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**Abstract:** Jean de Largentaye (1903-1970), French engineer and *Inspecteur des Finances*, translator of Keynes's *General Theory*, French Executive Director of the IMF (1946-1964), was known for his unorthodox views, in particular against the dollar-standard, and in favour of a commodities standard.

**Key words:** *Keynes; money; commodities-currency; international monetary system*

## **Jean de Largentaye, a nonconformist economist<sup>1</sup>**

by Hélène de Largentaye

Jean de Largentaye's contribution to the field of economics can be divided into three stages: he translated John Maynard Keynes's *General Theory* into French; then worked to restrain American hegemony in the international monetary system; and finally, he advocated for a commodities-based monetary system to replace fiat money.

First, Largentaye discovered Keynes's *General Theory*, published in the UK in 1936.

Largentaye was admitted to France's Ecole Polytechnique engineering school in 1921 and took a position with an industrial firm upon graduation. He lost this job as a result of the 1929 Great Depression, and in 1931 was hired as a finance inspector with the French treasury department. In 1936, Largentaye was appointed to the French ministry of finance under finance inspector Jacques Rueff (1896–1978)<sup>2</sup>, who also graduated from Ecole Polytechnique (in 1919, two years before Largentaye).

In April 1937, Largentaye was asked by Vincent Auriol, the French finance minister in the socialist government of Léon Blum, to draft a response to a parliamentary address by Gaston Bergery (a French member of parliament from the left-wing Popular Front party) criticizing the government's economic policy. It was while drafting the response to Bergery's address – titled "*La France souffre d'asphyxie monétaire*" ("France suffers from monetary asphyxia") – that Largentaye read Keynes's *General Theory*. He was "enlightened" by Keynes's original thoughts on the functioning of the market economy and especially on how the monetary system could influence the two big ills of the time: inflation and deflation. Both these phenomena were poorly understood by public opinion and poorly managed by the French government. Keynes – unlike his contemporaries – believed that a country's currency was a crucial instrument of economic policy. Largentaye thought it was important that Keynes's work, which ran counter to economic orthodoxy of the time, be translated into French and offered his services to Keynes, who accepted. Largentaye then spent fifteen months, from March 1938 to June 1939, translating *The General Theory* – a process that included around 40 letters of correspondence with Keynes and his colleague Piero Sraffa.<sup>3</sup>

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<sup>1</sup>This paper refers to the economic biography of Jean de Largentaye (1903-1970) by Hélène de Largentaye, in association with Antoine Jourdan, published by *Classiques Garnier*, 2023, 835 pages.

<sup>2</sup> Jacques Rueff (1896-1978) became *Inspecteur des Finances* in 1923, eight years before Jean de Largentaye. He was also a member of the *Conseil économique et social* (1962-1967) at the same time as Jean de Largentaye (see p.3) .

<sup>3</sup>Largentaye, H. de & al., *Revue de l'histoire de la pensée économique*, 2021-2, No. 12

Two essays written by Largentaye show just how much *The General Theory* transformed the economic thinking of the time. The first was his May 1939 translator's note to the book, appearing just after Keynes's preface to the French version (published in 1942). This note describes the interplay of macroeconomic variables as outlined by Keynes, with effective demand – or the sum of consumption and investment – playing a causal role and other variables like production, income, and savings derived from it. The second was an article published in the January 1944 issue of *Revue d'Alger*, titled “*L'écueil de l'économie monétaire*” (“The pitfalls of a monetary economy”) that underscored just how revolutionary Keynes's *General Theory* was. In this article, Largentaye states that “savings is unemployment,” or in other words, that unemployment is caused by insufficient effective demand and not – as most policymakers and economists believed at the time – by excessively high wages.

The second stage took place during Largentaye's many years at the International Monetary Fund (IMF), where his efforts were focused on restraining the US dollar's hegemony.

A year after the Bretton Woods agreement was signed in July 1944, Largentaye wrote a report on the new international monetary system for René Plevin, the French finance minister. In this report, Largentaye criticised the gold standard on which the system was based, as it introduced a constraint that was often incompatible with policies to stimulate domestic demand. He pointed to the Stabilization Fund (which became the IMF in 1946) and stressed that the US quota, at 28%, was unjustly large and gave the country a *de facto* veto, whereas the French quota, at 4.8%, was too small – much lower than that of the UK (13.4%) and slightly below that of China (5.8%), which wasn't yet the economic powerhouse it is today.

Largentaye accompanied Pierre Mendès France to the March 1946 Savannah Conference that led to the formation of the IMF and the World Bank. Mendès France was the first French executive board member of the IMF, but a few weeks later he stepped down and had Largentaye replace him. Largentaye held this position until 1964, a record term.

In 1954, Largentaye wrote a lengthy memo on the convertibility of the French franc and recommended delaying it as long as possible so that France could retain its capacity to set its own domestic economic policy. His memo was an unequivocal attack on the way two “banker” countries (i.e. the two countries with a reserve currency: the US and the UK) were exploiting the other ones, “non-banker” countries – and France in particular. Largentaye pointed out that as soon as these other countries made their currencies convertible, they would become subservient to the banker countries.

These views isolated Largentaye on the IMF executive board, yet he continued his combat against what he called a form of “American imperialism”. The US dollar – the currency in which long-term US capital outflows were denominated – made up a growing part of European central banks' reserves. The Bretton Woods gold standard had essentially given way to a US dollar standard as the greenback stealthily became the world's currency.

When Largentaye returned to France in 1964, he was appointed to France's Economic and Social Council<sup>4</sup>. There, he argued further against the US dollar standard throughout his five-year term.

