Attempts at a Franco-German economic Rapprochement during the Second Half of the 1930s

Frédéric Clavert

Hitler’s seizure of power in 1933 was not welcomed in France, but Paris believed that it had the means to contain Nazi Germany. The Third Republic was counting on the diplomatic policy developed since 1919. It was based on an “alliance de revers” with Poland and the Little Entente (Czechoslovakia, Yugoslavia, and Rumania). Two great conferences, the economic and financial conference in London and the disarmament conference in Geneva, collapsed in 1933, which was to Berlin’s advantage. It led France to build the Gold Bloc, which soon proved a failure, and encouraged Germany to withdraw from the League of Nations. Furthermore, the French position in Eastern Europe worsened when Poland signed an agreement with Germany in January of 1934. The “alliance de revers” was dying. Paris and Berlin nonetheless tried to come to an agreement on disarmament, but Louis Barthou, the French foreign minister, explained in April 1934 that France would decide alone what was in its national interests. The disarmament talks were over.

On an economic level, France wanted Germany to refund the Dawes and Young loans. Hjalmar Schacht, president of the Reichsbank, halted all financial and commercial transfers in foreign currencies. As a result, France and Germany concluded a clearing agreement in July 1934. Paris accepted to buy more German goods, and Berlin would pay
its debts in francs instead of blocked marks. However, this treaty malfunctioned in the weeks following its signing.¹

On a diplomatic level, Paris, London, and Rome then tried to establish a front against Germany. The Stresa Conference in April of 1935 had no positive consequences for the French position toward Germany: Great Britain signed an agreement with the Third Reich which allowed the latter to rebuild its navy (18 June 1935). Moreover, the deplorable Franco-British management of the Ethiopian crisis at the end of 1935 and the remilitarization of the Rhineland in March 1936 definitely ended the Third Republic’s supremacy on the European continent. France’s attempt to contain Nazi Germany had failed.

This altered the balance of power between the two countries in favor of Germany. It highlighted the need for better commercial and political relations if there was a chance of avoiding war. France and some Nazi dignitaries looked for an agreement which could link politics and economics. The failure of this attempt was followed by the last efforts toward rapprochement: Munich and the Franco-German declaration of December 1938.

1936: A Modification of the European Atmosphere

The democracies tried to learn from the diplomatic shift in favor of Germany after the remilitarization of the Rhineland. In France and Germany, evolution at the head of the two nations and the transformation of segments of French public opinion occurred parallel to each other.
**Changes in Europe**

The remilitarization of the Rhineland and the failure of the sanctions imposed by the League of Nations in 1935 created a new balance of power. Although the “Axis” had not yet been formed, Europe in the summer of 1936 seemed more and more divided between democracies on the one hand and fascist dictatorships on the other. This division raised two questions. What kind of economic relations could be established between democratic and fascist states? Could the US play an economic role in Europe again? The involvement of the United States on the European continent was seen as an element favoring France and the UK.

The question of the relationships between democracies and fascist regimes became important with the decision to end economic sanctions against Italy, made during an extraordinary meeting of the Assembly of the League of Nations. On 4 July 1936, Belgian Prime Minister Paul van Zeeland ended his final speech as president of the assembly with these words:

> In a great many countries the revival is evident; but it is almost entirely confined to the home markets…. Such being the case, does not wisdom demand that the next assembly should extend the scope of deliberations, and that, without neglecting in any way that which must be done in the political sphere, it should again make a comprehensive and strenuous effort to set in motion an economic revival.…²
This speech marked the beginning of a two-year period characterized by attempts at rapprochement between democracies and dictatorships in the economic field. The franc’s devaluation in September of 1936 and a private initiative of reconciliation carried out by the French financial attaché in London, Emmanuel Monick, highlighted the fact that France and the UK needed help from the US.

The French economic situation made American support all the more pressing. After two years of an ineffective deflation policy, the center-right majority was in fact waiting for the 1936 elections to devalue the currency. In May of that year, the unexpected victory of the Popular Front, a leftwing coalition bringing together Communists, Socialists, and Radicals led by Socialist Léon Blum, adopted a policy of “reflation,” i.e., neither deflation nor devaluation. Nevertheless, the social reforms of June 1936 threatened the price level and the government had to devalue the franc on 26 September 1936. The currency lost 26 percent of its gold value.

