Finance and welfare: the impact of two world wars on domestic policy in France.

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FINANCE AND WELFARE: THE IMPACT OF TWO WORLD WARS ON DOMESTIC POLICY IN FRANCE

Fathers, families, and the state in France, 1914–1945. By Kristen Stromberg Childers. Ithaca and London: Cornell University Press, 2003. Pp. 261. ISBN 0-8014-4122-6. £23.95.

Origins of the French welfare state: the struggle for social reform in France, 1914–1947. By Paul V. Dutton. Cambridge: Cambridge University Press, 2002. Pp. 251. ISBN 0-521-81334-4. £49.99.

Britain, France, and the financing of the First World War. By Martin Horn. Montreal and Kingston: McGill – Queen's University Press, 2002. Pp. 249. ISBN 0-7735-2293-x. £65.00.

The gold standard illusion: France, the Bank of France and the International Gold Standard, 1914–1939. By Kenneth Mouré. Oxford: Oxford University Press, 2002. Pp. 297. ISBN 0-19-924904-0. £40.00.

Workers' participation in post-Liberation France. By Adam Steinhouse. Lanham: Lexington Books, 2001. Pp. 245. ISBN 0-7391-0282-6. $70.00 (hb). ISBN 0-7391-0283-4. $24.95 (pbk).

In the traditional historiography of twentieth-century France the period after the Second World War is usually contrasted favourably with that after 1918. After 1945, new men with new ideas, born out of the shock of defeat in 1940 and resistance to Nazi occupation, laid the basis for an economic and social democracy.[1] The welfare state was created, women were given full voting rights, and French security, in both economic and territorial respects, was partially guaranteed by integrating West Germany into a new supranational institutional structure in Western Europe. 1945 was to mark the beginning of the '30 glorious years' of peace and prosperity enjoyed by an expanding population in France.[2] In sharp contrast, the years after 1918 are characterized as a period dominated by France's failed attempts to restore its status as a great power. Policies based on making the German taxpayer finance France's restoration are blamed for contributing to the great depression after 1929 and the rise of Hitler. However, as more research is carried out into the social and economic reconstruction of France after both world wars, it is becoming clear that the basis of what was to become the welfare state after 1945 was laid in the aftermath of the First World War. On the other hand, new reforms adopted in 1945 which did not build on interwar policies, such as those designed to give workers a voice in decision-making at the workplace, proved to be short-lived. The aim of restoring France as a great power, which was every bit as central to governments after 1945 as after 1918, did not depend on granting workers' rights at the workplace.

France emerged from the First World War victorious, but impoverished in both human and financial terms. The high level of domestic and foreign debts largely incurred to

[1] Andrew Shennan, *Rethinking France: plans for renewal, 1940–1946* (Oxford, 1989).
[2] Jean Fourastié, *Les trente glorieuses: ou la Révolution invisible de 1946 à 1975* (Paris, 1979).

pay for the war seriously weakened France's international influence after 1918.[3] While considerable scholarly attention has been devoted to analysing French diplomatic efforts to reassert that influence, much less is known about how France's financial and demographic condition affected domestic policy. All but one of the books reviewed below consider the impact of the First World War on French domestic policy. In many respects, it was the way in which the First World War had been financed which was to shape French policy in the 1920s and beyond. Since France already had the largest debt of all the industrialized countries on the eve of the First World War, partly due to the war indemnities imposed by Germany after the Franco-Prussian war, as well as having the greatest tax burden to service that debt, war-time governments were reluctant to increase taxes still further to pay for the First World War.[4] Thus, although a new system of income tax had been approved by the French parliament in the spring of 1914, its introduction was postponed until 1917, when the opposition of the Senate was finally overcome. As a result, as Martin Horn shows, the size of France's domestic debt soared during the war years; indeed, only 15 per cent of war-time expenditure was covered by government receipts (p. 83). Foreign indebtedness also spiralled. At the time of the armistice France owed 1,970 million dollars to the United States and 1,682.8 million dollars to Great Britain.[5]

While the history of Franco-American financial relations in this period has stimulated considerable scholarly interest, this is less true for Franco-British financial relations. Martin Horn's *Britain, France, and the financing of the First World War* sets out to redress the balance. By charting the efforts made by the British and French governments to co-operate in financing the joint war effort, he reveals the deeply rooted suspicions which such efforts did little to overcome. The greatest source of irritation for the British was the French reluctance to use their sizeable reserves of gold, which increased over the war years by over £50 million, to finance war-time expenditure.

