¹⁶ David Marsh, *The Most Powerful Bank: Inside Germany's Bundesbank* (Times Books, 1992), 85.

Depression for official consultation on the establishment of a central bank. Schacht sent the vice-governor of the Reichsbank, Mr. Müller, to Turkey to report the economic situation from the field. This report is still known as the Schacht-Müller report.¹⁷

It seems that consultations of Schacht yielded immediate results. By 1935, Germany was the largest customer for the Eastern European and the Balkan products, especially the raw materials. The Balkan countries' trade balances with Germany were almost reversed in the early 1930s. While they were importing large quantities from Germany, these less developed countries found themselves exporting greater amounts of raw materials to the German war industry on the eve of the WWII.¹⁸ For the same purpose, Schacht targeted also Latin American countries. However, Roosevelt intervened immediately with the 'good neighbourhood policy' to prevent a potential alliance of the Latin American countries with Germany.¹⁹

The political and military aspirations of Schacht's economic programs sparked hot diplomatic debates in Europe in the inter-war period. The economic recovery program that Schacht prepared for Romania lay at the centre of the debates. Hitler's government in Germany and the Romanian government signed a bilateral Treaty on the Development of Economic Relations in 1939. The Nazi government established strong control over the Romanian economy through this treaty, which sounded from Britain as a manoeuvre to force Romania into a political alliance. Time Magazine wrote on this treaty that 'in no instance of modern times has one state made such humiliating, far-reaching economic concessions to another as Romania to Germany.'²⁰

This case corresponds to what the world-system school called 'competitive expansion' of the core countries into the periphery.²¹ The objections raised by Time Magazine denote this competition. In Romania, the competition was harsh. The predecessor of Schacht in Romania was Charles

¹⁷ Türkiye Cumhuriyet Merkez Bankası (Central Bank of Republic of Turkey) *Atatürk Ansiklopedisi*. Available from: <https://ataturkansiklopedisi.gov.tr/bilgi/turkiye-cumhuriyet-merkez-bankasi/?pdf=3300> [Accessed February 25, 2024].

¹⁸ *Bulletin of International News*, July 4, 1936.

¹⁹ Salvatore Prisco, "Vampire Diplomacy: Nazi Economic Nationalism in Latin America, 1934-40," *Diplomacy and Statecraft* 2, no. 1 (1991): 173-181.

²⁰ *Time*, April 3, 1939.

²¹ Christopher Chase-Dunn, "Core-Periphery Relations: The Effects of Core Competition," *Social Change in the Capitalist World Economy* 1, no.1 (1978):720-736.

Rist, a reputable economy professor holding at the same time the governor post in the Banque de France. Schacht took the lead in Romania after Rist failed there. That is to say, the European monetary authorities competed for the periphery as an area of influence. They followed one another in these less developed countries with a dual mission, as the economic experts and diplomatic missionaries of their countries.

Charles Rist was one of the most respected economists of Europe, as well as a central bank authority.²² He was appointed to the position of Deputy Governor of Banque de France in 1926. He had embarked on an economic restoration program for the war-torn countries in the early 1920s. He examined the post-war economic anomalies in his book, *La déflation en pratique: Angleterre, États-Unis, France, Tchéco-Slovaquie*, which was published in 1924.²³ This book by Rist reveals the fact that the core countries handled their national economic questions on a regional and global basis.²⁴

Like Schacht, Rist also offered official consultation for Eastern European and the Balkan countries. Among these countries, there were; Austria, Poland, Czechoslovakia, Romania and Turkey. The official consultant mission of Rist had started in Austria under the auspices of the League of Nations. He acted on behalf of the League of Nations Financial Committee observing the entangled financial situation of the country at the beginning of the 1920s.²⁵ In 1931, he was assigned to another financial consultation task by the League of Nations in Romania.²⁶

In the 1920s and 1930s, the League of Nations played an active role as an intermediary for the loan agreements between the countries. For example, in Romania, the League turned to Banque de France for crediting the bankrupt banking system of the country, after discussing the matter with the Bank of England. When Banque de France and the Romanian government reached an

²² Louis, P. Rochon, and Sergio Rossi, *The Encyclopedia of Central Banking* (Edward Elgar Publishing, 2015).

²³ Charles Rist, *La Déflation en Pratique: Angleterre, États-Unis, France, Tchéco-Slovaquie*. (M. Giard Publisher, 1924).

