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The bond market and the legitimacy of Vichy France

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Abstract

During World War II, the spread between the 3 percent *rentes* and the Vichy government bonds reflected French investors' perception of the shifting fortunes of war and the willingness of future post-war government to repay the debt issued by the collaborationist regime. Structural breaks in this spread do not always match with the dates of major military events but are more closely related to the political ones, emphasizing the struggle for legitimacy by rival claimants to power.

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1. Introduction

Recent studies have offered new approaches to identify important military and political news in wartime in the movement of asset prices.¹ This paper is based on an original data set of daily bond prices for two issues traded in France during World War II from May 27, 1942 to the end of the war. The only significant difference between these bonds is the issuing government. One was issued by the Third Republic before the war and the other by the Vichy regime. The price differential captures the relative credit risk and should measure the legitimacy of the claimants to govern post-war France and their perceived promises to reimburse each type of

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¹ See Brown and Burdekin (1999), Davis and Pecquet (1990), Frey and Kucher (2000, 2001), Oosterlinck (2000), Waldenström and Frey (2002), Willard et al. (1996).

debt. This study reveals French investors changing expectations about the outcome of World War II.

2. France and the second world war²

In Table 1 the political and military events of World War II are sorted by their character (M for military, P for Political) and their impact. (G for global and F for France.) After France's military defeat in June 1940, the French government asked Marshall Henri Philippe Pétain, the French hero of World War I, to create a government that would negotiate an armistice with Germany. As a result, two zones were created: one under German occupation, the other in theory under French rule. A new capital city, Vichy, was designated for the latter. In practice Vichy's collaborationist government remained dependent on Germany. Général Charles de Gaulle refused to accept German control and continued the war from Great Britain. By the end of 1940 de Gaulle had brought several French colonies to his side.

De Gaulle's political legitimacy remained an issue during the war. For Vichy's government, he was a traitor, for the Allies, a military supporter. On September 24, 1941, de Gaulle created the Comité National Français (CNF) in order to "have a structure that would bring him closer to the Allied governments in exile in London."³ However, the Allies considered the CNF as representing no more than the French troops fighting with the Allied ones. On September 28, 1942, the Soviet Union recognized and offered support to the CNF. Up to 1942, in spite of Vichy's collaboration with Germany, Pétain was viewed as France's legitimate ruler by the American government.⁴ Pétain lost this recognition when the German Army invaded the Vichy zone on November 11, 1942.

On June 3, 1943, de Gaulle created the Comité Français de Libération Nationale (French Committee for National Liberation) in Algiers. This new committee sought to gain the same political legitimacy enjoyed by other Allied governments in exile. Once acknowledged by the Soviet Union, Great Britain, and the United States on August 26th 1943, this French government in exile, lowered the probability that the Allies would treat France as an enemy after the liberation. But, this recognition did not solve the legitimacy problem, as the CFLN's authority was only accepted for the liberated French colonies. Thus until the war's end uncertainty about political authority over metropolitan France continued.

Thus, at the war's end, it was unresolved whether France should be allowed to regain its sovereignty immediately or should be subject to an Anglo-American army of occupation. Pétain had been designated by the former elected govern-

² The narrative is based on Cointet (1993), Cremieux-Brilhac (1975), Degaulle (1990), Duroselle (1990), Frey and Kucher (2000), Margairaz and Bloch-Laine (1991), Vigreux and Dessirier (1948).

³ Duroselle (1990), p. 398.

⁴ See for instance H. Lottman (1986), p. 60.

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