In the early stages of the war, the French had taken the decision to suspend the gold standard on the condition, as stipulated by the Bank of France, that the franc would be restored to convertibility at the end of hostilities at its pre-war value. However, with its industrial heartland occupied by German troops, France's import needs rose considerably from 1914 onwards, while its capacity to pay for those imports with the proceeds from exports was greatly curtailed. In the first year of the war, France's trade deficit with Britain rose more than six-fold. By 1916, it was forced to conclude the Calais Agreement with Britain, which stipulated that the Bank of France had to ship gold to London in return for a six-month subsidy from Britain. Even had France used its entire reserves of gold to finance trade in 1916, this would not have been sufficient to cover the trade deficit with the United States alone in that year. In 1916, its trade deficit with the United States was thirteen times that of 1914. France needed to borrow money, but in trying to do so from the United States it faced the problems of a low credit rating and the fact that it was in competition with Britain for dollar loans.

Horn meticulously documents the attempts made by both governments to secure credits from American banks in the first two years of the war, the fears of the British that the Federal Reserve Bank of New York had ambitions to replace the City of London as the

[3] Denise Artaud, 'Reparation and war debts: the restoration of French financial power, 1919–1929', in Robert Boyce, ed., *French foreign and defence policy, 1918–1940: the decline and fall of a great power* (London, 1998) p. 90.

[4] Ibid.

[5] Harold G. Moulton and Leo Pasvolsky, *War debts and world prosperity* (Washington DC, 1952), p. 426.

world's financial centre after the war, and the difficulties faced in trying to co-ordinate purchasing in the United States. He argues that the failure to create a coherent inter-Allied purchasing structure stemmed partly from justifiable French fears that the banking house of J. P. Morgan & Co., preferred by the British government as the intermediary between the Allies and Washington, identified with Britain rather than with France (p. 75). This was related to the fear that Britain would control all Allied purchases and loans from neutral countries for which France and Russia would provide the gold (p. 119). However, once the United States joined the Allied war effort, the concern that the war might be lost through lack of foreign exchange disappeared.

At no point was there a fear that the French government would fail to raise the domestic finance necessary for the war effort. Given French citizens' willingness to subscribe to war loans, Horn argues that while the government might have made a greater effort to raise more money through taxation, this was a minor issue in comparison with the problem of negotiating the foreign credits necessary to finance imports. It was the Allies' success in implementing unprecedented forms of financial co-operation which, he claims, contributed to their success in winning the war.

In agreeing to the suspension of the gold standard, the Bank of France had stipulated that the convertibility of the franc should be restored as soon as possible after the war with the franc at its pre-war value. This view was shared by most politicians, the Ministry of Finance, journalists, and the financial community. Yet as Kenneth Mouré demonstrates in his rigorous analysis, *The gold standard illusion*, there was no such consensus after the war about how this was to be achieved. Drawing on the analysis of Barry Eichengreen,[6] he stresses the political constraints on monetary policy. With the emergence of political parties representing working-class constituencies, the Bank of France lost its immunity from politics. Protection of the balance of payments was no longer acknowledged as the primary objective of policy. Caught between the demands of the Bank of France for deflationary policies, and political demands for increased public expenditure, successive governments refused to vote the tax increases necessary to cover expenditure and bring inflation under control. As a result, confidence in their ability to manage the country's finances evaporated, and with it the value of the franc.

