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Gold rush: the political economy of the Yugoslavian gold exchange standard

ALEKSANDAR RADAN JEVTIC
University of Oxford

This article analyses the economic, political and cultural factors that influenced the decision of policy-makers in Yugoslavia to join the gold exchange standard in the midst of the Great Depression in June 1931. The analysis proceeds in three stages. First, the economic reasons why policy elites and interest groups endeavoured to adopt the gold exchange standard are examined by looking at debates in Yugoslavia's central bank, correspondence between governmental institutions and the views of policy elites as depicted in various economic newspapers. Subsequently, the article analyses how the beliefs in economic benefits analysed in the previous part were formed, considering the state of economic knowledge in the country, as well as pressures exerted by foreign lenders such as the Bank of England, the Banque de France and the Bank for International Settlements. The third part analyses reasons for legal stabilisation that go beyond economic rationales, considering how the government employed the prestige involved in legal stabilisation for its political agenda, and how cultural attachments to 'gold core countries' made sharing their monetary system a matter of cultural integration.

Keywords: gold standard, gold exchange standard, exchange rate history, Balkan economic history, Great Depression

JEL classification: N14, N20, N24, F55

This article provides a political economy perspective on the decision of policy-makers in the Kingdom of Yugoslavia (henceforth: Yugoslavia) to adopt the gold exchange standard in 1931. Yugoslavian authorities started working on the stabilisation of the dinar soon after the country's formation in 1918. In 1922, capital controls were introduced to build up foreign exchange reserves at the National Bank of the Kingdom of Yugoslavia (NBKY). These required exporters to deposit one-third of export earnings in foreign exchange at the NBKY. By 1925, these controls together

Aleksandar Radan Jevtic, 41–47 George St, Oxford OX1 2BE, UK; email: aleksandarradan.jevtic@sciencespo.fr/radanjevtic@gmail.com. I would like to thank my supervisors Catherine Schenk and Kevin O'Rourke for their extensive support in writing this article. I also thank the editors and reviewers of the *Financial History Review*, whose comments helped me to sharpen the focus of my contribution. Finally, I thank the archivists at the National Bank of Serbia, the Archives of Yugoslavia and the Bank for International Settlements for numerous interesting conversations that led me to uncover the history of the interwar gold exchange standard and helped me to find new paths for my research.

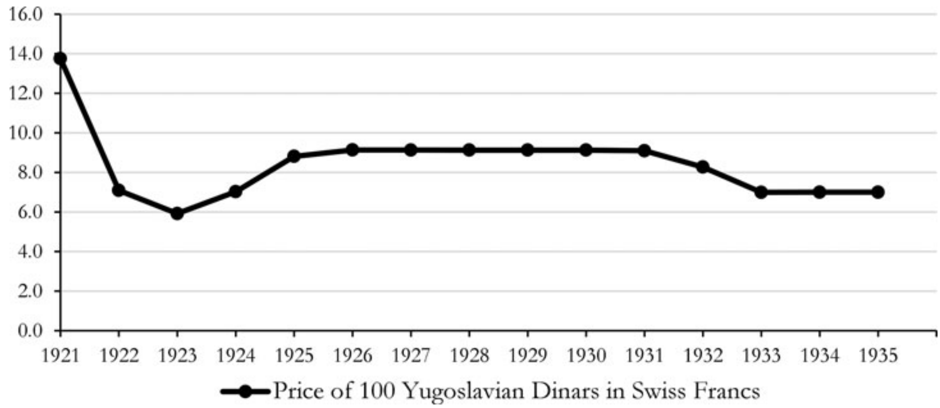

Figure 1. *Dinar price in Swiss francs 1921–35*
Source: Bank of Greece *et al.*

with deflationary policies had generated sufficient foreign exchange reserves to *de facto* stabilise the dinar at an exchange rate of 100 dinars equalling 9.12 Swiss francs through currency market operations (Hinić *et al.* 2014, p. 296). The period of *de facto* stability is illustrated in Figure 1.

However, government authorities aimed to legally stabilise the value of the dinar at this level, i.e. introduce the gold exchange standard. This required taking up an international loan for the acquisition of gold and foreign exchange reserves, and for settling a governmental loan at the NBKY. The 'stabilisation loan' was obtained on 8 May 1931 from a French banking consortium. A law from 11 May 1931 set the value of one dinar to 26.5 milligrams of pure gold and introduced a legal cover ratio according to which gold and foreign currency had to cover the value of at least 35 per cent of all money in circulation (Gnjatović 2007, p. 336). However, the gold exchange standard could only be sustained for 101 days after it was introduced on 28 June 1931. The fall of the Austrian *Kreditanstalt* in May 1931, the Hoover Moratorium cancelling German reparation payments in July 1931 and the British decision to abandon the gold exchange standard in September 1931 led to uncertainties in the Yugoslavian economy. As deposits fled from commercial banks and gold and foreign exchange reserves plummeted in the NBKY, capital controls were reintroduced on 7 October 1931 and the gold exchange standard was effectively abandoned (Nikolić 2003, p. 117). A loan for the purpose of foreign exchange acquisition taken up from the Bank for International Settlements (BIS) in Basel in July 1931 could not prevent this outcome. The chronology of events surrounding the adoption of the Yugoslavian gold exchange standard is summarised in Table 1.