²⁴ Sylvia Maxfield, *Gatekeepers of Growth: The International Political Economy of Central Banking in Developing Countries* (Princeton University Press., 1998)

²⁵ Walter Layton, and Charles Rist, *The Economic Situation of Austria* (League of Nations, 1925).

²⁶ Nikolay Nenovsky, and Dominique Torre, “Debates, Plans and Interventions to Overcome the 1931 Banking Crisis in Romania and Bulgaria,” *Economic History Yearbook* 63, no. 2 (2022): 495-525.

agreement on a stabilisation loan, Rist was appointed as the advisory authority monitoring the use of this loan in the country. Upon the failure of this recovery program, Schacht gained a foothold in Romania as was described above in reference to Time Magazine.

In Turkey, Rist followed Schacht this time. After Schacht's discouraging opinion about the establishment of a central bank, the Turkish government turned to Rist. Indeed, the advice of Schacht and Rist was similar. Both of them emphasised the lack of capital accumulation in the country. Schacht stated this incapacity clearly, whereas Rist preferred an indirect expression underlining the critical significance of savings in the country at all levels. His essay on saving was translated into Turkish and made long lasting impacts on the national academia.²⁷

According to Rist, the etatist policy in Turkey was a greater problem than the lack of capital accumulation.²⁸ Rist was a strong opponent of economic nationalism. He objected to the governments' turning to etatism under the pressures of the Great Depression. For Rist, economic nationalism was 'the worst of all nationalisms.' Instead, he propagated for an international monetary system to guide the national economies 'automatically.'²⁹ Rist was an ardent supporter of the gold standard. In his opinion, the Gold-Exchange System (GES) could run the international monetary system successfully. Large gold stocks in France and the propensity of the British sterling to replace gold in international economics prevented Rist from leaving the GES system. The key opponent of Rist in this context was the Bank of England, Governor, Montagu C. Norman. Later on, some statements of Norman and his successor J. M. Keynes proved that Rist was a farsighted national economist.

Keynes explicitly voiced the supposed supremacy of British sterling. He said, 'if economic life is to be regulated at the source, there can be no possible instrument of this except the Bank of England.'³⁰ This statement of Keynes substantiates another world-systemic argument; domination of the core by a

²⁷ Charles Rist, "Tasarruf Teorisi" (Savings theory) *Ankara Üniversitesi Siyasal Bilgiler Fakültesi Dergisi* 2, no. 3 (1947): 23-27.

²⁸ Dilek Barlas, *Etatism and Diplomacy in Turkey: Economic and Foreign Policy Strategies in an Uncertain World, 1929-1939* (Leiden, 1998).

²⁹ Charles Rist, "Gold and the End of Depression," *Foreign Affairs* 12, no. 2 (1934): 244-259.

³⁰ Anand G. Chandavarkar, "Keynes and Central Banking," *Indian Economic Review* 20, no. 2 (1985): 284.

primus inter pares.³¹ It seems that Keynes owes much to his predecessor Norman, who struggled with Rist, the closest competitor, and prepared the ground for him.

Like his counterparts in Europe, Norman was also engaged in the economic stabilisation programs of Eastern European countries like Austria, Hungary and Czechoslovakia. He was also involved in the Financial Committee of League of Nations in the early 1920s and worked for the economic restoration of the neighbouring region.³² The main objective of Norman was to spread a universal ethos of central banking. Since 1922, Norman devoted most of his efforts to the establishment of an overarching international body of central banks. As an alternative to the GES system of Rist, Norman suggested establishing an international central bank to govern the monetary policies of the periphery ‘automatically.’³³ Although these governors had different means in mind, they reached the same end: governing the national economies of the peripheral countries ‘automatically, so that they would not have to negotiate with the political authorities of these countries once the system was established.

Monetary conflicts among the core countries were not limited to the struggles between France and Britain. Germany was also a party in this conflict. As the French monetary authority, Rist did not avoid polemics with his German counterparts. His book titled, ‘Les Finances de Guerre de l’Allemagne’ provoked German national economists struggling with the war reparation problems.³⁴ In his book, Rist made it explicit that:

*[Germany's finances] will have, for years to come, too direct a bearing upon French finances for a Frenchman to neglect them. Their history during the war gives the key to their present situation. This is the excuse for this book. I have made no pretense of instructing specialists in the science of finance. I have had primarily in mind a public which has a right to be informed upon questions which concern it so close.*³⁵

³¹ Wallerstein, “The Three Instances of Hegemony,” 38.

