Elizabeth Claus-Schmidt

84. Also: Goldsmith to Hunter, 4 February 1924, 9 March 1924, Ascension from Aynsley P. in Hunter CP 3026 (two unweighted comments about the Dollar Repatriation, 17 April 1924 and 2 March 1924, Thomas: W. Lamont P., 176, 8 and -9, Baker Library, Harvard; see also Lepper, Elaine Queret, no. 1-2, p. 103.

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Stephen A. Schuler

During World War I, the United States burst suddenly upon the world stage as an economic and financial superpower. In the history of modern industrial societies, war or diplomatic crisis has often served to focus public consciousness on a dramatic shift in the global balance of forces. Almost inevitably, longer-term evolution in the international economy prepares the way for each diplomatic revolution. It is common for a declining power to adjust awkwardly to the politics of decline. It is equally common for an emerging hegemon to lack the outlook and political institutions that might help it to function effectively as a stabilizer of the international system. Periods of rapid change thus carry with them the seeds of instability — as the history of the 1990s will undoubtedly remind us — in ways that we still cannot foresee.

The United States, the emerging hegemon of the 1920s, could not and did not return to prewar "isolationism." Lesters in both government and finance made strenuous efforts to promote European economic reconstruction from the devastation of war. Yet inevitably, the shape of economic strategy in Washington and Wall Street persuaded this policy within the limits of national interest as they perceived it. Unlike their successors after World War II, they did not generally consider the British economy as a source of economic stability. And given the relative self-sufficiency of the United States, there remained even after 1919 something to be said for a policy of limited involvement in pan-Atlantic European concerns.

American prosperity before World War I had derived from exploitation of the "domestic market" — the largest free-trade area in the world. The United States had pulled ahead of Great Britain and even Germany before World War I in part through the application of advanced science and engineering knowledge to processes in the cutting edge of the i...
trial revolution—especially in the electrical, chemical, and motor-car industries. But the nation had also prospered by the application of innovative management techniques to capital-intensive, energy-consuming industries using continuous-batch technology (for example, primary metals, packaged foods, petroleum, transportation equipment, and machinery manufacturers). In these sectors, giant integrated firms could achieve efficiency through mass production, mass distribution, and mass marketing precisely because of the size, homogeneity, and accessibility of the home market. While some of the largest firms, particularly in the extractive industries, relied on raw materials from abroad, and others had begun to seek markets outside the country before 1914, they generally remained less focused on the international economy than comparable businesses in Great Britain or Germany.

On the eve of war, the United States alone produced 35.8 percent of world manufacturing—almost the equivalent of British, German, and French output combined. The United States had drawn even with Germany and was closing fast on Great Britain in percentage share of world exports. Yet because of the sheer size of the American economy, exports and imports together still amounted to scarcely 10 percent of Gross National Product, compared with a third or more for the country's principal European competitors. Moreover, American involvement in the European economy had diminished since the turn of the century. In the nineteenth century, the principal industrial countries had figured as each other's best customers. That pattern had slowly begun to change. Increasingly, American firms targeted Latin America and Asia as their principal future growth markets. Although 60 percent of American exports still went to Europe in 1913, the United States already drew fully 52 percent of its imports from other continents. Americans clung to a tradition as old as the Republic, as Washington had put it in his Farewell Address, of avoiding entanglement in "the toils of European ambition, rivalry, interest, honor, or caprice." Because American economic ties to the old Continent remained relatively limited before 1914, policymakers had as yet little reason to reexamine conventional attitudes.

The outbreak of World War I posed two serious obstacles to continued U.S. trade with Europe and reinforced the secular tendency toward diversification of the country's foreign economic ties. The high-cost American merchant marine had the capacity to service less than 10 percent of the nation's ocean-going commerce, and the European belligerents who had traditionally carried American goods did not merely make war upon each other's shipping, but also restricted their own merchant fleets to transporting vital military supplies. American exporters had also heretofore relied on the London City for financial accommodations. The
ductional submarine warfare. Even those of his advisers, like Colonel Edward House and Secretary of State Robert Lansing, who took a broader view of the potential threat to American security, gave little thought at first to the long-term financial consequences of American participation in the struggle overseas. They did not dwell on the responsibilities that would follow the nation's abrupt transformation into the world's leading creditor power. And the international bankers, foreign-trade lobbyists, and munition makers to whom economic determinists of the 1920s ascribed such awesome and malevolent powers exercised virtual influence on the determination of European policy.

When America declared war on Germany in April 1917, the Allies had virtually exhausted their ability to borrow on private U.S. financial markets. They had to petition for direct loans from the U.S. Treasury and for the broadest collaboration of official Washington in the procurement and organization of shipping, munitions, foodstuffs, and other logistic aid. The British and French missions that came to Washington as petitioners declared their situation desperate. The administration could have taken advantage of the opportunity to secure far-reaching political concessions. Indeed, Secretary of the Treasury William McAdoo explicitly wished to do so. McAdoo prepared a draft note asking for British assurances about the size of their postwar navy, their intention to make preferential trade arrangements, and their territorial war aims. But neither Lansing nor House favored using loans as a political club. President Wilson, in a celebrated pronouncement, took their side against his own administration, at least in a matter of tactics. "England and France have not the same views with regard to peace that we have by any means," the president wrote to House. "When the war is over, we can force them to one way of thinking, because by that time they will, among other things, be financially in our hands; but we cannot force them now, and any attempt to speak for them or to speak our common mind would bring on disappointment which would inevitably come to the surface in public and rob the whole thing of its effect."