However, Blum was conscious of the need for France to avoid an isolated economic and monetary policy. In fact, he obtained international support for the devaluation of the franc with a tripartite agreement among France, the UK, and the US, announced on 25 September 1936. This imprecise declaration contained the notion of “monetary alignment.” Since the 1933 failed economic conference in London, the Third Republic had desired to convince the UK and the US to carry out joint monetary action. France now seemed to have reached this goal, though the tripartite declaration ultimately had no practical effects. Yet, the prospect of a monetary agreement with the US raised hopes in Western Europe. Within weeks of the signing of the tripartite agreement, Belgium, Switzerland, and the Netherlands
had joined in. This success raised questions for the foreign policy of both France and the UK: What was to be done with Germany? Would the US accept a larger commitment in Europe without any understanding with Germany?

Emmanuel Monick’s initiative to US President Franklin Roosevelt demonstrated that America was not ready to increase its engagement in Europe, unless relations between France and Germany improved. Monick submitted to the American ambassador in Paris, William Bullitt, an informal memorandum called “President Roosevelt and the War Debts,” dated 22 November 1936. On 20 December, Bullitt commented negatively on this memorandum to Roosevelt but insisted on the need for better relations between France and Germany. He also noted that Italy and Germany had no interest in collaborating with France and the UK. Was he drawing conclusions from the recent political change in France and Germany?

National Political Changes

After the Rhineland remilitarization, two events marked the year 1936: the Popular Front’s democratic seizure of power in France and the rise of Hermann Göring in the economic field with the launching of Hitler’s Four-Year Plan, an economic program whose goal was to revitalize the German economy in anticipation of war.

On 3 May 1936, the Popular Front won the French legislative elections. Léon Blum, the new prime minister, made his first declaration about international relations at the end of June. He assigned three priorities to French foreign policy: collective security, peace, and disarmament. In Blum’s eyes, collective security was an implement for peace and ought to
be combined with general disarmament. Blum’s experimentation with peaceful suggestions was less out of sheer idealism rather than a mean to preserve the political status quo in Europe, of which France was a main defender, in light of ever-stronger revisionist, totalitarian regimes and to strengthen it through cooperation with its principal challengers, i.e. Hitler’s Germany and Mussolini’s Italy. This appeared all the more urgent since French diplomacy faced a new political configuration in Europe owing to gradual Italian-German rapprochement. During the summer and autumn of 1936, the Belgian claim of “independence,” the signing of the tripartite agreement, and the franc’s devaluation forced the French government to consider talks with Germany. However, the most important changes that France had to consider were in the economic power structures of the Third Reich during 1936.

In fact, Hjalmar Schacht, the economics minister, and Göring, the head of the Luftwaffe, were struggling against one another to gain control over the economy. Schacht, who had been president of the Reichsbank from 1924 to 1930, met Göring and Hitler in December 1930 and January 1931. This tactical rapprochement served him well: He became president of the Reichsbank again in March of 1933. Schacht’s management of Germany’s external private debts in 1933 and 1934, which led to a “bilateralization” of the German financial and economic foreign relations, enabled him to replace Kurt Schmitt as economics minister, who opposed the financial consequences of German rearmament. In 1935, serving also as “general plenipotentiary for the war economy,” Schacht exerted a dominant influence on the German economy. In the autumn of 1934, he initiated the “New Plan,” a mercantilist economic policy aimed at assuring the arms industry a sufficient
supply of raw materials, which neglected the consumer products sector. Furthermore, the
mismanagement of the farming sector provoked tensions between Schacht and Agriculture
Minister Walter Darré. Hitler then asked Göring to arbitrate between the two ministers
during the winter of 1935/6. From that point on, Schacht progressively lost power to
Göring. During the summer of 1936, Hitler wrote a “memorandum for a Four-Year Plan,”
which implicitly opposed Schacht’s policy. Under Göring’s direction, it officially became
the Four-Year Plan, whose aim was to speed up rearmament through autarchy.

