AMERICA'S POSTWAR SETTLEMENT: DOLLAR DIPLOMACY

IN EUROPE, 1919-1925

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AMERICA'S POSTWAR SETTLEMENT: DOLLAR DIPLOMACY
IN EUROPE, 1919-1925

THESIS

Presented to the Graduate Council of the
North Texas State University in Partial
Fulfillment of the Requirements

For the Degree of

MASTER OF ARTS

By

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Denton, Texas
January, 1970
The United States occupied the unique and ambiguous position of "Associated Power" during the First World War, contributing her part toward Germany's defeat as an individual nation instead of as a fully allied partner. The distinction between "associated" and "allied" may have seemed academic to the allied governments during the years the United States was in the war, but the struggle for a stable postwar settlement revealed that there was indeed a difference. As the United States saw it, she fought the war not with the Allies, but against Germany, and therefore the validity of her postwar claims rested in no way upon their being pursued in consort with the Allies. Consistent with that position, the United States sought to disentangle herself from inter-allied concerns and make her own postwar settlement as an individual nation.

Isolation is a poor term for describing the American postwar policy. America had very tangible interests in Europe. But she wanted to see to these interests with the freedom of action irrespective of the disposition of European nations (the British fleet excepted) which she had traditionally enjoyed. She extricated herself as much as possible from her wartime association by rejecting the Treaty of Versailles,
concluding a separate peace with Germany, and pursuing her economic interests and collection of her war claims as an individual nation.

Prosperity was the positive goal of America's postwar policy. For several years, the United States was successful in her attempt to be at the same time politically aloof and economically opportunistic. But politics and economics were radically intertwined in the reparation settlement, and when reparations interfered with the prosperity of the Atlantic community, it shattered as well America's resolve to "let Europe stew in her own juice," and caused American reinvolvement in European concerns. America's postwar settlement can be expressed in two words: disentanglement frustrated.
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CHAPTER I

AMERICA'S PEACE OF DISSENTANAGEMENT

The Treaty of Versailles proposed a postwar settlement which would make America's relationship to the Allies a permanent association bordering on alliance. The United States would help enforce the settlement in consort with the Allies, and receive payment for her expenses and claims against Germany out of a common fund. This plan for the postwar world was abortive. Led by Republican "irreconcilables" Philander C. Knox of Pennsylvania and William E. Borah of Idaho, and the powerful chairman of the Foreign Relations Committee, Henry Cabot Lodge, the Senate definitively rejected the Treaty of Versailles on March 19, 1920. This not only left America in a technical state of war with Germany, but also confused her relationship to the Allies, who had ratified the Treaty of Versailles under the assumption that America would do the same. The first step out of this limbo had to be peace with Germany, because any clarification of American-Allied relations might again be shaken by the terms of America's peace with Germany.

The United States still had the option, of course, of modifying the Treaty of Versailles. But there was strong
evidence that Congress would continue to obstruct the attempt. While President Woodrow Wilson was still in office, Republican leaders in both houses of Congress attempted to end the limbo by passing resolutions repealing the declaration of war with Germany, confirming the rejection of the Versailles treaty. But Wilson vetoed the last of the resolutions on May 27, 1920.¹

The alternative of calling the Allies together again to draft another peace treaty with Germany was equally unfeasible. Everything pointed toward a separate peace between the United States and Germany.

The Armistice of November 11, 1918, governed American-German relations during the long period between war and technical peace. On January 13, 1920, Secretary of State Robert Lansing informed the German Government that the United States regarded the Armistice as continuing in effect, even though the Treaty of Versailles came into full force on January 10, 1920.² America began officially trading with Germany on July 14, 1919, and German-American trade through 1919 and 1920 showed promise.³

While the Wilson administration lapsed into inaction pending the outcome of the "solemn referendum" on the Treaty of Versailles in the 1920 election, Germany desired prompt clarification of her relations with America, making no secret of the fact that she preferred a separate peace. The terms of the Versailles treaty were severe, and, although the Reparation Commission had not yet fixed the final sum of reparations, the German people feared they would be a heavy burden. Germany considered the settlement as a whole to be a repudiation of Wilson's Fourteen Points, and accepted each new phase of the postwar settlement only with greatest reluctance. She could always hope her peace with America might be more favorable.

The German Government used American hopes for increased trade as bait for a prompt settlement. On June 8, 1920, a German Undersecretary of State cautiously broached the subject of unofficial representation in Washington for commerce and passports, only to have the overture rejected. The German press quoted German Foreign Minister Friedrich Simons later that summer to the effect that although America seemed satisfied to reestablish intensive business relations, Germany had to insist on restoration of peace before initiation of

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official commercial negotiations. Although Simons later denied making the statement, it reflected German thinking.

Through the winter of 1920-1921, Germany lost no opportunities of promoting separate peace with America. In January, 1921, German Secretary of State Heinrich Albert sought out the American Commissioner in Berlin, Ellis Loring Dresel in informal talk promoting a separate peace. Albert said in effect that although Germany might have understood America's signing the Versailles treaty in 1919, she could never forgive America's signing it now, enough time having elapsed for both nations to see what a bad treaty it was. Germany was not over-friendly to the League of Nations, but she would be particularly distressed should America accept the Versailles treaty without it. The substance of his statement leaked out to the German press, and on February 16, Secretary of State Bainbridge Colby reproached Dresel for getting involved in the discussion. Dresel on his part insisted that what took place was not a discussion, but a monologue by Germany. Germany was pressing hard for a separate peace, but the Wilson administration was not receptive.

With the coming of spring, 1921, the full extent of Germany's reparation obligations and her probable inability

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6 Ibid., p. 260.
8 Ibid., p. 2.
to fulfill them became apparent. As a sanction for defaults in her delivery of reparation coal, and for Germany's alleged responsibility for the breakup of the London Conference, Allied troops began to occupy Duesseldorf and other Rhine bridgeheads on March 8, 1921, and threatened to occupy the Ruhr district. The Reparation Commission evaluated the deliveries in kind which Germany had already made far below Germany's calculations, leaving her woefully short of the $5,000,000,000 reparation payment due May 1, 1921. At the same time, the Reparation Commission was in the last stages of setting Germany's total reparation bill at $32,000,000,000.

Germany turned to America for help. Several times in April and May, she suggested unofficially to President Warren Harding that the reparation payments were set too high, and requested American arbitration, or at least her moral support for a more reasonable schedule. Although the United States was already considering a separate peace with Germany, Secretary of State Charles Evans Hughes' response dampened German hopes of using the separate peace to undo the Versailles treaty: "We stand by the Allies in requiring Germany to pay."

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9 Bergmann, History of Reparations, p. 67.
Later replies from both Harding and Hughes were more sympathetic to the German cause, but America consistently refused to arbitrate, and suggested that Germany make definite proposals to the Allies. Neither Germany nor the Allies could claim the separate German-American peace, now so clearly forthcoming, as an unqualified advantage. Separate peace might remove America's commitment to help enforce the Treaty of Versailles, but there was no indication that it would mean American intervention in support of Germany.

America's first overt move toward a separate peace with Germany came on April 12, 1921, when President Harding urged Congress to declare a state of peace with Germany by a joint resolution. On the following day, Senator Knox introduced a joint resolution in the Senate, repealing the state of war with Germany, calling for continued sequestration of German property in America until Germany should make suitable provision for satisfying all American claims against her, and reserving to the United States all the rights, privileges, reparations, and advantages specified for her in the Versailles treaty. The Knox resolution meant, in effect, a separate peace settlement between the United States and Germany, and final American rejection of the League of Nations.

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14 Ibid., p. 188.
No previous American Congress had attempted to establish a state of peace by legislation. During the Wilson administration there was reason for short-circuiting the usual procedure of establishing peace through treaties negotiated by the executive branch through diplomatic channels. Knox had attempted bypassing the executive in the spring of 1920, because of the impasse between Democratic President Wilson and the Republican Congress. Under that condition, establishing peace by Congressional action was the only alternative to remaining in the state of inaction resulting from Congressional rejection of the Versailles settlement and Wilson's insistence that only the Versailles settlement was acceptable. But in 1921, the President and the Senate majority were of the same party, and the original reason for the Knox resolution was no longer valid.

There is one adequate explanation for the resubmission of the Knox resolution: the President and the Senate were not in complete harmony on foreign relations. In fact, a struggle for control over foreign policy developed between the Harding administration and the Senate Foreign Relations Committee. The administration wanted greater involvement in international affairs, while the senatorial bloc led by Lodge, Knox, and Borah favored withdrawing from international involvement as much as possible. The administration had executive diplomacy

\(^{15}\) Ibid., p. 857.
as a channel for its power, while the Lodge bloc had the veto for obstruction, and now had the Knox resolution as an offensive weapon. Since the newly-elected party would hardly want to parade its differences in public, the struggle took place largely behind the scenes, and evidence must be gleaned from various sources.

Democrats attempting to bring the power struggle to light and provoke open disunity in the Republican camp were most vocal in calling attention to the struggle, and presented the spectacle of Democratic senators rescuing the President from his fellow Republicans. Senator Gilbert M. Hitchcock of Nebraska was chief spokesman for the minority view that the Knox resolution "could not bind Germany," could "only serve to embarass the President," and "was an attempt to ursurp the treaty-making power of the executive."\textsuperscript{16}

Other Democrats pointed to contradictions between Harding's pre-election statements and the Knox resolution, especially his assertion that he "had no expectation whatever of finding it necessary or advisable to negotiate a separate peace with Germany."\textsuperscript{17}

Proponents of the power struggle theory did not use what should have been their strongest argument: that Harding appointed Hughes his Secretary of State. Electioneering is one thing; appointment of a Secretary of State is another. Hughes stood out like a giant among the first round of cabinet

\textsuperscript{16}Ibid., p. 784. \textsuperscript{17}Ibid., p. 859.
appointments. And even Harding's later appointments were men who could be trusted to agree with him. Since Hughes was not a "yes man", it is clear that the two men basically agreed on foreign policy. Hughes was pro-League, and was willing to step out of line with the Lodge bloc in the Senate to say so emphatically. Hughes was not a member of the clique which made Harding President and expected him to be its mouthpiece. While Harding was making his cabinet appointments, Republican Senator Boies Penrose of Pennsylvania said "It doesn't make any difference who is appointed Secretary of State." All this points to one conclusion: Harding did not entirely agree with the anti-League forces which made him President, and he armed himself against being their mouthpiece after the election by appointing a strong Secretary of State who did not share their views.

A series of meetings in early April, 1921, tend to indicate a modus vivendi within the Republican camp on the formulation of foreign policy. On April 1, Lodge gave a dinner ostensibly for the former Premier of France, Rene Viviani, but with a guest list on which Republican irreconcilables were prominent. This was followed by a meeting at the


White House in which Colonel George Harvey, Ambassador-designate to Great Britain, Myron T. Herrick, Ambassador-designate to France, and Stephane Lauzanne, editor of the French Matin were closeted with the President and Republican leaders all day. Knox and Harding remained alone together for two hours after the meeting. Rene Viviani had a long interview with Knox on the following day. Also on the day after the meeting, Lausanne cabled the Matin in Paris: "The Knox resolution will be approved; the Treaty of Versailles will not. The sooner the French people place themselves before this reality, however hard it may be, the better for France." On April 5, the New York Times expressed its belief that the meetings resulted in the formulation of a comprehensive foreign policy, with the Knox resolution as its key. On the following day, the same paper editorialized that "Viviani was used by Republican Senators in their well-advertised attempt to transfer control of foreign affairs from the President and Secretary of State to the Senate Foreign Relations Committee." Hughes was conspicuously absent from the meetings.

For several weeks after the April meetings, Republicans presented an ostensibly unified front on the peace settlement.

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21 Ibid., April 3, 1921, p. 2; April 4, 1921, p. 4.
22 Ibid., April 5, 1921, p. 1; April 6, 1921, p. 14.
with Germany. Harding "assented"23 to establishing peace by a joint resolution in his April 12 address to Congress: "... I should approve a declaratory resolution by Congress to that effect, with qualifications essential to protect all our rights." But he warned that "such a resolution should undertake to do no more than thus to declare the state of peace ... " and suggested that "the wiser course would seem to be ... to engage under the existing [Versailles] treaty."24

Knox's resolution did not follow Harding's last suggestion. Democrats tried at length to prove outright contradictions between the Knox resolution and Harding's speech, but the results were not convincing.25 The best explanations are that either Lodge changed Harding's mind for the time, or that Harding recognized the futility of open conflict with the Lodge bloc, and, lacking the temperament for an open fight, was content to bide his time. The absence of Hughes at the policy-making meetings indicate that no definitive showdown took place, especially since Harding and Hughes continued harmonious agreement on foreign policy.

Democrat Senators who attempted to probe the power struggle met with silence from proponents of the Knox resolution. A news dispatch from Washington explained the

23 Frederic L. Paxson, Postwar Years: Normalcy, 1918-1923, (Berkeley, California, 1948), p. 207.


25 Ibid., passim.
Republican Senators' hesitancy to discuss the resolution, and their absolute refusal to discuss in any way the crucial issue of reparations:

It was in pursuance of a "virtual agreement" between the President and members of the Foreign Relations Committee to permit him to work out his foreign policy without "suggestion or criticism from the Senate."26

There was no public word from Harding between April 12 and May 2 about the separate peace, and the New York Times editorialized that Lodge had been successful in assuming the function of the executive, and that the irreconcilables now "wanted to reverse Hughes' policy."27 But it was not until Borah introduced legislation calling for a naval disarmament conference that Harding turned to the attack. Harding issued a stern warning that the legislature was attempting to "force his hand" on naval disarmament, an issue which he considered a matter for the Executive and the Department of State only. He got quick action when the Senate Committee on Naval Affairs rejected Borah's proposal (for a time).28 There was a line beyond which Harding would not let the Senate manage foreign policy.

In the end, Harding reportedly was "amused" at the Knox resolution, and felt confident that the plan he and

27 Ibid., May 3, 1921, p. 21.
28 Ibid., May 5, 1921, p. 1.
Hughes had already formulated would render the resolution harmless. But the struggle for control over foreign policy continued in later Senate debates on the Knox resolution, and continued into the Coolidge administration, forcing the Executive to bypass Congress whenever possible and make much of America's participation in international concerns unofficial in nature. The part the Knox resolution played in this struggle was clear. By it, Congress could stipulate in advance the nature of any peace settlement the Executive might make with Germany.

Democrat opponents of the Knox resolution opened debate on the resolution proper on April 28. Prominent pro-League Democrat, Oscar W. Underwood of Alabama, framed comprehensive arguments against the resolution. He objected strenuously to the form of the resolution, which established a state of peace not by positive legislation, but by repealing the declaration of war. Repealing the declaration of war would imply repudiation of that declaration, and cause the pages of history to reflect that the war had been a mistake.

Democrats generally preferred letting the Executive negotiate a peace with Germany without benefit of a Congressional resolution. Underwood reflected their thinking:

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29 Ibid., July 4, 1921, p. 1.
the resolution would have no effect on international relations. It would have no effect if Germany failed to respond with similar action, because peace is a mutual, not a unilateral state. And if Germany did concur with a similar resolution, it would be worse. The state of war would be literally at an end, leaving America no legal claims under the Armistice or the Versailles treaty, no right to continue to hold alien property, and, indeed, no right to insist that Germany conclude a peace treaty, for peace would already have been established by legislation.\textsuperscript{32}

The minority opposed the content of the Knox resolution less because it deviated from the Fourteen Points than because it let Germany off too easily. There was a great deal of confusion about whether a negotiated peace treaty would follow passage of the resolution. Many senators from both parties thought the resolution did not go far enough to protect the security of France, and were particularly dismayed by the fear that it would disrupt Allied unity and encourage German resistance at the very moment the Allies were presenting the reparation bill and threatening invasion of the Ruhr.\textsuperscript{33} Wilsonian principles played no significant role in the discussion on the Knox resolution.

\textsuperscript{32}\textit{Ibid.}, pp. 750-754, 8252.

