

# **INFLATION DYNAMICS AND SHORT-TERM FINANCE IN FRANCE, 1938-1948**

## **A DESCRIPTIVE HISTORICAL ACCOUNT**

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# INFLATION DYNAMICS

## 1938-1948

**The aims of this paper are threefold:**

- Combine available data to proxy 1938-1948 [1950]
  - Prices
  - Money supply
- Put to the test the idea that inflation control policies worked better during the war (dictatorship) than afterwards (democracy)
- Challenge the assumptions on the efficiency of the “circuit policy” (financial repression)

# INFLATION DYNAMICS

## 1938-1948

But this comes with important *caveat*:

- **Part of the relevant literature could not be accessed yet:**
  - Alfred Sauvy, *La vie économique des Français de 1939 à 1945*, Paris, Flammarion, 1978
  - Fabrice Grenard, *La France du marché noir, 1940-1949*, Paris, Payot, 2012
  - Eric Alary, *La Ligne de démarcation, 1940-1944*, Paris, Payot, 2012
  - Kenneth Mouré, *to be published monograph on the French black market*
- **Printed and Archival sources have to be explored, mostly:**
  - SGF and INSEE publications
  - Service de contrôle des prix (Price control Office)
  - DGCE and DGCEE (Economic Control Bureau)

# **INFLATION DYNAMICS**

## **1938-1948**

**In order to proceed, we will address the different issues in the following order:**

- 1. The historical background**
- 2. The traditional story: price control and circuit policy**
- 3. A general assessment of what inflation is**
- 4. The price evidence**
- 5. Towards an alternative price index**
- 6. The money supply evidence**
- 7. Conclusions**

**The paper being at an early stage, feel free to interrupt the presentation with questions, critiques and suggestions. Thank you!**

# 1. THE HISTORICAL BACKGROUND

- **France started its rearmament program in 1936, and the mobilizing its economy for the war in 1938 (Munich crisis)**
- **The war occurred and finished in a series of short phases:**
  - 1938-1939: rush to the war
  - 1939-1940: phony war
  - 1940: war, defeat, partial occupation of territory, dictatorial government
  - 1942: total occupation of territory
  - 1944: Allied forces landing in France, republican government restored
  - 1945: Victory in Europe, national territory freed
  - 1947: major political and economic crisis, Marshall Plan
  - 1949: end of rationing and black markets

# 1. THE HISTORICAL BACKGROUND

Time periods	Period general outline
<b>1875-1940</b>	<i>THIRD REPUBLIC</i>
<b>1939-1945</b>	World War 2 in Europe
<b>Sept. 1939- May 1940</b>	“Phony war” period
<b>1940-1945</b>	Battle and occupation period
<b>May-July 1940</b>	Battle of France
<b>1940-1944</b>	<i>ETAT FRANCAIS – VICHY REGIME</i>
<b>July 1940-November 1944</b>	German (and Italian) occupation (local areas remained under German control up to May 8 1945)
<b>1944-1947</b>	<i>PROVISIONAL REPUBLICAN REGIME</i>
<b>June 1944-May 1945</b>	Full French participation in Allied forces war effort
<b>1945-1948</b>	Peace period (French colonies excluded)
<b>May 1945</b>	Victory in Europe (end of main armed conflicts)
<b>January 1945-August 1945</b>	US Lend-lease provisions extended to France
<b>August 1945-September 1947</b>	Self-helped economic reconstruction
<b>1947-1958</b>	<i>FOURTH REPUBLIC</i>
<b>October 1947-1951</b>	Marshall Plan and multilateral reconstruction plans

# 1. THE HISTORICAL BACKGROUND



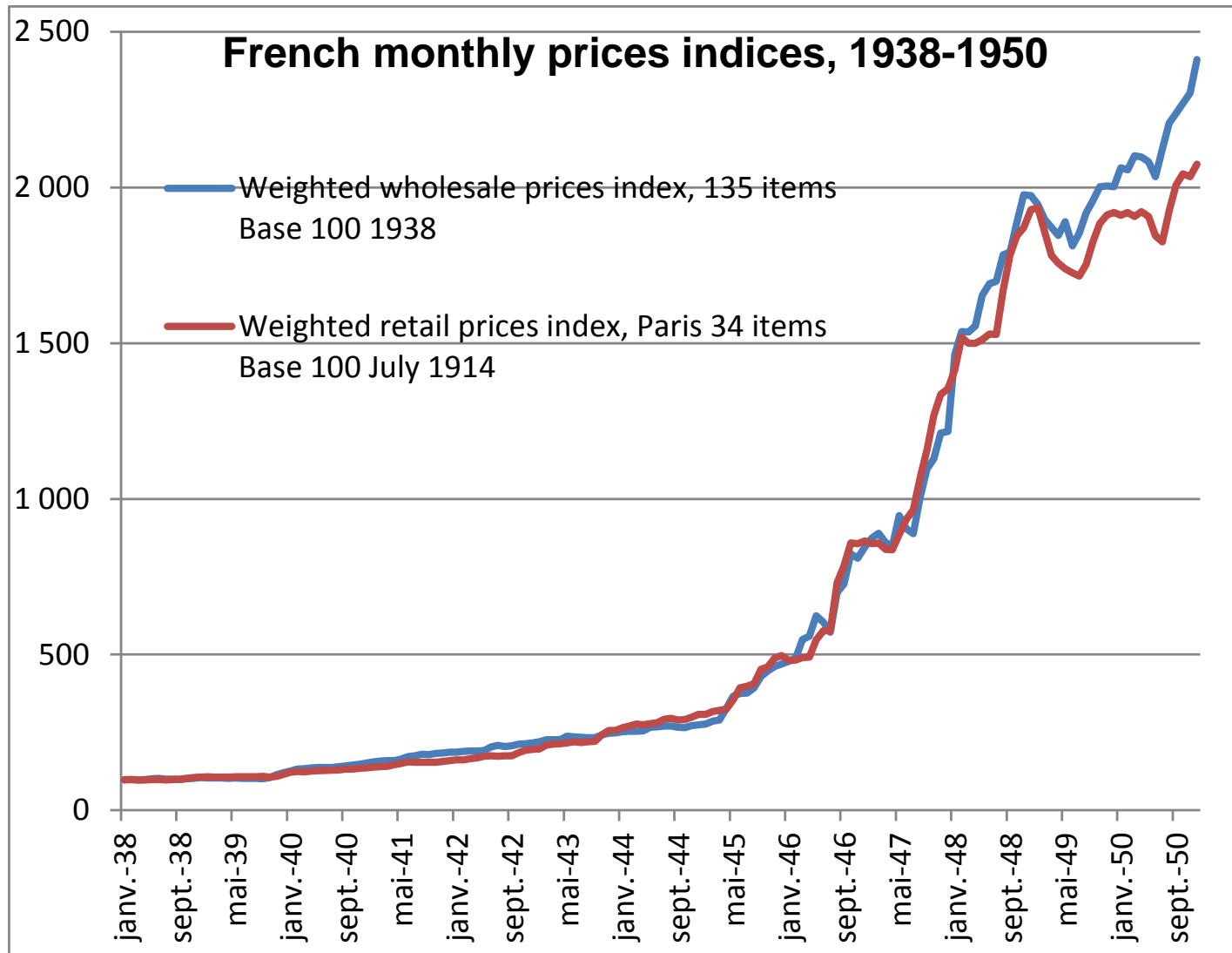
Source: Wikipedia

# 1. THE HISTORICAL BACKGROUND

<b>Human losses and costs</b>	<ul style="list-style-type: none"><li>- Over 480 000 war deaths (military and civilian)</li><li>- 76 000 Jews exterminated, many turned to the Nazis by French police</li><li>- Over 1 200 000 POWs during the war</li><li>- Over 700 000 workers deported to coerced labour in Germany</li></ul>
<b>Occupation costs</b>	<ul style="list-style-type: none"><li>- 400 MF/day from June 1940 to May 1941</li><li>- 300 MF/day from May 1941 to Nov. 1942</li><li>- 500 MF/day from Nov. 1942 to August 1944</li><li>- Extra payments for troops housing, Italian forces and specific areas</li></ul>
<b>Material losses</b>	<ul style="list-style-type: none"><li>- Extensive communication infrastructures destructions<ul style="list-style-type: none"><li>o No bridge over the Seine between Paris and the sea in 1944</li><li>o Almost 10 000 bridges destroyed all over the country</li></ul></li><li>- 452 000 buildings destroyed, 1,5 million damaged</li><li>- Production in 1944 in % of pre-war level:<ul style="list-style-type: none"><li>o Food: 70%</li><li>o Industry: 40%</li></ul></li></ul>



## 2. THE TRADITIONAL STORY: PRICE CONTROL AND CIRCUIT POLICY



# 3. A GENERAL ASSESSMENT OF WHAT INFLATION IS

**Five main sources could play a role in the French inflation:**

- money issuance;
- flight from money;
- shortages;
- productivity decline;
- grey and black markets operations.