³² György Péteri, “Central Bank Diplomacy: Montagu Norman and Central Europe's Monetary Reconstruction after World War I,” *Contemporary European History* 1, no. 3 (1992): 240.

³³ Péteri, “Central Bank Diplomacy,” 242.

³⁴ Charles Rist, *Les Finances de Guerre de l’Allemagne*. (Payot et Cie, 1921)

³⁵ Joseph S. Davis, “Charles Rist on Germany's War Finances. *The Quarterly Journal of Economics* 36, no. 1 (1921):136-1 44, p. 137.

As the above statement of Rist manifests, the monetary authorities under question did not act as the pure technocrats detached from the public, but frequently addressed to their national fellows like the politicians. The next question is how their economic recovery programs were received in the peripheral countries. However, the global reach of these money authorities has been laid out at first.

II. The Global Reach of the European Monetary Authorities

It is for sure that the number of international economic consultants is not limited to the ones mentioned in this study. However, the records show that a handful of economists or their programs toured the world between 1920s and 1950s and fixed the standards of the new international order.³⁶

The European liberal authorities had started their economic program from Austria, the country where they felt an imminent threat, namely a revolutionary risk or Soviet expansion, in the aftermath of the WWI. Then they extended their programs to the other neighbouring countries, such as Hungary, Poland, and Czechoslovakia. The outer circle of this map contained Greece, Bulgaria, Romania, and Turkey, but did not stop there. Although an all-inclusive coverage is an unattainable task for this study, the analysis can be extended briefly to the far end of the periphery to estimate the European monetary authorities' global reach. Their economic recovery and development programs were disseminated to Afghanistan, Indonesia and Korea on the east; and the Latin American countries on the west. These 'money doctors' advanced their operations into the outer circles of the world system in the post-WWII period.³⁷ Their area of influence included the Middle East, Far East and Latin America.

After being acquitted at the Nuremberg trials and the German denazification court in 1948, Schacht moved to Indonesia and worked as a government consultant. He made a comprehensive research on the Far Eastern economies and published it in 1952.³⁸ His work became a key reference for the next generation economists in the Far East.³⁹ Similarly, Rist influenced

³⁶ Mathew Bacon, et.al., "Money Doctors from the 1800s to the Present," *Studies in Applied Economics*, no. 223 (2022): 1-44.

³⁷ Marc Flandreau, *Money Doctors: The Experience of International Financial Advising 1850-2000* (Routledge, 2005).

³⁸ Hjalmar Schacht, "The Schacht Report," *Far Eastern Survey* 21, no. 5 (1952): 46-52.

³⁹ Horst H. Geerken, *Hitler's Asian Adventure* (Bukitcinta, 2017).

economic thinking in the Near East. His seminal work; *A History of Economic Doctrines from the Time of the Physiocrats to the Present Day* was translated into several languages including Turkish and taught in the universities till today.⁴⁰ These publications and their scientific influences on the periphery demonstrate that these central bank authorities not only offered temporary bailout programs but made more grassroots and durable impacts.

It is observed that world systemic influences could also be extended to the periphery through indirect means. The consultancy relations between Turkey, Afghanistan and Pakistan can be regarded as one of the best cases exemplifying these indirect influences. Turkish diplomatic archives are full of correspondence revealing the economic know-how transfer from Turkey to Afghanistan and Pakistan from the 1920s to the late 1950s.⁴¹ In short, it seems that the incorporation of the periphery into the new world order was almost complete by the 1950s. However, Scandinavia was still comparably free from these world-systemic influences.

Among the Scandinavian countries, especially Sweden had better opportunities to develop tailor-made solutions for its national economic problems. Thanks to its detachment from the mass wars, relative economic strength, and the availability of domestic economy experts.⁴² So that the country could initiate its own economic recovery and development programs. During the Great Depression, Sweden adopted a flexible monetary policy and acted on its own ways. Riksbank, the Swedish Central Bank, proved successful by its own formula; Wicksell rule. This formula offered an astonishingly simplistic solution. It suggested discounts proportional to the inflation rate. However, not this formula itself but the Central Bank's capacity to impose its decisions onto the government was emphasised as the key source of success by the liberal minded international economists.⁴³ Rist, Norman and

⁴⁰ Charles Gide, and Charles Rist, *Fizyokratlardan Günümüze İktisadi Mezheplerin Tarihi* (A history of economic doctrines from the time of physiocrats to the present day), translated by Ş. Kaya, A. Muammer (Cumhuriyet Matbaası, 1922).