Over the course of the next two years, the Treasury lent over $10 billion to the European Allies—a sum that constituted fully 40 percent of the entire American national debt after the war. The Treasury viewed the money by selling bonds publicly in small denominations. At the time, the Liberty and Victory bond drives stood as an unprecedented achievement. Nevertheless, they stored up trouble for the future.

Traditionally, only a narrow stratum of plutocrats had purchased government bonds. In 1917, therefore, Treasury officials had good reason to fear that they could not raise the stupendous sums required for the prosecution of hostilities against Germany through routine operations on the money markets. They solved the problem through a patriotic appeal. Millions of simple Americans who never before in their lives had bought securities of any sort now pledged their savings through local banks or wage check-offs to help whip the "Kaiser Bill." These same peeps—vets and taxpayers innocent of high finance—would not understand why their bonds subsequently depreciated in the high-price environment after the war or why the European Allies refused to repay it in a straightforward manner the sum they had unbrigandically pledged to repay. For twenty years to come, the public and Congressional committees that foreign governments should honor their debt debased the ability of successive administrations to take a broad-minded approach to European affairs. While the battle raged, however, officials on both sides audaciously avoided general discussion of American-European financial relations. The Treasury and the British and French negotiating missions focused all their attention on comparatively technical points: the availability and standard monthly purchasing blemens, the restrictions on dollar expenditures for non-American supplies, the employment of Treasury funds to support foreign exchange, whether public munitions could be used to repay the overdraft on Wall Street bank loans pledging American bellicosity, and whether the British would have to pledge security the private investments of their citizens in the United States. The political reckoning would come after the restoration of peace.

Strange as it would later appear, the United States government developed no detailed economic war aims in 1917-18. Nor did officials in any agency elaborate concrete plans for Washington to take the lead in reconstituting Europe after the war. But failure to plan did not open the international economy. An end to secret government controls, the restoration of free-market principles, and extinction of the Open Door for trade everywhere represented the very embodiment of policy. Without a clear approach for applying technical principles for reconstituting Europe, the Administration officials could anticipate nation difficulties in the Allies as well as from the Germans in implementing such a liberal trading system.

From the start of the conflict, German civilian leaders from Bethmann Hollweg down, as well as their counterparts in the military and the great industrial associations, had worked out detailed schemes for perpetuating the economic dominance of the Reich over its satellites and, indeed, the economic dominance of the Reich over Europe and, indeed, the economic dominance of the Reich over its satellites. Meanwhile, these plans over the whole area from the Atlantic to the Caspian. Admittedly, these...
ly economic assumptions. Hard-nosed businessmen pointed out frequently that austerity would not work. They noted also the Reich had relatively little to gain from a customs union with the backward Hollybogg realm. Still, the grandiose nature of German ambitions, inso-

secoundly, economically powerful and labor forces. It met the anxiety that, even if the Reich failed to prevail on the battlefield, its forces might fall behind afterward in the race for international markets on a level playing field. At the Paris Economic Conference held in June 1916, the British and French, with the tacit consent of the Italians and Russians, devised their own program for a war after the war. That program called for a permanent discrimina-
tion against German trade, at least in the French view, postu-
lated the exclusionary pooling of raw materials among the victors. Although the British hedged off from the Paris resolution and pursued a more ambiguous policy after Lloyd George replaced Asquith in December 1916, French Commerce Minister Clemenceau continued single-mindedly to press for the perpetuation of inter-Allied controls over shipping, food, and other key resources through the 1918 Armistice and beyond. 17 American officers restated with consternation to Clemenceau’s voice. They would have none of it.

Secretary Lansing warned the president in June 1916, at a time when the United States remained neutral, that the Paris resolutions might at once prolong the war and disrupt American commerce. The secretary feared that trade discrimination could well leave the United States sus-
pended between two warring blocs and without access to the markets of protected colonial empires. 18 Although Wilson declined to organize a combination of neutrals as Lansing had suggested, he spoke out repeatedly against postwar trade discrimination after the United States entered the conflict. In his reply to the pope’s peace initiative in August 1917, Wilson registered his formal opposition to “the establishment of selfish and exclusive economic legacies” instead, only upon Colonel House’s urging did he omit or down his denunciation of such combinations to “inexpedient” rather than “childish.” 19 And in his fourteen Points address of January 1918, the president threw down the gauntlet to pre-

ceptionists at home as well as abroad by calling for “the removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance.” 20

For Wilson, a global political order resting on democratic values and a commercial regime guaranteeing equality of opportunity formed part of a single integrated vision. The president saw no contradiction between

America’s wartime political alliances and the economic underpinnings of his program for a better world. A cynic might observe that, at least in the short run, the Open Door best served the interests of the most technologically advanced powers. American commercial and financial interests stood in potential contradiction to the wartime political lineup. Equality of trade would favor both the United States and Germany more than it would help France and Great Britain, for, if the latter nations remained closer to the United States in political culture, they nonetheless followed a faster path of economic growth.

