Article

Interwar Financial Summits: The Economic Consequences and Lessons of Attempts to Repair a Broken World

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> Very few of us realize with conviction the intensely unusual, unstable, complicated, unreliable, temporary nature of the economic organization by which Western Europe lived for the last half century. We assume some of the most peculiar and temporary of our late advantages as natural, permanent, and to be depended on, and we lay our plans accordingly. . . . Moved by insane delusion and reckless self-regard, the German people overturned the foundations on which we all lived and built. But the spokesmen of the French and British peoples have run the risk of completing the ruin . . . by a Peace, which, if it is carried into effect, must impair yet further, when it might have restored, the delicate, complicated organization, already shaken and broken by war, through which alone the European peoples can employ themselves and live.
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> (Keynes 1920)

Introduction

Political summits with economic and financial consequences have a long history. Reparation payments accompanied Napoleon's peace agreement with Prussia in 1807 and Prussia's peace agreement with France in 1871. The Vienna Conference following Napoleon's defeat was not about finance principally, but it not only stipulated reparations for the victors, its framework for international stability also helped set the stage for nearly 100 years of economic development supported by the growth of new financial institutions and nearly unprecedented financial cohesion. As former U.S. Secretary of State Henry Kissinger observed, these financial settlements provided a model for future ones by not posing a mortal threat to any nation's survival, thereby preserving a basis for future negotiation and consensus (Kissinger 1956).

During that 100-year period, there were many "summits"— meetings of heads of governments or their senior representatives which were usually bilateral, but not always. Some might even be classified as "family reunions." In addition, there were many meetings of high-ranking experts, sometimes representing private interests or their nations, but financial cooperation, as opposed to bilateral investment, was rarely an important item on the agenda

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when heads of state met. Before World War I, a government's role in economic activity and finance in general was much more subdued (Flandreau and James 2003).

Notwithstanding growing nationalism, the decades preceding World War I witnessed a burst of international cooperation and meetings. Technology both helped facilitate conferences and make them less necessary. Between 1900 and 1914, over 300 nongovernmental and thirteen governmental international organizations were created, dealing with subjects as diverse as health care and technical specifications. The creation of the organizations often followed a conference on the topic. Labor and business met and organized on an international level. A Union of International Associations was even founded in 1910 by 137 international groups and headquartered in Brussels to coordinate the schedules of the many international conferences and congresses (Hale 1971). None of these institutions or organization dealt with financial matters.

Despite periodic financial crises and more regular departures from the strict norms of the Gold Standard, central bankers, ministers of finance, and private banking experts convened sporadically with little or no institutional structure. Between 1874 and 1913, most major currencies remained convertible into gold; most exchange rates remained relatively stable; inflation remained low and relatively steady; long-term interest rates stayed low and steady; and economic growth and trade remained vigorous (Eichengreen 1992b; Ferguson 2001). Even though the system did not function as automatically as hoped, key players understood the rules of the game of global finance sufficiently and the mechanisms functioned adequately, so face-to-face meeting of private and public leaders hardly ever occurred even during crises. To be sure, public and private bankers exchanged telexes and later phone calls as panics unfolded, and sometimes ventured from one country to another to discuss how cooperation should work. Many meetings were ad hoc, often combined with summer vacations. From the 1860s through 1914, financial leaders including members of government and central bankers gathered perhaps four or five times to discuss currency zones (e.g., the Latin American), major debt defaults, or the role of silver in the system of foreign exchange convertibility. These meetings had relatively limited agendas (Cassis 1994; Flandreau 1997). Frequent and large summits, or even smaller technical meetings, over financial matters are of a rather more recent vintage.

All this came to a screeching halt in the summer of 1914. As one distinguished economic historian put it, "One passes in a few weeks of 1914 from a quiet stream, as it were, to white water" (Landes 1970, 359). By September 1914, most major stock markets were closed and currencies were no longer convertible (Roberts 2013). By the end of World War I, countries that had been creditor nations were deep in debt, and the largest economy in the world, the United States, which had been a major debtor nations, was now one of the largest creditors (Obstfeld and Taylor 2004). That financial issues grew in relative importance should not be a surprise.