\textsuperscript{33}\textit{Ibid.}, pp. 748, 799.
Republicans did not need to say much in defense of the Knox resolution; they had the votes necessary for passage. Even Lodge spoke up only very reluctantly, and when he did he continually requested to end his remarks and answer no more questions. But a majority view can be gleaned from his statements: the joint resolution was a law, and in no way a treaty. It was therefore within the competence of the legislature to pass it. Repeal of the act declaring war was the most direct and simplest way of reaching a state of peace. There was no sense passing a totally new law, when repeal of the old law would have the same effect. There was good reason for the haste of a joint resolution: America's hands were tied, commercially, by the presence of British diplomatic and consular representation in Germany, while America had none. And finally, ratification of the Versailles treaty was unacceptable because it was intertwined with the League of Nations. Lodge believed, at least for a while, that a negotiated peace treaty would not be necessary.34

The Senate passed the Knox resolution by a partisan vote on April 30.35

The House of Representatives was not happy with the Senate procedure. Representative Stephen G. Porter, Democrat Chairman of the House Foreign Affairs Committee, presented his formula for a peace resolution before the Knox resolution

34 Ibid., pp. 837 ff.
was reported to the House. The Porter formula omitted reference to repealing the declaration of war, and simply declared the state of war at an end. The House Foreign Affairs Committee recommended the Knox resolution to the House on June 11, with one significant change: the Porter formula was substituted for the phrases repealing the declaration of war. Porter argued that repealing the declaration of war was not necessary, and that the Senate debate had failed to produce adequate reasons for that procedure. The House gave general assent to this amendment. 36 The House Foreign Affairs Committee also eliminated many of the detailed prescriptions of the Knox resolution because "the Senate resolution fixes many terms and conditions of the treaty to be made, thereby unmistakably invading the President's prerogatives. . . ."37

House Democrats questioned the constitutionality of declaring peace by congressional resolution. Countering the Republican argument that power to declare war implied also power to conclude peace, Democrats turned to history. According to Madison's Journal, while the Constitutional Convention was discussing the power to declare war, it explicitly and overwhelmingly defeated a motion to give the Senate power to conclude peace also. Republicans never

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36 Paxson, Postwar Years, p. 207; Congr. Record, 67th Cong., 1st Sess., LXI, 2450.
37 Ibid.
addressed themselves historically or constitutionally to this objection, and many Democrats remained convinced that the declaration of peace by Congress was unconstitutional. 38

The House passed the Porter resolution on June 13. President Harding threw his weight behind the Porter formula, and the Senate conferees agreed to accept Porter's wording. In exchange, the House agreed to reinstate some of the detailed Senate stipulations about American rights. After final House and Senate approval, Harding signed the Knox-Porter joint resolution into law on July 2, 1921. 39

After nearly three months of debate, the Knox resolution declared the war between Germany and America to be at an end. It was ostensibly necessary, to save time in promoting trade and regularizing America's international relations. But it could not accomplish either of these alleged objectives. America had lifted the ban on German trade on July 14, 1919, and German-American trade, although not up to the pre-war average, had already expanded to the limit of Germany's ability to pay for purchases. 40 Lack of consular services and the general uncertainty of German-American relations might have deprived American businessmen of some of the advantages which the Allies enjoyed, and treaties of peace and commerce

38 Ibid., p. 2461.
39 Ibid., pp. 2548, 3157, 3262, 3298, 3526.
negotiated through regular channels might have promoted trade in a quick and satisfactory manner. But the Knox resolution did nothing toward establishing consular or commercial agreements. In fact, America refused Germany's repeated requests for a commercial treaty until 1923.41

American desire to regularize her international diplomatic relations for the sake of securing a share in the war settlement was a motive behind the joint resolution. Two trends made this an acute problem during the spring of 1921. The Reparation Commission began planning apportionment of reparation payments excluding the United States.42 And the League of Nations demonstrated a growing tendency to apportion control over the former German undersea cables only to nations that had ratified the Versailles treaty. The United States was particularly interested in the Yap cable, and sued for equal voice in its control. But America's only legal argument was that the cables and other property were gained through the common victory.43 America was in danger of losing the litigation, and feared precedent. This concern explains the detailed stipulations on American rights mentioned in the Versailles treaty. Inaction was allowing America's claim to postwar rights to slip away, and prompt regularization of her international relations might help

42 Ibid., p. 354.
reverse the trend. But that does not explain why a joint resolution should be chosen as the method to reach that goal. The joint resolution by its very nature was a unilateral declaration, and could do nothing to regularize America's international status or secure her disputed rights.

The general argument that the Knox resolution, whatever its shortcomings, would at least save time was also not valid. It took three months to reach a position which the administration could have taken on March 4, 1921, when President Harding already had the constitutional right to negotiate international agreements. The Knox resolution had the imaginary effect of empowering the President to make peace with Germany, a power which he already had, and the actual effect of stipulating in advance the general terms of America's peace with Germany. The only adequate explanation, therefore, for that manner of procedure was senatorial desire to control foreign affairs.

As the joint resolution neared passage, it became increasingly evident that the State Department would have to negotiate a treaty with Germany to realize the resolution's objectives. The administration could not ignore stipulations of the joint resolution, but still had some freedom to determine the substance and form of the treaty. The issue was the exact relation of the new treaty to the Treaty of

\footnote{Howland, \textit{Survey of Foreign Relations}, 1928, p. 465.}
Versailles. After the Senate passed the Knox resolution on April 30, Lodge announced the need of negotiating a new treaty with Germany, implying that the Versailles treaty, even with reservations, would not be a suitable basis.\textsuperscript{45} The administration did not entirely agree with Lodge, but had to reckon with his power. The Springfield Republican reported that "Harding and Hughes planned to resubmit to the Senate the Treaty of Versailles with reservations. They were forced to alter that plan by a group of Senate irreconcilables."\textsuperscript{46} The \textit{New York Times} said that Lodge persuaded Harding between April 12 and April 30 to give up his plan to submit a modified Versailles treaty. On that occasion, Harding said in effect: "I'll let Hughes work out a plan for modifying the Versailles treaty for resubmission, but I doubt that he will succeed."\textsuperscript{47}

Lodge reportedly informed Harding that an expurgated Versailles treaty would never receive support in the Senate.\textsuperscript{48} This undoubtedly affected administration strategy. On July 4, the \textit{New York Times} analyzed the relationship between the joint resolution and the forthcoming treaty:

\begin{itemize}
\item \textsuperscript{45} \textit{New York Times}, May 1, 1921, p. 1.
\item \textsuperscript{46} \textit{Current Opinion}, LXXI (October, 1921), 409.
\item \textsuperscript{47} \textit{New York Times}, May 1, 1921, p. 1.
\end{itemize}
Nobody, including the President, knows what the resolution means. . . . It is no secret that the Harding administration has looked on the enactment of the peace resolution by Congress with more or less amusement. . . . But Harding was concerned as it became apparent that Senators wanted to attach certain declarations of American foreign policy to the resolution. . . . So the resolution was pruned to the bone.49

Hughes had the difficult task of bridging the gap between the Knox resolution and the administration's objectives. His instructions from Congress seemed contradictory. The Knox resolution directed him to secure rights stipulated for America in the Versailles treaty, yet even a modified Versailles treaty would not get through the Senate. His solution was ingenious: instead of beginning with the Versailles treaty and trying to make it acceptable, he created a new treaty, and introduced desirable sections of the Versailles treaty into it. The effect was the same, but the procedure was politically viable in America, and Germany would probably prefer it.50

By July 5, Hughes' plans were complete. He sent the text of the joint resolution to Ellis Loring Dresel, unofficial American Commissioner in Berlin, and asked him to ascertain by informal inquiry whether the German Government intended to question the rights and privileges stipulated for the United States in the Versailles treaty.51 German Foreign

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Minister Friedrich Rosen consulted the Reichskabinett, and returned its answer on July 22: the German Government did not intend to question the rights claimed by the United States under the Treaty of Versailles in connection with the Congressional resolution, and was prepared to confirm those rights in protocol.  

On August 1, 1921, Dresel presented Rosen the proposed text of the treaty. It consisted of a preamble reciting pertinent stipulations from the joint resolution, and three articles. By Article I, Germany undertook to accord to the United States the rights and privileges specified in the Versailles treaty and by the joint resolution. Article II defined those rights more exactly. By it, America "gerrymandered" the Versailles treaty, including various rights, the most important of which was the right to reparations under Section VIII of the Treaty of Versailles, and excluding everything that referred to the League of Nations or new boundaries and political clauses referring to the European settlement. The United States reserved to itself the privilege of participating in the Reparation Commission, without being bound to do so.

The treaty bound the United States to no obligations whatever. Practically, it required Germany to pay American

52 Ibid., p. 8.

claims for war damage, and recognized America's right to retain German property sequestered in America until Germany should commit herself to a satisfactory plan for paying American claims. Rosen objected that it was a one-sided treaty, with no reference to limitations on the American claims, but the American Government made only minor concessions.\textsuperscript{54}

Germany felt that the lack of definite provisions regarding German property in America was particularly unfair, but, since the disposition of the Alien Property Fund was the responsibility of Congress, alone, Hughes could do no more than assure Rosen that the question would be "dealt with upon the most fair and righteous basis" in due time.\textsuperscript{55}

Rosen's attempts to write into the treaty some semblance of recognition of German rights or limitation on American claims against Germany met with no significant success. Where sections of the Treaty of Versailles under which America claimed rights were vague, Hughes refused to specify the exact limits of the American claim, on the grounds that to do so would insert a commentary on the Versailles treaty into the separate peace.\textsuperscript{56} The stipulation of the joint resolution prevented Hughes from making some concessions he might personally have favored. His last substantive communication on

\textsuperscript{54}U.S., Foreign Relations Papers, 1921, II, 12-20.
\textsuperscript{55}Ibid., pp. 16-18, 20; New York Times, August 3, 1921, p. 1.
\textsuperscript{56}U.S. Foreign Relations Papers, 1921, II, 10.
the negotiations was a reply to repeated German requests that the text limit American claims to what was already included under the Treaty of Versailles. His response was representative of the tone of the entire negotiations:

It is of great importance that the reference in Article I to the peace resolution which Germany suggested changing should be retained. On account of conditions here, no opportunity should be afforded for contention that the terms of the peace resolution were not observed. . . . Congress made that resolution the subject of extended consideration, and there could be no agreement that is inconsistent therewith. 57

The German Government released an official statement to the press after signing, with this apologetic explanation:

"The negotiations were dependent from the start on the fact that the American Government was bound by the well-known peace resolution. . . ." 58

Dresel and Rosen signed the Treaty of Berlin on August 25, 1921. 59 It was formally a negotiated peace treaty, but in reality, it was written in America for Germany to accept. The Secretary of State created its form, but Congress stipulated its substance.

Germany had expected much more lenient treatment from the United States. She had been confident that the Knox resolution meant a very simple and unexacting peace, and

was disappointed in the text of the Treaty of Berlin. But Germany had nothing to gain from bitterness, and expressed hope that America would not choose to interpret the treaty in its literal harshness.

The French and British were disappointed by the Knox resolution, and disappointment turned to bitterness when they saw the text of the treaty. Their press complained that the Allies had to continue the drudgery of executing the peace, while the United States stood at a convenient distance to reap its benefits. Unnamed "authorities" questioned the international legality of America's claiming rights under a treaty she had repudiated.

Hughes was concerned about official allied reaction. He solicited notes from the allied governments to the effect that they did not question the rights America claimed under the Treaty of Berlin and the Treaty of Versailles. France delayed this informal approval, thinking that the Treaty of Berlin might necessitate new treaties among the Allies, but eventually all allied governments expressed their informal approval of the treaty.

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61 Ibid., August 27, 1921, p. 3.
62 *Times* (London), August 26, 1921, p. 10; August 27, 1921, p. 9.
63 *Current History*, XV (August, 1921), 58; *New York Times*, September 9, 1921, p. 2.
65 Ibid., p. 26; *New York Times*, September 8, 1921, p. 17.
The Senate was generally pleased with Hughes' success in uniting the Knox resolution with desirable sections of the Treaty of Versailles. The Foreign Relations Committee attached two reservations to the resolution of ratification. One negated the only significant concession Hughes had made to German requests for limitation of American claims, and the second required Congressional approval of presidential appointments of American representatives to the agencies authorized in the treaty. This meant specifically that only Congress could appoint American representatives to the Reparation Commission. Having, in effect, controlled the writing of the treaty, the Senate desired also to control its application.

Debate on ratification was remarkably non-partisan, and remarkably incisive. Senator Borah led a small group of former supporters of the Knox resolution who now opposed the treaty. They had assumed that the Knox resolution and separate peace meant extrication from interallied concerns. They warned that the United States could collect on the claims she made in the Berlin treaty only by going through the Reparation Commission, and that America would either have to forego her claims, or eventually become entangled in that Commission. But the

Senate was unmoved by Borah's warning, and on October 18, 1921, ratified the Treaty of Berlin with the two above mentioned reservations. Germany ratified on November 2, and the usual exchange of diplomatic representatives followed.69

The Treaty of Berlin set the pattern for foreign policy during the reign of "normalcy:" it was an agreement between the United States and another single nation. It depended in no way on the disposition of the Allies, and epitomized American desire for freedom of individual action. The Treaty of Berlin did not mean to depreciate Allied rights: what the Allies expected of Germany was irrelevant to America's relationship with her. It did not mean isolation; it meant disentanglement from interallied concerns and from Allied-German problems. The Treaty reflected admirably President Harding's inaugural promise that the foreign policy of "normalcy" would mean "not submergence in internationality, but sustainment in triumphant nationality."70

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69 Ibid., p. 6412-6413; Bemis, American Secretaries of State, X, 228; New York Times, October 29, 1921, p. 1; April 21, 1922, p. 6.

CHAPTER II

AMERICA'S POSTWAR FINANCIAL SETTLEMENT

The total war effort left the United States with a public debt of over $21,000,000,000. There were four sources whereby the United States could obtain money to pay off the debt: collection of claims for wartime damage to civilian property by Germany, collection of the costs of the American Army of Occupation of the Rhineland, collection of interest or principal on American loans to the Allies, and taxation. With the exception of the principal of the loans, these amounts were relatively small. But every penny collected from European nations by way of postwar financial settlements was a penny less of taxation. In a nation clamoring for relief from high taxes, it was hardly politically feasible to make even minor concessions which would delay tax relief. For political as well as financial reasons, therefore, the United States was not prepared to compromise on her postwar financial settlements. American efforts were half-hearted and tentative until ratification of the Treaty of Berlin, but when that cornerstone


2Ibid., pp. 87-89; Congr. Record, 67th Cong., 1st Sess., LXI, 4254.
of American foreign policy was in place, she began vigorously to pursue advantageous financial settlements.

Germany thought that a commercial treaty would follow directly upon the signing of the Treaty of Berlin. But the United States delayed, and finally explained in May, 1922, that it was "not especially anxious for a commercial treaty at this time." The United States insisted on settling the claims for war damage before negotiating a commercial treaty.4

Article 304 of the Treaty of Versailles called for establishing Mixed Arbitral Tribunals between Germany and each participant in the Treaty to adjudicate claims for war damage.5 The Allies followed that procedure, and the conference at Spa in July, 1920, set the percentage of German reparation payments each nation would receive on its claims. The United States had unofficial representatives at Spa, but made no attempt to claim a percentage of German reparations there. America considered herself free to deal directly with Germany, and saw no reason for informing the Allies how she intended to settle her claims. American unofficial observer Roland W. Boyden stated America's position on August 5, 1920: "These decisions, [Spa percentages and reparation schedules] to which the United States is not a party, do not affect the position of the United States."6

5Ibid., p. 249.
The Treaty of Berlin reserved to the United States the right to set up its Mixed Arbitral Tribunal with Germany. But the Allied Tribunals made their reports to the Reparation Commission, and the Reparation Commission oversaw payment of the adjudicated claims. Establishing that tribunal would therefore involve the United States in the Reparation Commission, and in January, 1922, Harding and Hughes decided against it. Rather than negotiate for a slice of the Allied pie, America chose to bake her own.

Instead of a Mixed Arbitral Tribunal under the Reparation Commission, the United States established a Mixed Claims Commission with Germany, which could adjudicate claims in the same way, but would have no relationship to the Reparation Commission. Negotiations began in earnest in May, 1922, after the United States allowed the ninety day period within which to establish a Mixed Arbitral Tribunal to expire. Germany wanted a two-man commission, but the United States insisted on an umpire to break ties, and negotiations bogged down.

Senator Oscar W. Underwood introduced a bill in the Senate in July, 1922, establishing a commission composed entirely of American citizens to pass on American claims.

Hughes told Ambassador to Germany, Alanson B. Houghton, that action on the Underwood bill would force the administration to give up its plan for a Mixed Commission and embarrass the Executive, and on July 29, warned that if the negotiations were not concluded promptly, "Congress will deal with the matter in its own way." Germany still disagreed with appointing an American umpire, insisted that American claims be more clearly limited than they were in the Treaty of Berlin, and thought that the decisions of the Commission would have to be ratified by the Reichstag. But Germany waived her objections out of fear of less favorable Congressional action, and negotiations proceeded so quickly that on August 5, Hughes authorized Houghton to sign the document. The negotiators found an ingenious way of making the appointment of an American umpire politically viable in Germany. The text stated: "The two governments shall by agreement select an umpire to decide on cases of disagreement," and the German Government agreed to request an American umpire upon signing.

Houghton and German Chancellor Josef Wirth signed the Agreement for a Mixed Claims Commission on August 10, 1922. The Commission was to pass upon claims of American citizens for property damaged or seized in Germany, for personal injury

11 Ibid., p. 256.  
12 Ibid., pp. 250-251.  
13 Ibid., p. 257.  
14 U.S. Senate, Treaties and Conventions, 1910-1923, III, 2601-2602.
or property damage caused by the war, and for debts owed
by German citizens or the German Government to American
citizens. The United States agreed, in a separate note,
ot to file claims for pensions, and set a period of six
months for filing claims. Harding appointed Associate
Supreme Court Justice William R. Day the first umpire, and
the American and German representatives, Judge Edwin Parker
and Wilhelm Kiesselbach, began their work on November 1, 1922.

Their adjudication of the claims was an example of
efficiency and fairness. American claims, which stood at
$221,000,000 in 1921, swelled to $1,479,064,314 by June,
1923. But the Commission's policy of restricting awards to
real financial loss scaled the claims down. By late 1924,
it was clear that only about $300,000,000 in claims would
be awarded.