**Three sources of control over inflation:**

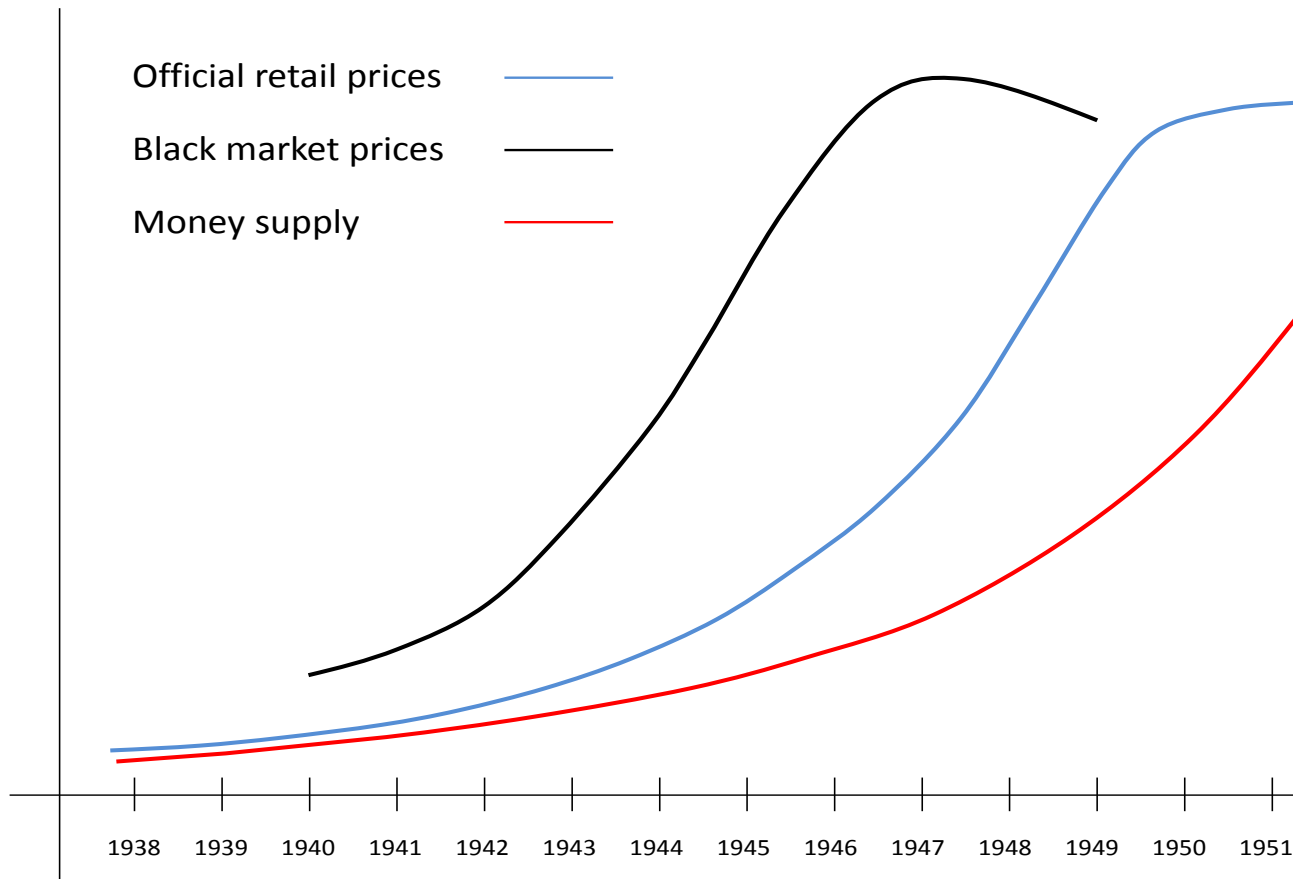
- prices taxation (state-fixed prices);
- quantity regulation (supply rationing);
- monetary policy (the reduction in the so-called “inflationary gap”).

**Consequently,**

- State-fixed prices determine a price-level lower bound;
- black market prices set the upper-level;
- “grey” and “free” prices figure somehow between the two.