Despite his loss of power, Schacht was still useful to the Third Reich. Indeed, as
central banker, he had strong connections abroad, notably through the Bank of International
Settlements in Basel. The Popular Front’s rise to power caused a reshaping of the Banque
de France. Émile Labeyrie, its new governor, met Schacht in Berlin at the beginning of
August 1936. The two bankers agreed that the latter would go to Paris at the end of the
month. When Schacht arrived in Paris, a segment of French public opinion was ready for
better relations with the Third Republic’s eastern neighbor.

Since 1933, Germany had tried to influence French public opinion. The aim was to
take advantage of pacifist feelings in the French population in order to undermine the
Versailles Treaty system. Berlin had several means to achieve this goal. French newspapers
were experiencing financial difficulties which could be solved by German funds. In 1934,
Otto Abetz founded a French office of the Dienststelle Ribbentrop, a Nazi organization
that functioned parallel to the German Foreign Ministry; this initiative allowed Germany to
exploit different ideological streams in its favor: pacifism, rightwing authoritarianism, as
well as Alsatian and Breton autonomism. One of the most important elements of German
propaganda in France was the foundation of the Deutsch-Französische Gesellschaft or Comité France-Allemagne in October 1935. These actions generated a favorable atmosphere for a rapprochement with Berlin while reassuring French public opinion about Germany’s intentions.

The Impossible Link between Politics and Economics (August 1936 to July 1937)

Though Paris wished to improve relations with Berlin, it would not do so at all costs. Schacht’s visit to Paris was the occasion for Germany and France to measure the potential for a “détente.” Blum clearly wanted a general and political agreement with Germany on peace in Europe before accepting any economic settlement. The conclusion of the tripartite agreement gave France the occasion to integrate bilateral talks into larger discussions that gave birth to the van Zeeland mission (April 1937). The fall of the Blum government in June 1937 and his replacement by the “radical” Camille Chautemps altered French diplomacy: With the conclusion of a new clearing agreement in July, politics was subordinated to economics. The political agreement that France was looking for was still not in sight.

Schacht, Blum, and van Zeeland

Émile Labeyrie, governor of the Banque de France, came to Berlin at the beginning of August 1936. This courtesy visit led to Schacht’s trip to Paris between 26 and 28 August 1936. The discussions that followed this visit between Blum and Schacht on one hand and France and UK on the other led to the van Zeeland mission.
In August of 1936, Schacht met in Paris with Blum and other members of the Cabinet. André François-Poncet actively prepared those discussions and believed that Schacht’s visit could help influence Hitler toward moderation.11

On 28 August 1936, Blum told Schacht that he was ready to discuss a general system guaranteeing peace in Europe thanks to disarmament negotiations.12 Schacht seemed receptive and promised a European system of non-aggression that would indirectly include the USSR. The most delicate part of the discussion was the question of the compensation France could offer Berlin. Schacht asked for concessions that he had supported since the 1920s: the return of Germany’s colonies. Though Blum could not see how such a proposal would ease German economic conditions, he was ready to contact the British government on the subject. The two men considered the possibility of an international conference between Germany, Italy, France, the UK, and the US.

Back in Berlin, Schacht informed Hitler about the discussions in Paris. Even though Hitler did not have any interest in colonies or believe in the future of the Blum government, he authorized Schacht to engage in those talks and insisted on the importance of a German colonial domain at the 1936 Party Rally.13 The loss of the country’s overseas possessions was actually one of the last terms of the Treaty of Versailles not yet abolished.14 The ambiguity of Hitler’s behavior was the most serious obstacle to a Franco-German rapprochement in the period from 1936 to 1938.

The following months showed to what extent the objectives of the August 1936 Blum-Schacht talks were blocked by the ambiguity of German and British actions. Blum contacted Anthony Eden of the British Foreign Office in September 1936. Eden welcomed
Schacht’s propositions but played a “wait-and-see” game and basically refused any colonial concessions.