The 'rush' to adopt the gold exchange standard and the fruitless insistence on maintaining it appear as curious policy decisions against the background of the Great Depression, raising the question as to why Yugoslavian authorities insisted on the adoption of this monetary system. Pertinent contributions on the topic of legal

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Table 1. *Events surrounding the adoption and suspension of the gold exchange standard in Yugoslavia*

Date	Event
December 1922	Yugoslavia introduces capital controls and deflationary policies to build up foreign exchange reserves
From mid 1925	Period of *de facto* stability of the dinar through currency market operations
8 May 1931	Loan for *de jure* stabilisation obtained from a French banking consortium
	Publication of losses of the Austrian *Kreditanstalt* triggers capital outflows
20 June 1931	Hoover Moratorium cancels German reparation payments to Yugoslavia
28 June 1931	Yugoslavia introduces *de jure* stability on the basis of the 'Law on Money'
July 1931	Yugoslavia obtains BIS loan to preserve *de jure* stability
21 September 1931	The UK abandons the gold exchange standard and devalues the pound
7 October 1931	Yugoslavia suspends *de jure* stability by introducing capital controls

Sources: see text.

stabilisation identify several rationales that influenced policy-makers in the interwar period. Stressing the role of ideology for gold standard implementation, Eichengreen presents a 'belief, based more on assumption than analysis' as the main factor behind the decision of European powers to resurrect the gold standard after the Genoa Conference of 1922 (Eichengreen 1996, p. 100). Bordo and Rockoff (1996) argue that the decision to maintain a gold standard is explainable through the belief in its economic benefits, such as increased capital inflows. Morys (2021) confirms this view for countries on the South-Eastern European (SEE) periphery, arguing that countries like Greece realised higher capital inflows thanks to the measures accompanying legal stabilisation, which terminated patterns of fiscal dominance. Analysing interwar legal stabilisation on Europe's northern periphery, Straumann (2010) furthermore examines the importance of political motivations for legal stabilisation, such as signalling a country's economic power. This article examines how the aspects analysed by these authors, namely ideology, economic and political rationales, influenced Yugoslavian legal stabilisation in 1931, which has scarcely been covered in pertinent literature on the gold exchange standard so far. In addition to pinning down which of these rationales were relied on by Yugoslavian policy-makers, it exemplifies how the economic and ideological convictions of policy-makers were formed under pressure by international lenders and foreign financial institutions from 'gold core countries'. Particular attention is paid to the influences of the Bank of England, the Banque de France and the Bank for International Settlements (BIS) as Yugoslavian policy-makers cooperated the most with these institutions concerning the issue of legal stabilisation. Furthermore, this article complements current literature by stressing the importance of the wish for cultural integration with 'gold core countries' for shaping the determination of policy-makers to implement the gold exchange standard.

To uncover the political economy behind legal stabilisation in Yugoslavia, this article analyses a variety of primary sources. Governmental documents, correspondence between the Finance Ministry of Yugoslavia and the NBKY, and minutes of NBKY meetings (shareholder meetings and meetings of the General Administrative Council (GAC)) disclose the beliefs and motivations of Yugoslavian policy-makers who worked on the implementation of the gold standard. Articles written in the country's three most prominent economic newspapers, *Bankarstvo*, *Privredni Pregled* and *Narodno Blagostanje*, are also analysed in this respect as numerous policy-makers, representatives of economic interest groups and economists were contributing writers. The most influential economist among them was Velimir Bajkić, whose views are examined in detail throughout this article. Bajkić taught finance and economics at the University of Belgrade. Among his students was Milan Stojadinović, the finance minister who later initiated both *de facto* and *de jure* stabilisation of the dinar. Bajkić often served as a governmental adviser and represented Yugoslavia at the Paris Peace Conference in 1919; he thus had influence on policy decisions. He owned and edited the newspaper *Narodno Blagostanje*, in which he wrote extensively on legal stabilisation and the prevalent economic theory in Yugoslavia (Obradović and Poljak 2015). Correspondence between Yugoslavian authorities and the Bank of England, the Banque de France and the BIS reveals the pressures exerted by these institutions. Finally, popular daily newspapers which were read by the broader public, such as *Vreme*, *Politika* and *Riječ*, provide insight into how the prestige connected to the gold exchange standard was used for political gain by the government, especially since some of these newspapers were directly influenced by governmental institutions, as argued in Section IV. They also shed light on the association of the gold standard with cultural development in Yugoslavia.

The analysis proceeds as follows. Section I reviews which economic and political rationales for legal stabilisation have been recognised in pertinent literature. Section II places the Yugoslavian gold exchange standard in the regional historical context before analysing which economic rationales for its adoption were assumed in the Yugoslavian Ministry of Finance and the NBKY. Section III shows how these rationales were formed under pressure exerted by foreign financial institutions and buttressed by contemporary economic theory. Section IV examines the role of political and cultural motivations for legal stabilisation before Section V concludes.

I

The gold standard was an exchange rate regime in which the values of multiple currencies were fixed at a certain weight of gold, which stabilised exchange rates between nations partaking in the system (Clavin 2000, p. 40). Under the 'gold exchange standard', which was widespread between the world wars and whose adoption in Yugoslavia is the central concern of this article, currency was convertible into gold or foreign exchange as opposed to the pre-World War I 'classical gold standard' where gold was the only official legal tender (Mundell 1992, p. 411). Examining the question why governments endeavoured to adopt the gold exchange standard, one could assume that international monetary structures are built to maximise economic benefits of individual nations. This 'homo oeconomicus assumption' applied to international monetary affairs has found its way into pertinent literature on the gold standard. For instance, Bordo and Rockoff argue that a fixed exchange-rate system like the gold standard was often adopted to increase capital inflows because it was perceived as a 'good housekeeping seal of approval' that created a commitment device for monetary policy by international lenders (Bordo and Rockoff 1996, pp. 391–2). According to the 'impossible trinity of monetary policy', policy-makers can only choose two options between international capital mobility, fixed exchange rates and an independent monetary policy (Mundell 1963, p. 475). Being characterised by fixed exchange rates and capital mobility, the gold standard required monetary policy to be focused on preserving the cover ratio, thereby ruling out the possibility for fiscal dominance. Feinstein *et al.* confirm that capital flowed to European borrowers on a substantial scale if their countries stabilised their currencies in the interwar period (Feinstein *et al.* 1995, pp. 31–2). Morys shows that in the SEE periphery, capital inflows increased in the years of gold exchange standard adherence, mainly because the policies accompanying it broke patterns of fiscal dominance (Morys 2021, p. 118). Several SEE governments recognised this potential of the gold exchange standard in the interwar period. For instance, the Bulgarian and Hungarian governments reportedly sought to adopt the gold standard with the intention to realise capital inflows (Clavin 2000, p. 179). In fact, facilitating foreign borrowing was also an important rationale for joining the gold exchange standard in Yugoslavia, as the analysis of primary sources in Section II shows.