⁴¹ Prime Ministry Republican Archives (BCA), File: 8080-54168-29, Date: 1951-08-07; BCA; File: 8234-53909-1, Date: 1955-09-01; File: 8192-52923-16, Date: 1958-06-04.

⁴² Lars Jonung, and Tarmo Haavisto, "Central Banking in Sweden and Finland," in *The Twentieth Century, in The Emergence of Modern Central Banking from 1918 to the Present*, ed. C. L. Holtfrerich, and Jamie Reis (Routledge, 1999), 111-143.

⁴³ Raphael Chiappini, et.al., "Romania's Unsustainable Stabilization: 1929-1933, Groupe de REcherche en Droit, Economie, Gestion (GREDEG CNRS), Université Côte d'Azur, 2019-no.43.

others regarded the institutional autonomy of the Riksbank more important than the suggested formula. To put it differently, a peripheral central bank working in tandem with a formal or consensual international monetary authority would prevent the intervention of domestic politics, which was considered the main factor upsetting the international economic order. Then, the relations between the European money authorities and the national governments on the periphery need to be considered more closely.

III. The Relations between the European Money Authorities and the Peripheral Governments

When the recovery receipts of the international monetary authorities failed in the periphery, these authorities usually blamed the governments for not implementing the receipts in the instructed way. The shortsighted or populist peripheral governments were put forward as the key hindrances to the economic recovery programs. Sometimes mere ‘ignorance’ of the political leadership or their inability to understand elaborated financial matters was laid out as Rist did. During his visit to Romania in 1928, Rist noted about the new coalition government dominated by the National Peasant Party:

The leaders do not have any fixed program except some 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 interest.⁴⁴

The economic recovery program offered for Greece unravels that the failure largely stemmed from the systemic paradoxes rather than the political incompetence of the peripheral governments. The Greek recovery program failed because neither the government ‘wasted’ the loans nor it acted against the instructions of its creditors, but simply because its main creditor and mentor Bank of England changed track so abruptly and unexpectedly that the Greek economy could not adapt. The country found itself on the losing side all of a sudden. The Drachma crisis followed inevitably as a domino effect after the devaluation of Sterling, because the national currency of the country was tied to gold over Sterling. This fixation had been imposed on Greece as a precondition for a loan agreement. This monetary crisis precipitated also a political crisis in the country.⁴⁵ When the futility of the British originated economic policies became evident, Venizelos had to change his diplomatic

⁴⁴ Chiappini, “Romania’s Unsustainable Stabilization 6.

⁴⁵ Mark Mazower, *The Battle for the Drachma, Greece and the Inter-war Economic Crisis* (Oxford University Press, 1991).

and military strategy as well. Leaving aside the old enmities and rivalries, he turned to an alternative alliance with Turkey and the other Balkan countries.⁴⁶

In most cases, the political leadership in the periphery compensated for the losses of the suggested economic programs through diplomatic maneuvers. As was noted earlier, similar diplomatic maneuvers were also observed in Romania after the subsequent failures of different European recovery receipts.

The European economic recovery programs were not customised according to the specific conditions of the peripheral countries. Fiscal discipline through austerity measures was the primary goal of all the recovery receipts. For the peripheral governments, it was not so easy to convince the people of the austerity measures. Especially, the populist governments hesitated about such proposals. They did not want to offend their electorate or creditors either. Trapped in such a paradoxical situation, the peripheral governments were losing their policy-making capacity in general.

Inflationary pressures, raising taxes, wage cuts, and increasing levels of unemployment jeopardised the citizens' lives in the periphery. The masses living below the poverty line did not have any flexibility to tolerate the drastic austerity measures. For example, in the post WWI period, the Austrians paying the bill for the austerity program of the League of Nations Financial Committee criticised this plan, saying that 'we are rehabilitated to death.'⁴⁷ While the peoples' experiences reflect how strictly these economic programs were implemented, the mentors behind these programs were never satisfied with the level of austerity measures. In the end, the peripheral governments could satisfy neither their electorate nor their creditors.