Strictly speaking, a summit is often defined as a meeting among heads of state. However, for the purpose of this contribution, I will include high-level meetings of senior public and even private leaders designed to address the financial issues that arose after World War I. By some counts and by this definition, between 1918 and 1931 alone, there were approximately sixteen financial summits, among government officials or private bankers, or a mixture of both (excluding those among central bankers, post-Banking 1931 Crisis meetings, London rescheduling talks, and small discussions of League of Nation expert committees).[1] Many, but not all, meetings were organized and serviced by the new League of Nations. The meetings almost seemed to be continuous, but unlike some recent efforts, they were not as institutionalized as international financial policy making is today. However, the beginnings of organized international collection of economic data and formulation of financial policy to support the activities of the summits' participants can be traced to this period. Most of the leading players at summits were from Western Europe and North America, but some of the meetings were global in scope. Several were attended by countries' heads of state or finance, but the heavy work was done by leading experts from private and public organizations in Europe and North America. The number and breadth of discussions were deliberate. Financial issues dominated international political discussions and decisions in ways that they never had before.

The interwar period serves as an interesting period for the study of summitry and finance. Before World War I, the leaders of most developed countries shared a common vision about how to regulate the world financial system and regulate flows. Although the period was not free of crisis, and did not work out financial stresses automatically, the players respected a common set of "rules of the game." By 1918, that consensus had disappeared in the face of the economic and political trauma. "The Great War" destroyed not only lives and property, but also the financial unanimity that permitted individual and national competition in the context of relative global economic tranquility (Carr 1968). In hopes of restoring what they had destroyed in the war, the great powers turned to large meetings of senior officials and international organizations to replace the self-discipline that was at the heart of the old system. In fact, the history of interwar summitry is the history of the limits of summitry in a world that lacks cohesive values and expectations.

This article reexamines the background and decisions of those interwar summits and reevaluates how successful these summits were, with the intention of providing insights about today's summit efforts. Relying principally on secondary sources, I focus on the summits of the 1920s and the technical pre-meetings that preceded the 1931 Banking Crisis. These meetings effectively marked the end of realistic hopes of defusing financial imbalances, and shifted attention to restructuring short-term banking facilities, and has been well handled by others historians (see Forbes 2000; Clavin 1996).

My intention is to draw historical lessons from those early twentieth century meetings. I fear, however, that these lessons may frustrate policy makers as much as assist them. Understanding what happened from 1919 and 1931 provides no roadmap for those dealing with post-2008 issues. If history

[1] *Between 1919 and 1938, there were over 200 high-level international conferences under the auspices of the League of Nations or other institutions dealing with a broad range of issues, such as disarmament, health care, refugee issues, border disputes, and labor relations. International Conferences, League of Nations Photo Archive, http://www.indiana.edu/league/conferencedata.htm.*

teaches anything, it is that "history does not repeat itself." Historical events and actors contain elements that are both commonplace and unique. A good grounding in history can help us distinguish between the two, but historical distance is no guarantee that we can discern the difference. How simple policy making would be if history did simply repeat! Greece today is not Germany in 1921, even though some of their problems and complaints are similar. Our current difficulties, for example, are not following four years of catastrophic war. Historical knowledge can remind us, nonetheless, of the dire cost of adhering to narrow national interests and suggest how easily actors tend to forget their own complicity in creating problems and in blocking solutions.

By most accounts, the interwar economic summits were unsuccessful, a judgement that may be too harsh given the Herculean Task the participants faced. The summits may have delayed collapse or even avoided the worst of the Depression, had key leaders such as Benjamin Strong (leading American central banker) and Gustav Stresemann (German politician who led efforts to find financial compromises) survived into the 1930s. But unfortunately, the summits did not prevent the worst economic crisis of the past 200 years and a second round of global military conflict in the 1930s. The efforts of seasoned politicians and economic experts showed the costs of leaving old assumptions and institutions unquestioned, of succumbing to the period's prevailing passions (herd mentality), of self-congratulation over the mere existence of the meetings, of failing to adequately explain the advantages of international consensus to national audiences, and of relying on short-term financial palliatives instead of dealing with the deep-seated structural issues.