Although the Commission itself operated smoothly, Germany
could make no payments on the American claims, because her
economy was rapidly deteriorating in late 1922. According
to the stipulations of the Knox resolution and the Treaty of
Berlin, the Alien Property Custodian held German property
valued at about $350,000,000 against Germany's obligations.

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15 Ibid.  16 U.S., Foreign Relations Papers, 1922, II, 265f.
18 Literary Digest, LXXVII (June 16, 1923), 14; Congr.
Record, 67th Cong., 1st Sess., LXI, 2508ff.
The Allied Governments had liquidated German property in their possession, credited Germany's reparation account with its value, and left it up to the German Government to indemnify her nationals for the lost property. It was possible all along for Congress to do the same with alien property in America, pay American claims out of the money realized from its sale, and close the books of the Mixed Claims Commission. But several factors militated against that action. To do as the Allies had done would conflict with traditional American respect for private property. It was a question about which Germany felt most strongly. But probably the most important reason was that it might involve the United States legally with the Reparation Commission. In January, 1922, before definitive action on establishing the Mixed Claims Commission, Alien Property Custodian, Colonel Thomas W. Miller, had suggested that the property be returned to Germany. Both Congress and Germany opposed the plan. Inflation of the German mark had so increased the value of the property in marks that the German Government would seize 95 percent of it as war profits. The money would go into the reparation fund of the Allies, and the United States would face the choice of negotiating in the Reparation Commission (where she preferred having no official representation) or losing the funds.

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Eventually Congress authorized Miller to return all German properties of less than $10,000 in value to their owners. This amounted to $45,000,000 or about one-seventh of the property.23 As late as February, 1925, President Calvin Coolidge favored keeping the sequestered German property, for fear that it would otherwise go into Germany's general reparation fund.24

Through the Mixed Claims Commission, the United States could handle her claims against Germany directly, with no relationship whatsoever to the Allies or the Reparation Commission. It represented perfect disentanglement. On paper, at least, the United States secured a favorable financial settlement without resorting to inter-Allied negotiations, and without incurring obligations in Europe.

Securing payment for the costs of the American Army of Occupation of the Rhineland was a second major objective for America's postwar financial settlements. Consistent with her decision to walk her separate path, the United States again attempted to bypass the Reparation Commission as much as possible in obtaining payment of these costs. This attempt involved America in closer relations with the Reparation Commission.

America's contact with the Reparation Commission had been of necessity unofficial. In July, 1919, President Wilson

23 Ibid., March 26, 1923, p. 8.
asked senatorial approval of provisional appointment of an American representative to the Reparation Commission in advance of ratification of the Treaty of Versailles. The Foreign Relations Committee responded negatively. But Wilson allowed American peace commissioners to continue work on the Committee on Organization of the Reparation Commission through the fall of 1919. When the bulk of the American peace commissioners departed in December, 1919, Assistant Secretary of the Treasury Albert Rathbone remained in Paris and continued to assist in organizing the Reparation Commission. After the Treaty of Versailles came into force on January 10, 1920, and the Reparation Commission became an official body, the Allies invited the United States to attend unofficially the meetings of the Commission. The State Department authorized Rathbone and Colonel James A. Logan to attend the meetings. Roland W. Boyden succeeded Rathbone later that spring. On President Wilson's instructions, Boyden announced his retirement on February 19, 1921. However, on May 7, at the Allies' request, the State Department authorized Boyden to return to the meetings as an observer, and he continued to act in that capacity through 1922. He could not vote or take part as an official representative, but was America's channel of communication with the Commission.  

The ambiguity of America's presence at the Reparation Commission meetings, and the tentativeness of her position,

pending her separate peace with Germany, prevented her from collecting the costs of her Army of Occupation at the proper time, and made it easier for the Allies to postpone arranging payment of the costs. Article 251 of the Treaty of Versailles, which the United States reserved to itself in the Treaty of Berlin, gave reimbursement of all the costs of all the Allied and Associated Armies of Occupation priority over reparation payments. The United States indicated repeatedly that it expected payment of the costs. On November 24, 1919, an American commissioner, Henry White, reminded a meeting of the Allied Supreme Council that the American Army was staying in Europe only at repeated Allied requests, that the United States had "always understood that it is entitled to be reimbursed the exact cost of maintaining all its military forces in German territory," and that if the American bill was too high, she would be happy to reduce the size of her army.

The Spa protocol of July 16, 1920, assigned Allied nations their percentage of German reparation payments and gave some reparations priority over payment of the army costs. Roland W. Boyden, the unofficial American representative at Spa, did not register an official protest or reservation, but merely had the comment read into the minutes that "the

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27 Ibid., p. 118.
United States obviously understands and expects that it will be reimbursed in cash for the actual cost, and that it will be notified at once if its Army is not wanted on these terms."  

On July 30, 1921, while the Reparation Commission was discussing allocation of the 1,000,000,000 gold marks to be received soon from Germany, Boyden again could do nothing more than refer unofficially to the American "understanding." On August 31, 1921, the Allied Supreme Council reassured America that she would receive payment on an equal basis with the Allies, and said that America's request would be acted upon at the Conference of Ambassadors in the winter of 1922. But to America's surprise, at the meeting at Cannes in January, 1922, the Allies made a new arrangement for allocating everything Germany could possibly pay, totally ignoring the American army costs. At this point, the United States substituted direct action for its passive unofficial understanding.

An Allied Finance Ministers' Conference was to make further arrangements for apportioning German reparation payments in March, 1922, and there Boyden presented the following memorandum stating America's case:

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28 Ibid.  
29 Ibid., pp. 119-120  
30 Ibid., pp. 120-122.
I have this morning received a cable from Washington instructing me to point out to you that the United States Army costs up to May 1, 1921, amount to approximately $241,000,000. The Allied Governments, with the possible exception of Great Britain, have received army costs in full up to May 1, 1921, and the English army costs are apparently to be met in full in connection with the present arrangements. In view of the foregoing, the Government of the United States expects to obtain full payment of the costs of its Army of occupation, with interest from May 1, 1921, before any part of German payments is distributed for reparations or other purposes.\footnote{Ibid., p. 122.}

The allied response was a shocker. Great Britain was "surprised" that America demanded the money, and French Premier Raymond Poincaré stated that first, the United States had no right to claim payment out of the sums Germany paid to the Reparation Commission, and second, that Germany had no right to promise to pay the United States anything except through the Reparation Commission, since Article 248 of the Treaty of Versailles gave signers of that treaty first mortgage on all German resources. Poincaré even extended German resources under first mortgage to the Allies to include German property in the United States: \footnote{New York Times, March 14, 1922, p. 2.}

The official reply of the Finance Ministers stated:

Since our decisions are adopted by virtue of the Treaty of Versailles, to which the Government of the United States is not a signatory, the question which you refer to us concerns our respective Governments and must be the object of communications directly addressed to the Allied Governments . . . through diplomatic channels.\footnote{U.S., Foreign Relations Papers, 1923, II, 122.}
The Finance Ministers then proceeded to split up the latest German payment, but made the arrangement "subject to any rights of the United States." 33

Following the recommendation of the Finance Ministers, Hughes stated America's case directly to the Allied Governments on March 20, 1922, stressing that America's legal claim went back to the Armistice and the Treaty of Berlin, not the Treaty of Versailles. 34 The Allies immediately responded that they had not meant exclusion of American army costs, and that the difficulty was only a technicality which could be worked out. 35 Allied representatives took up the question on June 22, 1922, but made no progress. On November 8, they suggested that the American Government nominate a representative to the discussions. Secretary of State Hughes was understandably irritated at the delay, and wondered what there was to discuss: the debt was clear, and it had to be paid. But on November 22, 1922, he nominated Eliot Wadsworth, Assistant Secretary of the Treasury, to represent the United States at the discussions. 36

Wadsworth began meeting with the Allied representatives on March 1, 1923. Initially, the discussions went very badly for the United States. America had a good case: the total cost of all armies together was 1,660,000,000 gold marks.

33 Ibid., p. 123.
34 U.S., Foreign Relations Papers, 1922, II, 220.
and Germany had already paid more than 1,400,000,000 gold marks in cash, out of which the armies of occupation were to be paid with priority. But the Allies insisted that their current costs of armies of occupation receive priority over the costs of the American army up to May 1, 1921. For fear that the Allies were not going to agree to collection of American costs, the United States presented its claim for army costs also to the Mixed Claims Commission on April 6.

The Wadsworth Agreement, signed May 25, 1923, reflected the necessary compromise. The Allies agreed that American army costs of 1,066,801,305 gold marks would be paid out of Germany's reparation payments through the Reparation Commission in twelve equal installments beginning December 31, 1923. The installments due the first four years had priority over 25 percent of the total German cash payments in each year, and from the fifth to the twelfth years, over up to 100 percent of Germany's total cash payments. The United States was to receive no interest, and to have no share in payments already allocated to the Allies. The agreement was filed as a footnote to a Reparation Commission report.

37 Ibid., p. 227. 38 Ibid., p. 159.
The Wadsworth Agreement ostensibly settled the question of collecting America's army costs. But it in fact settled nothing. First, it fell short of securing right to payments that should have been received before March, 1922. The reduction of the American army on the Rhine to 1,000 in June, 1922, and the total withdrawal of United States troops in January, 1923, lost a strong trump card for securing payment. The Allies were willing to go to great lengths to keep American troops on the Rhine, but once the troops were gone, they could not be used for bargaining.42 Second, by the time the agreement was signed, the Ruhr occupation was already four months old, and it was clear that Germany would not make cash payments for several years to come. Third, France never ratified the agreement, and without her ratification, payment under the agreement was impossible.43 And finally, the sincerity of the Allies was questionable. On October 1, 1923, within five months after the signing of the agreement, Bulgaria made its first annual reparation payment of 1,250,000 gold francs. The payment was legally to be credited toward Germany's reparation account. The amount was small, but the United States feared it would set a precedent, and pressed its legal claim to 25 percent of the payment. The Allies had not considered this eventuality,


and obstructed the settlement. Their main argument was that the Wadsworth Agreement had not yet been ratified by France, and was therefore invalid! The controversy was not settled until the new arrangements under the Dawes plan. 44

The source of difficulty in securing payment of American claims while German money was available in 1921 and 1922 was America's reliance on unofficial representation and understandings, while the Allies were taking definitive action. Several arrangements for apportioning reparation funds among the Allies were made "subject to the rights of the United States" in the period from 1920 to 1922. But the United States did not present official requests for payment until March, 1922, and by then, all the money was gone. 45 America's attempt to secure payment of her army costs as an individual nation drew her into closer involvement in interallied affairs. (Wadsworth was the first official American appointee to enter the arena of interallied negotiations since the Paris Peace Conference.) But the whole experience gave America only frustration, an agreement which was obsolete before it was written, and no money.

Arranging repayment of wartime and postwar loans to European nations was a third major objective of America's postwar financial settlement. Again, she chose to deal

45 Ibid., pp. 120, 123.
with each nation individually. The United States loaned $9,597,518,741 to eleven European nations after April 6, 1917. Most of it was to pursue the war, but over $1,500,000,000 was for immediate postwar reconstruction. These loans were short term obligations, generally at 5 percent interest, as signed by the borrowing nation. The money actually came from the people of America who invested in the Liberty and Victory bonds.

During and immediately following the war, payment of interest by every nation except England was a mere formality, as the United States loaned each nation the money for interest payments as they came due. But on December 18, 1919, Secretary of the Treasury Carter Glass informed the House Ways and Means Committee that payment of interest under the circumstances was harmful both to the debtors and to the United States, and payment of interest was suspended. The American Government, however, maintained all along that the debts had to be paid.

Although Andre' Tardieu (The Truth About the Treaty, 1921), said that President Wilson intended to begin cancellation of foreign debts immediately after ratification of the Treaty of Versailles, there was little evidence that this was true.

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47 Ibid., p. 6596.
49 Andre Tardieu, The Truth About the Treaty, (Indianapolis, 1921), pp. 343-345.
It is true that Wilson preferred not discussing the debts, but that may be explained by his preoccupation with the League of Nations. Wilson made clear written statements in March, 1919, and October, 1920, which show unmistakably that he was against cancellation, at least at that time. 50

The Congressional acts of 1917 which authorized the loans also authorized the Secretary of the Treasury to convert the short term obligations into long-term loans. The long term conversions were to bear interest rates no lower than the short term obligations, and they were not to mature later than the maturity dates of the American Liberty and Victory bonds. 51 On December 10, 1920, Senator Kenneth McKellar of Tennessee, introduced a resolution in the Senate calling on the Secretary of the Treasury to settle the debts as authorized. The net result was a Treasury report which revealed that nothing had been done about the debts. 52 It is not surprising that not one nation had come forward to convert its obligations under those terms. The loans had been made by Congressional authorization, and it took Congressional action to change the terms under which the debts could be converted.

While the Senate was struggling with the bonus bill granting veterans' compensation in May, 1921, there was

51 Ibid., p. 6614.
considerable agitation to amend the bill to demand collection of interest on the foreign debts to finance the veterans' compensation. Interest, alone, would amount to more than $400,000,000 annually. But the bonus bill and its foreign debt amendment ran a long and torturous path, and in their course, Congress saw the necessity of more comprehensive action. On November 7, 1921, the Senate rejected the McKellar amendment directing the Secretary of the Treasury to collect debts which he had already shown his department incapable of doing. On January 30, 1922, the Senate approved a bill funding the foreign debt with 4 1/4 percent American securities. And on February 9, 1922, Congress established the World War Foreign Debt Commission, consisting of the Secretary of State, the Secretary of the Treasury, the head of the Department of Commerce, and a member of each house of Congress. The Commission was to oversee conversion of foreign debts into long term loans within the following limitations: 1) there could be no cancellation of any part of the debt, 2) no settlement could extend beyond twenty-five years, 3) interest was not to be set below 4 1/4 percent per year, and 4) the bonds of no third party (Germany) were acceptable.

54 Ibid., pp. 7474, 7477.
57 Ibid., p. 3609.
European nations were always ready to discuss the debts, but not debt funding. President Harding had a difficult time excluding the debts from the Washington Disarmament Conference in the fall of 1921, and the Allies proposed to discuss debt settlements at the London Conference in the spring of 1922.  But the United States avoided involvement in the discussions for several reasons. First, the Allies wanted to discuss settlement by compromise and cancellation, not funding at face value. Second, there was every evidence that the result would be a political settlement, rather than the arithmetically economic settlement America considered just. And third, the Allies sitting together could more successfully resist American pressure, than they could as individual nations confronted by the United States.

It was up to the State Department to conduct the initial negotiations with the debtor states on behalf of the Foreign Debt Commission, and throughout the second half of 1922, it vigorously tried to effect settlements within the limits of the Congressional acts, but had no success. All the while, controversy raged at home and abroad over cancellation of the debts.

By the end of 1922, the European indebtedness to the United States had risen, due to unpaid interest, to over $11,000,000,000 and amounted to nearly half the public debt of the United States. Great Britain owed $4,573,621,642.

France owed $3,634,911,812, Italy owed $1,809,112,932, Belgium owed $409,287,557, and other nations owed lesser amounts. Nearly all the money loaned to Great Britain was spent in the United States for food, raw materials, and munitions. Five-sixths of the money loaned to France was spent in America. More than three-fourths of the rest of the loans were also spent in the United States, most of it for agricultural products, at high wartime prices.

European nations were also deeply indebted to Great Britain. Excluding the Russian debt, which was uncollectible, Europe owed England $5,544,800,000, of which France owed $2,228,000,000, and Italy and Belgium owed most of the rest. Germany, in turn, owed these nations $33,000,000,000 in reparations. These were the indisputable facts of the debt situation. Different interpretations of the facts were the source of the controversy.

The Allies saw the debts as an integral part of the war effort, and believed they could not be handled in isolation from the total postwar settlement. Each nation had given all it could toward winning the military victory. The war cost France 1,654,000 lives, compared with fewer than 200,000

59 Ibid., p. 6079.
60 Literary Digest, LXXXIII (April 22, 1922), 18; New York Times, December 6, 1921, p. 1; Congr. Record, 67th Cong., 4th Sess., LXIV, 3553.
61 Ibid., p. 3747.
American lives. French lives and francs held the line against Germany for several years before the United States entered the war and was ready to fight. That effort already paid the debt to America. Similar arguments could be made for England and the other Allies.

The European tradition of alliance also militated against repayment of wartime loans. Historically, European Allies considered wartime loans to be subsidies in a common fight. Between 1793 and 1816, for example, Great Britain loaned an estimated 61,300,000 pounds sterling abroad, of which at least 53,000,000 pounds was clearly subsidy.

The United States, on the other hand, had had no taste of alliance since the Revolutionary War. The distinction America made between association and alliance is important in understanding the American position. The United States did not go to war because of alliance commitments; she went to war to defend her own individual rights against Germany. She was not fighting with the Allies, she was fighting against Germany. Had she made common cause with the Allies, she would have been interested in the spoils of victory, but, her rights successfully defended, she left the Allies to do with their victory what they wanted. Furthermore, the United States made no distinction between loans for pursuing the war, and loans for postwar reconstruction.

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63 Ibid. 64 Howland, Survey of Foreign Relations, 1928, p. 410.
With this attitude, Americans considered the money it advanced to the Allies to be loans, not subsidies.