Diplomacy, however, does not take place at this level of abstraction, especially during wartime. Neither Wilson nor his chief diplomats worked out a program of specific economic aims (aside from temporary measures designed to win the war) that would give tangible form to the general principles articulated by the president in his public address. 21 The “Inquiry,” which House organized under the leadership of his brother-in-law Sidney Mezes in the fall of 1917 to study postwar problems, scarcely considered questions of economic policy. 22 House and Mezes had a vague preliminary discussion with Professor Frank Tutuig, chair-
man of the Tariff Commission, and Tutuig subsequently sent Wilson a memorandum arguing that the United States should avoid economic alliances, oppose trade preferences especially in the British Dominions, and adopt a flexible tariff system that compelled all trade partners to accord the U.S. most-favored-nation treatment. 23 Wilson seemed to agree, although he ordered no bureaucratic amplification of the position. In the course of 1918, the president repeatedly told the French, who to his exasperation affected not to understand, that he would neither prop raw materials, share general war costs, nor compensate any economic war after the war. 24 But he elaborated no positive alternative, except for a return to international laissez-faire. In fact, until he arrived in Paris in January 1919 the president did not expect the peace conference to deal with economic questions at all. The delegates, he believed, should confi-

ence themselves in determining the political, geographic, and ethnic settle-
mants. “Distinct economic problems,” he insisted, “if worked out by international conferences at all, will necessarily be worked out by special bodies to whom the peace conference will delegate their considera-
tions.” 25}

Colonel House, who had a better sense of practical diplomacy than his chief, sought to bring over Assistant Secretary Russell C. Leffingwell, the intellectual eminence of the Treasury Department, to coordinate the American financial and economic position in Paris. But Carter Glass, who had just succeeded McAdoo as secretary of the treasury, decided that he could not spare Leffingwell. The American economic group, as it

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finally took shape over several weeks in response to perceived need, included a number of able people, among them Vance McCormick of the War Trade Board, Bernard Baruch of the War Industries Board, Assistant Secretary Norman Davis and the Morgan financier Thomas W. Lamont as representatives of the Treasury, and, around the president, Herbert Hoover as head of the American Relief Administration. Yet the group lacked central direction or leadership. It engaged the inner circles of the president only sporadically. And it necessarily responded to particular issues as they arose in an ad hoc manner.

A first and characteristic dispute arose in October 1918 over the advisability of continued American participation in the Allied Maritime Transport Council and other inter-Allied boards that supervised food, raw materials, and energy distribution. Hoover wanted to close down the inter-Allied agencies forthwith and to pursue a unilateral American policy after some indication, Wilson followed the counsels of McCormick and Baruch to maintain cooperation with the Allies until the peace conference concluded its work. But Hoover returned to the charge in early 1919. He accused the Europeans of using the blockade apparatus to stymie American agriculture and to force down the price of surplus wheat. The British particularly irritated him by cynically declining to make food and shipping available to the former enemy powers without a guarantee that the corresponding payment would enjoy priority over reparations that would largely benefit France. After much wrangling, the parties stumbled into a uneasy interim compromise. The blockade of Germany continued although with appreciable modifications; the War Finance Corporation advanced export credits that sustained Allied demand for American exports. And Hoover was a relatively free hand to conduct relief operations in Central and Eastern Europe with the twin objectives of fighting Bolshevikism and bolstering American farm prices.

The president, meanwhile, focused his attention throughout the conference on one main objective: to create a viable League of Nations and thus to establish an international "court of right" in place of the balance of power. To achieve this objective — however illusory it would later prove to be — Wilson had to perfor to compromise on a variety of economic as well as territorial issues. Georges-Henri Soury rightly observes that, in shaping the economic clauses of the treaty, Wilson met Allied demands for the harsh treatment of Germany more fitly than one might have anticipated given his reputation as an ideologue. After initially demanding a fixed sum for reparations that fell definitively within German capacity to pay, American negotiators agreed to leave to a specialized Reparations Commission the task of determining German obligations. They conceded also that these obligations would include pensions as well as material damages. In practice, including pensions charged only the distribution and not the amount of indemnity, since the Germans could scarcely be required to pay more than they had the capacity to transfer. Nevertheless, as politically sensitive observers realized, increasing the potential bill could not fail to produce bitterness in the Reich and to hold up acceptance of a practical settlement. Finally, the Americans agreed, against their better judgment, to incorporate in the treaty a number of discriminatory economic clauses, among them the provision that Germany must pay an annual portion of these taxes to the Allies without reciprocity for five years.

U.S. negotiators drew the line, however, at Allied attempts to secure war-debt cancellation and to transfer the cost of paying reparations to the American investor and taxpayer. In the early pan of the conference, the French Finance minister, Louis-Lucien Klotz, floated a scheme for pooling all war costs, thinly veiled as a "financial League of Nations." Then, toward the end of the proceedings, the highly nationalistic British Treasury official, John Maynard Keynes, drew up an equally ingenious plan to form an American taxpaying trust in Europe by means of a "guarantee" of German reparations payments to the Allies. The U.S. Treasury stood firm against all such contrivances. The president and Secretary Glass reiterated that they had no authority to discuss foreign loans in Paris. Assistant Secretary Leffingwell dismiss the Keynes plan as "preposterous." Great Britain would undoubtedly want a better chance of regaining its prewar position at the central intermediary in world banking, shipping, and insurance if it could throw the major burden of underwriting European reconstruction upon the United States. But what reason did Washington have for facilitating such a maneuver?