Although the European central bank authorities were not on the same page about the operational standards of the new international monetary system, they all agreed on the inevitability of the austerity programs for the periphery. For example, Rist advised Romania, 'wholesale weeding out of superfluous government employees, salary cuts of 50% and further drastic retrenchments.'⁴⁸ The austerity measures were dictated to the periphery as a precondition for releasing new loans. The creditors also determined where and

⁴⁶ E. Tutku Vardağlı, "Turkish-Greek Rapprochement in the 1930s: The British Factor as a Third Party," *Akademik İncelemeler Dergisi* 16, no.1 (2021): 73-9.

⁴⁷ Frank Costigliola, *Awkward Dominion: American Political, Economic, and Cultural Relations with Europe 1919-1933* (Cornell University Press, 1984), 114.

⁴⁸ "Ominious Rist," *Time*, June 13, 1932.

how to spend these loans. Moreover, some peripheral states were not allowed to get international loans independently. For example, the 1918 Paris Agreement blocked the Greek government's access to international capital markets. The government had to ask the permission of Britain, France and the USA whenever it wanted to float a new foreign loan.⁴⁹

The core countries provided much needed cash flows to the peripheral states in the form of loans. Although the creditors instructed the peripheral governments to use these loans to initiate fiscal discipline programs and make new investments, the governments had to pay the old arrears at first.⁵⁰ How to pay back the existing debts in the short run posed another paradoxical question. The result was spiralling debts and low returns to the creditors. In the end, neither the indebted countries nor the creditors were satisfied with the results. However, the discursive hegemony of the inter-war economic programs proved more durable and resilient than its disillusioning outcomes.⁵¹

'Cutting public spending as much as possible' was the only solution these money authorities could suggest to overcome the debt spiral. Nevertheless, some peripheral governments were not very fond of this idea. In the end, the politicians were held responsible by the money authorities for 'not doing their jobs properly.' Norman explicitly said, 'what makes me despondent is the failure of politicians to do their part.'⁵²

The European monetary authorities asked the complete compliance from the peripheral governments. They praised Bulgarian and Polish governments for this reason. As Avramov argues, when the economic crisis broke out in 1929, the peripheral governments were faced with two strategic choices; whether to stay in or out of the gold standard to opt for a cooperative or a confrontational default on external debt. Bulgaria and Poland decided to remain in and comply with every chapter of the suggested recovery programs.⁵³ Rist praised the Polish government's deflationary efforts noting

⁴⁹ Olga Chrishtodoulaki, "The Origins of Central Banking in Greece," Ph.D. dissertation (London School of Economics, 2015).

⁵⁰ Dominique Torre, and Elise Tosi, "Charles Rist and the French Missions in Romania 1929-1933: Why the 'Money Doctors' Failed? *Fourth Annual SEEMHN Conference Proceedings* (National Bank of Serbia Special Publications, 2010).

⁵¹ Christopher Adolph, *Bankers, Bureaucrats, and Central Bank Politics: The Myth of Neutrality*. (Cambridge University Press, 2013)

⁵² Péteri "Central Bank Diplomacy," 233.

⁵³ Roumen Avramov, "The Bulgarian National Bank, 1926-1935," *Economic History Conference Celebrating the 90th Anniversary of the Bank of Greece* (Bank of Greece, 2018): 35-36.

that they did not encounter any serious resistance by the people on which the burden fell the most heavily.⁵⁴ However, the same drastic measures in agricultural Galicia populated by the Ukrainians caused social unrest.⁵⁵

As was illustrated before, the noncompliant peripheral governments found their way into different diplomatic alliances in the international arena. In other words, when a particular liberal economic recovery program reached an impasse, the peripheral government in question turned to other political alliance options to seek new loans. For example, when the French recovery program failed in Romania, the Romanian government turned to the US bankers and then the German government.⁵⁶ Similarly, Venizelos turned to the Balkan Pact when he became devoid of British financial support.

In this context, Turkey can be suggested as the most explicit case. The single party government in Turkey shuttled between Soviet Russian and Western liberal economic plans until making a final choice for the Western bloc in 1950. In Turkey, Soviet supported Orloff Plan in 1932 was followed by the US-supported Hines Plan in 1933.⁵⁷ Similarly, the US-led Economic Development Plan in 1947 replaced the Soviet inspired Five Yearly Rapid Industrialization Plan in 1946.⁵⁸ Finally, Turkish economy was anchored to the Barker Plan in 1950s, which had resonances in the 2000s also.⁵⁹ All these cases demonstrate the direct connection between the liberal economic programs and foreign policy choices in the periphery.