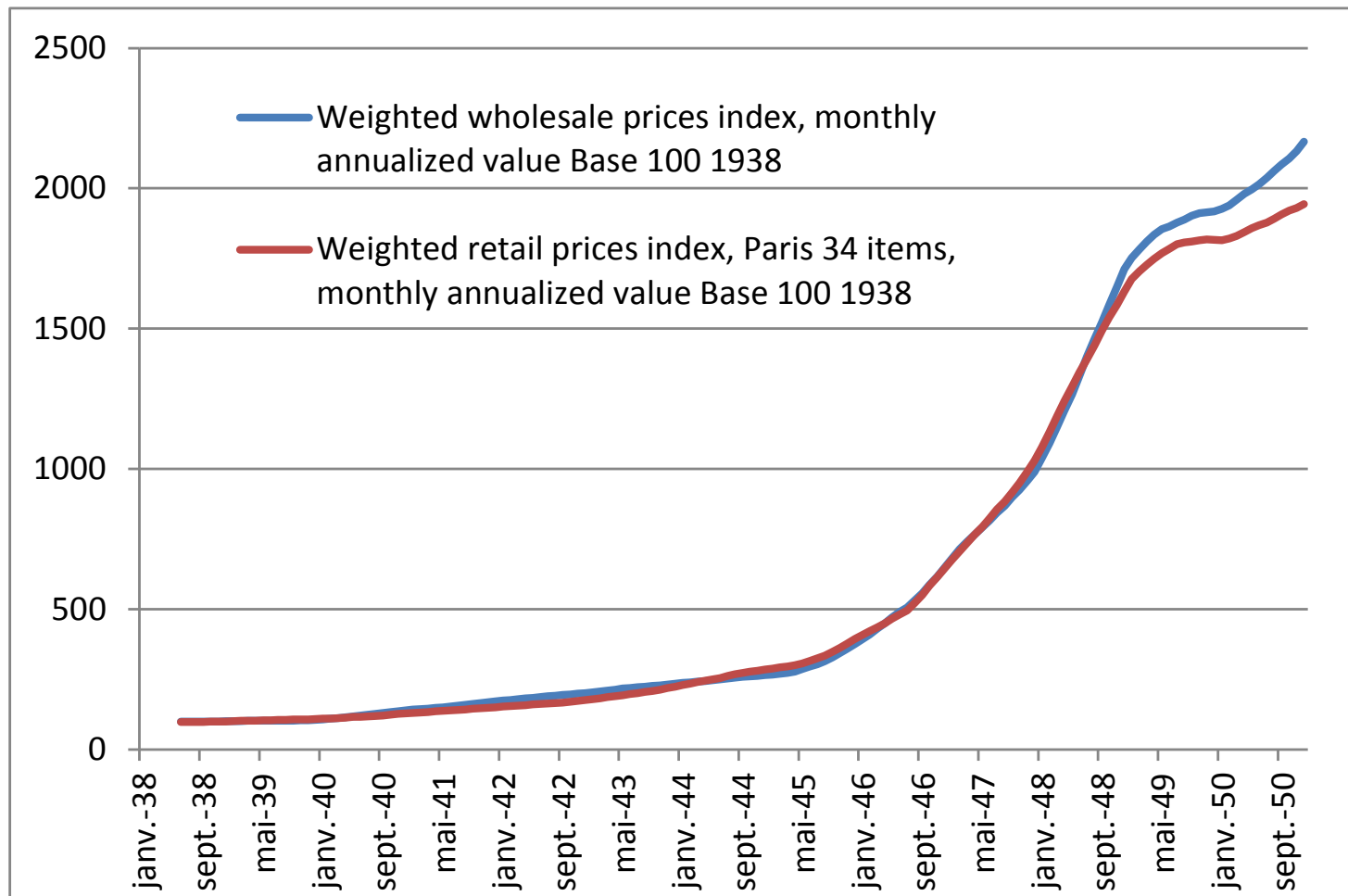
# 3. A GENERAL ASSESSMENT OF WHAT INFLATION IS

General sketch of the French inflation dynamics



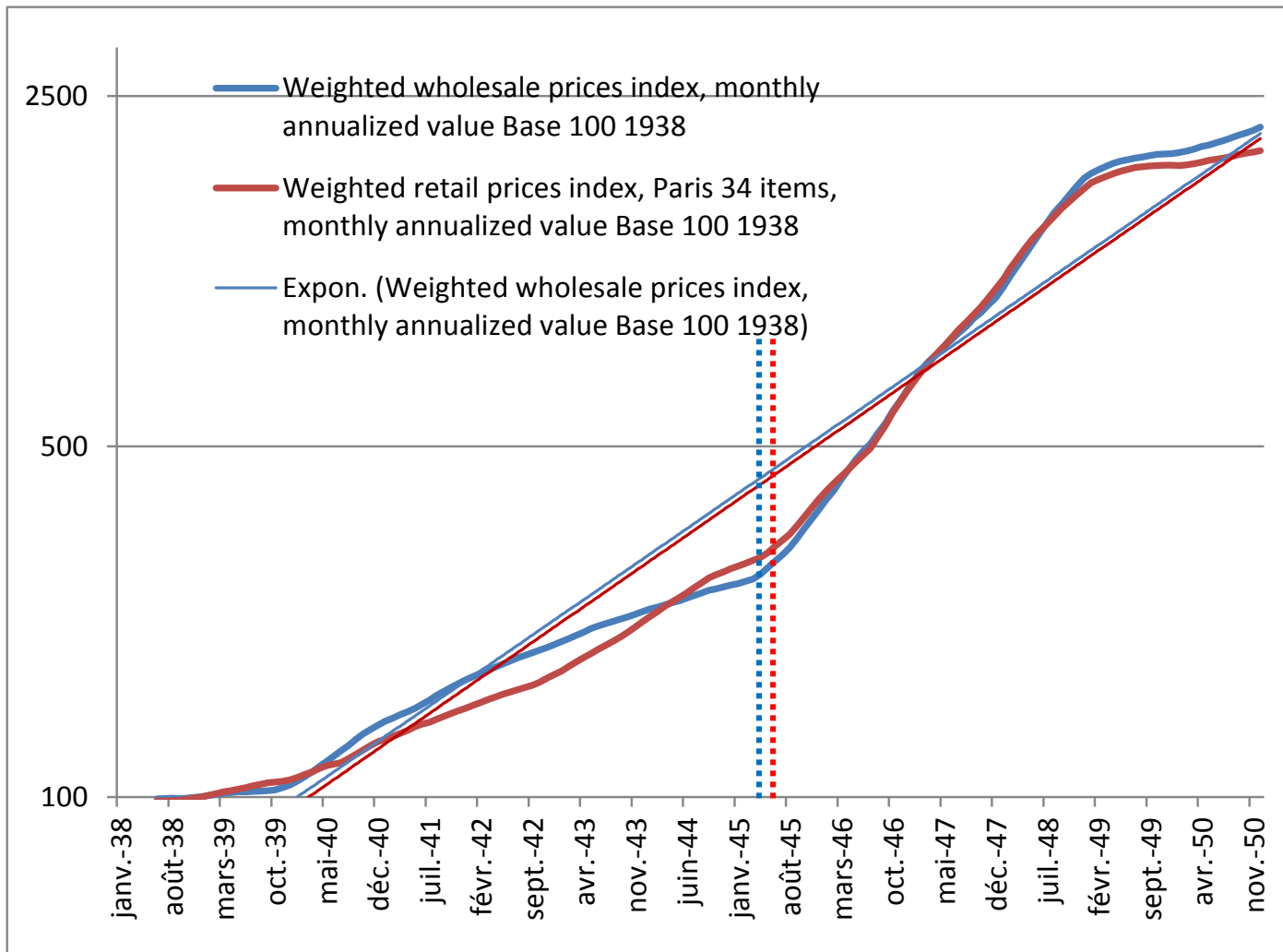
# 4. THE PRICE EVIDENCE

French smoothed monthly prices indices, 1938-1950