Thus while the level of domestic indebtedness may not have been a problem for French governments during the First World War, as Horn argues, it proved to be a major constraint on policy after the war. The reluctance of governments first to tax middle-class incomes and then, after 1917, to increase the rates of income tax to finance the war and reconstruction in the belief that it was German taxpayers who should foot the bill, unleashed inflationary pressure which was not brought under control until 1926.

In that year, with prices rising at an annualized rate of 350 per cent, Raymond Poincaré was brought back to power as leader of a *Union nationale* coalition. In a chapter devoted to Poincaré's stabilization of the franc in the period 1926–8, Mouré explains how Poincaré managed to arrest inflation and restore the convertibility of the franc. Contemporaries had stressed political factors as the explanation for Poincaré's success; in particular, the confidence which his leadership inspired which reversed the flight of capital. Mouré considers this explanation alongside those based either on the adoption of a more regressive tax policy in which indirect taxes were increased and direct taxes reduced,

[6] Barry Eichengreen, *Golden fetters: the gold standard and the great depression, 1919–1939* (Oxford, 1995).

or on the increase in interest rates and the creation of a fund – the *Caisse autonome d'amortissement* – to control the floating debt. By consulting a range of archives, including those of the Bank of France and the Ministry of Finance, he establishes that Poincaré himself was opposed to the recommendations of a committee of experts set up in 1925 to advise the government on the measures necessary to restore gold convertibility and to balance the budget. Whereas the experts had advocated ratifying a war debt agreement with the United States in order to negotiate further dollar credits – a measure which had the support of Emile Moreau, governor of the Bank of France – Poincaré preferred to stabilize the franc more gradually without the help of foreign loans.

However, as Mouré shows, it was the strong demand for francs after 1926 that enabled the Bank of France to accumulate a sufficiently large reserve of foreign exchange to ease Moreau's concern that without a dollar loan, stabilization would be impossible. But Moreau did win the argument over the timing of the stabilization. Whereas Poincaré would have preferred to delay the *de jure* stabilization until the franc had recovered more of its pre-war value, pressure from Moreau compelled him to take the final step in June 1928, when the franc was only one fifth of its pre-war value. Ultimately both men knew that confidence in the franc depended not only on them working together, but also on their being seen to be working together.

Once restored, it was the belief that the gold standard would contain further inflationary pressures which then led subsequent French governments to pursue monetary policies which starved other countries of the liquidity needed to reverse the depression after 1929. This belief, Mouré argues, was based on a false understanding of how the gold standard had worked in the period before the First World War. But to be guilty of misunderstanding the rules of the previous game was not the same as being responsible for causing the great depression – an accusation sometimes levied,[7] wrongly in his view, against France. Indeed, because the restored gold standard was not a symmetrical system it was not as incumbent on France as a country in surplus to act as it was on countries in deficit, he argues. Furthermore, Mouré claims that France probably adhered more closely to the rules of the restored gold standard than did those countries such as Britain which, with balance of payments deficits, chose to leave the system.

The way in which the First World War was financed had implications for welfare reform as well, as Paul Dutton shows in his thorough and illuminating study *Origins of the French welfare state: the struggle for social reform in France, 1914–1947*. The political choice made by governments to borrow, rather than to increase taxes, to pay for the war necessitated tough wage restrictions to contain the resulting inflationary pressure. The industrial discontent which such measures provoked led to a wave of strikes (314 in 1916, 696 in 1917) and the belated introduction of income taxes in 1917. In those sectors of industry vital to the war effort such as munitions it also led to workers being offered a wage which took account of their family responsibilities. Known as the *salaire vital* (an idea borrowed from the revolutionary war of 1793), the wage was divided into four parts. The first two parts, the base wage and merit pay, bore some relation to the worker's productivity. However the third and fourth parts, a cost-of-living stipend and a family allowance, were based not on individual productivity, but on the worker's social circumstances. Thus, those with several children would get a higher wage than those with fewer or no family responsibilities even when their productive activity was identical.

[7] H. Clark Johnson, *Gold, France and the great depression, 1919–1932* (New Haven, 1997).