On both sides of the Atlantic, economists and financiers argued in favor of cancellation of the debts for purely economic reasons. Among these were John Maynard Keynes (The Economic Consequences of the Peace, 1920), J. P. Morgan, Frank Vanderlip of Kuhn, Loeb, and Company, and nearly every international financier and economist of note. They argued that debtor nations could not possibly repay substantial sums without wrecking their currency, and, with it, international commerce. (These financiers, in turn, left themselves open to the charge that they feared that payment of the Allied debts to the United States would interfere with collecting the $4,000,000,000 they had loaned privately to foreign governments.) Perhaps the fact that the Congressmen who agreed to partial cancellation of the debts would have to answer to their constituents for the consequent higher taxes, kept them from seeing the wisdom of these arguments.

Great Britain was in a unique position to propose a solution which most closely reflected European thought. Other European nations owed Great Britain more than she owed the United States. In July, 1922, the Earl of Balfour

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proposed that the upcoming London Conference consider this solution to the debt tangle: Great Britain would cancel all Allied indebtedness to her, if the United States Government, in turn, would cancel the debts the Allies owed to it. The Balfour note attempted to use America's hope that the Allies would scale down Germany's reparation payments, as leverage to secure American acceptance of her proposal, stating that the only alternative to the Balfour proposal was to continue insisting on full reparation payments from Germany. Balfour's proposal would readjust the postwar financial settlement as a whole, from reparations to inter-allied debts, according to each nation's capacity to pay.

The United States rejected Balfour's proposal on the grounds that there was no connection between reparations and the wartime loans. The Allies would owe the United States, whether they collected reparations from Germany or not. Congressmen asserted that if Great Britain (and France) did not spend so much on armaments, they could pay the interest on the debt easily. In fiscal 1921, for example, Great Britain spent $2,733,886,680 on her army and navy, yet wanted to ignore payment of the $200,000,000 interest per year she owed the United States.

67 Frank H. Simonds, "Europe's Debt Tangle and America's Duty," Review of Reviews, LXVI (September, 1922), 263.
69 Ibid. 70 Congr. Record, 66th Cong., 3rd Sess., LX, 701
There was good reason why Great Britain was the first nation which the Foreign Debt Commission succeeded in bringing to the conference table. She was economically strong. Since other nations owed her more than she owed the United States, she had everything to gain by setting a pattern for the sanctity of international debts. After the failure of the Balfour proposal, which France rejected because it implied an economic understanding of the debts, instead of considering them political subsidies, Great Britain started leaning toward the American view of the debts. The rift between England and the rest of the Allies over occupation of the Ruhr in January, 1923, placed England in a position analogous to that of the United States: her alliance of identical action was, for practical purposes, rapidly deteriorating. It might now be more advantageous to break rank and strike out as an individual nation. European trade was rapidly deteriorating, and good relations with the United States were now highly desirable. England lost no time in sending Chancellor of the Exchequer Stanley Baldwin to negotiate a settlement.71

When Great Britain and the United States began negotiations on January 8, 1923, Britain's offer fell so far short of the minimum settlement the Foreign Debt Commission was authorized to accept, that the conference moved into informal discussion, forbidding even stenographic records.72

72Congr. Record, 67th Cong., 4th Sess., LXIV, 3457.
On January 16, 1923, the conference broke up, an apparent failure. Upon returning to England, Baldwin reported that "the debt can only be funded on such terms as can be got through Congress, and that is the root of the difficulty . . . ." 73

The Foreign Debt Commission continued to work toward a compromise settlement, and, with President Harding's support, presented its report to Congress on February 7. The report explained that it was impossible to effect funding of the debt within the limits set by Congress, and that the Commission had unofficially explored the practicability of a settlement with Great Britain on other terms. The Commission's proposal, which Great Britain had indicated unofficially she would accept, called for funding the debt at face value over a period of sixty-two years at 3 percent until 1932, and thereafter at 3 1/2 percent per year. Aware that this settlement would set the standard for subsequent settlements, Harding urged Congress to authorize the Commission to negotiate this settlement, and other settlements of a similar, but not less favorable, nature. 74 By February 16, both Houses complied by passing the required legislation. The settlement with Britain was concluded on June 19, 1923. 75

75 Ibid., p. 3786.
Once Great Britain had led the way in settling her debt in a businesslike manner, the United States confidently expected the rest of Europe to fall into line. America pursued an uncompromising policy: she even informed tiny Lithuania that she could not wait until she received reparation payments to pay the $1,981,628 owed the United States. America did not seriously expect to collect the principal. But she held each nation in principle to funding the debt at face value plus interest, with no relationship whatever to interallied concerns or reparation payments.

The position of the American Government regarding disarmament and entry into the World Court also reflected her benign concern for a stable world, but her refusal to become entangled in interallied commitments. The struggle for control of foreign policy continued, with the Harding administration favoring participation in the World Court and encouraging unofficial American involvement, and the Senate obstructing such involvement where possible.

The common thread running through each element of America's postwar settlement, and giving coherence to America's European policy, was individuality. America wanted to be involved,

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but she wanted involvement as an individual nation, with no strings attached to any partners; with no political dependency on any other nation. She took great strides toward realizing the professed objective of the foreign policy of normalcy: "confident of our ability to work out our own destiny, and jealously guarding our right to do so, we seek no part in directing the destinies of the Old World. We do not mean to be entangled."  

The element of America's vision of the postwar world, however, was not political. America wanted a world of prosperity flowing from renewed international trade and secure investment of her capital.

78 Hicks, Republican Ascendancy, p. 25.
CHAPTER III

REPARATIONS AND GERMAN-AMERICAN POSTWAR TRADE

The accepted purpose of diplomacy is to further the best interests of the nation in international relations. The Allies made security the chief goal of their postwar settlement; America's chief goal was prosperity. Americans had a benevolent interest in a stable world for its own sake, it is true, but they never forgot their ultimate goal beyond stability. The United States chose to let European nations work out their political security, while America provided much of the initiative, energy, and capital for prosperous trade among the members of the Atlantic trading community.

America's long history as a neutral trader made it easy for her to keep commerce and international politics separate. Her separate peace with Germany and her individualistic financial settlements allowed America to let Europe go its own way politically, while America built up peacetime trade with her. But one part of European political turmoil remained as a threat to prosperous peacetime commerce--reparations.

Germany's obligation to pay the Allies huge sums in reparation for war damage affected not only the prosperity of Germany, but also the commerce of the entire Atlantic
community. For that commerce was a complex web of interdependency. The economic weakness of any of the major commercial nations hindered the prosperity of its partners. Germany, as the heartland of Europe, the commercial link with Eastern Europe, a vital partner in prewar trade, and the bottom nation in a pyramid of enormous international indebtedness, was a key nation in postwar Atlantic commerce. Without strong German participation, Atlantic commerce would be disappointing, and the entire pyramid of international obligations would be shaken. 1 If prosperous trade was to be a part of the postwar world, Germany would have to make reparations without destroying her commercial vitality.

The United States helped write the initial reparation settlement at the end of the First World War. Its peace of disentanglement then abdicated any significant or official voice in subsequent detailed reparation plans, until the Dawes Plan in 1924. In America's absence, the Allies made reparations the cornerstone of European security and economics. Reparations became for them the immutable base around which European commercial prosperity would have to be restructured. In the words of the French author and diplomat, André Tardieu, "We cannot accept the risk of German industrial revival, therefore we must compel her to pay mountainous indemnities." 2 This gave logical priority to reparations over prosperity,

1 Howland, Survey of Foreign Relations, 1928, p. 353.
2 Ibid., p. 352.
which, to the American mind, was making the means into the end. The United States, declaring equivalently that Germany's reparation obligations to the Allies were none of its business, had no such preoccupation with reparations. America made commercial prosperity the cornerstone of its postwar edifice, into which the Allies were free to integrate reparations as they saw fit. America presumed the Allies would adjust reparations to commercial prosperity; the Allies chose to adjust prosperity to reparations. The United States had to seek its goals of commercial prosperity in general, and a mutually profitable trade with Germany in particular, under the Allied political settlement that gave reparations priority.

Measuring the effect of reparations on the renewal of trade between the United States and Germany is a complex undertaking, and must allow for variables distinct from reparation as such, which affected German-American trade. Some variables elucidate the effect of reparation on trade, but for the most part, they obscure it, and provide essentially negative information, telling what reparation did not cause. These variables include the prewar German economy and trade, the natural effect of the war itself, the effect of the war settlement exclusive of reparations, and German and American commercial regulations.
Prewar Germany was a rising industrial giant, second or third among the nations of the world in most economic indices. Returns from her investments in all quarters of the world and income from her large and excellent merchant marine more than made up her slightly unfavorable balance of trade. She exported to the United States annually goods valued at about $300,000,000. This prewar trade is the most convenient yardstick for measuring its post-war counterpart.

The war itself was a major variable affecting post-war trade. The centralization and hyperactivity of war tends to increase the industrial capacity of modern states. This war was not fought on German territory, and, although machinery and buildings may have suffered from insufficient maintenance, her factories were not destroyed. The war cost Germany about 2,200,000 laborers killed, or so badly wounded in military action that their postwar productivity was limited. Germany's farmland received poor cultivation, and the war tended to deplete existing consumer supplies and raw materials. The exact effect of the war is, of course, incalculable. But the best evidence suggests that the war left Germany with a need for raw materials and labor, but with only minor damage to its industrial capacity.


The peace settlement exclusive of reparations also affected German-American trade. Germany lost all of her colonial possessions (six times the area of continental Germany), 13 percent of her prewar area, about 26 percent of her coal, 74 percent of her iron ore, 27 percent of her blast furnaces, about 50 percent of her other mineral deposits, and nearly all of her phosphate. She lost 10 percent of her population, but immigration made up that loss by 1922. With the exception of the Saar coal mines, these losses were not to be credited to Germany's reparation account, and were not a part of reparation, properly speaking.5

Reparation unfolded in four stages. The first was the Armistice and Trèves agreements. Principles, understandings, and anticipation characterized this stage. The second was the Versailles settlement and the meetings at Spa, Boulogne, Brussels, and London, which attempted to expand and finalize the Versailles reparation outline. The third was reparation under the London Schedule of May 1, 1921, dominated by large cash payments. The Dawes Plan, which granted Germany a breathing space and rescheduled her payments, was the fourth stage. These stages mark off the periods of one and the same reparation obligation. But the effect of each on Germany and her trade was distinct.

The Armistice of November 11, 1918, contained principles, specifics, and an understanding about reparations. In principle, Germany agreed to make compensation "for all damage done to the civilian population of the Allies and their property by the aggression of Germany." Nothing was to be "diverted by the enemy from securities that may serve the Allies as a pledge for the payment of the reparations." The Armistice stipulated some specifics: Germany had to surrender large amounts of railroad stock and motor trucks, to be credited to her reparation account. Germany valued this material at $1,000,000,000. Finally, Germany thought that the Armistice contained the understanding that the peace would be based on President Wilson's Fourteen Points. In a speech on the Fourteen Points, Wilson had stated that there would be "no punitive damages," and that reparations would be limited to repairing damage to civilian property.

At Trèves in January, 1919, Allied representatives added details to the Armistice agreement, clamping a blockade and embargo on Germany for the duration of the Armistice, and forbidding foreign securities and credit balances to leave Germany without consent of the Allies.

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7 Ibid., p. 337.
Allied representatives began discussing the reparation section of the Treaty of Versailles on February 1, 1919, but they kept Germany in the dark about their plans. Through the Armistice period, Germany anticipated a total reparation bill of about $7,200,000,000. She hoped to pay much of this obligation by deliveries in kind, and by physically rebuilding the destroyed areas.  

German-American trade during the Armistice suffered from contradictory plans and information. The Allied blockade dating from the Tréves agreements of January, 1919, almost entirely forbade German imports. It was, however, gradually modified to allow export of German goods desired by the Allies. Germany's self-imposed export duties hindered trade until she lifted them in April, 1919. In America, boycotts and Congressional threats of boycotts began before the war ended, and continued through December, 1919. But the bulk of American businessmen favored renewing trade. As early as February, 1919, the National Association of Manufacturers sent businessmen to Berlin to discuss reorganization of German industry with American capital. Some Americans apparently used export licenses

10 Bergmann, History of Reparations, p. 6.
12 Ibid., December 16, 1920, II, p. 15.
13 Ibid., October 19, 1918, p. 11; November 27, 1918, p. 12; December 3, 1919, p. 2.
14 Literary Digest, LXI (June 14, 1919), 20.
issued by the War Trade Board on May 15, 1919, for indirect trading with Germany through neutral countries. Businessmen were planning in advance: on the day the Versailles treaty was signed, American newspapers carried advertisements of vessels sailing with cargoes destined for Germany. President Wilson himself was confused and misinformed about whether America was or was not trading with Germany while the embargo was in effect.15

The Allies lifted the blockade and embargo on German trade on July 14, 1919, and the War Trade Board authorized American trade with Germany effective the same date.16 German-American trade responded to the lifting of these restrictions.

TABLE I

GERMAN-AMERICAN TRADE DURING THE ARMISTICE*

<table>
<thead>
<tr>
<th>Month</th>
<th>U.S. Imports from Germany</th>
<th>U.S. Exports to Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov., 1918</td>
<td>$ 51,976</td>
<td></td>
</tr>
<tr>
<td>Dec., 1918</td>
<td>102,812</td>
<td></td>
</tr>
<tr>
<td>Jan., 1919</td>
<td>177</td>
<td></td>
</tr>
<tr>
<td>Feb., 1919</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Mar., 1919</td>
<td>76,818</td>
<td></td>
</tr>
<tr>
<td>Apr., 1919</td>
<td>208,436</td>
<td>$955</td>
</tr>
<tr>
<td>May, 1919</td>
<td>90,330</td>
<td>60,814</td>
</tr>
<tr>
<td>June, 1919</td>
<td>266,966</td>
<td>1,783,013</td>
</tr>
</tbody>
</table>


16Ibid.
Table I shows that while the blockade prevented the United States from exporting into Germany, that nation got off to a quick start in exporting to the United States. The publicized American boycott was not very effective. The Trèves agreements virtually stopped trade in January and February. The gradual loosening of the blockade on German exports allowed her trade to expand again in the spring. The lifting of export duties by Germany in April prompted even more trade. And the American column shows evidence of direct trade with Germany, supposedly illegal according to the export licenses granted during the Armistice period.

The Trèves blockade had a telling effect on Germany's food supply, and led to some American exports not shown on Table I. Contrary to the opinion of many Americans, Germany was in desperate need of food. In January, 1919, she was willing to give up the use of half of her passenger ships in exchange for getting 70,000 tons of pork and 200,000 tons of cereals from America through the blockade.\textsuperscript{17} The ships were of no use to Germany under blockade conditions, but the transaction would hardly have been politically viable in Germany unless the need was real. Apparently, the food was military stores, and for that reason did not show up in the export column. In addition, material worth

\textsuperscript{17} \textit{Congr. Record}, 65th Cong., 3rd Sess., LVII, 1869.
an estimated 13,000,000,000 gold marks (4.2 gold marks to one dollar) was smuggled into Germany, and 5,000,000,000 gold marks of material was smuggled out, most of it during this period. 18

Although the reparation plan was vague at this stage, it affected German-American trade at the end of the period. The Allies initiated the Treves blockade specifically to make Germany even more helpless, and guarantee her acceptance of the reparation settlement. The blockade was extremely effective in cutting off food imports. 19 It so depleted Germany's food supply that she was forced to take American foodstuffs at extremely high prices immediately after the blockade was lifted. Domestic food prices in Germany then fell somewhat, as secret supplies, illegal according to German domestic legislation, hit the market. 20

Germany needed food and raw materials if she was to recover sufficient economic strength to make substantial reparation payments. During the Armistice, she was prevented from obtaining them by the very blockade meant to guarantee reparation.

The Allies were not able to agree on the total reparation sum in time for presentation in the Treaty of Versailles. But the treaty nevertheless made a general estimate of the

18 Paul D. Corvath, "German Solvency and Reparations," Nation, CXI (October 6, 1920), 388.
20 Ibid., July 17, 1919, p. 3.
reparation obligations, and stipulated some deliveries in kind. It named three classes of German obligations: 1) restitution of objects removed, 2) reparation in kind, and 3) financial restitution. Deliveries in kind required surrender of about 12 percent of Germany's livestock, about 50 percent of her dyestuff and chemical reserve, all of her merchant ships between 1,000 and 1,600 tons, and delivery of large amounts of coal annually to France, Belgium, and Italy.\(^{21}\)

Except for restitution of stolen objects, all of the above were to be credited to Germany's reparation account. The value of German concessions in a number of areas outside Germany, the value of her privately-owned undersea cables, and money received by the Allies from purchasers of former German state property also counted as reparations.\(^{22}\)

The Treaty of Versailles included the celebrated decision to include damage to injured persons and to surviving dependents of soldiers killed during the war. This made the reparation sum skyrocket.\(^{23}\) Germany had to issue immediately 20,000,000,000 gold marks of bonds as a guaranty of payment, and was to redeem them with cash or deliveries in kind by May 1, 1921. The first installments were to pay the cost of the armies of occupation. After May 1, 1921,

\(^{21}\)Burnett, Reparation Documents, II, 230, 236ff.  
\(^{22}\)Ibid., pp. 220, 240.  
\(^{23}\)Ibid., p. 220.
Germany was to issue additional bonds for 80,000,000,000 gold marks. The Reparation Commission was to decide the total reparation sum and exact schedule of payment by May 1, 1921.24

The Allies handed Germany these terms on May 7, 1919, and required their acceptance by June 28, 1919. Germany had expected reparations to be lower than the 100,000,000,000 gold marks she had to guarantee, and hoped that the final figure would be substantially lower.