The usual explanations for that failure are the persistence of national conflicts after World War I and the unwillingness of the United States to step in and fill the vacuum in global political and economic leadership left by the war. Although both accounts are true and help explain the limited successes of the summits, this article proposes a third explanation. There appears to have been an intellectual failure at the time—a failure by policy makers and financial experts to understand the risks entailed in private, mostly portfolio international investment during the period. The relief deployed to solve the problems in the short-run may have added to the long-term risks. The participants were inclined to apply a "band aid" of private flows to stop the bleeding from deep financial wounds arising out of the war. Raghuram Rajan coined the term "fault line" to discuss the pre-recession world, desperate to buy political tranquility, the political and financial leaders of the period ignored many of the foreign exchange, credit, and interest rate risks of the facilities they used, thus constructing "low-cost and expensive housing on the rift" (Rajan 2010). German politicians of the 1920s and modern economic historians employed a volcano metaphor. But whatever the formulation, these assessments capture the tenuous relationship between the period's financial architecture and impending disaster (Borchardt 1984).

The Legacy of Conflict and Peace

The War's length, breadth, and technological sophistication all contributed to the devastation that made political and economic reconstruction extraordinarily difficult. As early as 1916, the war's effects were so severe that there appeared to be no way back to prewar conditions and no compromise seemed possible. Trade relations were disrupted even among Allies. By 1915, the Allied needs for foodstuffs and other supplies turned the United States into a warehouse and factory for the war effort. Great Britain lost many of its traditional markets, passed the McKenna tariff, with heavy duties on luxury items to raise war revenue. These tariffs lasted long after the war and potentially hurt French, German, and American trade interests. Inter-Allied cooperation became more desperate; more countries controlled prices and transport. In hopes of destroying German economic dominance on the continent, France insisted on continued control and cooperation after the war, despite American antipathy to government schemes for economic distribution and control (Glaser 1998).

The human cost of the war, of course, was catastrophic: 11 million soldiers dead, 21 million wounded (many maimed), and 9 million civilian dead from hunger, cold, and epidemics. By 1921, another 22 million people would die of influenza. The physical damage, while concentrated mostly in a narrow strip that cut through France, was nonetheless extensive. The war reduced Germany's and France's economies by nearly a third and diverted production into war services and unneeded duplication in peace time. The Allies spent $200 billion during the conflict. This constituted nearly half of their nations' GDP and was financed by higher taxes, domestic and foreign debt, and newly printed money (Ahamed 2009). Despite initial estimates of the property damage caused by the war were overstated for political reasons, the actual costs were still significant. Keynes (1920) estimated damage in 1919 to be between $8 and $15 billion; the mean of the estimates was roughly equivalent to Germany's 1913 GDP, but well below the $31.2 billion in reparations demanded (Angel 1929). Furthermore, the Allies did not determine the actual amount and method of payment for two years, increasing the existing financial uncertainty.

Old empires were shattered. Under the auspices of Wilson's Fourteen Points, the Austrian and Ottoman Empires were carved up and Poland created, mostly out of an enfeebled Russia. But the results of the collapse of empires was severe: large ethnic minorities were cut off from their linguistic kinsmen and many of the new political entities created remained under the tutelage of other nations. The political upheaval created or revived political and religious ideologies that threatened the world order: communism, fascism, Zionism, and Wahhabism.

Following the war, politicians were bedeviled by a series of short- and long-term political and financial problems. World War I destroyed the pillars of European dominance and economic life. Immediately after the war, most countries fell into steep recessions, periods of high inflation, or both. For many reasons, Germany was hit particularly hard. The Mark, which had been at 4.2 to the Dollar within a range of 3–4 percent from the mid-1870s to July 1914, stood at 4.2 trillion to the Dollar in November 1923. The inflation that beset Germany from 1914 to 1923 was not only steep, but also erratic (Feldman 1993). The Mark might have been the worst example in Europe of the ravages of inflation, but by far not the only example. At times, Germany's real capital costs approached 50 percent per year (McNeil 1986).