The rationale for the *salaire vital* was to quell labour dissatisfaction with the rising cost of living at the least cost to the employer and the state. Its introduction marked a clear breach of the principle of equal pay for equal work. The government also forced through other family welfare measures in those industries in which it had monopsonistic powers. These measures included a requirement that employers provide housing, cafeterias, shops, and nurseries for the use of their workers. This breach of the principle of equal pay for equal work was acceptable in so far as it built on French concerns with the country's poor demographic performance. Until France's defeat by Prussia in 1870 the slow growth of the French population in the nineteenth century had been viewed positively as a way of improving per capita incomes. After 1870, it was held partly responsible for the military defeat. Seizing their opportunity, social Catholics and Radicals on the right of the political spectrum initiated a pro-natalist movement to encourage women to have children and penalize those who did not. They promoted family values based on a wholly domestic role for women, and opposed any expansion of their civil and political rights. When income tax was introduced in 1917 it discriminated against single people and couples without children. The family allowance component of the *salaire vital* was paid to the head of the household (*chef de famille*). This was almost always a man. Even when the man was mobilized his wife could not attain the status of *chef de famille*, although she was eligible for family allowances. On the other hand, a woman whose husband worked in a sector where family allowances were not available, did not receive anything.

The irony was that once the war-time emergency was over and more competitive conditions returned, these war-time measures discriminated against those firms which employed men with family responsibilities, thereby threatening to exacerbate the demographic consequences of losing one and a half million men in the First World War. The solution adopted was to set up a regional clearing house – *caisse de compensation* (an idea spearheaded by Emile Romanet, a manager of the Regis-Joya metalworks in Grenoble) in which all employers in an area could collectively share the costs of dependent children. The threat of state intervention was often a strong enough stick to force firms to participate in the regional *caisses*. In 1932, when the government legislated to ensure that all employers would pay family allowances, employers still insisted that they, rather than the state, would remain in control of its administration.

The way in which family allowances were handled served as a model for social insurance as well. As Dutton explains, after the First World War, with the recovery of Alsace-Lorraine, French legislators considered the adoption of German-style compulsory social insurance throughout France. This was considered partly as a way of honouring the promises made to troops, during a long and increasingly unpopular war, partly as a way of reintegrating Alsace-Lorraine into France, and partly as a way of pacifying an increasingly militant trade union movement. But whereas family allowances had been instigated by the state during the war only to become a private movement in the 1920s, this was not true of social insurance. Indeed, throughout the 1920s employers and workers struggled for control over the country's social welfare system. Both faced internal divisions. The employers were split between those in Alsace and Lorraine who wanted to retain the German system of compulsory social insurance, and those in the rest of France who wanted a voluntary scheme run by themselves. In opposing the social insurance bills under consideration in the 1920s, they offered to include social insurance along with family allowances in their *caisses de compensation*.

The trade unions were also split on the issue. Both the *Confédération générale du travail* (CGT) (socialist) and the *Confédération générale du travail unifiée* (communist) wanted family allowances to be taken out of employers' control and incorporated into a mandatory social insurance system controlled by the state. However, a minority of their rank-and-file members who had large families wanted to retain the existing system. The *Confédération française du travail chrétienne* (Catholic) broadly supported the existing system of family allowances but believed that all employers should be forced to join the *caisses*.

By 1928 when the franc was stabilized *de jure* at one fifth of its pre-war value, the government had a budget surplus which was larger in relation to gross national product than at any time since 1870. This put it in a much stronger position to pass a social insurance law which covered the risks of illness, disability, maternity, old age, and short-term unemployment. In 1932 it required all employers to join a *caisse de compensation*. However, as Dutton explains, in the depressed economic conditions of 1930s France, many artisanal and small commercial employers enrolled in *caisses* where the child dependency ratio was exceptionally low, in order to reduce their contributions. In 1938, the state proposed setting up a national compensation fund to equalize employer contributions across *caisses* in France. This was taken up by Vichy. Pressure came both from the *caisses* and from departments such as Brittany, which had higher than average birthrates, for compensation from those departments with lower than average birthrates. Leaders of low-cost professional *caisses*, such as textiles, opposed any sort of national compensation.