Under the Versailles schedule, Germany's immediate problem was payment of the 20,000,000,000 gold marks in cash or kind by May 1, 1921. She hoped to make up most of that sum by deliveries in kind, and got a head start on delivery of coal. Between September, 1919, and January, 1920, Germany delivered over 2,500,000 tons of coal to the Allies. The Allies changed Germany's schedule for coal deliveries frequently over the next two years, but she fell in arrears by about 10 percent on each new schedule. The Conference at Spa censured Germany for delinquent deliveries in July, 1920.25

Germany was confident until the spring of 1921 that her deliveries in kind would total the required 20,000,000,000 gold marks. But the Reparation Commission credited Germany with only 2,600,000,000 gold marks of material delivered.


leaving a balance of 17,400,000,000 gold marks still to be paid. Germany claimed as much as three times that figure, with good reason. But the disputed point of how much Germany paid is irrelevant for the effect of reparation on German-American trade. What is relevant is the fact that Germany, after the initial shock of the Versailles schedule, believed she could fulfill a great deal of the initial obligation by delivery in kind, and confidently got a head start in doing it.

America was about a week behind England and France in beginning trade with Germany after the blockade was lifted. The uncertainty of the official status of German-American relations before the formal peace treaty between the United States and Germany seems to have had little effect on German-American trade. Trade did not improve after passage of the Knox resolution or the signing of the Treaty of Berlin. America's high tariff, especially on dyes and chemicals, probably had a greater effect.

On Germany's part, the lifting of her self-imposed export restrictions in April, 1919, projected her into a

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26 Howland, Survey of Foreign Relations, 1928, p. 358.
27 Bergmann, History of Reparations, p. 27.
period of intense exporting. German merchants sold their existing supplies of finished products to a thirsty world market at very low prices, seriously depleting her stock and raw materials. In December, 1919, Germany tightened up this drain on her material by rigid controls, forbidding export of goods when their sale price was significantly below the market price in the country of destination. In addition, Germany had to give most-favored-nation status to the signers of the Versailles treaty, and eventually to the United States, as provided by the Treaty of Berlin.31

German-American trade expanded rapidly after the signing of the Treaty of Versailles, and the United States enjoyed a consistently favorable balance of trade.

TABLE II

GERMAN-AMERICAN TRADE, PREWAR AND 1919-1923*

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S. Imports from Germany</th>
<th>U.S. Exports to Germany</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1910-14 (avg.)</td>
<td>$176,462,000</td>
<td>$304,098,000</td>
<td>$127,636,000</td>
</tr>
<tr>
<td>1919</td>
<td>10,608,000</td>
<td>92,761,000</td>
<td>82,153,000</td>
</tr>
<tr>
<td>1920</td>
<td>88,836,000</td>
<td>311,437,000</td>
<td>222,601,000</td>
</tr>
<tr>
<td>1921</td>
<td>80,280,000</td>
<td>372,380,000</td>
<td>292,100,000</td>
</tr>
<tr>
<td>1922</td>
<td>117,498,000</td>
<td>316,111,000</td>
<td>198,616,000</td>
</tr>
<tr>
<td>1923</td>
<td>161,193,000</td>
<td>316,837,000</td>
<td>155,644,000</td>
</tr>
</tbody>
</table>


Germany's major imports from the United States remained what they were before the war: food, copper, and cotton. Of these, only food showed an increase over 1913.

As soon as the Allies lifted the postwar blockade, Germany bought heavily of American foodstuffs. In the last six months of 1919, Germany bought more American wheat and flour than any other nation did for the whole year. Wheat, flour, meat, meat products, and corn were America's major postwar food exports to Germany. Exports of American wheat to Germany reached a high of 37,000,000 bushels ($12,656,000) in 1922, before trailing off to 8,000,000 bushels in 1923. This made Germany the third leading importer of American wheat in 1921, and the second highest in 1922 and 1923. Germany was the second leading importer of American beef and pork in 1919 and 1920, the second leading importer of corn in 1922, and the leading importer of lard from 1921 to 1923, taking lard valued at nearly $40,000,000 in 1923.\[^{32}\]

Export prices for American farm products fluctuated greatly during this period. Taking 1913 as par (100), the index price of grains rose to an average of 231 in 1919 and 1920, before dropping to 112 in 1921, not to rise significantly until 1924. The index price of meat and meat products rose

to 206 in 1919, averaged 173 in 1920, and dropped to 108 in 1921, not to rise significantly until 1925. Meat began its drop at the end of 1919, and grains slipped gradually from May to October, 1920, before beginning a steep decline in price. The pattern for all foodstuffs was relatively the same. In 1919 and 1920, Germany paid about double the 1913 price for food she bought in the United States, but in 1921, she paid only about 10 percent more than the 1913 prices. Since inflation in America made the postwar dollar worth only about five-sevenths of the prewar dollar, 1921 real prices closely approximated those of 1913.

Germany's total postwar food bill from the United States was staggering. She imported American food valued at $140,000,000 in 1921, compared with about $50,000,000 in 1913, at about the same real prices. Adjusted roughly to prices, therefore, Germany from 1919 to 1922 imported from two to three times as much American food as prewar Germany did. In addition, she imported four times as much food from other nations as from the United States. Yet, her postwar calorie intake per capita was only about two-thirds the prewar average, she consumed only about 14.0 percent of the wheat consumed by

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34 World's Work, XLIII (November, 1921), 18-19.
prewar Germany, and the sum of postwar German domestic food production and imports was nearly 50 percent lower than in 1923. German importation of large amounts of food was an absolute necessity.

The causes of Germany's desperate need for food were varied. Inadequate wartime cultivation, loss of her major sources of phosphate and nitrate fertilizer, loss of the land which produced 20 percent of her prewar grain harvest, loss of many productive men in the war, and a 65 percent decrease in productivity of the workers left, stemmed from the war and the general postwar settlement. Reparations, strictly speaking, caused only the loss of 12 percent of Germany's livestock, including 16 percent of her horses, the latter a serious handicap to adequate cultivation. The low productivity of the workers was probably caused in part by inadequate food, and by discouragement in the face of the indefinitely high reparation bill. The cumulative result of these factors was not only that Germany raised fewer

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38 Bergmann, *History of Reparations*, p. 16; Dawson, *Germany's Industrial Revival*, pp. 57, 61. Dawson disagrees with this conclusion, and lays the blame on the eight hour day.
livestock and planted fewer acres after the war, but also that Germany's postwar crops yielded much less per acre.\(^3^9\)

From one point of view, the postwar settlement helped German-American trade, forcing Germany to treble her imports of American food.

Cotton and copper were the other two major American exports to Germany. Germany quickly became the second highest importer of American cotton after the war.

### TABLE III

<table>
<thead>
<tr>
<th>Year</th>
<th>Pounds Exported</th>
<th>Average Price Per Pound</th>
<th>Approximate Dollar Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914**</td>
<td>1,433,000,000</td>
<td>.128</td>
<td>$182,000,000</td>
</tr>
<tr>
<td>1919</td>
<td>77,911</td>
<td>.339</td>
<td>26,000,000</td>
</tr>
<tr>
<td>1920</td>
<td>376,071,268</td>
<td>.369</td>
<td>110,000,000</td>
</tr>
<tr>
<td>1921</td>
<td>783,325,674</td>
<td>.162</td>
<td>47,000,000</td>
</tr>
<tr>
<td>1922</td>
<td>808,336,738</td>
<td>.216</td>
<td>129,000,000</td>
</tr>
<tr>
<td>1923</td>
<td>472,823,551</td>
<td>.296</td>
<td>150,000,000</td>
</tr>
</tbody>
</table>


**Fiscal 1914

Table III shows that German importation of American cotton after the war was only about one-third the prewar

average in quantity, and little more than half the prewar value in dollars. The high price of American cotton in every year except 1921 made the difference.

Germany was the third leading postwar importer of American copper, taking $17,000,000 in 1920, $31,000,000 in 1921, $26,000,000 in 1922, and $22,000,000 in 1923. This contrasts with $14,700,000 in 1913. Since the average postwar price of copper was only about 13 percent above the prewar average, price was not a significant factor. Postwar Germany bought only about half as much copper as prewar Germany did.\(^{40}\)

Most of Germany's postwar exports were manufactured products. This was already true in 1913, when 61 percent of Germany's exports were manufactured, but the figure rose to 80 percent in 1921. Germany's postwar exports to the United States were less than half her prewar exports. Of the German exports which the United States continued to take after the war, the volume remained about the same. In 1920, the United States imported about $19,000,000 of German potash and various fertilizers, compared with a prewar average of about $15,500,000 annually. In 1920, America imported from Germany about $4,000,000 of toys, compared with about $7,700,000 annually before the war; $3,000,000 of furs compared with $3,800,000 before the war; and $5,000,000

of beet sugar compared with $685,000 before the war.\textsuperscript{41}

These figures show little contrast between prewar and postwar imports from Germany. But America drastically reduced her imports of German laces and other finished cloth products, cutlery, chinaware, hides, gloves, and rubber. American restrictions on German chemicals and dyes virtually eliminated her competition, and trebled the price of those commodities on the American domestic market.\textsuperscript{42}

The salient features of postwar German-American trade, taken comprehensively, were that Germany imported much more food, and less raw material, and she exported much less across the board. The war settlement and reparations figured significantly in this pattern.

Germany hoped to pay the 20,000,000,000 gold marks required under the Versailles reparation schedule by May 1, 1921, primarily by deliveries of goods, and was not preoccupied with getting cash immediately. While making deliveries in kind, Germany was to put her total economy in order for the later large cash payments. Experts agreed that Germany's ability to pay reparation depended on the ability of her

\textsuperscript{41}"What Our Trade with Germany was Before the War," Literary Digest, LXII (August 2, 1919), 96; Literary Digest, LXIX (May 28, 1921), 65; Williams, "German Foreign Trade and the Reparations," p. 488.

\textsuperscript{42}Congr. Record, 67th Cong., 2nd Sess., LXII, 6124; "What Our Trade with Germany was Before the War," Literary Digest, LXII (August 2, 1919), 96; New York Times, June 17, 1922, p. 13.
export trade to expand over imports.\textsuperscript{43} The plan was for Germany to do without luxuries, take her own and imported raw materials, work like the devil making them into finished products, sell them on the export market, and give the profit to the Allies as reparation. Germany made serious efforts to do this. She restricted import licenses to indispensable food and raw materials after December 20, 1919, and continued her rigid control of international commerce. Her postwar consumption of tobacco, alcohol, and table luxuries was only one-fourth her prewar consumption.\textsuperscript{44}

Her imbalanced American trade hardly reflected this plan, and that is one place reparation went awry. Germany had to buy so much American food after the war, that she had little money left for importing raw materials necessary for making sustained reparation payments. To the extent that the Treves blockade and the Versailles reparation schedule created the condition, reparation plans defeated themselves. The specific effect of this phase of reparations on German-American trade was that Germany bought much more food, but had little money left for needed American raw materials.

This suggests reversing the question. How did German-American Trade affect reparation? To make sustained reparation

\textsuperscript{43}Williams, "German Foreign Trade and Reparations," p. 482.

\textsuperscript{44}de Haas, "The Present Outlook for United States' Trade with Germany," pp. 61-82; U.S., Foreign Relations Papers, 1923, II, 63.
payments, Germany had to have a favorable balance of trade. She was unable to achieve it.

**TABLE IV**

**GERMAN IMPORTS AND EXPORTS, 1913, 1920-1923**

(In million gold marks, at 1913 prices)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>11,207</td>
<td>10,198</td>
<td>-1,009</td>
</tr>
<tr>
<td>1920</td>
<td>3,947</td>
<td>3,724</td>
<td>-223</td>
</tr>
<tr>
<td>1921</td>
<td>3,751</td>
<td>3,003</td>
<td>-2,748</td>
</tr>
<tr>
<td>1922</td>
<td>6,312</td>
<td>6,199</td>
<td>-113</td>
</tr>
<tr>
<td>1923**</td>
<td>4,819</td>
<td>5,352</td>
<td>+533</td>
</tr>
</tbody>
</table>

*Source: Angell, The Recovery of Germany, p. 373.*

**Angell discounts the reliability of the 1923 figures.

Germany's merchant marine and foreign investments more than made up for Germany's prewar imbalance. Both were gone after the war. Germany's postwar imbalance of trade made long-term reparation payments impossible, and her trade with America was a primary factor in that imbalance. By converting the imbalance of German-American trade (Table II, page 68) into gold marks at 4.2 marks per dollar, we arrive at Germany's balance of trade excluding the United States.45

45Literary Digest, LXIX (June 18, 1921), 62. Germany's paper mark was depreciating, but the gold mark remained at a ratio of 4.2 per dollar throughout this period.
TABLE V

GERMAN BALANCE OF TRADE, EXCLUDING THE UNITED STATES*

(In millions of gold marks)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Balance of Trade</th>
<th>Balance of U.S. Trade</th>
<th>Balance of Trade, Minus U.S. Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1913</td>
<td>-1,009</td>
<td>-536</td>
<td>-575</td>
</tr>
<tr>
<td>1920</td>
<td>-223</td>
<td>-935</td>
<td>+712</td>
</tr>
<tr>
<td>1921</td>
<td>-2,714</td>
<td>-1,226</td>
<td>-1,488</td>
</tr>
<tr>
<td>1922</td>
<td>-113</td>
<td>-832</td>
<td>+718</td>
</tr>
</tbody>
</table>

*Sources: Tables II and IV. The mathematics and juxtaposition are original in this paper.

As Table V shows, Germany's 1920 balance of trade with the world exclusive of the United States was plus 712,000,000 gold marks, instead of minus 223,000,000 gold marks. Germany's total imbalance for 1920-1922 was minus 3,084,000,000 gold marks. Her imbalance for the same years excluding United States trade was only minus 54,000,000 gold marks. The unreliable figures for 1923, if included, would give Germany an import balance of plus 1,359,000,000 gold marks for that year. But that figure, if accurate, would only confirm this more reliable conclusion for the years 1920-1922: except for the American trade, Germany was nearly successful in balancing her imports and exports, necessary for making sustained reparation payments later.
Furthermore, the main factor in this crucial imbalance was Germany's food bill in the United States. More than one-third of American exports to Germany after the war were foodstuffs, compared with less than one-seventh before the war. Postwar Germany imported about three times the amount of American food as prewar Germany did, but she bought only about one-half as much copper and about one-third as much cotton.\textsuperscript{46} If Germany had been able to keep her postwar imports of American food close to the 1913 level, it would have had a measurably good effect, not only on her balance of trade with the United States, but with the world.\textsuperscript{47} This conclusion is, however, pure conjecture, no matter how reasonable it may be.

The food bill was all the more damaging, because food did not figure into re-exports. Imports like iron, coal, or cotton eventually figure in exports, and had a much less debilitating effect on a balance of trade. In fact, such imports should have helped Germany's balance of trade. For German industry suffered acutely from lack of raw materials.

\textsuperscript{46}See pages 72 and 73.

\textsuperscript{47}Germany's food bill in the United States in 1921 was $588,000,000$ gold marks. The sources cited in this paper give no reason for suspecting that the figure was lower in 1920 or 1922, and prices were at their lowest in 1921. If 1921 was a typical year, Germany's food bill for the three years was about $1,800,000,000$ gold marks, or over half her total world trade imbalance. But this projection cannot be verified from the data available.
First, the war depleted her supply of raw materials.\textsuperscript{48} Then the foolish and indiscriminate selling of her existing store of finished products on hand in 1919 at ridiculously low prices failed to bring in enough capital to replace the raw material.\textsuperscript{49} Postwar Germany had to import large amounts of iron, and even some coal. Her postwar production of steel was only 42 percent, and of iron, only about 35 percent of her prewar production. Even fine cutlery works, needing little raw material, ran out of both steel and coal.\textsuperscript{50} In late 1919, many of her factories were so helplessly out of raw materials that her owners sold them abroad for whatever they would bring, lock and barrel, but no stock. In 1920, Germany needed copper so badly that she began experimenting with aluminum as a substitute.\textsuperscript{51} Yet, Germany's imports of American copper and other raw materials were down. For various reasons, therefore, Germany needed raw materials, if she was to operate her industry, build up her exports of finished products, and pay reparations.

\textsuperscript{48}Joseph Danziger, "Why Germany Fails to Pay," \textit{Outlook}, XIII (July 19, 1922), 492.


\textsuperscript{51}de Haas, "The Present Outlook for United States' Trade with Germany," pp. 82-84.
Germany was aware of this fact. Her restriction of imports to indispensible food and raw materials implied that Germany wanted to buy raw materials. Every dollar spent on food was a dollar less for raw materials, and a step away from ultimate capability to make sustained reparation.

Since Germany imported three-fourths of her food imports from nations other than the United States, the importance of America's food exports to Germany diminishes; the same argument could be made for Germany's food bill in several countries. But it does not invalidate the consequences of her food bill in America, and even further strengthens the argument that Germany had to pay so much for food that she had nothing left for raw materials.