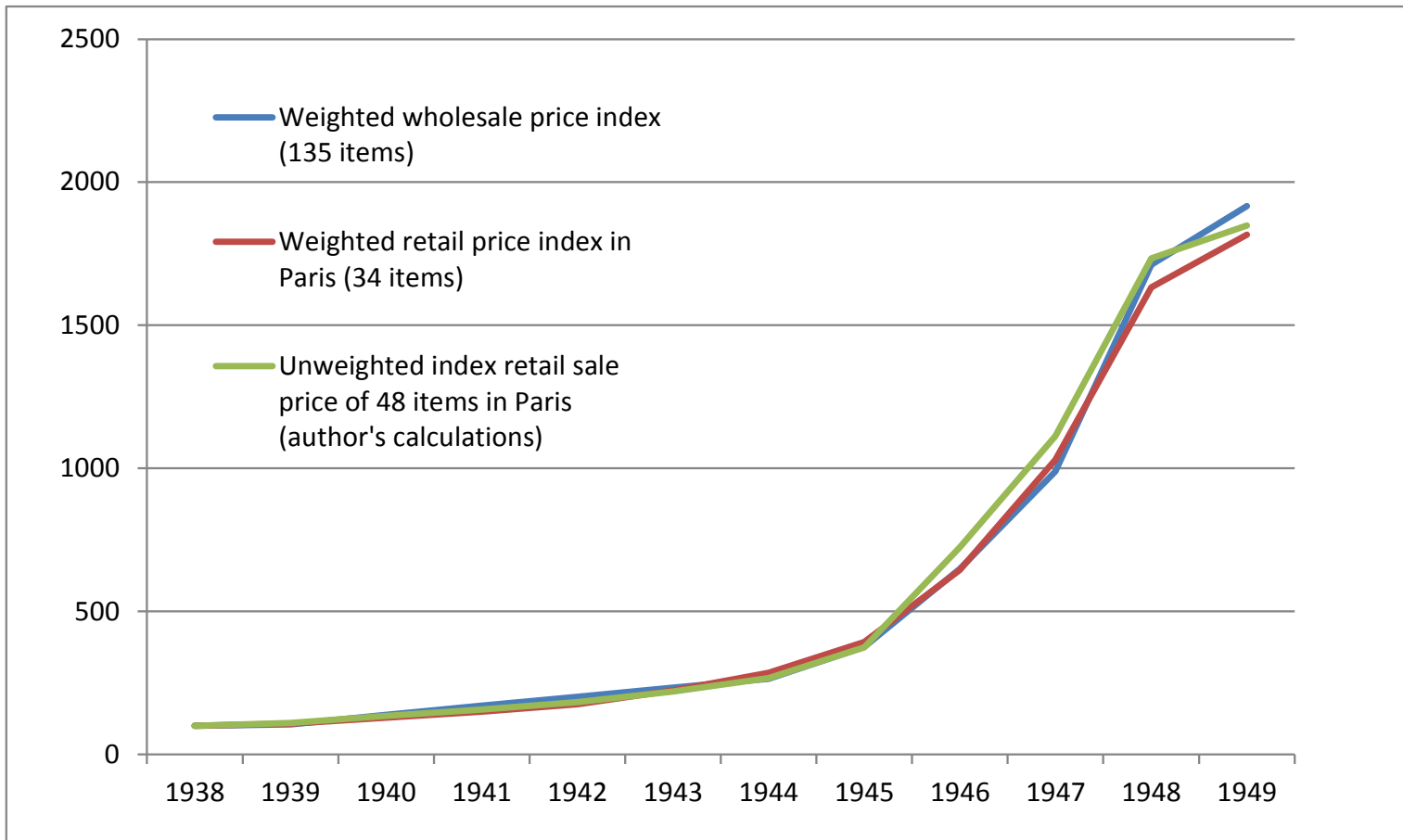
# 4. THE PRICE EVIDENCE

French smoothed monthly prices indices, 1938-1950, log scales



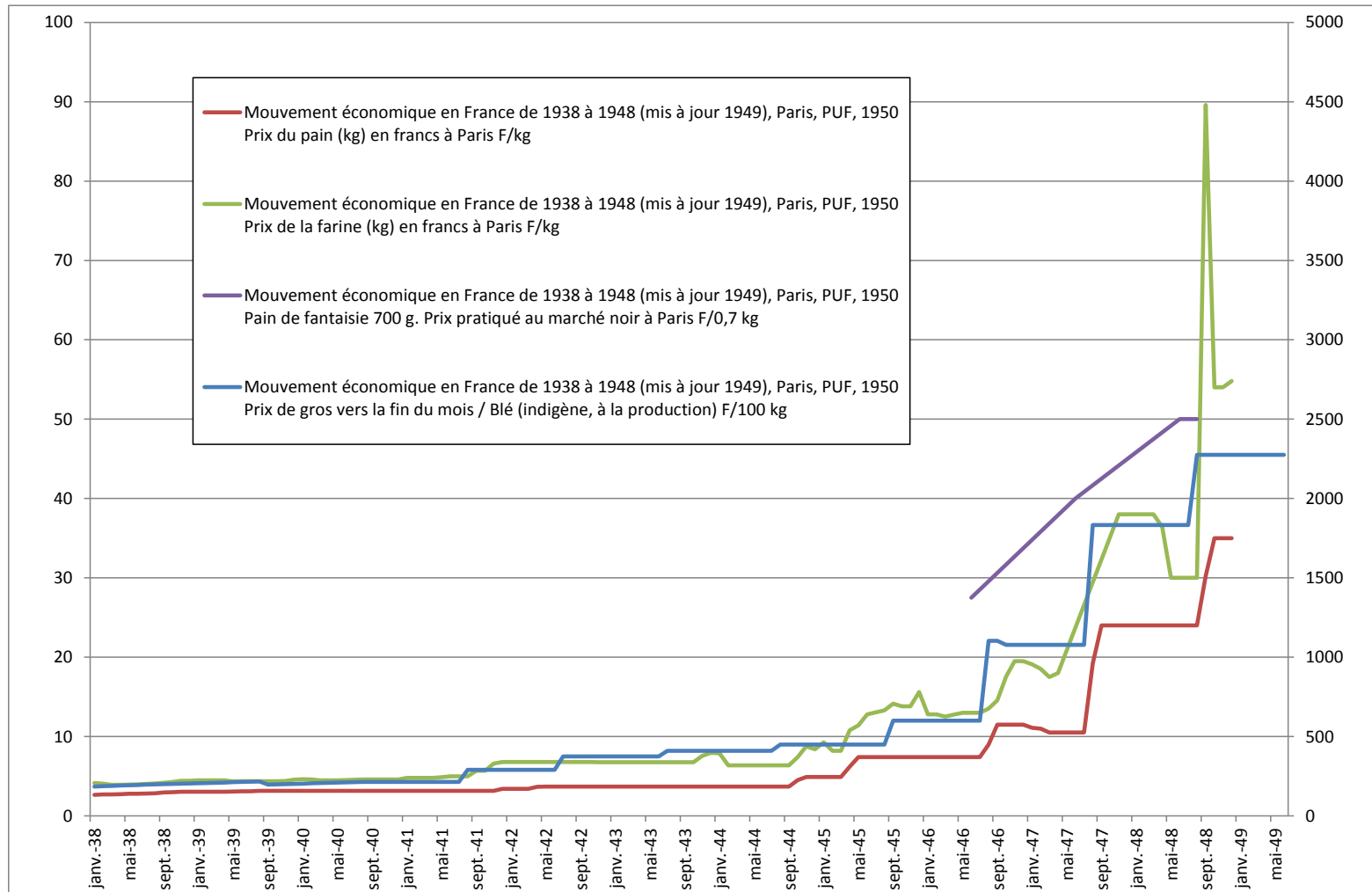
# 5. TOWARDS AN ALTERNATIVE PRICE INDEX

## Comparison of official and computed price indices



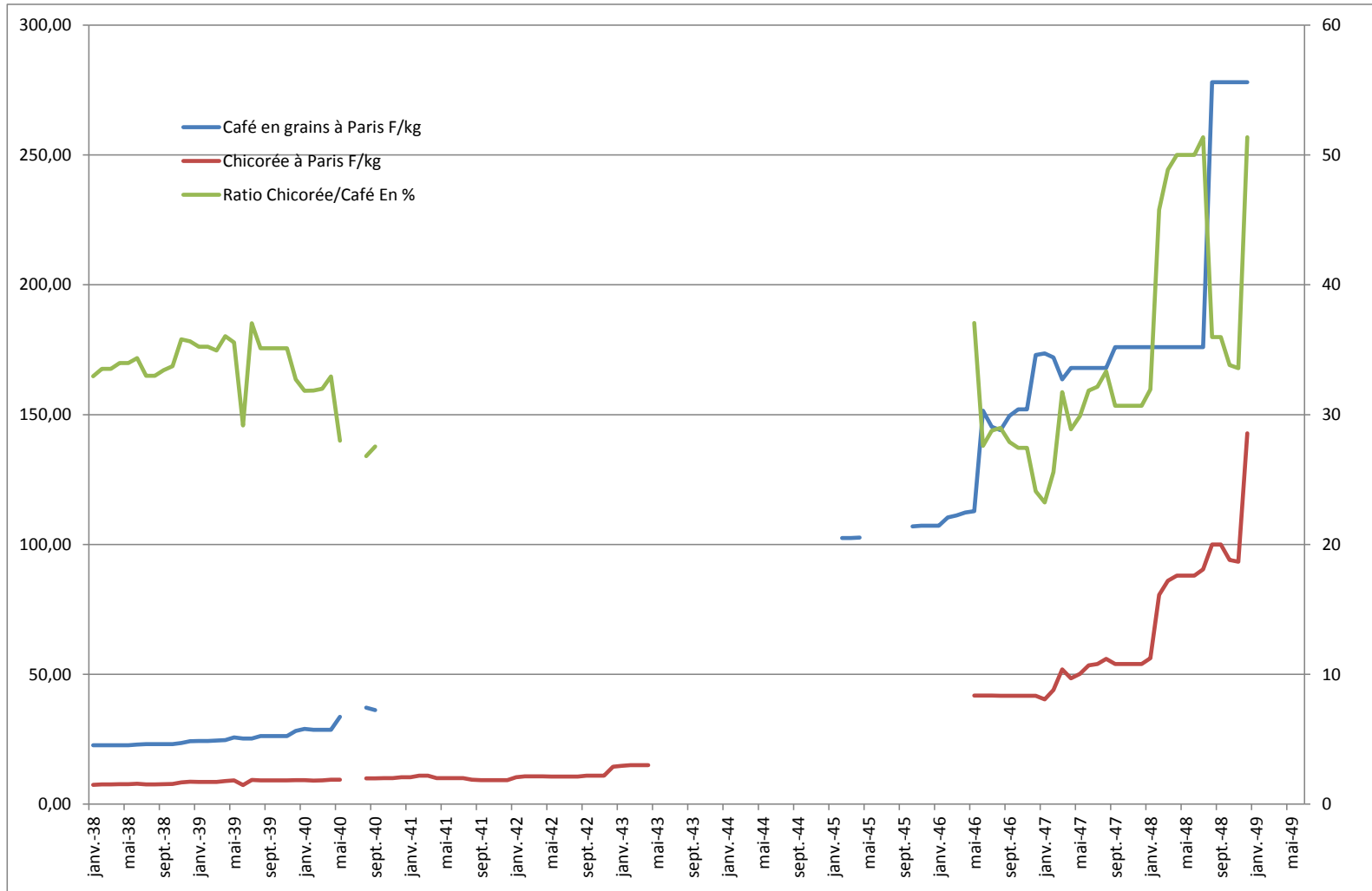