Dutton argues that Vichy leaders were much too close to the *Grand patronat* to impose a solution. A proposal, drafted by Pierre Laroque, an official working for the minister of labour, René Belin (a former CGT official) in summer 1940 advocated the abolition of all 800 social insurance *caisses* and their replacement by regional *caisses*, and the creation of a single state institution under whose guidance a corporate organization of social welfare could be placed in the future. The proposal, which was not welcomed by many employers, was rejected by Pétain. Dismissed from office, Laroque then joined the Free French in London and began working on another reform of French social welfare. Appointed by de Gaulle as leader of the newly created *Direction générale de la sécurité sociale* in early 1945, Laroque spearheaded the legislation which in October 1945 was to launch France's post-war welfare state.

As part of Laroque's reforms of the system of social security, local family allowance *caisses* and social insurance *caisses* were to be managed by representatives of the beneficiaries, which in practice meant the CGT. The system was to be extended to cover all citizens, through payroll levies and state subsidies, and rates were to be increased. The employer *caisses de compensation* for family allowances were to be integrated into the *Caisse national de sécurité sociale*. While the employers were in no position to oppose the integration of family allowances, pro-natalist and family groups, despite their association with Vichy, managed to tap into continuing fears of depopulation in order to oppose it. De Gaulle himself opposed it. He also maintained the divisions between industrial and rural France by placing responsibility for agricultural family allowances and social insurance in the hands of the minister of agriculture, rather than in the hands of the *Direction générale de la sécurité sociale*. A new national medical insurance system set tariffs with the agreement of doctors' associations for the most common medical procedures, so that a patient could be reimbursed about 80 per cent of costs. Where Laroque's reforms really failed, in Dutton's view, was in creating a unified social security system in which middle-class professionals would contribute alongside working-class employees. In 1948, four separate regimes were set up, based on different socio-professional categories.

Since family allowances and social insurance benefits were initially paid to men in their capacity as *chefs de famille*, the system as it was established initially discriminated against many women. In her book *Fathers, families and the state in France, 1914–1945*, Kristen Childers focuses in this context not on how women were treated by the state, but on how men were treated. Starting with the debates about the role of men in the family and in society initiated during the French Revolution, she traces official attitudes towards men, as 'gendered beings', throughout the nineteenth century and into the twentieth century. The central focus of her book is on the Vichy regime, when the contradictions in official attitudes towards men were most marked.

For much of the nineteenth century, as Childers explains, paternal authority, as enshrined in the Napoleonic Code, was seen as necessary to ensure the stability of the nation. This authority was gradually eroded by the forces of industrialization and urbanization but also, in the aftermath of defeat in the Franco-Prussian War, by concerns about the low birthrate. This latter concern led to the legalization of divorce in 1885 and, in 1896, to the formation of the *Alliance nationale pour l'accroissement de la population*. Propaganda for introducing an eight-hour working day focused from the 1880s onwards on the advantages to the family of giving fathers extra time to be involved in the education of their children. Houses and gardens were to be redesigned to provide space for the father to read and to grow food for the family, thereby enhancing his sense of worth.

As the issue of paternity rose to prominence at the end of the nineteenth century, pro-natalists were quick to condemn men, even more than women, for the selfish behaviour which they claimed was leading to the depopulation of France. Yet in outlawing contraception after the First World War, conservative politicians in the *Bloc national* which dominated parliament were careful to outlaw female but not male forms. Whilst the French Senate voted on three occasions, in 1919, 1925, and 1932, against granting even partial voting rights to women, there were a number of deputies who were in favour of giving fathers extra votes. Indeed, the idea that fathers should be given additional votes to represent their wives and children was a recurrent demand of many pro-natalist groups from the 1920s through to the French Resistance.

Instead of getting extra votes, men were given financial incentives to become fathers. Childers analyses the background to the package of laws known as the *Code de famille* passed by the government of Edouard Daladier (not a father himself) on 29 July 1939. These included a bonus of twice the average departmental salary for a first child born to a couple within two years of marriage. The *Code* made demography a compulsory part of the national curriculum in schools and enforced stricter penalties for abortion and pornography.