The Franco-British talks on Schacht’s ideas had reached a deadlock. Neither Paris nor London could leave the German propositions unanswered or take any initiative to make the tripartite agreement more concrete. With the Spanish Civil War in the background, the French and British governments asked Belgian Prime Minister Paul van Zeeland in April 1937 to undertake a private diplomatic mission on the possibility of economic cooperation in Europe. Van Zeeland seemed the right man for the task since he had successfully combated economic problems in his country.

One of the most important actors in van Zeeland’s mission was Schacht. From August 1936 to his dismissal from the Economics Ministry in November 1937, his main goal was to bring Germany back into a “normal” set of international economic arrangements. Part of this involved increasing Germany’s raw material supplies. New colonies or privileged access to resources in the hands of colonial powers could in his view be a solution. His demand was nonetheless ambiguous because raw materials could be used for rearmament. Even so, the president of the Reichsbank tried to use the van Zeeland mission to accelerate a Franco-British answer to his August proposals.

During the mission, Schacht was back in Paris from 25 to 29 May, officially to inaugurate the German Hall at the World Exposition of 1937. He met Blum again and spoke to the members of the Comité France-Allemagne and of the German Chamber of Commerce. Schacht adroitly played off French expectations: *Le Temps* had a false presentiment that he would propose something extraordinary. In fact, his actions reflected
an internal conflict within the Nazi government on economic issues. Schacht faced major opponents such as Göring, Ribbentrop, Darré and Robert Ley (head of the German Labor Front), so the colonial and raw materials questions became a matter of his political survival. Within this context, the van Zeeland mission and negotiations with France to conclude a new clearing agreement were particularly important to him.

Schacht’s trip to Paris was characterized by the all-pervasive raw materials question. A new discussion between Blum and Schacht revealed the gap between the two men: The prime minister wanted a political agreement whose goal was to favor general solutions to European problems, disarmament, and Germany’s return to the League of Nations, whereas the banker wanted to accelerate the conclusion of the Franco-German clearing agreement. For Blum, politics was the highest priority, whereas Schacht’s prime concern was economic in nature. A change at the head of the French government proved opportune for Schacht and his priorities.

*From Blum to Chautemps*

Politically weakened, the Blum government fell on 22 June 1937. The new French government, led by Camille Chautemps, gave Schacht the opportunity to accelerate the signing of a new clearing agreement between Germany and France. Chautemps’ economic priority replaced Blum’s political priority. Was this shift in France’s diplomatic goal successful?

Camille Chautemps’ arrival at the head of the French government started a second phase in the policy of the Popular Front. He was a “radical” and thus presided over a more
center-left government. Soon after he came to power, France and Germany signed the 1937 clearing agreement, replacing the 1934 settlements that France had denounced in 1935. Between 1935 and 1937, Franco-German commerce had functioned on a kind of extra-legal basis.

Chautemps favored a clearing agreement, because he thought that an economic agreement would strengthen the position of the “moderate” German dignitaries, such as Schacht or even Goering who was usually considered a conservative rather than a Nazi extremist. This policy of economic Appeasement aimed at stabilizing Germany and the European Continent through better economic relations.

The Clearing agreement was a victory for Schacht. It could be considered a first step toward a Franco-German rapprochement and a colonial solution to Germany’s economic problems. At that time, van Zeeland was in Washington and the European powers were aware that a global solution capable of heading off a war was dependent on US action in Europe. This implied a settlement of Franco-German disputes. Would the clearing agreement be the first step toward a more general treaty? That was France’s wish and, perhaps, Schacht’s hope.

However, the 1937 Franco-German economic settlement did not work as expected. The agreement concluded on 10 July 1937 was not compatible with the Four-Year Plan, and Chautemps’ goal of obtaining a political agreement through better commercial relations was not achieved. As soon as the end of 1937, commercial relations between the two countries worsened. French financial and monetary problems had not been resolved. As a result, France’s economy was not strong enough and the French market could not offer a
sufficient outlet for German goods so as to improve bilateral commercial relations. The
Third Reich used the July agreement to further its rearmament. In fact, neither better
commercial relations nor a political agreement was possible. Moreover, the most significant
clause of the clearing agreement, the iron and coal settlement, proved unworkable as early
as 1938.18

At the end of 1937, Germany seemed more and more dangerous to the other
European states. French and British heads of government noted the weakening of Schacht’s
position in the Nazi polycratic power structures. For Chautemps, Schacht now had the
“voice of a ghost.”19 France and Germany continued to discuss the possibility of a colonial
solution to the German problem, but Schacht, no longer heading the Economics Ministry,
was now out of the game.