The chain of casuality was therefore this: the war and the war settlement made Germany spend huge sums on food imports, rendering her unable to pay for raw material imports, creating an even greater imbalance, and leaving her without the economic base to pay the reparations due on May 1, 1921. Beginning with the question "how did reparations affect German-American trade," we end up with the conclusion that the imbalanced German-American trade affected the non-payment of reparation.

52 Corvath, "German Solvency and Reparations," Nation, CXI (October 6, 1920), 388; Dawson, Germany's Industrial Revival, p. 77.
The deliveries in kind which Germany made under the Versailles schedule also damaged Germany's ultimate ability to make sustained reparation. The Reparation Commission valued Germany's deliveries in kind up to May, 1922, at 6,200,000,000 gold marks. Economists generally agree that this estimate was too low. But even this lowest estimate suffices to show the effect of the deliveries on Germany's balance of trade. Since the Allies credited Germany's reparation account with the minimum conceivable price for the goods she delivered, Germany could have sold the goods for at least the 6,200,000,000 credited to her account, but not available to her. Adding the value of these deliveries to Germany's balance of trade for 1920-1922 would change it from minus 3,084,000,000 gold marks to plus 2,116,000,000 gold marks. This cushion would have allowed purchase of the raw materials needed to put Germany's economy in shape to make later reparations. Germany presumably would have bought more cotton and copper from the United States with the money, since she was already buying to the limit of her ability to pay. Deliveries in kind under the Versailles schedule were, therefore, a primary factor in Germany's inability to buy more from America.

53 Howland, Survey of Foreign Relations, 1928, pp. 358-359. Dawson, (Germany's Industrial Revival, pp. 84-86), disagrees with this conclusion.
54 Angell, The Recovery of Germany, p. 375.
The loss of Germany's merchant marine hurt German-American trade. The Versailles settlement reduced Germany's merchant marine from 5,712,000,000 gross tons to 604,000,000 gross tons in 1919. German vessels cleared from American ports dropped from 4,362,000 net tons in 1914 to 31,000 net tons in 1920.56 Germany was able to buy American goods on credit rather easily up to mid-1920.57 But without her own merchant marine, she was still faced with paying the shipper, even when she could buy on credit. The fact that America's exports were bulky, heavy commodities in which transportation became an important part of the price strengthens this conclusion. Most of Germany's postwar exports were small manufactured objects, not bulky raw material, so loss of her shipping did not significantly hurt her export business.

Under the Versailles schedule, taken as a whole, the main features were Germany's expensive imports of food, resultant imbalance of trade and lack of money for raw materials, reparation in kind, and the added expense of paying for shipping. German trade was able to get by with the help of international financial adjustments during this

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period. But her weakened trade led to weakened finances, and it all came to a head when Germany needed to pay cash under the London Schedule.

The London schedule, announced May 1, 1921, set Germany's total reparation bill at 132,000,000,000 gold marks (about $32,000,000,000), payable by a series of bonds to be delivered before November 1, 1921. Germany was to redeem these bonds by paying annually 2,000,000,000 gold marks plus 26 percent of the value of German exports. Part of the sum could be paid in goods and services, subject to approval of the Reparation Commission. Since Germany simply did not have available the 20,000,000,000 gold marks she was supposed to have paid before May 1, 1921, that sum simply became part of the 132,000,000,000 gold mark total. But immediate payment of 1,000,000,000 gold marks in cash was demanded as a firm installment. Except for German requests for moratoriums, there were no essential changes in the reparation plan until the Dawes Plan of 1924.

Several extraneous factors tempered the impact of the London schedule. Unlike the Versailles settlement, the London schedule was no surprise to Germany. She had been attending many of the conferences leading to the London schedule, and after March, 1921, began to expect the worst.

58 Bergmann, History of Reparations, pp. 75-76.
59 Ibid., p. 66.
Germany also expected her pending separate peace with the United States to be favorable, and won the plebiscite in Silesia in March, 1921. But the separate peace with America proved to be a disappointment, and the Silesian decision worked to Germany's disadvantage. But if the impact of the London schedule was less unexpected than the Versailles settlement, its consequences were nevertheless even more disastrous for German economy.

The London schedule shifted emphasis from delivery in kind to cash payments, and Germany's difficulty in producing the cash revealed the weakness of her finances much more than her trade figures had. Up to mid-1920, Germany had been purchasing much of her American imports on credit. Of the total of $214,000,000 German imports from America up to May, 1920, $120,860,000 had been bought on credit and was still on the books, and the New York Times announced that Germany's credit was "improving."

The aforementioned credits were extended by private merchants and financiers; they were not foreign loans. Except for the $100,000,000 credit which Argentina extended Germany for food purchases, no foreign government loaned Germany money before the Dawes Plan. When credit became inadvisable, American merchants began accepting German

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61 Bernhard Dernburg, "Peace With America," Living Age, CCCXI (October 15, 1921), 147; Angell, The Recovery of Germany, p. 20.
paper marks in payment. Up to August, 1922, nearly all German purchases of American goods not bought on credit, properly speaking, were paid for with paper marks. 62

The transfer of German property into foreign hands to pay for imports, and American capital investments in Germany also helped postpone the day of reckoning. Because German import licenses practically excluded finished products, and German labor was cheap, the Germany of 1920 was an attractive field for American capital. Heavy American purchases helped boom the German stock market. Several American firms built plants and distribution centers in Germany during that year. 63

All this credit and adjustment was, however, to no avail. The announcement of the London schedule, and Germany's scrambling efforts to secure cash for her payment of 1,000,000,000 gold marks on August 1, 1921, triggered the total collapse of the mark, and of Germany's economy. 64

Germany had, in effect, two kinds of money. The gold mark depended on the world price of gold, and did not fluctuate. It was normally used for international transactions. The paper mark was not convertible into gold, and was subject to fluctuation. It was intended to serve

64 Ibid., pp. 26ff.
as Germany's domestic currency, but foreigners could choose to buy and use paper marks internationally. Domestic currency depreciates on the international money market when its power to buy foreign currency weakens. The paper mark was relatively strong currency at the end of the war. Reparation caused its fall. The following outline shows the highs and lows of the paper mark fluctuations.

<table>
<thead>
<tr>
<th>Date</th>
<th>Par (1913: 1)</th>
<th>Rate of Subsequent Fluctuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan., 1919</td>
<td>2.03</td>
<td>followed by gradual depreciation, till</td>
</tr>
<tr>
<td>July, 1919</td>
<td>3.57</td>
<td>followed by rapid depreciation, till</td>
</tr>
<tr>
<td>Feb., 1920</td>
<td>23.7</td>
<td>followed by gradual appreciation, till</td>
</tr>
<tr>
<td>June-July, 1920</td>
<td>9.4</td>
<td>where it was steady for two months.</td>
</tr>
<tr>
<td>Aug., 1920</td>
<td>11.5</td>
<td>followed by rapid depreciation, till</td>
</tr>
<tr>
<td>Nov., 1920</td>
<td>11.5</td>
<td>followed by steady appreciation, till</td>
</tr>
<tr>
<td>May, 1921</td>
<td>14.9</td>
<td>followed by unprecedented depreciation, till</td>
</tr>
<tr>
<td>Dec., 1922</td>
<td>1,810.</td>
<td>followed by astronomical depreciation, till</td>
</tr>
<tr>
<td>Dec., 1923</td>
<td>one trillion</td>
<td>and new German currency.</td>
</tr>
</tbody>
</table>

The dates of significant reparation announcements and of renewed depreciation of the paper mark coincided too frequently to be accidental. Under the Armistice, the mark held relatively steady. The signing of the Treaty of Versailles on June 28, 1919, triggered the first period of rapid depreciation. The mark gradually recovered until the

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Spa Conference declared Germany in default on her delivery of coal for the first time, on July 30, 1920, when it began rapid depreciation. Again, the mark recovered moderately until the London schedule, announced May 1, 1921, started the mark on the depreciation from which it never recovered.

The depreciation of the mark before 1923 was definitely not caused by increase of prices within Germany: both wholesale and retail prices followed, instead of preceded, the fluctuations on the international money market. 66

The depreciation of the mark was also not caused by increasing the issue of paper marks. The increase in paper mark circulation always followed, and never preceded, new depreciation of the mark on the international money market. 67

The depreciation of the mark under the Versailles schedule actually helped Germany pay for part of her trade imbalance, and helped her to buy from America. The periods of mark recovery gave hope that the mark would be solid enough to accept in payment for American exports, and American merchants frequently accepted the mark, rather than make no sales at all to Germany. American investors also simply bought up the mark in hopes of realizing a profit from its appreciation. Foreign investors in the

66 Ibid., pp. 9ff.
paper mark, mostly Americans, lost an estimated $12,500,000,000. 68

When foreigners began to refuse the mark as payment for exports to Germany, German merchants began to turn first to barter, and then to an exchange program known as Verredlungsverkehr. The second was of much more importance for the United States. It had its source in the inability of German merchants to guarantee delivery and to abide by the prices quoted in paper marks, caused respectively by shortage of raw materials and depreciation of the mark.

By the Verredlungsverkehr, consignments of raw materials were made to Germany with the understanding that the German manufacturers were to be paid a stipulated percentage for turning them into finished products. The raw material and finished product remained always the property of the original consigner of the raw material. 69 An example of such a venture was a company organized in New York with a capital of $2,000,000 for the purpose of supplying raw cotton to German firms and accepting finished goods in exchange. 70 This arrangement appeared to be a healthy solution to Germany's lack of buying power for raw materials after serious depreciation of the mark. The German Government especially encouraged this system, and, although it was still

69 Ibid., February 23, 1921, p. 19.
practiced as late as 1923, where reliable branches or agents were available, it never achieved a dominating importance.71

Germany was unable to meet the cash payments required by the London schedule. After succeeding in paying the 1,000,000,000 gold marks due August 1, 1921, Germany paid only an additional 498,950,000 gold marks in cash. German financiers spent much of the time from August, 1921, to August, 1922, trying to buy foreign currency to make the reparation payments coming due, and at the same time to buy marks sporadically to check its inflation at crucial moments.72 With her unfavorable balance of trade, this was the only way Germany could secure the kind of money acceptable for international payment.

Neither attempt was successful. By mid-1922, Germany was hopelessly behind on payment both in kind and in cash. On August 17, 1922, the Allies abandoned the entire clearing house system for transferral of German money. Germany made no significant cash payments between that date and the adoption of the Dawes plan in 1924. After her repeated requests for moratoriums were refused, Germany officially gave up her attempts to make cash payments in November, 1922, and France prepared to impose the sanctions that

72 Bergmann, History of Reparations, pp. 82-83.
would culminate in Allied occupation of the Ruhr.\textsuperscript{73}

German-American trade started falling in the fall of 1921, but the decrease in trade was not drastic. From October, 1921, to September, 1923, exports to Germany were off about 20 percent from the 1921 average.\textsuperscript{74} Imports from Germany continued a steady increase from March, 1921 to October, 1923.\textsuperscript{75} The statistics of German-American trade do not reflect a direct effect of the collapse of German currency. Contemporary newspapers repeatedly prophesied that trade with Germany would soon fall drastically, but it did not happen.\textsuperscript{76} Economists who attempted to analyze how Germany was continuing to finance her American trade gave utterly contradictory reports. Some said that by the end of 1922, German credit in America became so rare that she had to pay for American purchases with American dollars. Others conjectured that since Germany, contrary to expectations, continued to maintain

\textsuperscript{73}Ibid., pp. 176-180.

\textsuperscript{74}U.S., Department of Commerce Yearbook, 1922, p. 94; Department of Commerce Yearbook, 1924, p. 198.

\textsuperscript{75}Ibid., p. 195; U.S., Department of Commerce Yearbook, 1921, p. 93.

\textsuperscript{76}New York Times, February 5, 1922, VII, p. 8; April 25, 1922, p. 2; July 31, 1923, p. 1; August 20, 1923, p. 21.
a respectable level of imports from America, she must still manage somehow to receive American credit. All agreed that it was "mystifying." Whatever the fact about past trade, one truth stood out clearly: German cash purchases could not continue for long. The future of German-American trade in the long run depended on the status of German credit.

German-American trade developed in relative independence from Allied trade. Commerce between the United States and the Allies boomed in 1919 and 1920, before dropping to about half the 1920 level in the recession year of 1921. The value of American exports to the Allies continued their decline from January, 1921, to September, 1923.

American trade with the Allies was also largely financed on credit. Part of this credit was governmental in origin. The inability of cotton exporters to sell their produce abroad in 1921 induced the American Government to extend $1,000,000 export credit through the War Finance Corporation to help Europe (but not Germany) buy American cotton. The sum was not enormous, but it reflected the

77 Ibid., April 25, 1922, p. 2; February 18, 1923, II, p. 11; September 16, 1923, II, p. 7; October 10, 1923, p. 1.
78 U.S., Department of Commerce Yearbook, 1921, p. 92; Department of Commerce Yearbook, 1922, pp. 94, 160-161.
79 U.S., Department of Commerce Yearbook, 1924, pp. 194, 198.
80 Literary Digest, LXXIII (April 22, 1922), 17.
American realization that if postwar Europe was to buy from America, she would have to have liberal credit. Most of the credit was, however, private. American bankers' loans to European nations reached a total of $4,000,000,000 by late 1922.  

Germany does not seem to have had any significant role in the recession of 1921. Neither, directly, did reparations. The recession began about January, 1921, and that date corresponds with no significant developments in reparations. Germany with her own particular economic problems, hardly experienced a recession. Her 1921 trade exceeded her 1920 trade both in quantity and in value. The recession was no significant factor in German-American trade.

Taking as many economic factors as possible into consideration, the commerce of the Atlantic community was good in 1919 and 1920, but only "fair" thereafter. The smaller amount of Atlantic commerce in 1921 seems to have been the natural sequence to the boom years of 1919 and 1920, and the Atlantic commerce from 1921 to 1923 was disappointing, but not disastrous.

The development of the postwar commerce of the Atlantic community in general, and of German-American trade in

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82 Angell, The Recovery of Germany, p. 373.
particular, depended on American credit. But credit is feasible only as long as political and economic conditions are stable. The European political turmoil of 1922 and 1923 and the economic collapse of Germany began to make American investors question the advisability of their European transactions, and insist upon restoration of stability in Europe.
CHAPTER IV

THE POLITICO-ECONOMIC BREAKDOWN OF THE PEACE

AND AMERICA'S DECISION TO INTERVENE

Being the world's leading creditor nation was a new experience for the United States. It meant that other nations owed America more money than she owed them. But international financial transactions were more complicated than that. The idea that money represented precious metals was largely abandoned by this time. Money represented goods and services. Normally, a creditor nation receives its payment in an excess of imports over exports. But the very idea of an import excess was alarming to American commercial tradition. The tariff stayed high, and America had no intention of seeking an import surplus.¹ A second alternative was to receive more gold from Europe. Transferral of gold was the normal way of paying for small import excesses. But the United States already possessed most of Europe's gold, and additional transferral of large amounts of gold would not be to America's advantage, as it might permanently discourage Europe from going back on the gold standard. A third alternative would have been cancellation of European financial obligations which made

America a creditor nation, but America was determined to collect at least interest on the debt, and to keep the books straight on current transactions. The only alternative remaining was to balance America's excess of exports by exportation of capital, postponing the day when the debts would be paid by an excess of imports.

Germany was the logical place for investment of American capital. She had a tremendous industrial capacity and cheap labor, her regulations prevented importation of finished products, she had to build up her exports to pay for reparations, and she suffered from an acute money shortage.\(^2\) As the bottom nation in a chain of international obligations owed ultimately to the United States, Germany would give the fruits of her labor and American capital to the Allies as reparation, who would then give it to the United States as payment on their debts, completing the circuit.

The first step, American loans and credit to Germany, was the riskiest part of the circuit. Long-term credit and capital investment demand stability. Political or economic instability might wipe out an investment, make it difficult to collect payment for goods sold on credit, or make retrieving capital impossible. Starting in mid-1921, Germany's inability to cope with reparations caused Americans to doubt the wisdom of pouring capital into Germany, and that doubt soon became a conviction that loans to Germany were impossible until

\(^2\)Ibid., April 25, p. 2.
stable conditions returned. The situation was, however, a vicious circle: with Germany's currency and economy collapsing, stable conditions would not return to Germany without large-scale loans.

In April, 1922, the Reparation Commission initiated a study of this dilemma, appointing a committee of international bankers, including America's J. P. Morgan, to consider the feasibility of an international loan to Germany. The Committee report, submitted June 10, recommended a partial moratorium on reparation payments, and a $1,000,000,000 loan to Germany to help her stabilize her currency. Morgan made it clear that a thoroughgoing revision of the reparation plan was a necessary precondition for American participation in a loan to Germany. To the American mind, the London schedule of reparation payments was impossibly high, and until it was adjusted, loans to Germany would be water in a leaky bucket. French Premier Raymond Poincaré refused to consider changing the reparation plan, so the whole proposal of an international loan to Germany was dropped.