Some method was needed to restructure the economic relations among great powers and, above all, their financial ties. The warring nations ended the conflict with huge foreign debts. Britain alone owed the United States $4.7 billion. The United Kingdom in turn had lent out $6.2 billion to its

Allies. France had lent Russia, now Bolshevik Russia nearly $3.5 billion, while itself borrowing $3.0 and $4.0 billion from the United Kingdom and the United States, respectively (Neal 2015). Despite American insistence on full payment, which added to reparations pressures, and several debt agreements, relatively little was paid back. Arguably, during the 1920s, the victorious powers were bankrupt (Tooze 2014).

Many policy debates began to be politicized, including those about finance, which before 1914 had been largely above the political fray. Some mainstream politicians entertained limited hope that a new world order would emerge, organizing congresses and organizations to address future conflicts, limiting fleets, outlawing aggressive wars, and—importantly for this article—addressing financial issues. From 1920 to 1924, Europe witnessed one international gathering after the other, primarily focused on the question of reparations. By one calculation, there were thirty-three international conferences during that short period (Ahamed 2009).

By 1925, these conferences had produced some financial and other agreements, providing some temporary relief from overwhelming anxiety. The principal negotiators also earned four Nobel Prizes for negotiating and implementing the agreements.[2] These efforts, though, seemed naïve in retrospect, and to some contemporaries. But there were so many headwinds: anti-globalization; generally increasing nationalism and specifically American exceptionalism; German repudiation of responsibility; and French insecurity (James 2001). The blank check agreed upon at Versailles represented hope for France and betrayal for German. National and international politics were polarized: conservatives wanted to turn back the clock; radicals, to destroy it (Tooze 2014).

Perhaps the most severe meta-political problem was the unwillingness of government leaders to face the consequences of the destruction they had unleashed and communicate the difficulties in restoring the world that had disappeared in 1914 to their constituencies. Some did, but they were for many years the exception. This was noted by Keynes (1920), who attended the Paris Peace Conference as a delegate of the British Treasury. British Prime Minister, Lloyd George had second thoughts about the Versailles Treaty relatively early on. Many of his countrymen shared his view about the necessity of rehabilitating Germany quickly and the dangers of the vainglorious French destroying any hope of restoring European prosperity. Although President Wilson refused to change the terms of the Treaty at the end of negotiations, the U.S. Senate refused to ratify it. French leaders promised their people that German reparations would mend the damage created by the war. While the rhetoric from France rather consistently emphasized German punishment, and from Germany its innocence and its inability to pay in any case, neither country could keep a government in place. France had five; Germany six. In Germany, the changes of government were punctuated by coups d'états and political murder.

According to Lord Keynes, the Versailles Treaty was the product of French desire for revenge and American naiveté. The Treaty itself destroyed important economic linkages necessary to create a vibrant European recovery. Keynes rightly argued that the provisions in the Treaty regarding German responsibility gave the Allies a blank check for future payments

[2] *Charles G. Dawes, Sir Austin Chamberlin, Aristide Briand, and Gustav Stresemann received the Peace Prizes in 1925 and 1926.*

that would undermine German willingness, if not the ability, to restore their economy. With foreboding, Keynes (1920) wrote that not only had the Paris conference compounded the economic damage of the war, but that it also was the beginning of a series of foolish maneuvers. Unless European leaders turned their attention to reducing trade barriers, intra-allied debt, and threatened reparations—as yet undetermined—as well as to negotiating a new long-term loan from the United States to Europe, there would be little hope of future peace and prosperity. To escape from the self-defeating climate of opinion that dominated the "peace makers" and the public, political leaders had to switch from firing up their constituencies' anger and set "in motion those forces of instruction and imagination which change *opinion*" (Keynes 1920, 296, emphasis in the original).