# 5. TOWARDS AN ALTERNATIVE PRICE INDEX

## Wheat, wheat flour, taxed and untaxed bread prices



# 5. TOWARDS AN ALTERNATIVE PRICE INDEX

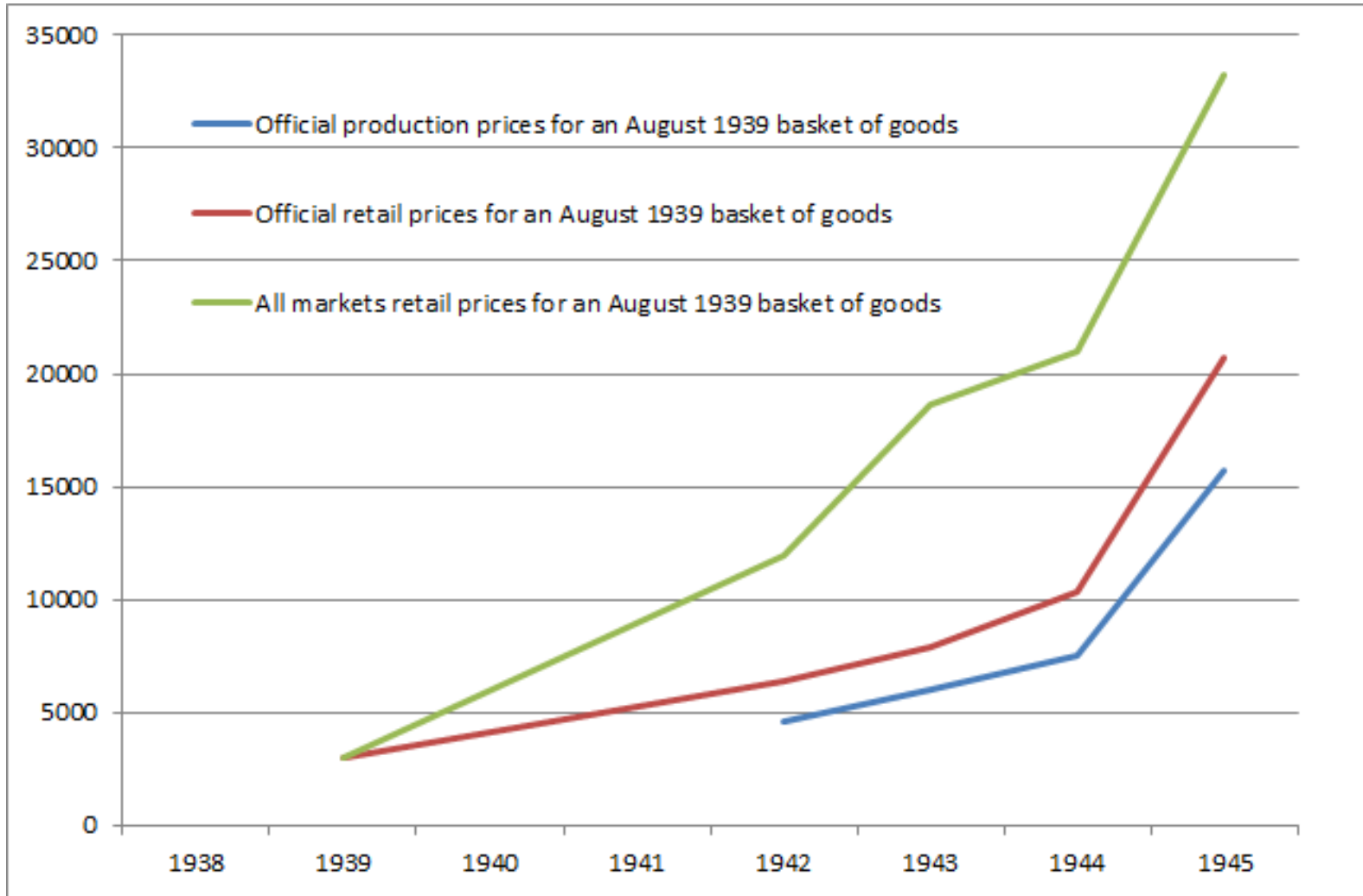
## Coffee and chicory prices





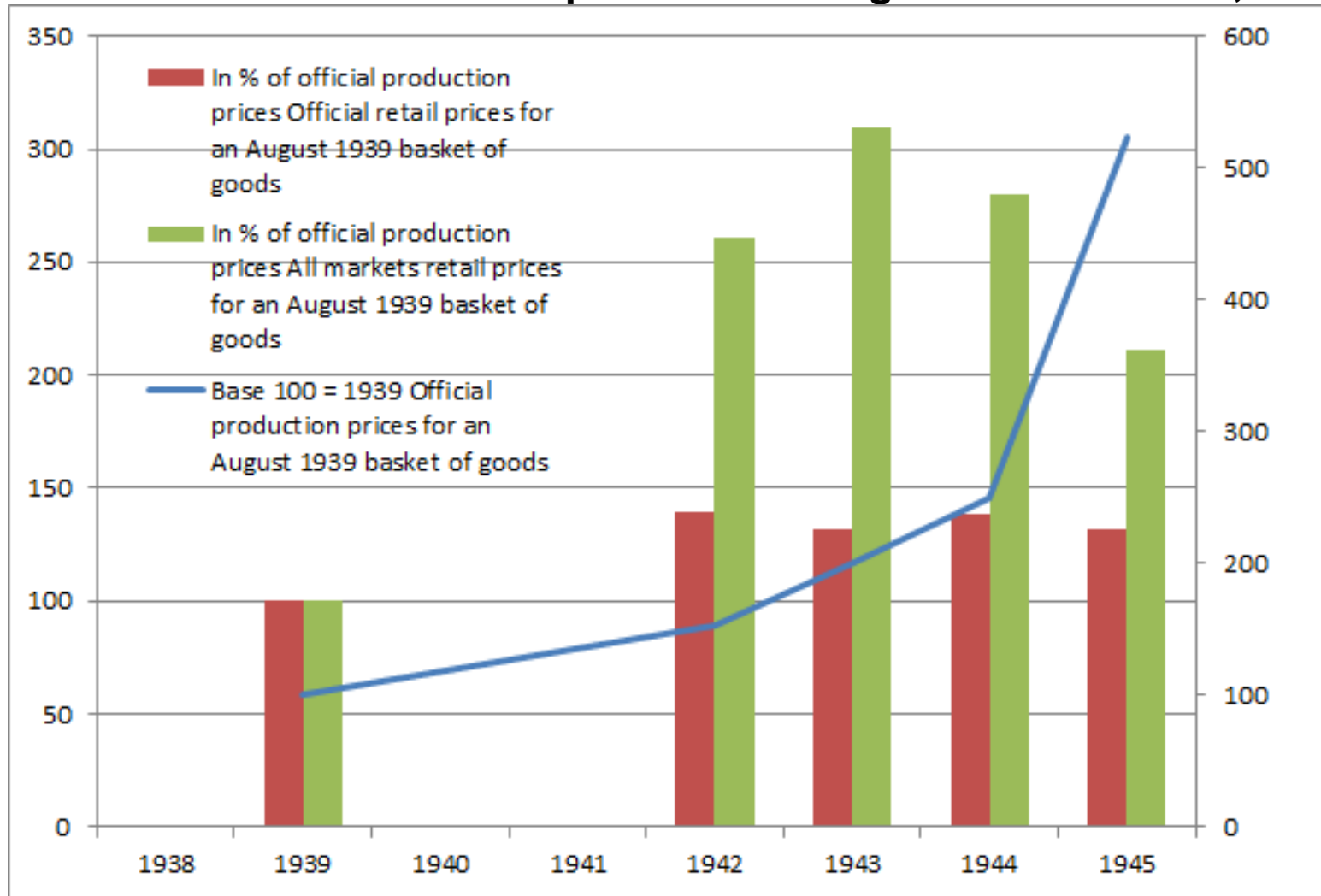