American officials on the scene plainly understood that in order to overcome bottlenecks the war-ravaged Continent required credits for raw materials, transport equipment, and agricultural machinery. They could see with their own eyes that factories and houses had to be rebuilt in the French and Belgian war zones, that defaced Germany desperately needed working capital, and that the Habsburg Successor States scarcely hope to master hyperinflation without help in establishing sound currencies. But the political preparation that allowed the Truman administration to contemplate massive aid programs for Europe after administration to contemplate massive aid programs for Europe after
would interpret any call for a taxpayer-financed reconstruction program as an overweening attempt by Europeans to take advantage of their generosity. The Treasury had secured permission to meet the Allies’ most pressing needs during the Armistice period only by dint of an intensive lobbying effort. The Europeans failed utterly to grasp the public mood or to understand the partisan temper of the Republicans who had won control of Congress in the mid-term elections of November 1918.21

Over the next decade, both the Allied governments and European private financiers would nevertheless propose innumerable variations on the Klotz plan or the Keynes plan. The idea that the inexperienced American taxpayer would consent to write a blank check for European reconstruction proved enormously seductive. Some schemes contemplated the cancellation of war debts “all around” — as if, for example, American claims on British and British claims on the defeated Central government represented obligations of equal worth. Other schemes assumed that German reparations bonds could be commercialized in large quantities and sold to American investors. Proposals that varied enormously in sophistication and political impact revolved around one common principle: The United States should extend massive public or private credit to Germany so that, if that country defaulted on reparations, Americans would be left holding the bag. In drafting the president’s rejection of the Keynes plan, Thome Lamont voiced the objection that Washington and Wall Street would repeatedly make in succeeding years to pleas for American loans to rehabilitate German finance: “How can anyone expect America to turn over to Germany in any considerable measure new working capital to take the place of that which the European nations have determined to take from her?”22 Putting it another way, Assistant Secretary Norman Davis explained to the president a few months later what Britain and France hoped to achieve: “While the Allies have never bluntly stated their policy seems to be to make Germany indemnify them for having started the war and to make us indemnify them for not having entered the war sooner.”23

While unwilling to fall in with these machinations, both the American economic group at the peace conference and Treasury officials back in Washington sought to harness private capital and export interests to satisfy Europe’s concrete requirements. The operative question, as Loffing-well expressed it, was “not whether America will help,” but whether the Europeans possessed “adaptability enough and vigor enough to work out some business transactions and to interest American businessmen in their financial and economic restoration.”24 In mid-May, Lamont explored the ground with his British and French negotiating partners, Robert Ibsen and Jean Monnet. He disbursed his colleagues of the fina...
such a approachment that the world could never shake us out of peace and into war. 26

Given the terms on offer, the British quickly lost their enthusiasm for comprehensive schemes designed to foster European economic recon- structive. Keynes sniffed dismissively that British banks "wanted to run their own business and didn't want any interference from outside." Spokesmen for the City observed that Britain ran a serious trade deficit; it could not extend significant credits to others before getting the costs of domestic production down. The financial press expressed the view that the Continental states exhibited such diverse needs that no all-embracing organization could solve their problems. The president of the Board of Trade and the chancellor of the exchequer remained studiously evasive. The French made clear that they would not stand for American dictation concerning their discriminatory tariff structure. By the end of August 1919, Harry Dexter had reported from New York that the "psychological moment" for action had passed. Widespread sentiment in favor of defi- nition had developed in the United States. Politicians outside the great financial centers proclaimed that bounteous demand for U.S. goods and manufactured overseas would inevitably defray efforts to bring down the high cost of living at home. 27 The attempt to coordinate European reconstructions in a grand manner thus failed out ignominiously. Busi- ness and financial interests on both sides of the Atlantic were left to work out mutually advantageous arrangements on an individual basis.

Meanwhile, the United States also limited its participation in the for- mal structure of treaty enforcement. President Wilson had intended at first to maintain a high profile on the boards and commissions that would implement the economic provisions of the peace. But when the Senate rejected the Treaty of Versailles, the administration reversed field. It consented to leave only an unofficial observer on the Interim Reparation Commission. Secretary Lansing crowded American diplomats to stick to normal diplomatic channels. "Our people," he explained sentimen- tally, "are used out with the bickering and petty quarrels."

Of course, the form of American participation in the structure of treaty enforcement had little ultimate significance. What particular reser- vations the Senate might express to articles of the League Covenant retained similarly unimportant. In the long run, whether the American people saw permanent involvement in European affairs as vital to the national interest mattered more than specific institutional arrangements. Would the world's leading creditor power work constructively to restore stability by taking part in an ongoing process of diplomatic and econom- ic problem-solving? The wisest and most sophisticated Americans who contemplated poswar problems understood this to be the central issue.

In the absence of presidential leadership, foreign-trade interests fell back on variants of the June 1919 Morgan-Davison plan for privately-sponsored expert organizations. Just before Christmas 1919, Congress autho- rized two types of foreign-trade financing corporation under the so-
fertilizer scrambled to find one method or another that would permit them to unload their surpluses in Europe as long as domestic markets remained in the doldrums. More often than not, they had to bear part of the credit risk themselves. Holdfrieth points out that speculative pur-
ches of mark-denominated securities and currency by American citi-
zens amounted to $770 million in 1919-23. This sum almost covered
direct American exports to Germany, which amounted to $651 millon
over the same period. (Additional goods undoubtedly passed through
Washing-

ton and Berlin in July 1921.) In practice, American exporters or financial
intermediaries left mark credits on deposit in Berlin banks, and lost
their entire equity when the Reich embarked on hyperinflation in
1922-23. While Holdfrieth notes philosophically that countercyclical
measures in the 1920's and 1930's were intended to stifle speculative
transactions, rising trade surpluses and increased trade surpluses
in the United States, the United States prevented European countries
from reaching equilibrium in their international accounts by raising tariffs,
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Stephen A. Schwartz

breakin even in 1922, the United States ran a combined loss on commodity trade and current invisibles in every year but one from 1923 through the devaluation of the dollar in 1933. The combined loss under the Fordney-McCumber tariff regime (1922-30) averaged $216 million annually. These results hardly reflect a prohibitive tariff policy on the part of the United States.66