This was a prelude to the pro-family propaganda launched by the traditionalists in the Vichy regime. Here Childers assembles a rich array of images of fatherhood drawn from exhibitions, magazines, and conferences of the period 1940 to 1944, which, taken together, present a confused picture of how fathers were to appear and act in a regenerated France. She makes much of the contrast between images of the strong virile heroic male held up as the new man of the National Revolution, and the reality of defeated soldiers returning home or being sent to work in Germany as forced labour. In setting up the *Ecole nationale des cadres d'Uriage*, the Vichy state hoped to create a new breed of French elite which would act as a catalyst for changing French society. But even this educational initiative was unable to overcome the apparent contradictions between being a good father and giving everything to the country.

While governments of the Fourth Republic shared Vichy's pro-natalist policies, Childers claims that the emphasis of policy shifted after 1945 away from defining a role for fathers, to focus on promoting the welfare of mothers and children within the family. This new emphasis was part of a package of reforms which included giving women the right to vote, creating the welfare state, and defining a more interventionist role for the state in the economy, under a national plan. Some of the reforms sprang directly from debates within the resistance movement which became enshrined in the Charter of the *Conseil national de la résistance*.[8] Although France had emerged from the Second World War with its gold and foreign exchange reserves intact (unlike the situation in 1918) the first plan, known as the Monnet Plan, was predicated on securing a dollar loan from the United States to restore France as a great power.[9] As a result the Resistance Council's demands for the institution of an economic and social democracy in France were not central to the form of economic planning set up in 1946. They were central, however, to the new forms of worker participation in decision-making analysed by Adam Steinhouse.

The introduction of this reform in 1945 owed much, he claims, to the special circumstances of post-liberation France. Employers who had been deeply opposed to any form of worker participation in decision-making were now, as a result of their collaboration with the German occupiers during the war, largely discredited and silenced. On the other hand, the main trade union, the communist-led *Confédération générale du travail*, emerged strengthened and reinforced from its participation in the Resistance. Now seen by the state as having an essential role to play in restoring and expanding production, it followed the communist party line in eschewing its pre-war revolutionary stance, and abandoned its traditional opposition to any form of participation in state structures or co-operation with management.

Taking advantage of the window of opportunity which the change in political power and attitudes offered, the government gave new rights to workers to participate in the decision-making of firms by setting up *comités d'entreprise* in firms with a labour force of 100 or more. Although the scope of the legislation was extended in 1946 to cover firms with a workforce of fifty or more, by 1948 the reforms had become inoperable. Among the reasons identified by Steinhouse for their failure were the refusal of employers, despite their Vichy record, to accept worker participation; internal divisions and a lack of commitment to the reforms within the CGT; and the preference of a centralized state for a form of economic planning which did not extend to the level of the firm.

Ultimately though, it was, he claims, the weakness of the CGT, which represented the interests of the skilled male component of the labour force often at the expense of its female and immigrant members, which was responsible for the marginalization of French workers from decision-making in firms. This, he asserts, was a more powerful factor than the political and financial pressure exerted by the United States through the agencies of the Marshall Plan, which led to the division of the CGT and the formation of the non-communist *Force ouvrière* at the end of 1947.

[8] Shennan, *Rethinking France*.

[9] Frances M. B. Lynch, *France and the international economy: from Vichy to the Treaty of Rome* (London, 1997).

This was to mark a turning-point in French labour history and industrial relations, since from 1948 onwards French labour was to be excluded from decision-making at both national and enterprise level. This was in clear contrast to the strength of trade union representation in the corporatist solutions adopted elsewhere in continental Europe. Among the many reforms introduced after the Second World War, Steinhouse has chosen to analyse one which failed. What emerges from the other books reviewed here is that the more successful policies in the fields of welfare reform and demography owed more to the legacy of the First World War and the interwar experience than to the impact of the Second World War on France.

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