However, influences other than economic rationales, such as political or cultural commitments, were equally important for legal stabilisation. In the words of Kirshner, monetary phenomena are 'always and everywhere political', and the gold standard seems to be a good example of that view (Kirshner 2003, p. 3). According to Schumpeter, the gold standard symbolised an on-a-par position with other members of the gold bloc in terms of monetary matters (Schumpeter 1987, p. 738.). There are several examples of 'prestige-driven' legal stabilisations before and after World War I. Yeager argues that in Austria–Hungary, considerations of prestige were more important than economic rationales for legal stabilisation in 1892, with the influential Austrian economist Carl Menger arguing that joining the gold standard would place Austria–Hungary among the most advanced nations of the world (Yeager 1984, pp. 653–7). Von Laue argues the gold standard had become a matter of respectability for the tsarist government in Russia (Von Laue 1963, p. 139). In the interwar period, Churchill's decision to legally stabilise the pound at an overvalued rate in 1925 was partially driven by the wish to restore Britain's role as the world's financial centre (Moggridge 1969, p. 66). James and O'Rourke argue that Mussolini pegged the Italian lira to gold in 1927 for nationalist reasons (James and O'Rourke 2011, p. 15). Furthermore, interwar governments presented overvalued parity rates in particular as a symbol of national economic strength. Kindleberger ascribes the overvaluation of the lira by 25–30 per cent during its legal stability to Mussolini's pride in the currency (Kindleberger 1987, p. 250). According to Straumann, Denmark and Norway adopted the gold exchange standard in 1927 and 1928 at prewar parity, but the failure to do so earlier was depicted as a national disgrace given that Sweden had stabilised at prewar parity already in 1925 (Straumann 2010, p. 81).

However, while these explanations identify a prestige-driven motivation for legal stabilisation, they do not capture the underlying political motivations to employ 'prestige signalling' as a means for a political objective. Prestige signalling can be used for internal political purposes such as pleasing electorates. Noteworthy in this respect is the election in 1896 of William McKinley as US president, whose main campaign promise was to suspend the convertibility of silver and introduce a gold standard in the United States (*Encyclopaedia Britannica* 2019). Furthermore, prestige signalling can be used for external political purposes in the realm of international relations. Newly founded countries in particular could use the assertion of an equal footing in financial affairs for the purposes of nation building. The example of Japan's Meiji government is striking in this respect. Between 1868 and 1912, the Meiji government worked tirelessly on acquiring all the ingredients of a modern state (Iriye 1989, p. 729). Part of the reason why the Japanese finance minister Masayoshi Matsukata favoured legal stabilisation in the late nineteenth century was that it would increase the standing of Japan internationally, and contribute to the modernisation of Japan's economy (Mitchener *et al.* 2010, p. 8). As Section IV shows, motivations going beyond economic rationales, such as prestige signalling for the purpose of nation building and internal political goals, prove especially important for explaining legal stabilisation in Yugoslavia. Prior to examining these motivations, the following two sections focus on the historical context of the gold exchange standard in Yugoslavia and the economic rationale for its adoption.

II

The accumulation of gold and foreign exchange for building up cover ratios prior to legal stabilisation was often prohibitively expensive for small economies (Eichengreen and Flandreau 1994, p. 5). This partially explains why SEE countries like Greece and Bulgaria only stabilised in 1928, Romania in 1929 and Yugoslavia in 1931 (Morys 2021, p. 108). Several factors explain why Yugoslavia stabilised late even compared to other peripheral economies in the region, although the dinar was already *de facto* stabilised in 1925. One reason was that the government was required to repay a substantial loan to the NBKY to establish central bank independence, which proved politically difficult (Jevtic 2020, p. 26). However, the most important reason was that Yugoslavia's exports consisted primarily of agricultural products. In 1921, 78.87 per cent of the labour force was employed in agriculture, forestry and fishing, which exemplifies the agrarian nature of the economy (Bečić 2003, p 17). Foreign exchange reserves, and hence the cover ratio, depended on the yearly harvest and fluctuated

Figure 2. *Yugoslavian foreign exchange reserves 1920–35 (dinars, millions)*
Source: Bank of Greece *et al.*

substantially, as illustrated in Figure 2. It also illustrates that the cover ratio was particularly unfavourable in the year before legal stabilisation, and that reserves increased thanks to the French stabilisation loan in 1931.

Due to its inability to generate sufficient reserves, Yugoslavia was only able to stabilise with foreign financial support. Procuring this support at foreign international financial institutions took several years, which explains the lateness of Yugoslavia's legal stabilisation. Countries like Austria, Bulgaria, Greece and Hungary benefitted from League of Nations reconstruction loans between 1923 and 1928 (Flores and Decorzant 2016, p. 657). The purpose of the accompanying reconstruction plans was often to put the countries on a trajectory towards currency stabilisation (Flores and Decorzant 2012, p. 12). Furthermore, in some countries they influenced legal stabilisation indirectly. Macher argues that the success of the League of Nations reconstruction programme in Hungary eventuated in a large inflow of foreign loans. In 1929, the Hungarian central bank received a stabilisation loan from the Bank of England, to which the macroeconomic stability created by the League of Nations support had contributed (Macher 2019, p. 650). Yugoslavia lacked such financial support from the League of Nations, and its negotiations for a stabilisation loan with the Bank of England failed in 1928. Meyer argues that countries often did not receive support from international financial institutions because they resented the stringent control over the loan procedures (Meyer 1970, p. 2). This could be an underlying reason for the lack of cooperation between Yugoslavia and the League of Nations. As discussed in Section III, this certainly was the reason why Yugoslavia did not obtain a loan from the Bank of England, as Yugoslavian policymakers opposed the latter's lending conditions. Viewing the late adoption of the Yugoslavian gold exchange standard in the regional historical context illustrates how burdensome it was even compared to other SEE economies. This makes it even more curious why this policy path was chosen. The reasons given by Yugoslavia's policy elites are examined subsequently.