**Approaching the Nightmare**

At the same time that Schacht was losing his influence in the Third Reich,20 London and
Paris were looking for a way to draw Germany away from the path to war through a return
of colonies. The definitive failure of van Zeeland’s mission and rising tensions over
Czechoslovakia pushed the Franco-German rapprochement into the background. The
signing of the Munich Agreement at the end of September 1938 nevertheless paved the way
for an illusory Franco-German declaration. However, the entry of German troops into
Prague destroyed any hope of a bilateral rapprochement considered as a first step to
pacification of Europe.
The Failure of the Colonial Solution

Paris and London tried one last time to dissuade Germany from building an autarkic economy while discussing the possibility of returning its former colonies. In Germany, some ministers were using the colonial question to profit from Schacht’s loss of power. Walter Darré, for instance, argued that colonies would enable Germany to achieve agricultural autonomy. Following these declarations, Mussolini claimed on 5 November 1937 that Germany had a right to receive colonies. Then on 27 November, Schacht’s departure from the Economics Ministry became public. On 19 November, Chautemps, Chamberlain and their foreign ministers had considered the retrocession of colonies to Germany in exchange for German concessions in Central Europe. Such a general agreement with Berlin was not possible judging from German reactions after the publication of van Zeeland’s memorandum (26 January 1938).

The determination to improve Franco-German relations could not be separated from Franco-British cooperation in the form of van Zeeland’s mission. His memorandum suggested a very progressive way to free commercial relations by lowering tariffs and improving the European political atmosphere. German officials reacted in two ways. Hitler indirectly refused any implementation of the ideas during his speech of 28 February 1938. The Reichsbank suggested rejecting van Zeeland’s proposals because they would force Germany to change its trade system with Eastern and Central Europe and thus give up a large part of the Reich’s influence in those regions.

The definitive failure of van Zeeland’s mission was logical considering the changes in Germany. At the beginning of February 1938, the most influential conservative
politicians in Germany were expelled from power and replaced by convinced Nazis. All hope then vanished for a Franco-German rapprochement so as to avoid another war stemming from political, military, and economic disputes in Central and Eastern Europe. The annexation of Austria to the Reich the following month confirmed this fact.

Between February of 1938 and March of 1939, French and British appeasement policy focused on Czechoslovakia.

*Munich and the December 1938 Franco-German Declaration*

After the Anschluss, Franco-German relations improved because Paris agreed during the summer of 1938 to integrate Austrian trade into the 1937 clearing agreement. Nevertheless, this did not bring about any improvement in the system: German exports to France fell. The 1938 Czechoslovakian crisis complicated these trade relations even further. Until the Franco-German declaration of 6 December, political negotiations were prioritized over economics and were essentially led by the British Prime Minister Neville Chamberlain. With the signing of the Munich agreement at the end of September 1938, the two democracies capitulated: the Third Reich could occupy and annex the Sudetenland in accordance with Hitler’s will.

In France, Édouard Daladier, successor to Chautemps as prime minister, and Georges Bonnet, foreign minister since March 1938, signed the Munich Agreement. Back in France, they asked for a joint declaration with Germany, which resembled the one concluded with Britain in Munich. After some insistence, they obtained it on 6 December
1938. This text had a strong political significance: Officially, France and Germany had no conflicts in Europe any longer.

Nonetheless, the most important fact concerning a practical rapprochement between the two powers was the economic negotiations following the declaration. To develop the disappointing trade relations between the two countries, Germany offered to augment its purchases in France and its Empire. It also suggested initiatives to promote contacts between French and German companies and citizens as well as Franco-German cooperation in other countries. These proposals aimed at a kind of “clearing” of the Franco-German trade dispute. Both countries negotiated on this basis. If a monetary problem in the tourist field, one of France’s most vital economic sectors, could not be solved, they could start negotiations on the iron and coal agreement again. On 10 March 1939, trade from the Sudetenland was inserted into the 1937 clearing agreement.