Morgan was not alone in his view of this matter. In the spring of 1922, the National City Bank of New York warned that it was dangerous to buy German securities. In May, 1922, the

\[\text{3}^\text{U.S., Foreign Relations Papers, 1922, II, 165.}\]
\[\text{4}^\text{Howland, Survey of Foreign Relations, 1928, p. 356.}\]
\[\text{5}^\text{Congr. Record, 67th Cong., 1st Sess., LXI, 8335.}\]
annual Convention of the American Chambers of Commerce took up the reconstruction of Europe, stressed above all the need of stability, and concluded that trade would boom if reparations were adjusted. In the first month after Morgan's announcement, American bankers restricted Germany's open credits in America to their lowest postwar level: $50,000,000, down 25 percent.

The continued deterioration of the European situation in the latter half of 1922 caused some Americans to begin reconsidering their basic European policy. Implicit in America's postwar settlement was the axiom that she would not become involved in intra-European problems. For the United States to step in and tell Europe how to handle reparations was inconsistent with that axiom. American dollars, seeking a secure market in Germany, would have to rely on Europe to reschedule reparations and restore stability by herself. As it became obvious that Europe was not going to settle her problems—problems which were denying American dollars an inviting market—Americans began to favor more positive action on the part of the United States Government.

In October, 1922, the American Bankers' Association urged President Harding to make the American unofficial

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representative at the Reparation Commission an official member, for this reason:

The time has come for the Government of our country to formulate the principles on which it will be able to cooperate with other nations to bring about the needed rehabilitation of European countries and peace in the world.  

Shortly afterward, Secretary of State Hughes stated privately that what Germany could pay should be resolved by financial men with approval of their governments.  

Alanson B. Houghton, American Ambassador to Germany, gave one of the earliest alarms that the European situation would become still worse. In November, 1922, he informed Hughes that the United States could not just stand by while Europe fell apart:

The administration will find itself confronted say January or February with the fact that wheat, cotton, copper et cetera, cannot be sold to Germany in anything like the usual volume. . . . It is very important that the administration record on this point should be farsighted and such record will strengthen your hands in the face of obvious political and financial difficulties such a situation would create.

Houghton was referring to the fact that France and Germany were at unprecedented loggerheads over reparations. France believed that Germany could pay reparations if she had good will, and was beginning to formulate her plans

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8 Ibid., October 7, 1922, p. 4.
for forcing Germany to pay. The German Government had its approach as well: "bread first, then reparations." It became well known that France's answer was military invasion and economic control of the Ruhr area. The Conference of Allied Premiers, slated for December, 1922, had to be postponed until January, for fear that British opposition to French plans would split the Allies. British diplomats made several proposals for more moderate action, but France determinedly held that strict German payment of reparations was the "sole logical preparation for the economic reconstruction of Europe," and on December 26, the French, Belgium, and Italian representatives on the Reparation Commission voted Germany in default on delivery of timber.

Secretary of State Hughes thought that the contemplated French action would be a mistake. In an attempt to avert an open British-French impasse at the coming Premiers' Conference, Hughes probed French reaction to an international commission of financial experts to study reparations. When the French rejected the idea, Hughes made a public statement of the American proposal at New Haven on December 29, 1922:

The economic conditions in Europe give us greatest concern. . . . we are deeply interested from an economic standpoint, as our credits and markets are involved, and from a humanitarian standpoint, as the heart of the American people goes out to those who are in distress. We cannot dispose of these problems by calling them European, for they are world problems and we cannot escape the injurious consequences of a failure to settle them. . . .

The crux of the European situation lies in the settlement of reparations. There will be no adjustment of other needs, however pressing, until a definite and accepted basis for the discharge of reparation claims has been fixed. 14

Hughes then proposed his commission of experts to study reparations. He insisted that reparations were European in the sense that the key to their settlement was in European hands, and the United States was just trying to be helpful. 15 The Allies understood that acceptance of the expert commission was a necessary prerequisite to an American loan. 16

The proposed expert commission failed to effect harmony at the London Allied Premiers' Conference. On January 9, the Reparation Commission overrode British objections, and declared Germany in voluntary default on delivery of coal. Two days later, French and Belgium troops occupied the Ruhr. Germany retaliated by discontinuing deliveries in kind to France and Belgium, and by a policy of passive resistance to the French efforts to get coal and timber out of the Ruhr. 17

15 Ibid.
16 Literary Digest, LXXV (December 30, 1922), 13.
The action of the Reparation Commission from its inception on January 10, 1919, through the occupation of the Ruhr demonstrated that it was the political and economic power in Europe. The Treaty of Versailles gave the Reparation Commission discretionary power to assess Germany's resources and ability to pay, and modify the schedule of payments, and required Germany to cooperate with legislation necessary to make such modifications effective. The Treaty also gave the Reparation Commission the power to impose sanctions if Germany fell into willful default or refused to cooperate. The exact conditions for imposing sanctions was a matter of dispute, but the occupations of March, 1921, and January, 1923, proved that the Commission had the de facto power. This made the Reparation Commission, in effect, a governmental institution controlling the heart of Europe and capable of dictating to the Atlantic community. It was the most powerful political and economic institution in Europe.

The Treaty of Versailles planned the Reparation Commission under the presumption that the United States would be a member, and that the American member would assume the chairmanship. Five members with voting power

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were to have sat on the Commission, and a simple majority was enough to pass all legislation except reduction of Germany's total reparation bill. When the United States failed to become an official member, only four members were left: Great Britain, France, Belgium, and Italy. The same rules, however, applied to Commission proceedings: in case of a tie, the chairman could cast the deciding vote. For her own security, Belgium always voted with France. That guaranteed France a tie on every vote, and since the chairman, who was French, could break the tie, it gave France absolute control over the Reparation Commission.  

At first, the United States was not concerned about the power of the Reparation Commission. America sought commercial prosperity, and would let Europe attend to its own political affairs. But reparations were a mixture of political and economic factors, and the actions of the Commission were wrecking Germany's economy, and threatened to have serious effects on the commerce of the whole Atlantic community.

The result was renewed American interest in reparations, and Hughes' New Haven speech was its keynote. Hughes' speech represented a broad base of pro-involvement sentiment in America. Hughes had frequent conferences with American bankers and Allied and German representatives in the

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month before his statement of the American policy. The Senate showed an unmistakable trend away from obstructing involvement in the reparation problem. Former progressives maintained a steadfast isolationism, but the Lodge-Borah bloc, which might be characterized as "practical nationalist Republican" was changing its mind about American involvement. In December, Senator Borah came out so strongly in favor of American intervention that Senator Hiram Johnson of California accused him of swallowing Wilson's international theories. Borah made a formal statement of his new position, stating that Europe's problems were so pressing that the United States must exert influence in settling the reparation question and other financial entanglements in Europe. He concluded:

We are interested in the reparation questions, therefore, because we are interested in the payment of what Europe owes us. We are interested in it, because we want European markets opened to our farm products.

The New York Times editorialized that this change "would mean not simply that the chief isolationists of 1920 have suddenly become keen on international cooperation, but that the course of events, the irresistible play of economic forces, has made converts right and left."\[23\]

\[21\] Ibid., December 25, 1922, p. 2; December 23, 1922, p. 12.
\[22\] Ibid., December 25, 1922, p. 1
\[23\] Ibid., p. 12.
Public opinion outside Congress also reflected the change in climate. The New York Herald summed up the change:

The question which concerns the American people in respect of this London Conference... is the foreign markets where we must sell our surplus cotton... If the purchasing power of Europe can not be built up again our foreign markets can not again be to us what they have been...^24

As the effects of the Ruhr occupation became more apparent, Pierpont B. Noyes, former United States Rhineland Commissioner, observed that the immense market in central Europe for American raw materials and goods was paralyzed as the result of political incapacity and intrigue, and called for implementation of Hughes' proposed expert commission.^25

One Washington correspondent stated that President Harding "has definitely abandoned his policy of isolation and is now engaged in momentous negotiations with the Allies designed to pull Europe out of the welter of chaos". The United States was on the verge of a change in policy.

The thrust of pro-interventionist sentiment, so clearly in evidence at the beginning of 1923, was a curious phenomenon. It came at the low point of America's postwar settlement. At that point, the Mixed Claims Commission

^24 Literary Digest, LXXV (December 30, 1922), 6.


^26 "A Golden AEF to Save Europe Again," Literary Digest, LXXV (December 30, 1922), 5.
was functioning, but had not yet even coped with the problem of how to receive money for the claims adjudicated. The United States had not yet secured payment of the costs of its Army of Occupation of the Rhineland. And none of the Allied nations had agreed to pay their debts to the United States. 27

Hiram Johnson's comparison of this pro-interventionist sentiment to Wilson's international theories was ironic. Wilson favored involvement in the interest of a stable world order for its own sake. Pro-intervention sentiment in 1923 rested on a purely financial basis.

The change, however, could not become effective immediately. Only the Reparation Commission could authorize the study proposed by Hughes, and France obstructed the authorization. 28 The definitive action of occupying the Ruhr threw cold water on America's hopes for effective intervention. In the face of French intransigence, the United States had to deal with the Ruhr occupation as an unpleasant fact. Harding withdrew American troops from the Rhineland to show American disapproval. But the United States maintained official neutrality, and Hughes believed that only direct German-French negotiations could unravel the Ruhr tangle. To borrow a phrase from another era,

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27See Chapter II.
the United States entered a phase of "watchful waiting."

The occupation of the Ruhr proved as disastrous as America had expected. The paper mark fell from about 180 to the dollar in December, 1922, to about forty billion to the dollar in December, 1923.\(^{30}\) Through the summer of 1923, both Germany and Great Britain frequently reminded the United States that Hughes' plan was the only way out of the Ruhr demise.\(^{31}\) When the occupation of the Ruhr became a dismal fiasco for the French, the chances of French acceptance of the Hughes Plan improved.\(^{32}\) It was time for effective action.

Great Britain took the initiative in officially inviting concerned nations to consider Hughes' proposal. In October, 1923, she invited the Allies and the United States to an international conference to consider establishing a commission of economic experts to investigate and report on Germany's ability to pay.\(^{33}\) The British invitation apparently did not involve the Reparation Commission in order to allow American participation without open confrontation between the administration and Congress.

France insisted that the expert commission would have to function under the auspices of the Reparation Commission, not parallel to it, and that it could not even discuss

\(^{30}\) Schmidt, *German Business Cycles*, p. 11.


\(^{33}\) Ibid., October 26, 1923, p. 1.
lowering the $32,000,000,000 reparation sum set by the London schedule.\textsuperscript{34} France further understood that the commission would not question the French right to occupy the Ruhr, would stay strictly within the limits of the Treaty of Versailles, and that it would simply advise the best way of getting money out of Germany.\textsuperscript{35}

The American understanding of the role of the expert commission was that it would investigate Germany's capacity to pay reparations from purely economic and non-political criteria. France refused to allow such long range investigations.\textsuperscript{36} The negotiations with France exasperated Hughes. It seemed clear to him that 1) the commission was only a study, which France was free to reject later, and 2) that the only practical question was not "How much should Germany pay?" but "How much can she pay?" Hughes complained that the French had treaty rights, "and even if they took a position which involved the ruin of all Europe, they would still have their treaty rights."\textsuperscript{37} The United States, on its part, insisted that the commission not take up the question of inter-Allied debts.\textsuperscript{38}

\begin{thebibliography}{9}
\bibitem{34} U.S., Foreign Relations Papers, 1923, II, 85-87.
\bibitem{36} U.S., Foreign Relations Papers, 1923, II, 87, 90.
\end{thebibliography}
The compromise agreement was a French victory. On November 30, the Reparation Commission created two committees of experts responsible to it. The first committee, was to study means of balancing Germany's budget and propose measures to stabilize its currency as a means of securing reparation payments. The second was to estimate the amount of capital which had escaped Germany (and the Reparation Commission) and explore means of forcing that capital to return.39

President Calvin Coolidge, a strong supporter of Hughes' plan, was disappointed by the limited scope of the proposal, but announced that the United States Government would view with favor the participation of American experts invited to serve on the committees. Charles G. Dawes, who had successfully engineered the first comprehensive budget for the United States, was named head of the commission to study German currency. Business leader Owen D. Young also served on the commission. They accepted membership as private citizens, and did not represent the United States.40

The committees began their investigations in January, 1924. Each committee consulted with high-ranking German financiers and economists, but only Allied and Associated

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experts did the work of the committees. Their reports, published April 9, 1924, were decidedly economic in tenor, deliberately excluding political expediencies.\textsuperscript{41} Reginald McKenna, head of the committee to study the flight of German capital, reported that about $1,600,000,000 had left Germany, but that it would return with political and economic stability in Germany.\textsuperscript{42} The Dawes Committee reported that Germany could not recover economic strength and make reparations unless the constant threat of foreign interference were removed.\textsuperscript{43}

It was up to the Reparation Commission to act on the reports. On April 17, it notified the Allies and the United States that both the Reparation Commission and Germany favored acting on the reports, and recommended that the governments concerned execute the plan. Analogous to the Versailles treaty, the new plan required the individual acceptance of each nation involved. The French hedged, until the elections of May 11, 1924, took the reins of government from Poincaré. The leftist Herriot Government was better disposed to cooperate with the Dawes report.\textsuperscript{44}

\textsuperscript{41}Bergmann, History of Reparations, p. 253.
\textsuperscript{42}Angell, The Recovery of Germany, pp. 62-63.
\textsuperscript{43}Bergmann, History of Reparations, pp. 253ff.
\textsuperscript{44}Howland, Survey of Foreign Relations, 1928, pp. 366-367.
The Dawes Plan reduced Germany's annual reparation payments from 2,000,000,000 gold marks per year, to 1,000,000,000 gold marks in 1924, gradually increasing to 2,500,000,000 gold marks in 1928. It recommended an international loan of 800,000,000 gold marks to help stabilize German currency and make the first installment. Reparation payments were to come from internal German taxation and proceeds from German railroads and industry. Transfer of German railroad bonds worth 11,000,000,000 gold marks, and of industrial debentures worth 5,000,000,000 gold marks into private hands changed reparations from an international obligation of the German government to a German domestic debt. All Germany had to do was place the required marks in her reparation account in the Reichsbank, and the Allies would see to converting the money into foreign currency for international transferral. The continuing principle of the Dawes Plan was that reparations must be adjusted to Germany's capacity to pay.45

A conference of Allied representatives was to meet at London on July 16 to consider the plan. The British Government attempted to pressure the United States to send an official representative by extending a public invitation to the United States. Hughes was disturbed by the publicity, and wanted the invitation withdrawn.46


But Hughes soon saw the necessity of official American representation. The comprehensiveness of the Dawes Plan might reduce Germany's international obligations to one lump sum, or establish priorities that would jeopardize collection of American claims through the Mixed Claims Commission and the Wadsworth Agreement. On June 25, President Coolidge authorized Ambassador to England Frank B. Kellogg and Colonel James A. Logan to attend the London Conference for the purpose of protecting American interests, but with the caution that they should not sign any protocol which might require the consent of the Senate.

Controversy at London centered around assigning the power to declare Germany in default and impose sanctions. The French wanted the Reparation Commission to retain that power. The British wanted either an American citizen or the World Court to have the power. Hughes, who sailed for Europe on July 12 and did not leave Europe until mid-August, engaged in a great deal of personal diplomacy, "as a private citizen." The United States would have no part whatsoever in the Dawes Plan if France insisted on action through the Reparation Commission, which gave her what amounted to freedom to act.

48 Ibid., pp. 31-32.
as an individual nation in sanctioning Germany. British
and American bankers hovering around the Conference told
French delegates the same thing. On July 21, Hughes warned
British Prime Minister Ramsay MacDonald against giving into
the French. MacDonald answered "How will the French concede
to bankers what she had declined to concede to Allied
Governments?" On July 25, J. P. Morgan, departing for
Europe, joined the chorus: "We have no political views to
impose, but expert advice to give. We just give the
conditions for the loan—you can say no to it."

Intense dispute followed. The French press, led by
the Matin, denounced the role the United States was playing
in London, and demanded that Herriot abandon the Conference
and let the plan die rather than accept the terms dictated
by New York bankers.

Compromise was inevitable. The Reparation Commission,
sitting with a voting American present, retained power to
decide on German defaults and impose legitimate sanctions.
But unless the decision was unanimous, any nation could
appeal to a special arbitral committee made up of two
"impartial and independent" members and an American
chairman. The American voted only on defaults and sanctions,

51 Robert McElroy, "The Reparation Settlement," Current
History, XX (September, 1924), p. 1.
53 Ibid., July 26, 1924, p. 1. 54 Ibid., p. 3.
and the American member did not represent his Government.  
This agreement cleared the way for Allied acceptance of
the Dawes Plan on August 2, 1924.  

The Allies invited Germany to give her assent. Hughes
happened to be unofficially in Germany. On August 4, he
advised German President Friedrich Ebert to accept the
Dawes Plan. Germany accepted two days later. The Allies
and Germany-- but not the United States-- signed the Dawes
Plan on August 16, 1924, and Germany began passing the
required legislation.  

America's share of the 800,000,000 gold mark loan to
Germany was $110,000,000, in 7 percent bonds. The loan
was opened to investors on October 14, and demonstrated how
thirsty American capital was for German investment. The
loan was oversubscribed in five minutes, and orders for
$500,000,000 were on hand when the books closed after fifteen
minutes. It was the same story in London and Paris.  