# 5. TOWARDS AN ALTERNATIVE PRICE INDEX

Prices of a diversified consumption basket of goods in FF – Rivet, 1947



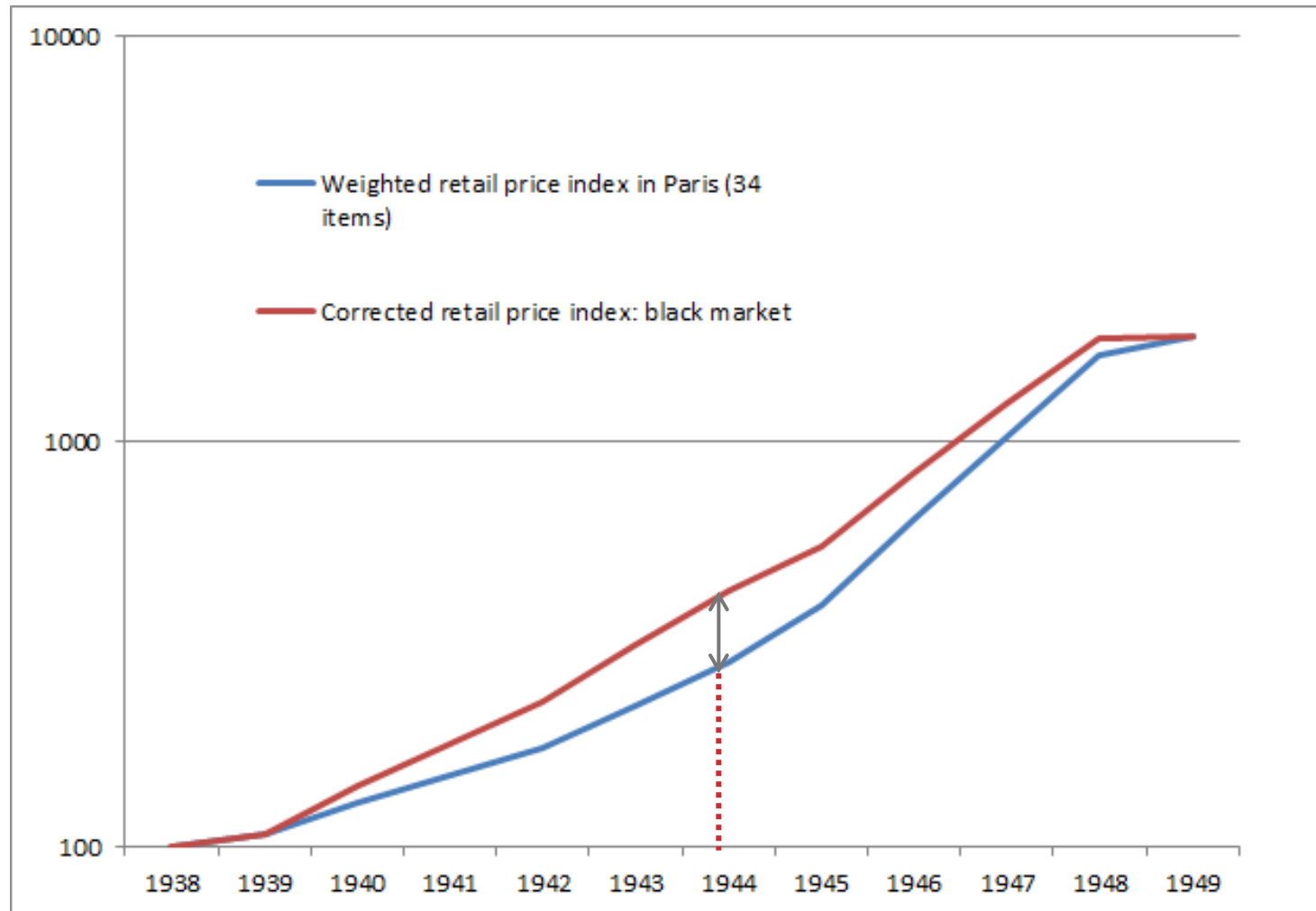
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Prices of a diversified consumption basket of goods in % – Rivet, 1947