It seems that the diplomatic maneuvers of the peripheral governments forced the next generation of liberal international economists to revise their strategies. Although Keynes was a loyal successor of the European central

⁵⁴ V. N. Bandera, *Foreign Capital as an Instrument of National Economic Policy* (Springer, 1964).

⁵⁵ Stephan Horak, *Poland and Her National Minorities, 1919-39* (Vantage, 1961).

⁵⁶ Emma Porfireanu, "Between Expectations and Hesitations: Romanian-American Relations, 1938-1940," MA Thesis, (University of Nebraska, 1997).

⁵⁷ Ferruh Özder, "Birinci Beş Yıllık Sanayi Planı Ekseninde Atatürk Dönemi Türk-Sovyet Ekonomik ve Ticari İlişkileri (Turkish-Soviet economic and commercial relations in Atatürk's era within the framework of first five yearly industry plan) *Atatürk Yolu Dergisi*, no. 60 (2017):143-170.

⁵⁸ İsmail C. Ay, "II. Dünya Savaşı Ulusal Planlama Faaliyetleri: 1946 İvedili Sanayi Planı ve 1947 Türkiye İktisadi Kalkınma Planı'nın Karşılaştırmalı Analizi," *İstanbul Üniversitesi İktisat Fakültesi Mecmuası* 62, no. 1 (2012): 147-172

⁵⁹ Cenk Yalıtırak, "Kemalizmin Silinmesinin ve Atatürkçülük'ün İcadının Kısa Tarihi ve Mimarları. *Aydınlanma* 1923, 52, no. 52 (2004) : 5-17.

bankers' generation that has been examined so far, he had to follow a different path to find a way out of the impasse that his predecessors created. For this purpose, he no longer fought with the governmental authorities but admitted their role. The Keynesian formula indicates a shift from a confrontational to a conciliatory relationship between the international money authorities and the national governments in the periphery. This shift can also be expressed through a transition from rock-ribbed austerism to a milder form of temporary etatism. As will be examined in the following section, the post-Cold War debates are also demarcated along the same lines.

IV. Inter-war Economic Programs Revisited in the Post-Cold War Period

'History matters' when the existing system reaches an impasse.⁶⁰ A longue-durée approach displays that the inter-war economic programs have been revisited several times and inspired policy choices. To start with the 1950s, we can mention James Madison Barker, the special Mission Chief of the International Bank for Reconstruction and Development. He appeared in the immediate aftermath of WWII as one of the key successors of the aforementioned inter-war money authorities. In 1948, Barker made a research tour to examine the Middle Eastern economies. He suggested several financial viability plans for the countries like Iran and Turkey.⁶¹ Barker's vision was not different from his predecessors but followed more or less the same pattern: transferring raw materials of the periphery to the core and further development by consuming the cheap agrarian products of these countries. While his development plan for Iran supported the former objective, the Turkish plan served the latter one.

Barker's position in the IBRD is reminiscent of his predecessors' mission in the League of Nations. This recurring pattern reveals another fact; the consolidation of the economic authority by academic and/or international institutionalism. The scientific and bureaucratic authority condensed in the

⁶⁰ Manolis Manioudis, and Giorgos Meramveliotakis, "Broad Strokes towards a Grand Theory in the Analysis of Sustainable Development: A Return to the Classical Political Economy," *New Political Economy* 27, no. 5 (2022): 866-878.

⁶¹ Thomas Walton, "Economic Development and Revolutionary Upheavals in Iran," *Cambridge Journal of Economics* 4, no. 3 (1980): 271-292; Jame M. Barker, *The Economy of Turkey: An Analysis and Recommendations for a Development Program* (The John Hopkins Press, 1952).

hands of these monetary diplomats increased the receptiveness of their economic recovery programs in the periphery.