The legislative history of tariff legislation serves further to correct the traditional picture. The Emergency Tariff Act of May 1921 was only a temporary measure targeted to fight the postwar farm depression. It imposed specific anti-dumping duties in order to block the import of agricultural commodities from countries with depreciated currencies, but it did not affect European manufactured goods. The Fordney-McCumber Tariff, which took effect in September 1922, raised rates appreciably above the 1913 Underwood Tariff on certain high-grade dutiable imports, yet left a significant “free” list. Hence average rates on all imports did not jump up but a few percentage points over the old Underwood rates and remained comfortably below the levels that had prevailed from the time America became an industrial powerhouse up to 1913.67

In any case, in the minds of the State Department and Tariff Commission officials who fashioned the underlying basis for the Fordney-McCumber legislation, the rates that Congres sional log rollers imposed for particular products mattered less than general tariff philosophy. Progressive in both parties, from the Taft administration onward, had championed a flexible bargaining tariff formulated along scientific lines. The Fordney-McCumber Act translated their aspirations into law. The act paved the way for new trade treaties based on the non-reciprocal, non-discrimination principle, in other words the generalization of negotiated trade preferences to all. The president now had a bargaining tool with which to cut British imperial-preference arrangements and the notorious French “two-column” system, which applied discrimination only maximum levies against nations that failed to provide special advantages for French exports on a bilateral basis.68

Germany, of all the industrialized nations, found the new American tariff philosophy with the least damage. The German-American trade agreement of December 1923 marked a major step toward reconciliation of the two amendments opponents. The U.S. Senate, despite theoretical adherence to the Open Door, in practice demanded a preference for American shipping, and this embarrassing intrusion of pressure-group politics stalled the treaty until Berlin conceded the point in February 1925.69 Generally speaking, however, the United States and Germany found a common interest in seeking equality of trade opportunity during the middle 1920s, especially in Latin America and the rest of the deve

origins of American Stabilization Policy in Europe

Aging world. On the other hand, Brazil, France, and the minor European colonial powers sought to maintain discriminatory preferences wherever they could, and toward the end of the decade German businessmen also began to complain that owing to American manufacturing efficiency the Open Door worked against them.66 It is true that the flexible provisions of the Fordney-McCumber Act failed to operate well in practice. The cost-of-production standard for rate adjustment did not allow the Tariff Commission sufficient latitude to recommend decreases. Still, if worldwide protectionism continued to impede the flow of trade in the 1930s, this failure did not foe one-sidedly with the United States.

Even Americans who embraced political isolation in the 1920s tended to believe that a peaceful and prosperous world lay in the national interest. Beyond that and sentimental concern, international bankers and exporters frequently argued that the United States had a more specific stake in the adjustment of European partners and the stabilization of currencies. Because the economic recovery expected to follow would expand the markets for American products. The results did not fully justify those hopes from the standpoint of narrow self-interest.

After the trade-decade reparations settlement and the growth in central-bank cooperation, some American industries (especially in the automotive and electrotechnical fields) succeeded in penetrating markets in Europe and even in establishing subsidiaries there. American firms in the electrical, automobile, chemical, and steel industries reached licensing agreements and exchanged equity interests especially with their German partners, although it remains debatable whether cooperation between businessmen carried as much influence on political relations as certain scholars have claimed.68 However, Europe's increasingly renewed the American business invasion and attempted to tax it by copying New World techniques of standardization and mass production.

In two related ways, European recovery actually reduced the opportunities for American exports. The surplus moved to the east left the world with a colonial overstock of merchant shipping capacity. Freight rates plummeted. The high-cost American merchant marine could not meet the competition after the withdrawal of government subsidies in 1920, and within a few years three-quarters of American goods again moved in foreign bottoms. The precipitous cut in shipping rates also altered it economics for Europeans to buy off-shore grain from Australia and Argentina instead of storing U.S. grain year-round, with the attendant losses from rotting and weather. As Europe became more prosperous, moreover, they were more meat and less bread. Under these circumstances, American farmers who had borrowed at nascent wartime rates from undercapitalized local banks in order to expand wheat production
on the thin topsoil of the Western Plains had no chance whatever of restoring profitability. In the long run, they had to go out of business. Since the conclusion was politically unacceptable, the American farm lobby continued throughout the decade to embellish schemes for dumping surplus overseas. But the hope of finding a solution to the American farm crisis in Europe figured from the outset as a mirage.

Americans, in short, had good reasons to promote European recovery and financial stabilization. But those reasons were as much political and ethical as narrowly economic. After a period of drift, the Republican administration that came to power in March 1921 gradually developed a program for prudent reengagement in Europe under a public sentiment permitted it. The chief strategies of Harding's foreign policy sought first of all to encourage the Allies to fund their war debts on reasonable terms, while concurrently they tried to sway Congress to a more charitable view of fairness. Despite failure to ratify the Versailles treaty, they maintained unofficial representation on the Reparations Commission. At crucial junctures, they cautiously offered the unofficial good offices of the United States in order to achieve an equitable reparations compromise. Such a settlement, as they saw it, would restrict payments to German capacity to pay and promote reintegration of the Reich into the global economy, while providing reconstruction funds within those limits to assist the victims of wartime aggression. Both Harding and his principal cabinet officers also emphasized naval and land disarmament as a pathway to peace; somewhat naively, they believed that a reparations settlement between Germany and France would facilitate radical disarmament across the whole European continent. Finally, they expected that such a settlement would pave the way for restoring sterling to par and ultimately stabilizing Continental currencies as some variant of the prewar gold standard, with the dollar serving as the principal reserve currency. Settlement of reparations and stabilization of currencies would in turn create sufficient confidence so that Americans would voluntarily recycle their capital surpluses to meet Europe's needs on a profitable business basis. While Wilsonian internationalism considered their successors positivistic in the face of public opinion, the program as such did not lack ambition. Yet as Secretary of Commerce Herbert Hoover emphasized in early 1922, the United States could if necessary "re-establish its material prosperity and comfort without European trade." The administration had no reason to sacrifice its domestic agenda if European statements declined to cooperate along constructive lines. The same sense of detachment inspired President Coolidge's reaction when it appeared that Germany might disintegrate following the collapse of "passive resistance" to the Ruhr occupation in September 1923: "I do not feel that if certain people in Germany act foolishly, the result is going to be the downfall of civilization, as some people seem to think."