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In July 1931, the economic newspaper *Privredni Pregled* identified the wish to attract foreign capital as the main reason why the dinar was legally stabilised one month prior.[1] Looking at statements by agents involved in legal stabilisation, namely the Finance Ministry, the NBKY, as well as industrial interest groups, confirms this view. Finance minister Milan Stojadinović, who was the main driving force behind Yugoslavia's legal stabilisation, had a clear idea why he was propagating it, as expressed in an article he wrote for the *Chicago Tribune* that was reprinted in *Privredni Pregled* in July 1930.

> The legal stabilisation of the dinar opens new perspectives for the advantageous development of our future economic and financial life . . . The natural resources of Yugoslavia are almost infinite, but for exploiting them capital is needed which is unavailable within the country.[2]

His view that the gold exchange standard would lead to capital inflows which would then lead to economic development was echoed by NBKY representatives, as indicated by an official examination of the costs and benefits of adopting the gold exchange standard from 1929.[3] A contributing factor to the belief of bank officials that it was possible to maintain the gold exchange standard to realise capital inflows was that the effects of the Great Depression were initially less pronounced in Yugoslavia's banking system than in adjacent countries. This was due to the weaker financial links with larger economies where contagious economic events were occurring (Hinić *et al.* 2014, p. 298). However, when the effects of the Great Depression started to affect the Yugoslavian economy substantially in 1931, it became increasingly difficult to sustain the deflationary policies for sustaining the cover ratio, which led to criticisms of the gold exchange standard within the NBKY. During a GAC meeting in May 1931, GAC member Marković criticised the deflationary policies implemented by the NBKY to preserve the cover ratio and demanded that it should be lowered from 35 to 25 per cent to relax the strains on the economy.[4] He was joined by 12 other members of the GAC in criticising the 1 per cent increase of the discount rate that was necessary to prepare for the adoption of the gold exchange standard in June 1931.[5] The response by NBKY governor Ignjat Bajloni and other GAC members to these criticisms remained consistent throughout 1931 and shows a concern for securing capital inflows.

1 'Election of a new leadership in the National Bank', *Privredni Pregled* (12 Jul 1931), National Library of Serbia [henceforth: NLS].
2 M. Stojadinović, 'The legal stabilisation of the dinar', *Privredni Pregled* (Jul 1930), NLS.
3 'Legal stabilisation of the dinar', 1929, National Bank of Serbia Archive [henceforth: NBSA], Belgrade, ANB-1/I-58-1.
4 'Minutes of the 16th GAC meeting', 29 May 1931, NBSA, ANB-1/II-9-1.
5 'Report by the Executive Council for October', 28 Oct 1931, NBSA, ANB-1/II-30-2.

> The Executive Committee has given itself the task to maintain the status quo at any price . . . If we change what has been achieved until now, we could not hope to receive any further international loans.[6]

Powerful interest groups in banking and industry that exerted a substantial influence on Yugoslavia's financial institutions shared the belief in this benefit of the gold exchange standard. *Bankarstvo* captured the views of 21 industrialists, representatives of industrial interests, and banks on the gold exchange standard from across the kingdom, which are across the board positive.[7] One of these was from the president of the Division for Trade and Industry in Zagreb, Vranić, who noted that industrial circles approved of dinar stabilisation. The president of the Chamber of Commerce, Exchange and Industry, Jeličanin, viewed commercial circles as the main proponents of legal stabilisation. While some allowance for political bias should be made in the selection of views to be published by the newspapers, the considerable number of views of prominent representatives of industrial interests and bank representatives on legal stabilisation indicates a positive view on the gold exchange standard in this societal layer. This finding is striking as Keynes portrayed the decision of the UK to adopt the gold exchange standard at an overvalued rate as supported by representatives of the banking industry who wanted to preserve the value of their clients' sterling reserves, while it would have been opposed by British industrialists who feared a competitive disadvantage (Keynes 2010). In Yugoslavia, the hope for advantageous economic development created by the gold exchange standard made both industrialists and bank representatives view it favourably.

However, not only were the views of economic elites on the gold exchange standard positive, but they played a crucial role in its implementation due to their representation at the NBKY. Only NBKY shareholders could to be elected onto the GAC, which made monetary policy decisions and elected the governor. NBKY shares were in large part owned by private persons and businesses (42 per cent) and large-scale industrialists (8 per cent) (Kršev 2007, p. 194). Referring to the bank's ownership structure, a shareholder named Marinković claimed that it consisted of 'representatives of private capital in the service of public interests'.[8] In fact, Vranić and Jeličanin, who represented industrial interests and whose views were cited above, were also GAC members and directly co-responsible for introducing the gold exchange standard, which they considered a major benefit to industry in Yugoslavia. It is noteworthy that 'lower layers' of the Yugoslavian society, such as agricultural workers, whose loans at commercial banks appreciated due to the discount rate increases by the NBKY, fiercely opposed legal stabilisation (Jevtic 2020, pp. 57–62). In that sense, the Yugoslavian gold exchange standard reflects Gallarotti's theory that legal stabilisation mirrored the victory of groups that favour

[6] 'Minutes of the 5th GAC meeting', 5 Sep 1931, NBSA, ANB-1/II-9-1.
[7] 'Monthly chronicles', *Bankarstvo* (Jun 1931), NLS.
[8] 'Minutes of the supplemental shareholder meeting', 14 Jun 1931, NBSA, ANB-1/II-30.2.

stable exchange rates because they are importing machinery from abroad (industrialists) and those who act as creditors within the country (financial interest groups), over the interests of debtors and exporters who prefer depreciated exchange rates (Gallarotti 1995, p. 151).