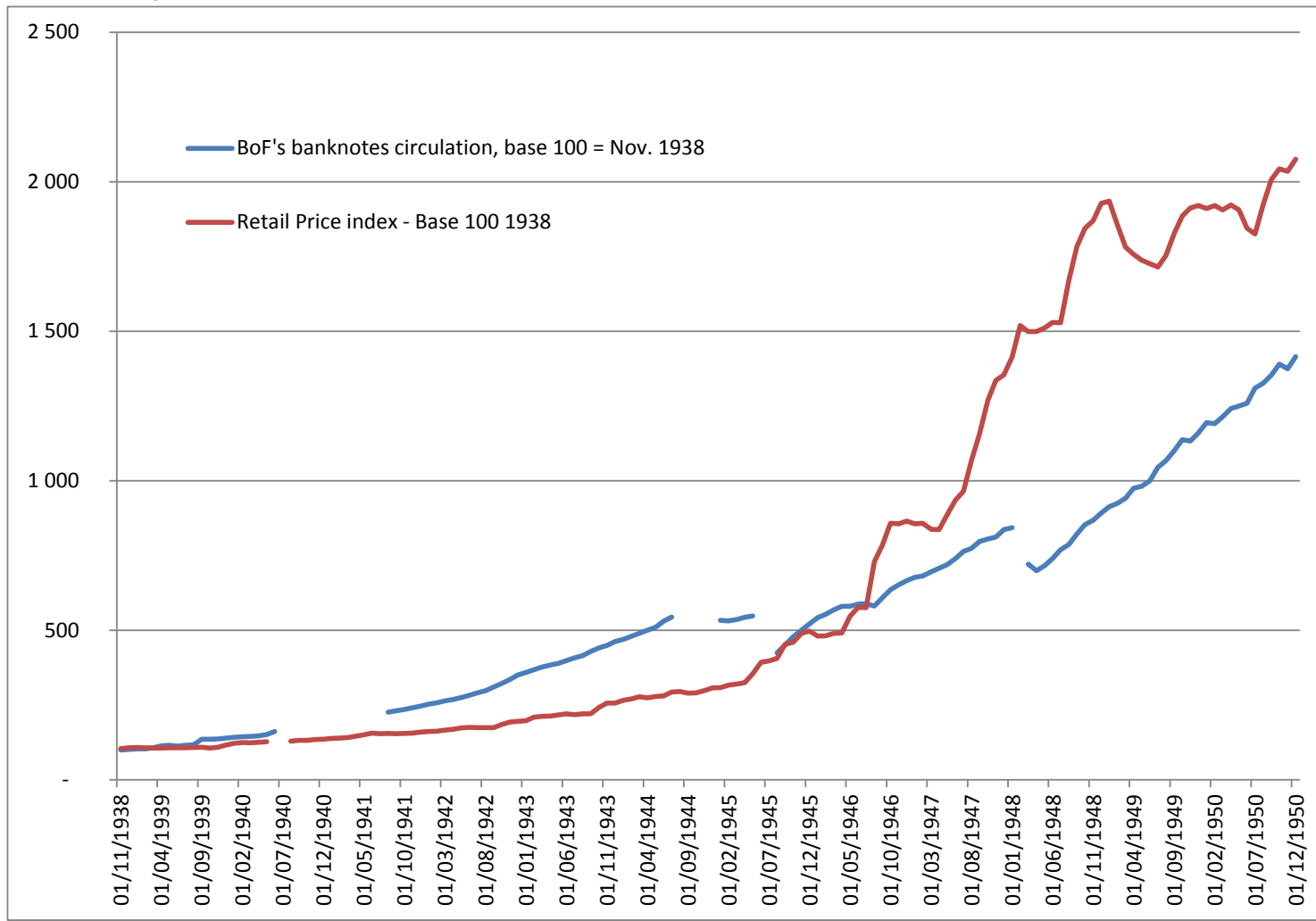
# 5. TOWARDS AN ALTERNATIVE PRICE INDEX

Official and provisional computed retail prices indices



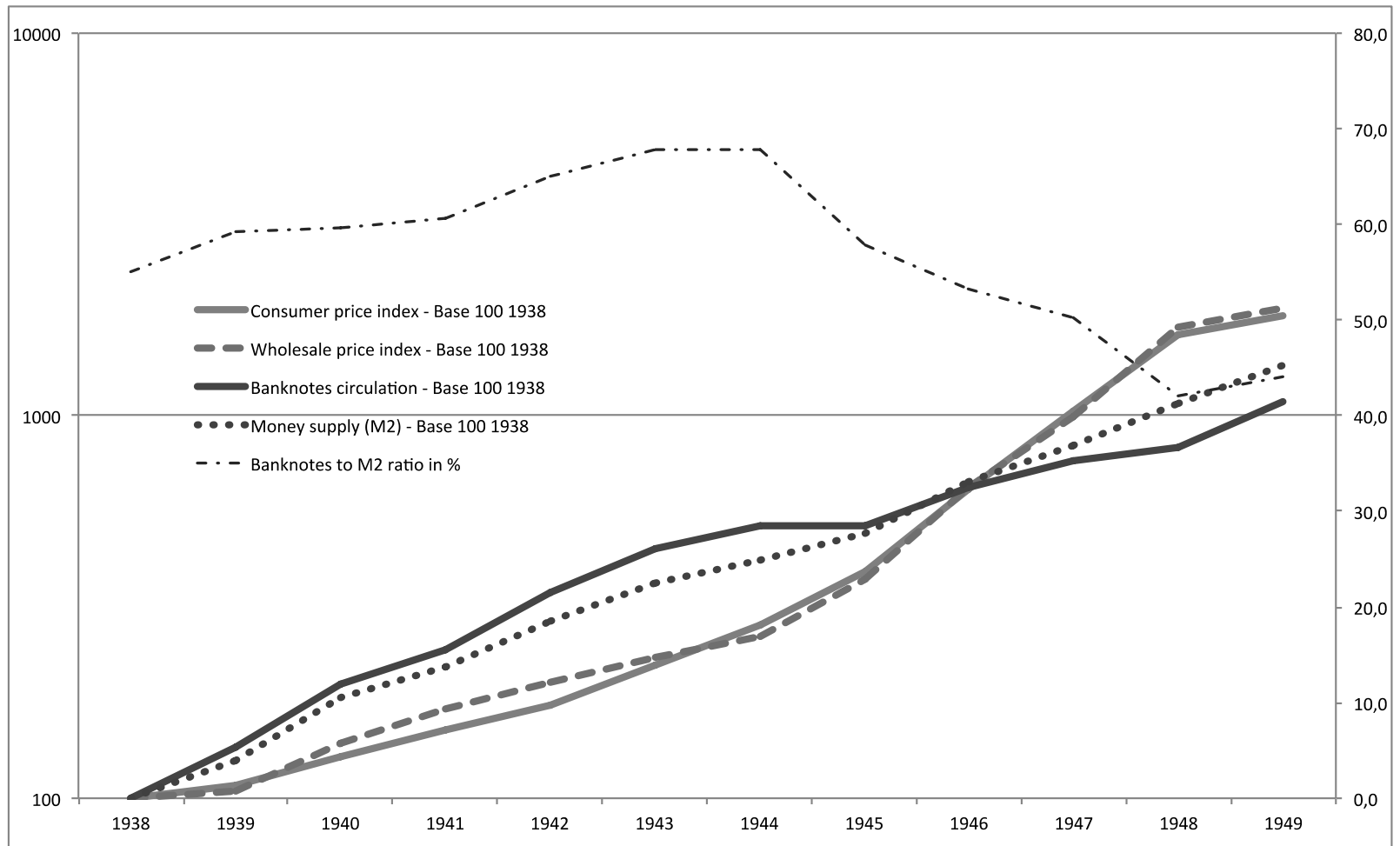
# 6. THE MONEY SUPPLY EVIDENCE

Monthly banknotes circulation and retail price index, base 100 = 1938



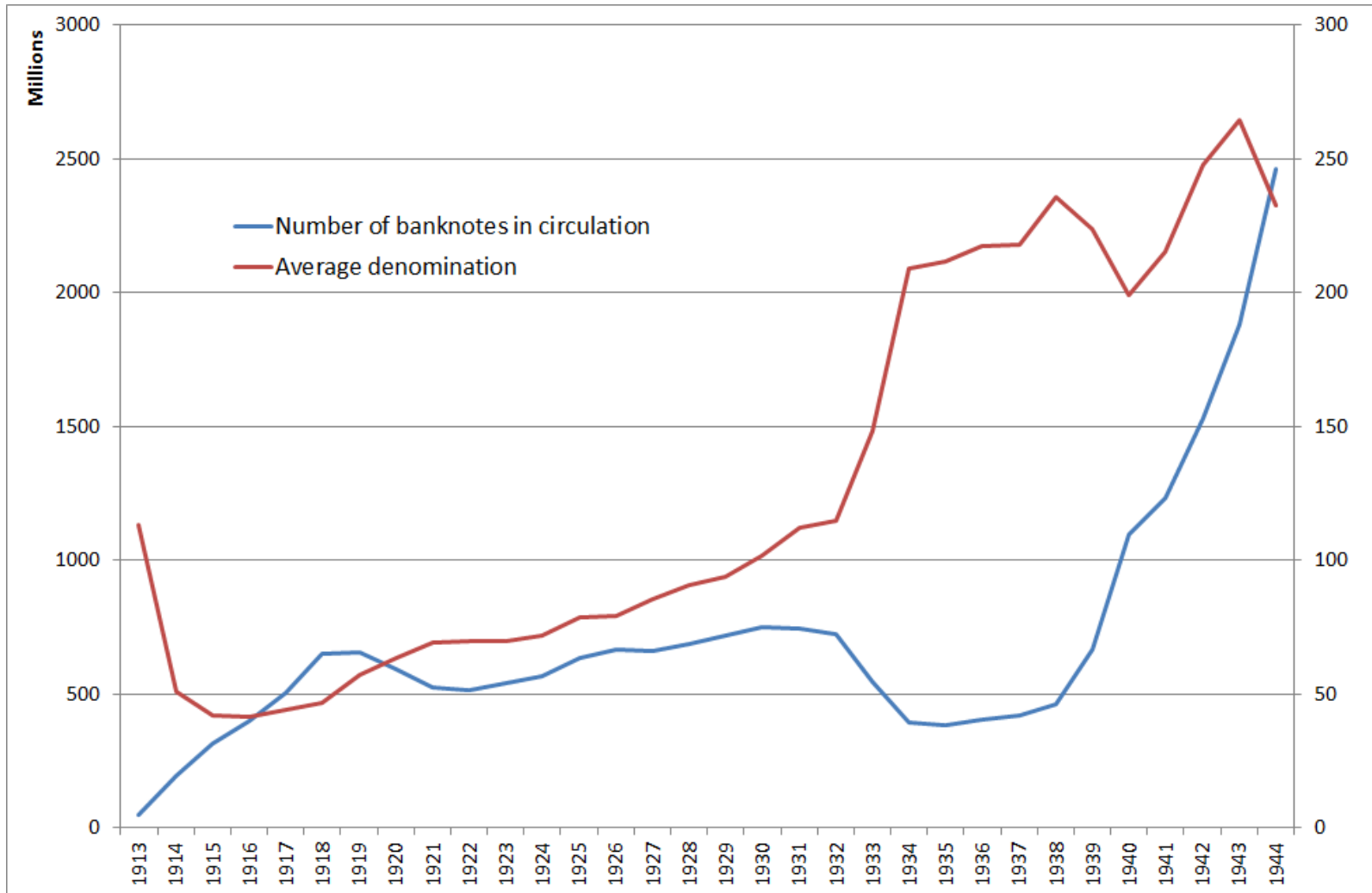
# 6. THE MONEY SUPPLY EVIDENCE

## Prices and money supply, 1938-1949



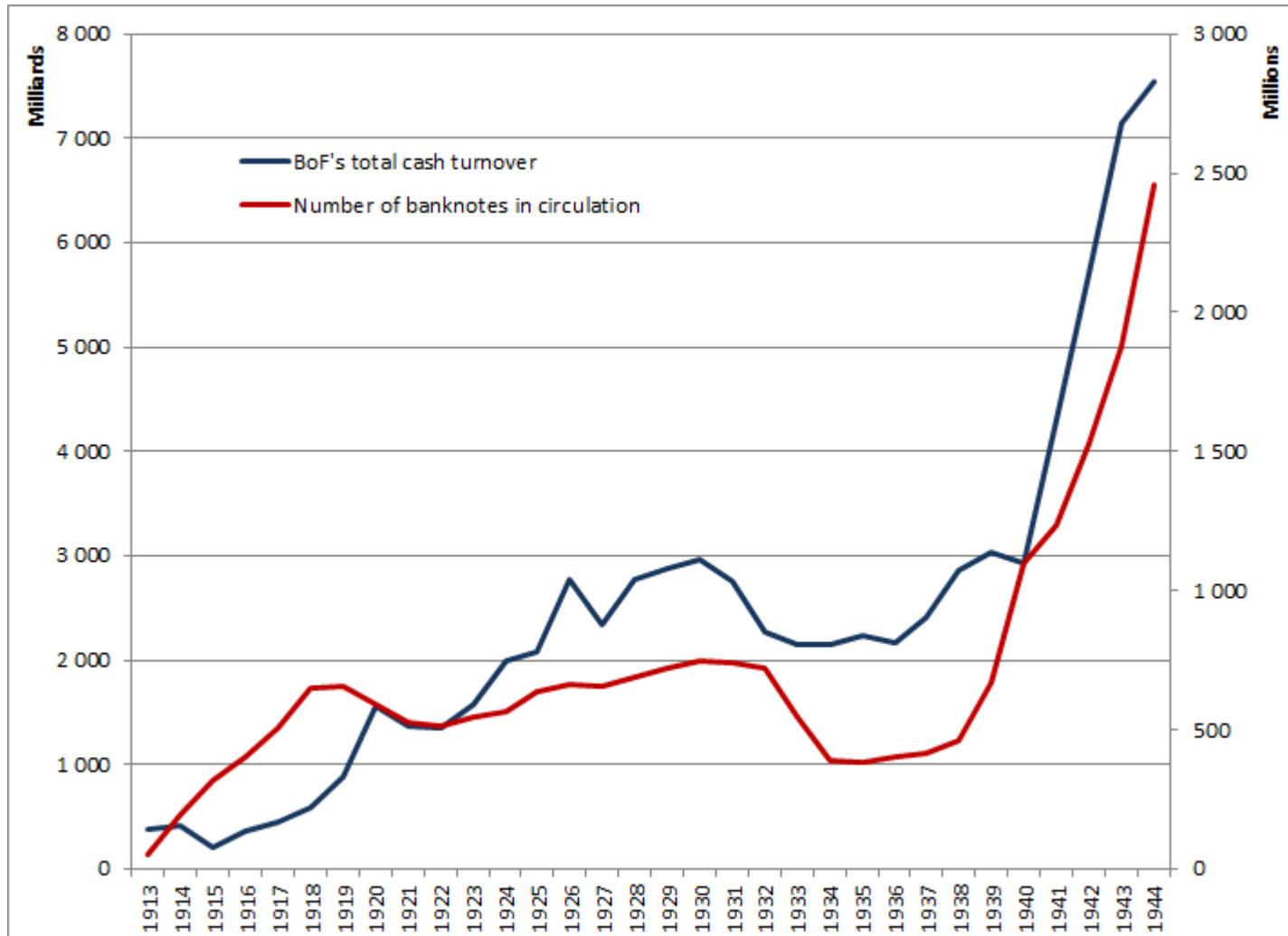
# 6. THE MONEY SUPPLY EVIDENCE

## The banknotes policy, 1913-1944



# 6. THE MONEY SUPPLY EVIDENCE

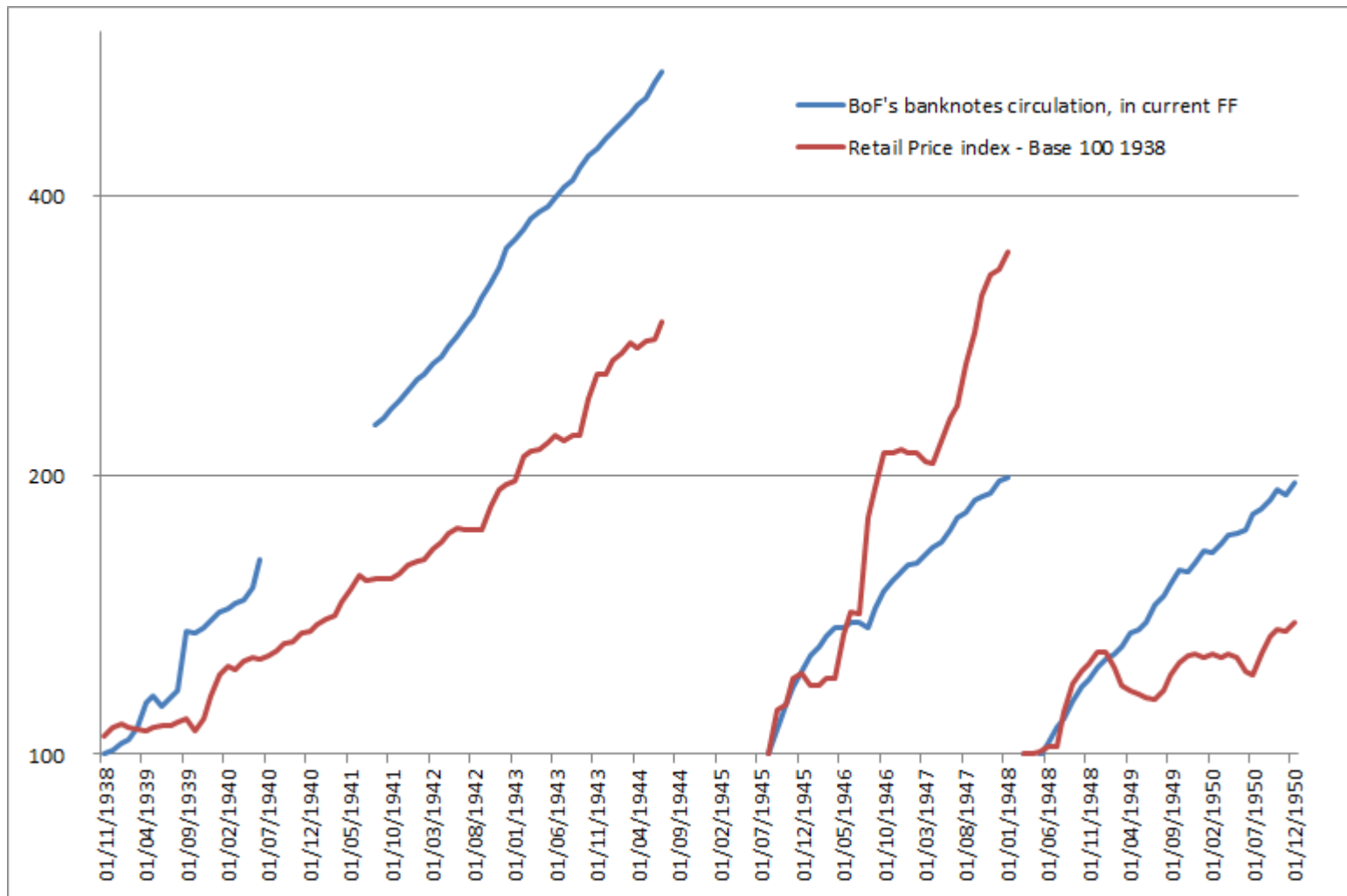
The banknotes policy, 1913-1944 ( $r^2=0,82$ )



# 6. THE MONEY SUPPLY EVIDENCE

## Monthly banknotes circulation and retail price index

Base 100 = 1938, 1945, 1948, adjusted for withdrawal operations (August 1945; January 1948)





# 7. CONCLUSIONS

**Our still provisional conclusions are the following:**

- **The circuit policy had a much weaker impact than often stated**
  - and the quantity theory still holds at a sufficient long period
  - The key, but often overlooked, hypothesis of the time of a difference between banknotes and current accounts is dubious
- **The available statistical evidence is more robust than often stated and points towards**
  - Understated inflation during the war
  - Overstated inflation after the war
- **But there was indeed a strong shock in 1945-1947**
  - Which calls for a 3-period analysis (instead of 2)
  - That links
    - Distrust towards banknotes (rumors regarding banknotes)
    - A strong discrepancy between prices, wages and productivity