In the fall of 1919, the Treasury had accorded the Allies a three-year respite in the payment of interest on their wartime obligations. The Wilson administration had no wish to press European governments while they grappled with the problems of post-Armistice adjustment. But Congress displayed no inclination to extend the moratorium past its expiration date in October 1922. Loans to foreign governments associated with the United States in the prosecution of the war was made up 40 percent of the entire Federal debt. The American taxpayer, for whom the excursions of the income tax still represented a novelty, vociferously demanded relief. Veterans agitated for a bonus. Citizens who had acquired Liberty bonds in the flush of patriotic enthusiasm now complained that their holdings would yield below par. Hence the Treasury turned a deaf ear to the clamor from the other side of the Atlantic for what was euphemistically called writing down the world balance sheet.

The self-appointed financial authorities who composed the Amsterdam Memorial in January 1920 and who delivered homilies to each other at the League-sponsored Brussels Conference in October of that year acted from a variety of motives. The实业家 who took the lead wished to recoup commercial loans and sustain their profits on trade with the Reich by stigmatizing "political" debt as counterproductive; the German-Americans who operated behind the scenes perceived an opportunity to undermine reparations while some bankers, in the London City and elsewhere, genuinely aimed to foster recovery by advertising the dangers of fiscal inflation. Almost to a man, however, three experts assumed that Europeans could not generate the requisite capital on concessionary terms from Washington or New York. Many saw an aggressive tone. The time had come, argued John Maynard Keynes, fresh from his polemical success with The Economic Consequences of the Peace, to speak out boldly and not "...to hang-hunging with the Americans..." From New York, the like-minded Paul Warburg proclaimed that it was a "misfortune and a crime" that the United States had not followed the "dissolution of humanity" and put its shoulder to the wheel. The sort of overheated rhetoric did not play well either in Washington or Peoria as America entered a depression so severe and business failures became extreme that restrictions on domestic credit.

In the spring of 1920, Assistant Treasury Secretary Albert Ballentine had canvassed intergovernmental debt issues with Sir Basil Blackett, his opposite number in Whitehall. While some Continental states suffered counterparties that the British, from genuine liquidity problems, on none could doubt that the British,
that it had become sufficiently prosperous to do so. But, as the Belgian prime minister pointedly remarked, when the communities pruned up those debentures, it could "nick them in a drawer without bothering to lock up, for no one would be tempted to steal them." In fact, the C-bonds constituted a reserve of funny-money that the origination hoped the Americans might ultimately accept in substitution for the Allied war debts. The true reparations annuity amounted to approximately 5.37 percent of German national income in 1921—a considerable charge, but not an impossible one for a nation possessed of sufficient political and economic discipline to limit consumption and facilitate the trans-
fer.63

Yet the pivotal issue of will to pay remained. Weimar politicians lacked both the inclination and the power to enforce the requisite discipline. Capital and labor would neither abate their distributional struggle nor accept the consequences of the lost war. The government in Berlin stoked the fires of inflation by avoiding serious taxation and dispensing fiscal largesse on a massive scale. Americans and other foreignen unwillingly subsidized the maneuver by speculating in depreciating mark notes and securities. Thus, despite all rhetorical complaints about the reparations burden, the net flow of capital ran strongly toward the Reich and financed a considerable import surplus.64

Reparations diplomacy in 1922 turned on the conditions that would allow, induce, or force Germany (depending on one's point of view) to stabilize its currency and meet its external obligations. The Germans insist on a long reparations moratorium before submitting themselves to the rigors of stabilization. The French, who suspected their neighbor across the Rhine of using inflation as a diplomatic weapon, demanded control of the customs and other productive guarantees. The British, preoccupied by stagnation in the so-called depressed areas, sought to link a German moratorium with a general scheme for writing down the world's balance sheet at the expense of the United States. His Majesty's government declared in the Salford note of August 1922 that it would seek to "collect only enough from Germany and its Continental debtors together as proved necessary to pay the United States. Not surprisingly, the Harding administration reacted with fury at this ill-timed endeavor to blacken America before the bar of world opinion. Robert Brand of Lazard's London branch summed up the resulting situation for the acting British foreign secretary: "What with the French determination to get impossible sums from Germany, the Americans determined not to agree to cancellation of debts . . . until Europe behaves. . . . and the general cloud of prejudice and misunderstanding in which the whole question can be involved, it seems to me that Senzian Shaw may be right."
and that the democracies of the world have created a machine which they are not clever enough to run."