The Versailles Treaty and other agreements that followed shortly after the war did little to stimulate economic activity (Feinstein, Temin, and Toniolo 1997). Versailles Articles, 264 and 312, later called the economic clauses of the Versailles Treaty, tried to reconstruct commercial balance of power, but they focused on limiting German exports and opening Germany to more Allied imports. While the United States pushed for removal of government controls, other Allies tried to limit German economic sovereignty. France wanted a maximum period of withholding most favored trading nation status (MFN) for Germany and the rights to hold on to, and liquidate, enemy property. France and the United Kingdom resisted American efforts to lift the German blockade, to give their own recoveries a head start (Glaser 1998). In addition to lost property in Europe, through sale and seizure, the $1.1 billion in long-term assets held by Germans in the United States in 1913 were gone by 1918, depriving that country of one major source of foreign funding (Wilkins 2004).

The peace treaties created many new international organizations, but also many new countries whose interests seemed to clash with each other and with international coordination. With the real economy disrupted by the war, countries found readjusting to peacetime production difficult. A short-lived postwar boom was followed by a severe downturn and a series of banking crises for much of 1920 and 1921. Through most of this period, tariff barriers and unemployment mounted; in many countries, they remained well-above prewar norms, and economic growth lower. No one seemed to have an acceptable answer to the burden of inter-Allied war debts, although for some German reparations and private American loans appeared to be a politically convenient palliate. Negotiations to reach financial agreements were set against the background of extreme inflation and deflation. Lacking consistent leadership and a lender of last resort, opinions differed in the 1920s on whether and how countries could or should return to the prewar gold standard. The intellectual currency debates of the 1920s were quickly followed by a decade of devaluations, suspensions of convertibility or both, along with bank failures and debt renegotiations (Feinstein, Temin, and Toniolo 1995).

Keynes's judgment about the first of the many interwar summits is shared by most contemporary historians, even if there is not complete agreement about the amounts of reparations Germany could, or should, have paid. As Gerald Feldman pointed out, the conference had two missions, one to settle territorial disputes, the other to settle economic and financial disputes. The conference failed to address either goal by any standard one wishes to employ and whatever position one takes on the historical debates surrounding them. One of the key issues at the conference was whether the terms were too harsh or too easy on Germany, a question still debated by historians. Importantly though, the Allies did not resolve their conflicting interests in numerous meetings in Paris and during the 1920s. While private financial interests must share some of the blame, the indecision about this and other important financial decision counts as a major political failure (Feldman 1998; Tooze 2008).

The specter of America haunted Europe after World War I. The contrast of unprecedented economic prosperity in the United States with European misery was hard to digest. Addressing the new world economic and political balance of power could hardly be dealt with in any conference. Entering World War I, United States industrial production was already 32 percent of the world; its per capita income more than twice Germany's and over 25 percent greater than Britain's. U.S. GDP in 1913 was 62 percent of Western Europe's; by 1919, it reached 82 percent.[3] Not only did World War I accelerate a shift in the economic and political balance of power, a shift toward a one superpower world, American loans and economics enhanced its cultural power by facilitating the introduction of more American products and commercial techniques. But its political leadership waffled between extremes—either very little or dictatorial involvement in the world. Many of America's elites wanted the United States to be more integrated in the world, but this view was not shared widely by public opinion.

There was very little American governmental enthusiasm for establishing a new order and integrating the American economy with the rest of the world, but many private Americans called for greater Unite States involvement in global political and economic issues. At most, Americans wanted to make money by exports, to lend funds on a short-term basis, or to make a few well-timed acquisitions of foreign companies. In part influenced by Lord Keynes's assessment of the Treaty, the U.S. Senate rejected it, just months before the League of Nations came into existence. The League was the "brainchild" of President Wilson and the Treaty's primary vehicle to orchestrate collective action and enforce its terms, came into existence. America's absence from the League limited but did not destroy the Treaty's effectiveness right after the war. The relatively unprecedented U.S. efforts to institutionalize international groups of experts and to reorganize finance in the 1920s were inconsistent, but were rather unheralded until recently (Gilbert 1997; Pedersen 2007; Clavin 2013).