Altogether, the views of Yugoslavia's policy elites on the benefits of the gold exchange standard were broadly aligned and focused on facilitating capital inflows, as in Bulgaria and Hungary (Clavin 2000, p. 179). Was this a reasonable conviction? Capital imports to Yugoslavia had already tripled in the six years of *de facto* stability of the dinar compared to the five years prior (League of Nations 1944). The average current yield on investments in this period was 860 basis points compared to 1,080 and 1,310 basis points one year before and after the period respectively, which indicates a lower riskiness of investments in Yugoslavia during *de facto* stability (Bank of Greece *et al.* 2014). It appears that the institutional innovations preceding gold exchange standard adoption already resulted in increased capital inflows. It is questionable whether the additional fact of being on the gold exchange standard would have resulted in additional economic benefits that could have outweighed the substantial cost of the stabilisation loan (which was repayable over 40 years at a 7 per cent interest rate) and the costs of the deflationary policies. The following section shows that the stern belief in capital inflows enabled through the gold exchange standard was largely created by the economic and ideological pressures of foreign financial institutions.

III

Before explaining how foreign financial institutions exerted pressure on Yugoslavian policy-makers, it is worth pointing out that the prevalent economic theory in Yugoslavia favoured fixed exchange-rate regimes, which made policy-makers receptive to such pressures. Velimir Bajkić argued that the benefits from currency depreciation in flexible exchange-rate systems could never materialise as prices would increase in response.[9] He criticised Keynes's theory that currency depreciation could temporarily raise foreign demand (Keynes 1925, p. 15). This theoretical conviction that was shared by Bajkić and other Yugoslavian policy-makers at the time formed the basis of their policy-making and made them receptive to the alleged benefits of the gold exchange standard which were portrayed to them by foreign financial institutions.

In the period from 1926 onwards when the legal stabilisation of the dinar was planned, Yugoslavia cooperated mostly with the Bank of England, the Banque de France and the BIS on this issue. The interactions between Yugoslavian policy-makers and these institutions show that the latter not only conditioned loans on legal stabilisation, but also conveyed the ideological view that this would be required

[9] V. Bajkić, 'What England loses by leaving the Gold Standard', *Narodno Blagostanje* (10 Oct 1931), NLS.

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for the modernisation of the Yugoslavian economy. After a consultation at the Bank of England in 1926, the governor Montagu Norman recommended principles for central bank operation in a letter to NBKY director Novaković.

> [O]ur principal concern as central banks of emission has to be stabilisation in the widest sense of the word, and for your country, stabilisation in the first place means a monetary *de jure* stabilisation. If you desire collaboration and advice from the Bank of England for the end of elaborating and managing such a program which, earlier or later, must be adopted, . . . we will be quick to help you in the general interest.[10]

Apparently, Norman called on the NBKY directly to adopt the gold exchange standard. The letter continues with an offer for financial assistance should Yugoslavia embark on a programme of legal currency stabilisation.[11] Novaković had an ambivalent view on this proposition, arguing that by lending exclusively for legal stabilisation, the Bank of England was trying to establish the position of London as the world's principal financial market.[12] The economist Velimir Bajkić wrote about an Anglo-Saxon free capital market ideology which led British and US authorities to categorise countries as first or second class depending on whether they had legally stabilised their currencies.[13] Nevertheless, Yugoslavian policy-makers were willing to initiate a programme of legal currency stabilisation with the help of the Bank of England. However, they rejected the condition that gold reserves should be stored in England, which the Bank of England requested in exchange for a stabilisation loan, as well as the repayment of certain prewar debts.[14] Presumably this is why cooperation on legal stabilisation between the NBKY and the Bank of England ceased. Nevertheless, the Bank of England had played an important part in Yugoslavia's move towards the gold exchange standard by conditioning lending on its adoption, and by conveying that it was something any developed country should strive for.

The cooperation on legal stabilisation was continued with the Banque de France, which proved willing to facilitate the 1.025-billion-franc stabilisation loan in May 1931.[15] Importantly, one-fourth of the stabilisation loan was used for investing in public works, which meant that in exchange for implementing the gold exchange standard, the Yugoslavian government could invest in its economy.[16] The Banque de France also supported Yugoslavia with the maintenance of the gold exchange

10 Letter from the Bank of England to the NBKY Governor, 3 Dec 1926, NBSA, ANB-1/I-58-1.
11 *Ibid.*
12 'Report by NBKY director Novaković on his trip to London and Paris', 20 Dec 1926, NBSA, ANB-1/I- 58-1.
13 V. Bajkić, 'Concerning legal stabilisation', *Narodno Blagostanje* (13 Sep 1930), NLS.
14 'Report by NBKY director Novaković on his trip to London and Paris', 20 Dec 1926, NBSA, ANB-1/I-58-1.
15 *Ibid.*
16 'Explanations of the new loan', *Narodno Blagostanje* (16 May 1931), NLS.

standard, for example by providing two-thirds of a 3-million-USD loan facilitated by the BIS in July 1931, and another loan on 28 September 1931, both of which were used for the acquisition of foreign exchange when reserves started decreasing at the NBKY.[17] Interestingly, while the Banque de France was willing to grant loans for preserving gold convertibility in Yugoslavia, it rejected a smaller loan for public works which the governor applied for on the same occasion in September 1931.[18] This indicates that French authorities had an interest in the maintenance of the Yugoslavian gold exchange standard in particular. Besides conditioning loans on the adoption and maintenance of the gold exchange standard, there are also indications of ideological pressure for legal stabilisation. In a speech at a bank opening in Belgrade, vice-president of the Banque de France Pierre-Eugène Fournier argued that Yugoslavia's economic successes were incomplete as long as the gold exchange standard was not adopted.[19]

Why did French policy-makers have an interest in supporting Yugoslavia with the adoption of the gold exchange standard? The Banque de France had generously supported Serbia and Yugoslavia financially over decades prior to legal stabilisation. Yugoslavia's first international loan was concluded in France in 1919 and was used for the acquisition of gold reserves (Kršev 2007, p. 165). This loan together with several further loans inherited from Serbia resulted in an indebtedness to France that created a peculiar pressure to legally stabilise. Once France adopted the gold exchange standard, it demanded the repayment of loans to international debtors in gold. Yugoslavia was sued by French lenders in that respect. The Permanent International Court of Justice in The Hague ruled on 12 July 1929 that the substantial Yugoslavian debts owed to French lenders had to be repaid 55 per cent in gold starting from 1 April 1930, while the share of gold should gradually increase until the loans were completely repaid in gold (Gnjatović 2007, p. 342). Hence, by supporting the legal stability of the dinar, the Banque de France could stabilise the conditions for the repayment of the substantial amount of private and public loans which Yugoslavian lenders owed to French banks.