German economic circles believed that these negotiations would improve political relations with France. At the beginning of March 1939, they even reproached the French delegation in Berlin as being too timid. On 15 March 1939, the last step toward Czechoslovakia’s dismemberment put an end to all attempts at Franco-German rapprochement.

Conclusion

When Léon Blum became prime minister of France in June of 1936, European sentiment was in favor of a rapprochement with Germany. This possible “détente” could have been the basis for a general agreement on Europe including the UK and the US. Although
Hjalmar Schacht seemed to agree with Blum’s plans mainly because he wanted a success abroad to counter Hermann Göring’s competition, the Third Reich nevertheless favored an economic rather than a political understanding. The goal was to secure supplies for the German economy, which was straining from the extraordinary pace of rearmament.

Among the numerous initiatives aimed at improving economic relations, Blum’s strategy of “politics first” could not succeed because it contradicted Göring’s Four-Year Plan. Confronted with this failure, Blum’s successor at the head of the French government, Camille Chautemps, tried to reverse this logic by concluding the 1937 Franco-German clearing agreement. This settlement was a first step in encouraging a larger treaty that the mission of Belgian Prime Minister Paul von Zeeland would bring about. The result was very disappointing: The clearing system did not work. Schacht, at that time advocating a Franco-German rapprochement, lost the Economics Ministry. The van Zeeland mission largely failed.

In 1938, the Sudetenland crisis transformed attempts at rapprochement into a policy of appeasement. French appeasers temporarily believed that the Munich agreement and the declaration of December 1938 allowed an economic rapprochement. From December 1938 to March 1939, talks between the two countries sketched out an ambitious scheme to revive trade relations. The dreams of the appeasers fell apart when Germany dismembered Czechoslovakia.

Interpreting these attempts at rapprochement is not easy. On Germany’s side, Schacht’s position in the Third Reich is a noteworthy feature of the conflicts between German offices. To slow Göring’s rise in the economic field, the central banker tried to
obtain a success abroad: An economic agreement with France could have improved the flow of supplies to the German economy. Schacht could not convince Blum to reverse his priorities, but it was not in the interest of France to conclude an economic agreement without a political one. Blum probably wanted to obtain US and British support for his foreign policy objectives. Chautemps seemed more reliable: The new Franco-German clearing agreement was signed, but Schacht’s hope of obtaining significant results and Chautemps’ goal of concluding a political agreement collapsed because of the radicalization of the Third Reich that occurred between the fall of Schacht and the Sudetenland crisis. The meaning of rapprochement changed accordingly. Its aim was no longer a peaceful stabilization of the continent but the appeasement of the German dictatorship, then pre-eminent in Europe. Although the December 1938 Franco-German Declaration gave birth to illusory economic talks, this policy definitively failed in March 1939.

2 *Journal Officiel de la Société des Nations*, Supplément no. 151 (1936), 70.

3 At that time, “radicalism” is a centre-wing political movement, divided into different parties.


6 Ibid., 292.

7 The process of “bilateralization” began under the Brüning government (March 1930-May 1932), when the Reich faced the 1931 banking crisis. Cf. Clavert, “Schacht,” 192 and following.


9 Cf. *Le Figaro*, very favourable to Germany. Ibid.


12 Ibid.

13 Ibid.

14 Ibid.

15 DDF, 2e série, Tome V, no. 442, François-Poncet à Delbos, 21 May 1937.

16 Ibid.

17 Chautemps devaluated again the Franc at the end of June 1936.

Schacht was dismissed in November 1937 from the ministry of economics, but he abandoned de facto his ministerial functions as soon as the beginning of September 1937. Clavert, “Schacht,” 396.

Ibid., 460.

Schacht stayed president of the Reichsbank until January 1939.

DDF, 2e série, Tome VII, no. 287, Conversations franco-britanniques du 29 novembre.

DDF, 2e série, tome VIII, no. 255, François-Poncet à Delbos, 23 February 1938.

Ibid.


Ibid., 264.

Ibid., 269.

Ibid., 271.

Ibid.