The United States went back on the Gold Standard in 1919 and could not understand why others countries could not. There was little sympathy for the public expenditures in many countries that contributed to unstable currencies. In 1921, the United Kingdom and France, for example, spent 30 percent and 21 percent of their respective budgets servicing debt. Expenditures for veterans and widows were enormous in both countries. To pay loans owed to the United States, the Allies would have to borrow more at "humiliating" rates (8 percent). For a while, under President Wilson, the United States allowed the interest payments to be delayed. France lacked the United Kingdom's financial cushion of foreign investments. All the payments needed to be made in gold Dollars—at the old rate, or in Dollars rather than the borrower's currency. French owed a total of $5 billion to the United Kingdom and the United States, but lacked the ability to raise more

[3] *Adapted from Maddison.*

money in American markets. The U.S. government was against state aid. For France, the only solution was German reparations. And France demanded serious reparations. France was even willing to occupy Germany to enforce payment. As historian Eric Hobsbawm observed, the debts of the United Kingdom and France amounted to between half and two-thirds of those countries' national incomes, illustrating the great imbalance in the international economy "due to the asymmetry in development between the USA and the rest of the world" (Hobsbawm 1994).

Brussels 1920, London 1921, and Genoa 1922: The Politics of Austerity and Reparations

The issue of reparations hung over the 1920s like a dark cloud. The Versailles Treaty set the minimum reparations bill from Germany alone at 20 billion Goldmark (roughly $5 billion). In 1921, the victors issued the London ultimatum, which set the amount at $31 billion Goldmark. Germans reacted with shock and anger. Between 1920 and 1922, Germany paid three-quarters of what was demanded in goods. Moderate inflation wiped out domestic debt and promoted the economy, and late in 1922, Germany embarked on policy of resistance, leading to the Rhineland occupation, hyperinflation, and revolts (Nolan 2012).

In some sense, while the above meetings are talked about separately, they seemed to be going on continuously. Sometimes conferences encouraged states to try new financial techniques. Tax regimes were on the agenda, especially how the losing countries could collect more taxes to pay their debts. Both the Brussels and Genoa conferences encouraged countries to hold foreign currencies, such as Sterling, instead of just gold. Especially, those countries that traded heavily with the United Kingdom were urged to peg their currencies to Sterling (Feinstein, Temin, and Toniolo 1995). In addition to dealing with reparations issues, their recommendations tended to follow the "tried and true" advice from the prewar world, such as balanced government budgets.

Conflict resolution was often postponed to the next meeting. The Brussels Conference of 1920 was organized by the League of Nations Financial Commission with the goal of coordinating financial stability and attempting to restore fixed exchange rates. These conferences, starting with Brussels, were on shaky ground from the start. Eighty-six delegates from banks and treasury departments of thirty-nine nations attended the conference; significantly, they were called experts, not country representatives. The U.S. government refused to send representatives. A month before it was to convene, *The Economist* speculated that the Brussels Conference would be cancelled.[4] Even the Germans and some representatives of the Austro-Hungarian Empire were invited. The Conference emphasized fiscal constraints to limit government indebtedness. But the calls went unheeded. Most countries faced too many new demands to recover from war time damages and suffered from depleted sources of revenues to respect the Conferences guidelines (Neal 2015).

Interestingly, the authors of the conference resolutions placed most responsibility not on themselves but on the populations they represented. The

[4] *August 21, 1920.*

budget deficits, from which most of the attending countries were suffering and which caused higher costs of living, were caused, according to the conference authors by their publics. As they stated:

> Clearly every Government is being pressed to incur fresh expenditure; largely on palliatives which aggravate the very evils which they are directed. The first step is to bring public opinion in every country to realize the essential facts of the situation and particularly the need for re-establishing public finances on a sound basis as a preliminary to the execution of those social reforms which the world demands (International Financial Conference Brussels 1920).