Shrewd, as usual, confirmed his reputation for cleverness, but he missed the larger issues at stake. The reparations controversy assumed much greater significance than the uninstructed observer might conclude from monitoring the wrangling over coal quotas or the dispute about shipment of telegraph remittances. When rejecting the Versailles treaty, the United States Senate had also allowed the proposed Anglo-American guarantee of French security to lapse.44 Franco-British conflict over colonial and naval matters imposed further strains on the solidarity of the democracies. With little support from East European nations whose armies were grossly overstated in the larger scheme of things, France emerged virtually alone to uphold the edifice of European security established in 1919. In addition to the devastating use of ten northeastern departments, France suffered from a backward manufacturing structure, an outdated tax system, and a potential labor shortage. Germany, despite its losses and disutilities, continued to enjoy pride of place as the most advanced industrial power on the continent. In the normal course of events, the Reich would eventually regain the military hegemony that it had enjoyed prior to the war. Still, if France received the coal, coke, and capital to which it entitled entitlement on repayment account, this country might aspire to make a sufficient leap forward industrially to balance Germany in some respects. At the least, it could hope to maintain somewhat longer the security position sustained for the nonce by paper treaties. While the French took care to keep their repudiation claims and their security issues juridically distinct, an implicit linkage subsisted. Reparations emerged as the chief bone of contention in the Franco-German struggle for political and economic dominance in Europe. It lurked, in short, in the continuation of war by other means.45

The British war debt to the United States played a similar, if more symbolic, role. British obligations under the Mellan-Baldwin agreement of January 1923 came to just over a fifth of the anxiety owed by Germany under the London Schedule of Payments. The sum due represented a loss of a mere 0.8 percent annually on Britain’s existing overseas investment portfolio. Capacity to raise therefore hardly entered into the equations. And transfer posed no difficulty. As the chancellor of the exchequer informed the cabinet in June 1922, the problem was “not how to find the dollars, but simply how to persuade our own people to pay the taxation involved in the transfer of the dollars to the Exchequer’s control.”46 Yet on the expedition of settling with America, the London policy-making elite divided. Bankers in the City and Atlanticists in Whitehall thought that funding the debt would help bring the United States back

### Origins of American Stabilization Policy in Europe

As a stabilizing force to European diplomacy, promote economic growth on the continent, and thereby revive markets for crucial British exports. The anti-American faction countered that payment would shift the tax burden from the New World to the Old and, in the long run, reduce the ability of British manufacturers and bankers to compete with their American rivals in the third world. While the quantitative effects on the balance of payments did not bear very large, the debt issue served as a convenient focus of anger for Britons who resented the fact that the upstart Americans had gained the upper hand in the struggle for global financial supremacy. Thus the permanent under-secretary of the Foreign Office found the American demand for funding “incredibly mean and contemptible.” And certain Treasury hardliners, though they lost the battle in 1922–23, nurtured such a sense of grievance that in 1931 they preferred to see the gold-exchange standard collapse rather than suffer the system of “political” debt remittances to continue.47

But these problems lay in the future. The United States brought sufficient pressure to bear so that the British dispatched a funding mission that settled the debt at the beginning of 1923. The world war foreign debt commission exceeded its instructions and offered relatively generous terms. The British agreement, which became the model for the 1923–26 agreements with the Continental nations, offered a concessionary interest rate and a sixty-two-year period for all debts that amounted to a mere 3.5 percent reduction of the bill. The French, Belgians, and Italians would later obtain forgiveness of between 63.5 percent and 81.5 percent of prior obligations.48 Since no insiders expected debt payments to continue after the libery bonds became fully amortized in 1947, the American negotiator in practice made even greater concessions than these figures imply.

However, American attempts to encourage a reparations compromise without offering a direct linkage to war debts did not yield success in 1922. Werner Link points out that the government of the Reich, despite its disappointment with President Wilson at the peace conference, continued to cultivate American interest in a democratic, peaceably inclined Germany and to invite mediation by Washington in the reparations dispute. Certain “Easterners” in the administration preferred an alliance of the revisionist powers or at least a policy of balancing east and west. Some businessmen, like Hugo Stinnes, sided with the notion of improving relations with France as the initial step in creating a transmogrified Continental bloc. At every critical juncture, however, the responsible authorities in Berlin sought to play the American card. Thus in April 1921 Foreign Minister Walther Simons appealed for American arbitration with a view to moving off the London Schedule of Payments.
In December 1922 Chancellor Wilhelm Cuno followed the promptings of the U.S. ambassador and proposed a suggestion pace as France prepared to occupy the Ruhr. And again, in 1922-24, Gustav Stresemann made a particular show of cooperation with the Dawes Committee as the best way of stabilizing Anglo-American pressure on France, but did not reciprocate.

It does not reciprocally follow, however, that American leaders sympathized with German attempts to evade reparations obligations. Certain ethnic groups (especially German- and Irish-Americans) that had borne the burdens of wartime casinoism instinctively sided with the underdog but "hypnotic Americans" did not constitute an important constituency for the Harding or Coolidge administrations. To be sure, Secretary of State Charles Evans Hughes proclaimed in his New Haven speech of December 1922: "We do not wish to see a prostrate Germany. There can be no economic recuperation in Europe unless Germany recuperates." Yet neither did Washington or Wall Street envisage such recuperation at the sole expense of those entitled to receive reparations. Instead, policymakers and bankers alike fastened on the notion of "capacity to pay" as a criterion to bring about a settlement tolerable— if not acceptable— to both sides.