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<sup>4</sup>The *Conseil économique et social* is a French body made up of approximately 150 representatives of French employers, trade unions, non-governmental organisations, academics and experts who advise the government on economic and social policy.

He specifically criticised how the Bretton Woods agreement had been circumvented by the two “banker” countries. Even though Article VI of the IMF Articles of Agreement specifies members “may not make use of the Fund’s resources to meet a large or sustained outflow of capital”, the US nevertheless acquired tangible assets like land (including French vineyards) and freely issued the corresponding US dollars without being hindered by requirements to convert those dollars into gold. That was the US dollar’s “exorbitant privilege” that Valéry Giscard d’Estaing, the French finance minister at the time, denounced in comments that were subsequently repeated by French President Charles de Gaulle at a press conference on 4 February 1965.

Largentaye’s term on the Economic and Social Council was marked by heated discussions in 1966 on the international monetary system. His views opposed those of Albin Chalandon<sup>5</sup>, who proposed creating a new form of international fiat currency (which later became the IMF Special Drawing Rights), and, to a lesser extent, those of Jacques Rueff, who was a firm believer in the gold standard. Largentaye put forth a counterproposal on 3 June 1966 that suggested updating the IMF’s governance system so as to increase the voting power of creditor countries, claiming that it doesn’t make sense for a funding organisation to be controlled by its debtors – in this case, the US and the UK.

During this mandate, which was the last of his career, Largentaye fleshed out his theories on the monetary system – the third stage of his intellectual journey. These theories eventually led him to promote the revolutionary concept of a commodities standard.

As early as in 1943, Largentaye had written a memo on this topic to Mendès France (then the Finance Commissioner for the French Committee of National Liberation<sup>6</sup>) as part of preparations for the Bretton Woods Conference. In the memo, he explained the benefits of a commodities standard implemented through an international currency that would be issued and managed by an international bank. This concept was first outlined by Benjamin Graham (1894–1976), who explained his theory in two books: *Storage and Stability* (1937) and *World Commodities and World Currency* (1944). The idea was to create a basket of the kinds of commodities widely used in global trade – such as wheat, oil, and iron – where the weighted value of the basket would be held stable and kept at one<sup>7</sup> by a bank mandated to issue the international currency and intervene in each of the corresponding commodities’ markets. This process would essentially be tantamount to expanding the buy-and-sell mechanisms that were used for gold in the South African market, when the gold standard was in place in the 19<sup>th</sup> and 20<sup>th</sup> centuries, to several commodities in addition to gold.

In 1944, while in Algiers, Largentaye wrote another article for *Revue d’Alger*, titled “*L’émission de la monnaie fiduciaire*” (“The issuance of fiat money”) in which he called attention to the finance sector’s dominant role in the creation of money. In it, he described the failings inherent in any monetary system based on debt issued by private-sector banks (as opposed to a monetary system backed by tangible assets). He concluded that highly interventionist policies were the lesser of two evils. Mendès France drew on Largentaye’s views

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<sup>5</sup> Albin Chalandon (1920-2020), *Inspecteur de Finances* (1945) and banker was also a member of the French Economic and Social Council at the same time as Jean de Largentaye. He was elected member of Parliament and became minister in various governments of the center right.

<sup>6</sup> The *Comité français de liberation nationale* was the Free France government headed by General de Gaulle

<sup>7</sup>For example: 1 commodity-backed unit = x kg of wheat + y bbl of oil + z kg of iron + w kg of wool + v kg of sugar + ... + b g of silver

in the economic plan he proposed in 1945 to President de Gaulle, who instead chose the less interventionist plan put forward by Pleven, thereby causing Mendès France's resignation.

At the inaugural United Nations Conference on Trade and Development (UNCTAD) in 1964, three professors – Nicholas Kaldor, Albert G. Hart, and Jan Tinbergen – presented a report describing an international currency backed by a commodities standard and explaining in detail how it would work. This was a fortunate coincidence for Largentaye, and it at least partially explains why Mendès France – who was also friends with Kaldor – rallied behind the idea of a commodities standard.

Largentaye died on 26 February 1970 when he was just 66. He had written a “second translator's note” only a few months earlier, to accompany a new translation of Keynes's *General Theory* published in a paperback edition by *Payot* in 1969. In this note – his “economic legacy” – Largentaye pointed out the shortcomings of Keynes's theories and argued that, due to the very nature of fiat money, full employment and price stability were mutually exclusive. When employment levels are high, trade unions put pressure on employers to increase their nominal wages, which in turn leads to a broad escalation in prices. This price-wage spiral is an inevitable byproduct of the fiat system currently in place, as it is not backed by concrete assets.

What are the main lessons we can learn from Largentaye's work? Three stand out.

First, the classical theories that regained popularity in the 1980s under the “neoliberal” umbrella are flawed because they are based on inaccurate assumptions. And they can be dangerous since they encourage counter-productive policies, such as policies to incentivise savings in order to fund investment. Second, Keynes's *General Theory*, designed for a fiat-based monetary system, fails to be optimal in situations approaching full employment because prices tend to rise with limited scope for creating jobs. Third, to achieve full employment and price stability in a market economy, the currency has to be backed by a tangible asset, as would be the case under a commodities standard. This kind of currency, adopted internationally – and with the ultimate benefit of being neutral by design – would eliminate the hegemony of any one country's currency – and more specifically, the US dollar.

Largentaye can be considered a nonconformist economist in that he wanted to see theory aligned with practice, sometimes underestimating the power games taking place on a national and international level. A country's currency is an instrument of sovereign power, yet that power has been largely appropriated by the finance industry. It is thus not surprising that Largentaye's ideas haven't been taken further.