Meanwhile, private economists stressed getting Europe back to work would act as the cure for financial ills.[5]

The reparations bill kept changing, usually in one direction. Against the advice of several experts, France kept the pressure on for higher reparations. After the Brussels Conference, German and Allied experts agreed that five annual payments of 3 billion Goldmark and then an indefinite, and increasing annuity would be appropriate. Unsurprisingly, the German government thought this was too much and the French not nearly enough. Under political pressure, Aristide Briand, the French Prime Minister, assured his base that the amounts would be higher. In a January 1921 meeting in Paris, French Finance Minister Paul Doumer estimated France's total claims at 110 billion Goldmarks and total Allied claims of 200 billion Goldmarks. To get to the desired present value, according to the French, Germany should pay 12 billion Goldmarks annually for 42 years. British Prime Minister Lloyd George found these sums astronomical—amounts not to be taken seriously. Although a compromise was achieved, in substance France got its way by getting additional payments equal to 12 percent of German exports, supposedly yielding a present value at the time of 124 billion Goldmarks of which France's share would be 70 billion Goldmarks (Maier 1975). Though the question was settled in February 1921, the result was not announced until the spring. *The Economist* recognized that the negotiators were between a rock and hard place. Understandably, they wanted to extract as much as possible from Germany to compensate countries for their grievous losses, but these demands might slow economic growth.[6] Germany's last offer of 50 billion Goldmarks, in addition to what had already been delivered in cash or goods (20 billion Goldmarks), was completely rejected, causing another Weimar government to resign (Stresemann 1935).

In London, May 1921, the British and French governments settled on a total 132 billion Goldmarks, with some long-term financing. By some estimates, the total net present value (NPV) of the demand was $15 billion compared with Entente debt of $10 billion, amounts roughly equal to German and French Gross National Product before the war. The rhetoric on both sides of the dispute was highly charged and there were few mechanisms to help ensure feasibility. Actual payments were not so heavy, but fears in Germany that reparation amounts were too high undermined the weak Weimar democracy in Germany (Gilbert 1997).

As with so many issues, meetings during the first few years following the war resulted in some successes, but the results did not match the perceived and real needs of the participants. The League of Nations scored some successes in reducing trade and other barriers among newly created nations. It

[5] *September 4, 1920.*
[6] *February 5, 1921.*

exposed many economic issues, brought the losing powers back into discussions, and organized experts and methods for future international resolutions, but even the participants recognized that the successes did not equal the challenges and too many important decisions were postponed. Above all, the meetings failed to forge a sufficient commitment among public and private organizations for multinational cooperation to satisfy banker and economist expectations in achieving the one financial agreement upon which they seemed to agree—restoration of the gold standard (Clavin 2013). Without reduced budget deficits, greater increases in trade and general economic growth, and the involvement of the United States, the resolutions seemed like a "rearrangement of deck chairs on the Titanic" (Gilbert 1997).

By the end of 1921, many political leaders seemed to recognize that solving Europe's many economic problems could not wait for an overall political solution. Germany could not get loans from central banks to help stabilize its currency. Strikes and attacks from the left and right picked up in Germany, threatening the fragile Weimar regime after the London reparations announcement. Towns and regions fell under political authorities that rejected allegiance to the central government. The sense of urgency in solving Europe's financial and economic problems was particularly strong in France, but the French government offered little in the way of compromises.

During the winter 1921/22, another conference was scheduled for the summer 1922 to try to finalize reparations.[7] The Allies had set the first cash reparations payments for January and February 1922. At an emergency meeting called by Britain's Prime Minister, Lloyd George, in Cannes, where he was vacationing, he asked the then French Premier, Aristide Briand (Prime Minister and Foreign Minister in several periods), to convoke an economic conference in Genoa in the spring. Germany and Russia would be invited for the ostensible purpose of finding a solution to the reparations issue and the question of Czarist debt defaults. Although Premier Briand was convinced that economic conditions in Germany had deteriorated so much that the cash payments were unrealistic, many of his fellow citizens were not. News of the Cannes' postponement of reparations payments cost Briand his job in January 1921 (Gilbert 1997). France itself was fending off creditors and considered invading Germany.