Another reason why the Banque de France supported Yugoslavia with legal stabilisation was political. Yugoslavian newspapers at the time argued that France was trying to build a new 'Middle Europe' with its lending practices, as French bankers required political guarantees before granting loans, with the main goal of enabling France to isolate Germany economically and politically.[20] Furthermore, French lending practices were intended to contain British political influence in the Balkans. The governor of the Banque de France Emile Moreau was reportedly angered about negotiations for a stabilisation loan between the Bank of England and the NBKY (Mouré 2002,

[17] 'Minutes of the 6th GAC meeting', 5 Oct 1931, NBSA, ANB-1/II-9-1.
[18] *Ibid*.
[19] 'Institution for Note Issuance', *Privredni Pregled* (2 Feb 1930), NLS.
[20] 'French gold in the Balkans', *Privredni Pregled* (6 Dec 1931), NLS.

p. 167). In fact, this is already reflected in 1926 during a visit by NBKY director Novaković to Paris when Moreau warned the NBKY that 'arrangements ought not exclusively be entertained with the Bank of England'.[21] The French practices in Yugoslavia reflect the powerplay between two opposing blocs of countries within Europe in the interwar period, one of which was spearheaded by France (and included Yugoslavia), and which wanted to preserve the economic arrangements that had been agreed at the Paris Peace Conference. The other group of countries was spearheaded by the United Kingdom and was more receptive towards revising those agreements (Killen 1994, p. 125). By supporting Yugoslavia with the adoption of the gold exchange standard, France was nurturing its relationship with an important political ally on the question of German reparation payments.

The third international financial institution exerting pressure on Yugoslavia to adopt and maintain a gold exchange standard was the BIS in Basel, which was founded as an alliance of central banks in 1930. Its primary purpose was the commercialisation of German reparation payments and the creation of a stable system for international payments, which meant restoring the gold standard. In the words of Toniolo, 'the gold standard was embedded in the very DNA of the BIS' (Toniolo 2005, p. 131). Hence, any bank applying to become a BIS member by acquiring its shares had to operate with a national currency pegged to gold. This put pressure on governments to pursue legal stabilisation. In Yugoslavia, interest in joining the BIS was strong and BIS membership was viewed as a way to increase the country's influence on global financial affairs, as later expressed by NBKY governor Bajloni:

> The National Bank will assume an active role in the work of the BIS. Our voice will be heard when global financial and economic questions are being debated.[22]

However, in a letter from BIS directors Huelse and Van Zeeland, it was stated that relations would only be established with markets in which the national currency was pegged to gold.[23] In June 1930, the BIS board authorised the NBKY to subscribe to 4,000 shares. The transaction was 'to have effect as soon as they have satisfied the President that an adequate currency stabilisation plan has been brought into effect'.[24] Hence, the BIS conveyed the view that Yugoslavia was a BIS member early on, but made formal acceptance conditional upon legal stabilisation. The BIS also pressured for the maintenance of the gold exchange standard by requiring deflationary policies once it was implemented. When Yugoslavia officially became a BIS member by joining the gold exchange standard in June 1931, it requested a

[21] 'Report by NBKY director Novaković on his trip to London and Paris', 20 Dec 1926, NBSA, ANB-1/I-58-1.

[22] 'Monthly chronicles', *Bankarstvo* (Jun 1931), NLS.

[23] Letter from directors Huelse and Van Zeeland to the NBKY, 11 Aug 1930, Bank of International Settlements Archive [henceforth: BISA], Basel, ABIS-CH-000583-8-A.BISA.2.10.

[24] 'Extract from the first meeting of the Board of Directors', 16 Jun 1930, BISA, ABIS-CH-000583-8-A. BISA.6.11.a.

3-million-USD loan from the BIS to preserve its rapidly decreasing cover ratio, which the latter approved on 30 July 1931 (Toniolo 2005, p. 7). In exchange for the loan, the BIS worked out a set of internal and external policies to ensure the maintenance of the gold exchange standard, including an increase of the discount rate from 7.5 per cent to 10 per cent and a reduction of interior credits by 20 per cent until the end of 1931.[25] Furthermore, the NBKY was asked to apply for further international loans for the acquisition of foreign exchange, and the Yugoslavian government was ordered to refrain from using foreign exchange for international purchases.[26] NBKY representatives protested against these harsh measures. In a letter to BIS president Gates McGarrah, NBKY governor Bajloni stated that the NBKY could not only 'account for the monetary situation, but also protects the vital interests of our national economy', which appears striking given that the NBKY did not have a mandate for improving the performance of the real economy.[27] NBKY representatives resisted as strongly because they feared that interior markets would become unstable, which could result in fire-sales of dinars if the discount rate was increased again.[28] The demanded tightening of credits was eventually suspended in October 1931 under pressure from commercial banks that feared bankruptcy.[29] Due to the strict conditions demanded for maintaining the gold exchange standard in exchange for loans, the BIS was viewed critically in Yugoslavian economic circles. Bajkić argued that Yugoslavia should borrow privately in the USA instead of accepting the conditions of the BIS, which pressed for the maintenance of the Yugoslavian gold exchange standard at any price.[30]

Altogether, like the Bank of England and the Banque de France, the BIS exerted pressure on Yugoslavia to adopt and maintain a gold exchange standard. While the motivations of all three institutions were viewed critically in Yugoslavia, authorities succumbed to the financial and ideological pressure that these institutions and other foreign lenders exerted. This section has shown that for a peripheral economy like Yugoslavia, external influences constrain the set of available policy choices. This can explain policies that seem incomprehensible at first glance. Therefore, a realist perspective on legal stabilisation as a strategic interplay of institutions with different interests and bargaining powers proves valid in the Yugoslavian case (Frieden 2018, p. 15). Having established that the pressures exerted by lenders and foreign financial institutions were the main factor behind Yugoslavia's legal stabilisation, the following section examines other contributing factors, such as political aspirations and cultural attachments.