The aforementioned money authorities introducing the ways and means of the new economic order relied largely on the power of science. On the other side, the peripheral countries approached the knowledge of the new liberal economic order as the illiterate approached the Bible once upon a time. This is understandable to some extent because the complex financial operations conducted by the new money wizards were unknown to the politicians and economy bureaucrats of the periphery. They were accustomed to real economic standards. This is why the peripheral governments invited the new generation of money diplomats to their countries for consultation. They needed to learn this new economic language to get integrated into the new world order. Since most peripheral countries perceived this new jargon as the unchallengeable scientific ‘truth,’ their relations with the international money authorities changed from a ‘sinner and saints’ to the ‘patient and doctor’ dichotomy as unfolded by Foucault.⁶² This is how a new economic governmentality reigned since the Great Depression.

When the Soviet regime collapsed, inter-war economic receipts returned as part of a quest for a new international order. To illustrate, Schacht made a reappearance in Russia among the victorious liberals. This money authority has received well respect as a system liberal, the founding father of central banking and a ‘money wizard’ who circumvented the economic embargo over Germany.⁶³ On the other side, contemporary European sceptics criticised the same monetary authority.

⁶² Kenneth Dyson, *States, Debts and Power: ‘Saints’ and ‘Sinners’ in European History and Integration*. (Oxford University Press, 2014); Hubert L. Dreyfus, and Paul Rabinow, *Michel Foucault: Beyond Structuralism and Hermeneutic* (Routledge, 2014); Serhat Koloğlugil, “Michel Foucault's Archaeology of Knowledge and Economic Discourse,” *Erasmus Journal for Philosophy and Economics* 3, no. 2 (2010): 1-25.

⁶³ Ilya Matveev, “From the Chicago Boys to Hjalmar Schacht: The Trajectory of the (Neo) liberal Economic Expertise in Russia. *Problems of Post-communism*, Jan 3, 2024. Published online. <https://www.tandfonline.com/doi/full/10.1080/10758216.2023.2291359?src=> [Accessed December 7, 2024]; Alan Bollard, *Economists at War: How a Handful of Economists Helped Win and Lose the World Wars* (Oxford University Press, 2019); V. Krishnamurthy, “Putin’s Calculus,” *Deccan Herald*. <https://www.deccanherald.com/opinion/putin-s-calculus-1096538.html> [Accessed January 4, 2024].

In the opponent circles of Europe, the ‘money wizard’ Schacht has been portrayed as the forefather of the ‘bubble economy’ or ‘junk bonds’ in Wallerstein’s terms.⁶⁴ Indeed, the financial competence of Schacht and his counterparts in London and Paris was targeted much before in the liberal West as something ‘amounted to no more than a proposal to drastically cut wages and social services as a trick for securing the refunds for creditors.’⁶⁵

Monetary authorities of interwar Europe still constitute key reference points for contemporary debates. For example, Dyson described the recent economic crisis in Greece extending to the Euro area as ‘Norman’s lament.’⁶⁶ Thus, the old receipt was recalled. Similarly, Kemal Derviş, an international economist of Turkish origin who held Vice President positions in the World Bank and UNITAD, revisited the Barker Plan in Turkey during the 2001 economic crisis. He was called on duty to manage a liberal economic reform in the country to recover from the crisis.⁶⁷ Based on the patterns explicated so far, it is not surprising that Derviş retrieved the old Barker Plan.

More recently, Cottrell reiterated the century old arguments of the aforementioned money doctors. Commenting on the economic crisis in Austria in the aftermath of the WWI, he wrote, ‘the members of the world community were not yet prepared to subordinate their own short-term interests to long-term solutions beneficial to all states.’ Thus, he formulated the problem as a matter of the self-interests of peripheral governments. Like his predecessors, Cottrell also blamed the political leadership in the periphery for the persistence of global economic problems.⁶⁸

On the opponent side, a contemporary commentator, Pühringer criticised the austerity measures as the ‘eternal character’ of European economic

⁶⁴ Immanuel Wallerstein, “Globalization or the Age of Transition?” *International Sociology* 15, no.2 (2000): 249-265; H. Zepp-Larouche, “Behind the Green New Deal: Hjalmar Schacht,” *Executive Intelligence Review* 48, no. 31 (2021): 56-62.

⁶⁵ L. H LaRouche Jr, “Why Ignorant Bankers Believe Schacht Succeeded,” *Executive Intelligence Review* 48, no. 42 (2021): 39-46. First published in 15 May 1976.

⁶⁶ Kenneth Dyson, “Norman’s Lament: the Greek Euro Area Crisis in Historical Perspective,” *New Political Economy* 15, no.4 (2010): 597-608.