The administration made a first effort to bring about such a settlement in June 1922 by prompting J. P. Morgan to serve as a Breaker Committee to pass on precursors for a German stabilization loan. The point, as Morgan partner Dwight Morrow expressed it was to find a way "to make France reeke from an indefinable position with regard to reparations which will be compatible with the dignity of a great nation which contributed so much to the winning of the war and which bore so much of the suffering of the war." French Premier Raymond Poincaré refused, however, to accept the committee's finding that a reparations moratorium would have to precede a stabilization loan. All through the summer and fall of 1922, Secretary Hughes looked for a propitious moment to try again. The Balfour note, unfortunately, touched off a ferment of flights of discapay in the United States and limited his maneuvering room. At the end of December, Allied unity broke down. The Camp David government perceived an opportunity to mount an open revolt against reparations and the Versailles treaty generally. The French, though fearful of the consequences, saw no choice but to occupy the Ruhr as a sanction. With that running out, Hughes proposed an expert committee of businessmen to look into German capacity to pay. But the proposal came too late to stem the rise of events. French soldiers marched the German government, with a fine sense for the budding discipline of public relations, organized what it dramatized "positive resistance."

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Origins of American Stabilization Policy in Europe

Ten months later came a chance for the American security forces to try again. Passive resistance in the Ruhr broke down in September 1923, but the French found the attempt to collect reparations through political action fruitless. Moreover, the effort strained French finances and attracted the unwelcome attention of how to extract from them. This time, Poincaré had no effective choice but to accept the Hughes plan for economic inquiry with the widest possible mandate.

In theory, the Dawes Committee comprised a group of independent financiers and businessmen. These experts would examine the conditions necessary to stabilize the German currency and balance the budget of the Reich. In practice, committee members kept to close touch with their governments and attempted to cut a commercial deal with enough of a scientific aura to garner public approval. Owen D. Young, the chief American negotiator, defined the objective by using the homely expression "to find a new way to make a German neighbor and friend." Young held that the committee was "right to be well pleased with the spirit in which the French have acted." 87

In this respect, the committee succeeded brilliantly, in part by sending the tough issue of the coal run over to Germany. The French then insisted on an agreement schedule that would run gradually to a final settlement of 2.5 million gold marks (as it turned out, 3.12 percent of German national income at factor cost) in 1929. None of the European governments really liked the Dawes Report, yet none dared publicly to oppose it. The French, having called in J. P. Morgan & Co. to rescue them from a run on the franc in March 1923, could not pursue a unilateral policy.

British Treasury officials salvaged behind closed doors the American "bravery plan" and the dangers inherent in stabilizing the Deutsche Mark on the dollar. Still, MacDonald's Labour government could not escape from the onerous commitment to international collaboration. Stresemann and his colleagues in the German cabinetadesh to demand another reduction in the bill as soon as they could, but for the moment set the plan as a convenient lever to press the French out of the Ruhr. And so, under the watchful eye of American officials who— in deference to domestic isolationists— affected to be present by happenstance, the European nations reached a reparations settlement at the London Conference of July-August 1924. 88

Paradoxically, the American bankers who had saved the Allied cause in 1914 and 1915 were less satisfied with the results, for the Dawes Plan that started the debate over the balance of power decisively in Germany's favor. J. P. Morgan & Co., as a result of its public-spirited leadership during the war, largely set the tone for Wall Street. And in view of the public opposition to official entanglement in European affairs, private bankers came by default to exercise tremendous power.
Stephen A. Schuker

The Morgans persisted worried greatly about the resulting problem of public accountability. Under the circumstances, however, they had to reconcile as best they could the national interest in pacifying Europe with their specific business concerns. Their primary responsibility lay in ensuring the safety of bonds syndicated by the firm. Thomas Lamont and Russell Leffingwell, the leading partners at Morgan, wrote, claimed with apparent sincerity that they favored the largest possible reparations figures: "Our sympathies are all for making Germany pay to the last drop." At the same time, they confessed that Germany could "not well be made, or only be made, subject to the weight of the Long-term military invasion of the Ruhr." At the London Conference, Lamont therefore worked with MacArthur Nor- mans of the Bank of England to spread the powers of the Reparation Commission. The bankers demanded an assurance that, if Germany defaulted again, France would not resort to sanctions without first exhausting Allied unanimity and the acquiescence of bondholder representatives. Moreover, France had to agree not merely to evacuate the Ruhr, but also to maintain the original Versailles timetable for evacuation of the Rhineland. At a stroke, the French in effect bargain away both the right to seek future sanctions and the chief territorial guarantee of their security. The London Conference thus marked the end of a system based on compensation under the Versailles treaty. It opened the way for the reintegration of Germany as an equal partner in European affairs. For several years it appeared that American stabilization policy would have a beneficent effect. American loans poured into Germany and produced an improvement in living conditions and public amenities. Britain returned to the gold-exchange standard. The Continent's countries followed its lead. Central Europe organized a currency union to manage the international monetary system. The Western powers agreed at Locarno to a non-aggression pact among the Allies. Although this opened the way to German revisionism in the East, optimism that lacked a more-stable base in Eastern Europe indulged the hope that change might take place in that far-away region through a process of mutual accommodation. But the American policy of financial stabilization without political participation could not accomplish certain things. It could not bring domestic stability to Germany or avert the fragmentation of its party system. It could not alter the parochial consciousness in the Reich for transitional revision of the peace treaties. It could not satisfy the French, French search for security. It did not ameliorate the national ambitions and cultural conflicts that opposed France to Germany and Great Britain to the United States. Thus the stability of the middle 1920s proved, perhaps necessarily, ephemeral.

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