25 'Report on Yugoslavia', 1 Aug 1931, BISA, ABIS-CH-000583-8-A.BISA.6.11.a.

26 'Minutes of the 4th GAC meeting', 31 Jul 1931, NBSA, ANB-1/II-9-1.

27 Letter from NBKY governor Bajloni to BIS president Fraser, 6 Nov 1931, BISA, ABIS-CH-000583-8-A.BISA.6.35.

28 'Report on Yugoslavia', 1 Aug 1931, BISA, ABIS-CH-000583-8-A.BISA.6.11.a.

29 'Renewal of credit to the NBKY', 12 Oct 1931, BISA, CH-000583-8-A.BISA.6.35.

30 V. Bajkić, 'Concerning legal stabilisation', *Narodno Blagostanje* (13 Sep 1930), NLS.

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IV

Bajkić presented the interwar gold exchange standard as a success which prewar Serbia could not achieve.[31] Popular newspapers such as *Politika* or *Vreme* joined in with the prestige rhetoric, presenting it as something neither former Serbia nor Austria–Hungary had (Kršev 2007, p. 272). Hence, especially the failure of Serbia to move from a bimetallic to a functioning gold standard before World War I was remembered in Yugoslavia. Bajkić described the Serbian law mandating gold convertibility from 1878 as 'dead words' because insufficient gold reserves prevented convertibility.[32] Interestingly, the parity level did not feature prominently in newspaper articles discussing the gold exchange standard, unlike in Italy where the overvalued level of the lira was considered as indicative of its prestige. This is most likely because the dinar was legally stabilised at the parity at which it had already been *de facto* stabilised since 1925, a level which was widely accepted in policy circles. Furthermore, since the prewar gold standard was considered to be deficient, as argued above, comparisons with the prewar parity did not seem viable in the public discourse.

Recalling the argument from Section I that prestige signalling can be used for specific purposes, it appears that the Yugoslavian government used legal stabilisation for both its national and international political agendas. Internally, Yugoslavia had experienced a political polarisation in the late 1920s. The country's political centralisation resulted in sustained dissatisfaction within the Croatian Peasant Party. After five members of the latter were shot by members of the Serbian Radical Party in the national assembly in Belgrade on 20 June 1928, King Alexander accused all parties of worsening the political climate. He dissolved parliament and introduced the absolutist '6 January Dictatorship' (Kršev 2007, p. 39). According to Nikolić, the gold exchange standard was needed as an economic success to justify this move (Nikolić 2003, p. 108). In fact, the gold exchange standard was presented as a success of the king's government in popular newspapers. An article in *Vreme* presented legal stabilisation as 'one of the key programs for the economic prosperity of our country which the parliamentary government had failed to achieve', and the stabilisation loan as 'the best approval our regime could have received'.[33] Interestingly, *Vreme* was a direct beneficiary of the NBKY. Credit records from 3 January 1931 (three months before the article was published) show that it received a 500,000-dinar loan directly from the NBKY.[34] Since *Vreme* received financial support from governmental institutions, it seems likely that it would express views which cohered with what the government wanted to hear at this time.

With respect to other countries, the gold exchange standard signalled that Yugoslavia aspired to achieve parity with Western countries. Reviewing statements

[31] V. Bajkić, 'Yugoslavia adopted the golden money', *Narodno Blagostanje* (16 May 1931), NLS.

[32] *Ibid*.

[33] 'The stabilisation loan', *Vreme* (9 May 1931), NLS.

[34] 'Minutes of the 1st shareholder meeting', 3 Jan 1931, NBSA, ANB-1/II-30.2.

by members of policy elites related to legal stabilisation reveals a particular sense of 'internationalism'. In a letter to shareholders, the NBKY board expressed the view that legal stabilisation would enable the bank to join the international circle of central banks and cooperate on stabilising the economic conditions in the world.[35] GAC member Marković argued that 'legal stabilisation is not the fulfilment of a duty towards the country, but towards the international community'.[36] The internationalism present in the NBKY was echoed by economic journalists. *Privredni Pregled* wrote in February 1931 that Yugoslavia was integrating politically, economically and financially with other countries. While economists who criticised the excessive foreign borrowing for legal stabilisation and questioned its economic benefit were correct, 'they forget that we cannot live isolated'.[37] In line with Schumpeter's view about the importance of non-economic factors for legal stabilisation mentioned in Section I, integration into the international community was at times viewed as an even stronger motive for adopting the gold exchange standard than economic benefits.

Why was there a strong desire for integration into the international community through the gold exchange standard? There are two possible explanations. The first is that authorities sought to affirm Yugoslavia's sovereignty. The Kingdom of Yugoslavia had only been founded in 1918, through the Declaration of Corfu. Serbian and Croatian politicians involved in state formation on the Yugoslavian Committee had been signalling the unity of Yugoslavia as a state for years, both externally and internally. The committee, whose members went on to become leading politicians in Yugoslavia, lobbied internationally for support for the foundation of a Yugoslavian state (Robinson 2010, p. 11). In the national discourse, they symbolically placed Yugoslavia within the international community in order to achieve acceptance of the state among the South Slavic people (Robinson 2010, p. 24). A common currency which functioned on the same basis as the currencies of the most developed nations had the potential to fulfil the same purpose by signalling that the country was united, thereby establishing Yugoslavia's position as a sovereign state in the eyes of the international community and its own people.