The United States had two specific interests in the
Dawes Plan. The first was the safety of the loan. This
was effectively guaranteed by the provisions which gave
payment of interest on the loan absolute priority over

55 Howland, Survey of Foreign Relations, 1928, p. 368.  
57 Ibid., August 7, 1924, p. 1.  
58 Ibid., August 17, 1924, p. 1; August 30, 1924, p. 1.  
59 Ibid., October 15, 1924, p. 1; October 16, 1924, p. 27.
reparations, and by the special arbitral committee which gave an American citizen the final word in executing sanctions against Germany. The Allies had not yet indicated their attitude toward America's second interest: how would the Dawes Plan affect payment of American claims for war damage and costs of her Army of Occupation.

The United States never lost sight of this question. While the Dawes Commission was in the initial stages of its work, Hughes sent so many reminders to the American experts that "the United States would view with disappointment any general settlement of the reparation problem which did not take into proper account its legitimate claims," that it irritated the experts. The same consideration prompted American representation at the London Conference in July. Hughes lost no time raising the question again after word that the Allies had accepted the Dawes Plan.

Coolidge and Hughes were concerned that the Allied Finance Ministers' Conference, expected October 11, would undertake apportioning reparation funds received through the Dawes Plan, and named Logan to represent the United States officially at the Conference. In contrast with previous Allied meetings, where the United States reluctantly acquiesced to allowing unofficial observers to attend,

62 Ibid., pp. 104-105.
the United States made energetic and almost aggressive
efforts to elbow a way into this meeting. The Conference
was frequently delayed, and did not take place until
January, 1925.

By the last week of October, it was clear that American
claims would have to be integrated into the Dawes Plan.
The British objected to America receiving payment on claims
adjudicated by the Mixed Claims Commission out of Dawes plan
revenues. British representatives argued that the Treaty
of Versailles made reparations for the participants of
that Treaty a prior charge on all German resources. The
Reparation Commission was the sole body empowered to receive
reparations from Germany. When it notified Germany of the
total amount of reparations in May, 1921, it did not
include any American claims because the United States had
not ratified the Treaty, and now the Reparation Commission
could not legally add to a sum presented to Germany as the
maximum.

The British accepted the legality of payment of the
costs of America's Army of Occupation, and they were
placed first on the agenda for the Conference. The Allies

64 New York Times, October 27, 1924, p. 3.
65 Ibid., pp. 68-69. America's claims were not challenged
earlier, because Germany had no money for paying them until
the international loan.
had nothing to lose by this action. The Wadsworth Agreement, made when Germany had no money, gave the United States priority over from 25 to 100 percent of Germany's reparation payments. Placing that item on the agenda was certainly not to America's advantage.

The controversy raged through the fall of 1921, and Great Britain made more sweeping charges: the Treaty of Berlin and the Mixed Claims Commission were illegal from the start. Germany had no legal right to promise to pay the United States anything, after committing all her resources to Allied reparations. The United States had the right to share Dawes Plan revenues neither legally, nor in equity, because she had frequently stated that she "was not seeking reparations." The United States rejected the British suggestion that the question to be referred to the World Court. The root of the British objections seems to have been that the United States was again trying to collect money through an agreement and institution to which she was not committed as an official member. As early as July, 1924, the British let Logan know that the United States would either have to "come in or get out." The British action might also be explained by the observation that the Stanley Baldwin Government hardly had the same

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69 Ibid.
70 Ibid., 17.
approach to international concerns that the MacDonald Labor Government had. 71

France, Belgium, and Italy supported the American claim to payment of war damage out of Dawes Plan revenue, not in legality, but in equity. 72 This support is not surprising, since J. P. Morgan and other American bankers had been holding up a $100,000,000 loan to France since March, 1924, at Hughes' insistence. On November 11, 1924, Hughes reminded Morgan, "I should certainly oppose the loan if there were any doubt of French support at the upcoming Finance Ministers' Meeting." 73 Belgium was also arranging a $100,000,000 loan from the United States. 74

When the Finance Ministers' Conference finally began on January 7, 1925, Great Britain was ready to compromise. Never conceding a legal American right to payments, the Allied Finance Ministers agreed that beginning in 1927, the United States would receive 2 1/4 percent of the Dawes Plan revenues, up to $14,000,000 annually for its claims to war damage, and $13,750,000 annually for its army costs. 75

71 New York Times, November 2, 1924, VIII, p. 3.
72 Ibid., December 13, 1924, p. 2; U.S., Foreign Relations Papers, 1924, II, 64.
74 Ibid., December 13, 1924, p. 2.
75 Ibid., January 12, 1925, p. 1.
sum did not increase what the Wadsworth Agreement gave the United States for army costs alone. 76

Statesmen all over the world expected the United States to sign a separate agreement having to do only with American claims to a share in the payments, and a separate protocol was drawn up. But the State Department preferred only one agreement to be signed by all, to assure America's unquestioned right to receive payments. The American delegates signed not only the agreement on American claims, but the whole Paris Financial Compact, which approved payment of sums due to the Allies under the Treaty of Versailles. This action made the United States officially a participant in the Dawes Plan. 77

Congressmen, alarmed by news that the United States signed the whole document, called for transmission of the text and explanation of the circumstances surrounding the signing. 78 An article by J. L. Garvin reflected Congressional fears most adequately:

America in consenting to receive a share of the Dawes annuities assumed direct and inevitable responsibility for the working of the scheme. In fact and substance America again becomes the associate of the Allies, . . . The establishment of this remarkable position cannot have been other than a deliberate act of American statesmanship. 79

76 U.S., Foreign Relations Papers, 1924, II, 81.
The Allies certainly interpreted the American signing as a firm commitment to responsibility for the success of the Dawes Plan. Winston Churchill, Chancellor of the Exchequer and head of the delegation which signed the document for England, said "After six years of misunderstanding and divergences, we find the Allies and the United States working together within the limits of the Dawes scheme."80 Premier Theunis of Belgium said "to pay 2 1/4 percent to have America's signature in our syndicates is nothing. America might ask 2 1/4 percent or 7 3/4 percent to participate in this operation, and we would gladly pay..."81 The Finance Ministers of France and Italy who signed the document made similar public statements.82

America's involvement was probably greater than the State Department originally intended. Acting Secretary of State Joseph Grew instructed Myron Herrick, American delegate to the Finance Ministers' Conference, to state upon signing:

In signing the present agreement, the representatives of the United States declare that the United States is not to be understood as assuming thereby any obligations for the United States, nor as passing upon questions that do not concern American participation in the sums distributed pursuant to the agreement.83

82 Congr. Record, 68th Cong., 2nd Sess., LXVI, 2986.
83 U.S., Foreign Relations Papers, 1925, II, 143.
Herrick received the instructions "while signing," and, fearing controversy, chose not to make the statement.\(^8^4\) He had good reason for this. Great Britain had proved herself immoveable in obstructing two previous American attempts to sign only part of the document.\(^8^5\) It appears that Great Britain made good her promise to make America "get in or get out."\(^8^6\)

The Executive Branch certainly involved the United States more than the irreconcilables wanted, and deliberately avoided confronting the Senate. Discussing the Dawes Plan in October, 1924, Hughes said "if we had attempted to make America's contribution to the Dawes Plan a governmental matter, we would have been involved in hopeless debate. We should have been beset with demands, objections, and instructions."\(^8^7\) Dawes was even more explicit:

In order to avoid the knives of the Senate obstructionists, the President has had to carry on some of our most important foreign business through unofficial channels. If the President and Secretary of State had evaded this duty unofficial action and precipitated the question of official representation for debate, delay and non-action, into the United States Senate, the United States would have had no part in the last desperate but successful effort to find a common ground for agreement for a new peace.\(^8^8\)

\(^8^4\) Ibid. \(^8^5\) New York Times, January 19, 1925, p. 1. 
\(^8^6\) U.S., Foreign Relations Papers, 1924, II, 17. 
\(^8^7\) "Foreign Affairs With or Without Lodge," World's Work, XLVII (October, 1924), 577-578. 
\(^8^8\) Ibid., p. 578; "Uncle Sam as a Bootlegger in European Affairs," Literary Digest, LXXXIII (October 25, 1924), 44-45.
As early as July 16, 1924, the State Department was aware that the Dawes Plan might have to be referred to the Senate, and took every precaution against that eventuality. Grew instructed the American representatives at the London Conference not to allow any figure for American claims to be mentioned, as the Mixed Claims Commission was under the authority of Congress, and the executive could not set any limits, no matter how high, to American claims without Congressional authorization. Somehow, the figure $350,000,000 as the maximum allowable American claim crept into the draft of the Paris Financial Compact. It was discovered only the day before signing, and the American delegate had it removed, requesting that this last-minute change be kept confidential. Although the White House and State Department denied discussing the omission of the figure in order to avoid the Senate, it is clear that they had discussed it, and that the omission was deliberate. Furthermore, although the compact was relatively short--four pages in the Congressional Record, where it was printed in full on January 26--the State Department had only brief excerpts for the Senate until the text arrived by mail on February 2.

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91 Ibid., p. 4; U.S., Foreign Relations Papers, 1925, II, 142-143.
92 New York Times, February 3, 1925, p. 3.
Isolationist Senators raged, but they had much less power than in 1920. Senator Hiram Johnson of California was the leading obstructionist of the Dawes Plan; his power can hardly be compared with the Lodge bloc of 1921. Lodge was gone, Borah had modified his position, and the general shift in attitude by the practical, nationalistic Republicans had decimated the ranks of the true irreconcilables. No censure was voted by the Senate, and the Paris Financial Compact became the law of the land in the United States.

CHAPTER V

CONCLUSION: REPARATIONS UNDER AMERICAN LEADERSHIP

The ultimate effect of the Dawes Plan the United States was to reinvolve her intimately in inter-Allied affairs by the nature of the agreement, by the position Americans assumed within its structure, and by the negotiations creating the plan. The nature of the agreement made the United States have common cause with the Allies in securing reparations. After years of standing aloof and attempting to negotiate and collect her postwar claims as an individual nation, the United States negotiated its share of reparation payments with the Allies, on an official and equal basis. The Paris Financial Compact modified the Spa agreements and the London reparation schedule of May 1, 1921, both of which were specific inter-Allied concerns of greatest importance. Whether the United States received 2 1/4 percent or 75 percent of the Dawes revenues, her signing of the Compact sanctioned the validity of the total German reparation bill. America received no funds specially earmarked for her by Germany. The United States resigned herself to taking a slice of the Allied reparation pie, committing herself to the whole reparation plan in principle.
A little-known transaction had already taken a major step toward American approval of the total reparation plan. By May of 1924, the occupation of the Ruhr had accumulated 100,000,000 gold marks. In order to avoid raising the question of the legality of the Ruhr occupation, France preferred bypassing the Reparation Commission with the money. For political reasons, France wanted to transfer 100,000,000 gold marks to Belgium. Although France had not ratified the Wadsworth agreement, and had disavowed it several months earlier, the two nations agreed that it was only fair that the United States receive its 25 percent for its army costs. On the eve of the London Conference which would discuss the Dawes Plan, France's desire to guarantee that the United States would not question the Ruhr occupation should have been transparent. But Logan warned that "If we do not accept the Belgium offer, or if we bring forward conditions and qualifications... we would merely be throwing away the first excellent opportunity we have had to obtain real money."1 The United States accepted the money without qualifications on July 5, 1924.2 Although that action fell short of approval of the whole Ruhr occupation, it was a far cry from the moral indignation of January, 1923; was a removal of the reparation expediency; and represented a significant step toward common cause with the Allies. It was preferable to receiving no money at all.

1U.S., Foreign Relations Papers, 1924, II, 140-142.
2Ibid., p. 146.
The Dawes Plan reinvolved the United States in inter-Allied affairs by the position Americans assumed within its structure. Technically, the Agent General for Receiving Reparation Payments, and the other executors of the Dawes Plan, were appointed by and subject to the Reparation Commission. But that subordination was more apparent than real. The Agent General handled all German payments, supervised transfer of the payments into foreign currencies at his own discretion, and made the major decisions, making the Reparation Commission a mere figure-head. The only two men to occupy the position of Agent General were Americans.\(^3\)

The only real decisions regarding reparations were when to reduce or increase Germany's payments, how to transfer them into foreign currency, and when to declare Germany in default and sanction her. The first two were the concern of the American Agent General, and the third was the ultimate responsibility of the special Arbitral Tribunal, whose chairman, by law, had to be an American. For all practical purposes, the United States had an effective veto over any changes in the reparation program.

In the words of Carl Bergmann, German economist and negotiator at many reparation conferences,

Thus after a long and devious journey, the object which the authors of the Treaty of Versailles had in mind, i.e., the settlement of reparations under American leadership, was finally reached.4

The negotiations creating the Dawes Plan involved the United States in inter-Allied affairs. The fact that Americans negotiated at first from an unofficial status was a legal fiction designed to bypass Congress. The gallery of Americans who unofficially dropped in on the London Conference in July, 1924, included the Secretary of State, the Secretary of the Treasury, and J. P. Morgan. They had frequent and serious conferences with virtually every Allied leader, either in London, or in the various capitals. The fact that they professed not to represent the United States bordered on the comical. When Hughes told Raymond Poincaré, "If you turn this down, America is through," he represented American power, whatever his legal camouflage.5

United States power brought about the Dawes Plan, and forced a reluctant France to accept the essential features of America's plan for reorganizing reparations. American diplomacy did not use the usual tools of international diplomacy, in the nineteenth century tradition of using alliance and threats of alliance for achieving national objectives in the international arena. But she achieved

5Dexter Perkins, Charles Evans Hughes and American Democratic Statesmanship (Boston, 1956), pp. 122-123.
the same effect by threatening to withdraw the dollar which Europe desperately needed in 1924. America used power politics in the international arena, and the fact that she chose to use a new tool in the twentieth century did not make her involvement any less real. For diplomacy is an effect, not a cause. Great Britain's possession of Gibraltar in the nineteenth century, for example, was not diplomacy, but it was a powerful instrument and cause of effective diplomacy. So the United States possessed the dollar, and it was just as powerful a tool for pursuing advantageous international settlements as military alliances or strategic geographical position might have been.

American diplomacy made very effective use of the power of the dollar in effecting settlement of her wartime loans to European nations after adoption of the Dawes Plan. In virtually every case, the threat of withholding pending loans of from $50,000,000 to $100,000,000 was necessary to bring the debtor nations to a settlement. 6

The kind of entanglement the United States feared most was the kind of agreement that might commit it to unwanted military action. Ironically, the Four Power Pact in the Pacific came much closer to military entanglement than agreements the United States committed itself to in Europe. 7


America's major objective in promoting the Dawes Plan was to bring about the stability necessary for the safety of American capital investment and loans to Europe and the development of prosperous trade. Political stability returned, as evidenced by the Locarno Pact, and the currency of every major European nation except Italy began recovering in early 1924, and remained stable until 1929.\(^8\) Both a cause and an effect of this stability was the voluminous flow of American capital into Europe. With reasonable hope for the security of the transactions, American bankers' loans to Germany anticipated the Dawes Plan by several months.\(^9\) The year 1924 was a record year for American loans and investments in Europe. American investors subscribed $3,500,000,000 in loans to foreign governments, and $6,000,000,000 in loans to foreign industries.\(^10\) In 1924 alone, American investors received $750,000,000 in interest from various foreign loans.\(^11\) At the end of the year, Secretary of the Treasury Andrew T. Mellon observed that the United States had credit possibilities of $40,000,000,000, and urged Americans to invest still more abroad.\(^12\) Americans were eager to

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\(^{9}\) Ibid., January 2, 1925, p. 23

\(^{10}\) Ibid., December 24, 1924, II, p. 10.

\(^{11}\) Ibid., December 13, 1924, p. 2.

\(^{12}\) Ibid., January 23, 1925, p. 5.
invest in a stabilized Europe.

The flow of American capital into Germany did not prove as effective as both nations had hoped. The purpose of foreign capital flow into Germany, as conceived by the initiators of the Dawes Plan, was to build up German agriculture and industry. But bonds for municipal improvements paid such high interest that a great number of American dollars went there instead of into productive industry, eventual exports, and, ultimately reparations. The German Government appealed several times to the State Department to restrict American loans to German municipalities, but the State Department was hesitant to enforce its will upon American investors. Americans continued to oversubscribe virtually every municipal bond floated.

If America did not become militarily entangled in Europe, her dollars did. The tremendous flow of American capital into Europe entangled a great deal of American wealth there. It could not be immediately retrieved if disaster threatened, and its safety depended on the political and economic stability of the nations in which it was located.

Dollar Diplomacy means 1) using the power of the state to protect foreign investments, and 2) using the power of money to achieve political or additional economic objectives. The phrase originated to describe American intervention

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in Latin America to promote political and economic stability for the sake of American investments in those nations. The phrase also fits America's European policy as reflected in the Dawes Plan: the United States used the power of the dollar to restore political and economic stability in Europe, for the sake of the security of present and future investments in European nations.

Until 1922, this intervention was not considered necessary or advantageous. From 1919 to 1922, the United States policy was one of disentanglement from inter-Allied concerns, attempted settlement of her postwar claims as an individual nation, and intense promotion of the commercial prosperity of the Atlantic trading community. In 1922 and 1923, reparations frustrated that policy, and the United States decided that reparations would have to be settled first, by American intervention, if necessary. The tool of American reinvolvelement was the dollar. Under its domination, Europe entered into the economic and political phase which it would maintain until the depression and Hitler's rise to power.
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