⁶⁷ Thomas Marois, “The Lost Logic of State-owned Banks: Mexico, Turkey, and Neoliberalism,” *Canadian Political Science Association, 79th Annual Conference Proceedings* (University of Saskatchewan, 2007).

⁶⁸ Philip L. Cottrell, “Austrian reconstruction, 1920-1921: A Matter for Private Business or the League of Nations? in *Business in the Age of Extremes: Essays in Modern German and Austrian Economic History*, ed. H. Berghoff, and J. K. Ziegler (Cambridge University Press, 2013), 127-154.

recovery policies.⁶⁹ In addition, Buzogany and Varga associated the rising political conservatism in Eastern Europe with the disillusionment that the outmoded liberal receipts created.⁷⁰

To conclude, both the opponents and proponents still revisit the interwar European money authorities to find a way out of the post-Cold War international disorder. Although this time resilience proves the strength of the European monetary authorities, the inherent paradoxes and predicaments of their programs need to be reassessed.

Conclusion

This study manifests that the economic programs of the interwar money authorities still have broad repercussions. These recovery programs have been recalled almost in each contemporary economic crisis and ignited political debates. Political proponents and opponents were drawn into hot debates in each cyclical turn of these programs. The discussions alternated between a rock-ribbed austerism and a temporary form of etatism. Since the 1990s, the international order has changed dramatically, however the political economic legacy of the interwar period has not been revised thoroughly, but largely reiterated. Neither, the central nor the peripheral countries could generate a new recovery regime in the political and economic sense. The antithetic political legacy of the inter war economic programs laid out in this study needs to be elaborated with more sophisticated analysis to avoid reiterative international receipts. So this study lays the ground for further analysis by displaying the paradoxes and predicaments inherent in the cyclical turns of the interwar recovery programs.

The long-lasting impacts of the interwar recovery and development programs prove the significance of the European monetary authorities as the key international actors. However, this interwar monetary diplomacy subjugating politics in the periphery to particular economic receipts faces serious challenges today. The *longue-durée* approach exhibits that the absolutist claims on the ‘scientific truth’ of a particular sort of economic

⁶⁹ Stephan Pühringer, “The ‘Eternal Character’ of Austerity Measures in European Crisis Policies: Evidences from the Fiscal Compact Discourse in Austria,” *Leibniz Information Centre for Economics Working Paper Series*, No. Ök-32, 1-18.

⁷⁰ Aron Buzogány, and Mihai Varga “The Ideational Foundations of the Illiberal Backlash in Central and Eastern Europe: The Case of Hungary,” *Review of International Political Economy* 25 no. 6 (2018): 811-828.

program favored so far the international money authorities against the political leadership in the periphery. As the discursive power structures behind these economic programs are uncovered, the liminal space left for politics in the periphery becomes visible

The comparative approach of this study demonstrates that although international economic crises since the Great Depression have displayed largely global characteristics in their scopes, the central or peripheral positions of countries matter when it comes to recovery strategies. The standard bail-out programs produced in the West were passed into the Eastern periphery. In other words, the periphery was depended on the economic knowledge production of the center. Nevertheless, this hegemonic relationship was not exerted on the same level elsewhere. As the Scandinavian and several Balkan countries' cases demonstrates, not only the economic development levels, but also the political choices of the governments were influential in the recovery paths. It is indicated that some governments like Romania, Greece, and Turkey utilized diplomatic maneuvers to overcome their economic dependency. Alternative to the classical narrations of the world-system theory, an insightful outlook exhibits that these countries managed to break the vicious circle of economic dependency by shifting their diplomatic alliances in a delicate international order.

Integrating the structural world-system theory with the post-structural discursive analysis, this study offers a novel outlook to reassess key political economic questions. Since the most recent political economy literature tends towards data sciences, this study intends to readjust the gravity center of the field with these historically documented theoretical reflections. In the context of this study, the structural insights explain the working mechanisms of the interwar economic programs and how they engendered an international hegemony, while the discursive analysis reveals how this hegemony was maintained through the years and formed a political legacy today. Nevertheless, the discursive analysis of the questioned economic mentality does not only exposes a resilient hegemonic structure, but also highlights the escapeways in reference to several governmental counter-strategies.

Author Contribution Statements

The author is solely responsible for all stages of the study.

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