Another explanation for this 'internationalism' is the wish for cultural integration with Western 'gold core countries'. Morys argues that governments in European peripheries often viewed adherence to a common monetary system with gold bloc countries as a way of bringing their countries 'closer to Europe' (Morys 2016, p. 9). Nenovsky *et al.* argue that since the nineteenth century, both the elites and the populace in Balkan countries had striven to come closer to Europe's economic and cultural development. He identifies this as the reason why Balkan policy-makers followed and replicated European monetary systems in the nineteenth century; the adherence of

[35] Letter to shareholders, 1931, NBSA, ANB-1/I-58-1.
[36] J. Marković, 'Legal stabilisation of our money', *Bankarstvo* (Oct 1930), NLS.
[37] 'In the wake of significant events in the National Bank', *Privredni Pregled* (17 Aug 1930), NLS.

the Kingdom of Serbia to the rules of the Latin Monetary Union is an example of this (Nenovsky *et al.* 2017, p. 2). The interwar gold exchange standard appears to be another instance where this theory holds. Recently liberated from the cultural oppression of the Ottoman Empire after the Balkan Wars of 1912–13, Yugoslavian authorities under primarily Serbian leadership turned to the West to find a cultural basis for an ethnically diverse nation. An example of a policy influenced by a wish for cultural integration with Europe was the controversial Treaty of Nettuno, which allowed Italian nationals to settle in the region of former Dalmatia without a special permit (Rothschild 1974, p. 227). It is likely that a wish for cultural integration with Europe influenced financial policy circles as a large proportion of policy-makers were educated in Western Europe. For example, finance ministers Momčilo Ninčić (1918–19), Vojislav Veljković (1919–20) and Kosta Kumanudi (1921–2) held PhDs in Law from the University of Paris. Velizar Janković (1920) held a PhD in economics from Berlin (Bečić 2003, p. 25). Finance minister Milan Stojadinović, who introduced the *de facto* stability of the dinar and initiated legal stabilisation, was educated in Belgrade, Munich, Potsdam, Paris and London (Fogelquist and Krekić 1990, p. 213). This indicates a strong 'Western influence' on financial policy circles and makes it plausible that at least one of the objectives the responsible policy-makers pursued through legal stabilisation was cultural integration. At least that is precisely what several newspapers were writing at that time. An article in *Bankarstvo* argued that once the dinar was legally stabilised, the people would become more powerful, and Yugoslavia's culture would have a strong footing.[38] An article in *Privredni Pregled* asserted that the first condition for the progress of the Yugoslavian people was dinar stabilisation.[39] However, not all views on cultural integration with 'the West' through the gold exchange standard were positive. The Croatian newspapers *Riječ* viewed cultural integration with the West critically, describing it as 'imitation' and Yugoslavia as a 'rusty copy of Europe' because 'Brits, Westerners, we will never be'.[40]

Altogether, the argument of Nenovsky *et al.* that a wish for cultural integration influenced the choice of monetary systems in nineteenth-century Serbia also partially explains the 1931 adoption of the gold exchange standard in Yugoslavia. Perhaps that is also why the looming failure of the gold exchange standard and the termination of loans from Europe to Yugoslavia were perceived as abandonment by 'the West'. NBKY governor Bajloni argued that 'the cancellation of credits . . . abroad is not in the spirit of a tendency towards international cooperation in the economic field.'[41] Finance minister Stojadinović was reportedly disillusioned with both his philosophy of monetary stability and Yugoslavia's dependence on Western Europe after the Great Depression (Lampe and Jackson 1982, p. 468).

[38] V. Đorđević, 'The legal stabilisation of the dinar', *Bankarstvo* (Dec 1930), NLS.
[39] 'Reforms in the National Bank', *Privredni Pregled* (21 Jun 1931), NLS.
[40] D. Plavšić, 'The governmental loan at the National Bank', *Riječ* (16 Aug 1930), NBSA, ANB-1/I-58-1.
[41] 'Minutes of the 19th GAC meeting', 18 Jun 1931, NBSA, ANB-1/II-9-1.

V

Drawing on a variety of primary sources, this article provided an analysis of the economic, political and cultural rationales for the adoption of the Yugoslavian gold exchange standard. It complements literature on the gold exchange standard in SEE by providing insights on a country which has scarcely been studied in this respect before. Furthermore, it not only extracted policy-makers' justifications for legal stabilisation, but also by showed how these were formed considering economic and ideological pressures from London, Paris and Basel, underlying political motivations, and cultural attachments to 'the West'. While the ideological and financial pressures exerted by foreign financial institutions and foreign lenders were the primary driving force behind legal stabilisation in Yugoslavia, political and cultural influences equally played a crucial role, and were at times even perceived as the primary rationales for legal stabilisation in the eyes of some contemporary policy-makers.

Placing the Yugoslavian 'rush' on the gold exchange standard within a larger historical perspective, one should remember that it is only one instance where economic, political and cultural dependence on core countries created a push towards monetary integration. The Kingdom of Serbia, whose currency was later adopted in Yugoslavia, pegged the dinar to the French franc in 1873. Serbia also followed the rules of the Latin Monetary Union and strove unsuccessfully to legally stabilise the dinar in 1878. After World War II and the creation of the Socialist Federal Republic of Yugoslavia, the dinar was pegged to the US dollar at 50.06 dinars per dollar from 1945 until 1973, when a managed float system was adopted (Stojanović 2007, p. 234). After several currency reforms, the dinar was pegged to the German mark in 1989 to facilitate trade with Germany and remained so with temporary suspensions until 2006 (Stojanović 2007, p. 234). After the dissolution of Yugoslavia, the dinar continued to exist in the Republic of Serbia, which became a candidate for EU membership in 2012. Since 2015, the value of the dinar has been kept stable at around 117 dinars per euro. This has sparked discussions as to whether the country is ready for a legal currency peg to the euro to ease market integration. This shows that for peripheral economies like the former Yugoslavia, and Serbia today, currency pegs have remained early steps towards a deeper economic integration, and that such policy decisions are influenced by a fundamental dependence on countries and international organisations which have the means to promise economic exchange and development, and which provide a lead-culture that peripheral countries strive to integrate with. It is this dependence that has created a regional, historically consistent policy pattern for monetary integration which stretches from the time before the gold exchange standard far beyond.

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