As a consequence of the continuing crisis over reparations, the United Kingdom and the United States in particular pushed for the Genoa Conference. These governments hoped to enlist central banks in efforts to stimulate financial reconstruction and prewar levels of trade and output. Although the United States led other countries into agreements designed to prevent future wars, such as Kellogg-Briand negotiated later (1927), U.S. President Warren Harding refused to send an official representative to Genoa—ostensibly because of Russian representation. All the United States was prepared to do was to send an American observer, which became the pattern at the other meetings (Gilbert 1997). Returning to the Gold Standard and methods to stimulate economic growth were on the agenda, but reparations remained the thorniest and dominant issue (Neal 2015). In return for France's attendance at Genoa, Britain agreed to support France's military efforts to force German payments. While French Premier Briand had been sympathetic to Lloyd George's goals, the hardline new French President,

[7]The Economist, *August 12, 1922.*

Raymond Poincaré (at various times President of France, Prime Minister, and Chair of the Reparations Committee over his long career), was not. Poincaré seemed focused on just one technique to gain French advantage—military force. Author of France's plan to invade the Ruhr, Poincaré refused to attend Genoa in April 1922, and those he sent were precluded from discussing any of the pressing political and economic problems. Instead, Poincaré telegraphed plans to take further control of the German economy.

The Genoa Conference failed to broker a deal among the Allied countries. The Germans contributed to its failure by sneaking off to Rapallo near Genoa to conclude a Peace Treaty with the Soviet Union—renouncing territorial and financial claims on each other—which appeared to be a "stab in the back" to the many leaders in Genoa trying to reduce Germany's economic burdens. The Allies ejected the Germans from their Genoa discussions, but within months grudgingly agreed to suspend the January and February 1922 payments (Gilbert 1997). Allied prime ministers gathered once again in December 1922 in London for a critical discussion on long-term solution for the reparation issues. *The Economist* criticized the leaders for not inviting the Germans, but given the Rapallo agreements and German unwillingness to take many Allied proposals seriously, the decision may have been somewhat understandable.

All of these talks were set against the background of fears that Europe would never recover. Lord Keynes warned that France and other countries would be driven down the road of inflation.[8] In one sense, none of these meetings were real financial summits. The key government, the United States, was never represented officially. With the failure of the Genoa meeting and the winter London conclave to come to an overall agreement, the decision went back to the Reparations Commission at the League, which would have to deal with further German requests for moratoria. Despite the failures, in summer 1922, *The Economist* doubted that France would invade Germany. In less than six months, the journal was proven wrong.[9]

However, the political "game of chicken" took a new turn. In January 1923, France invaded the Ruhr District. French troops occupied German factories and mines in hopes of forcing German workers to produce reparations in-kind. Rather than give the invaders what they wanted, the German workers practiced passive resistance, but the strikes and demonstrations led to violence and dismissals of government officials. The German government assumed responsibility for mounting subsidies and compensation for the population, setting off the final round of German hyperinflation and political discord. Politics was never far away from economic considerations. Each side worried that the other would use the tensions to improve their standing among other nations. From Paris's standpoint, German resistance to reparations amounted to wanton disregard for the peace treaty and willingness to ruin its own economy to avoid reparations payments (Sontag 1971; Maier 1975). 1923 was probably the darkest year for the Powers since the Armistice.

The Dawes Plan and the 1924 London Conference

Given the tensions and disagreements among the Powers, the creation and acceptance of the Dawes Plan, an agreement for private, foreign loans

[8]*December 9, 1922.*
[9]*August 19, 1922.*

designed to stabilize the German currency and stimulate the German economy, might seem like a minor miracle. Pressure for, and interest in, a resolution of the intertwined issues of German reparations payments and the political-economic crises mounted over several years, but no solution appeared on the horizon. The final push for a financial plan required a dramatic catalyst and some mature behavior on both sides of the Atlantic. Only severe shocks seemed capable of jolting the Great Powers out of the ineffectual patterns established during the previous four years of summits. The shocks that finally occurred were both negative and positive. Cross-border payments had ground to a halt. November 1923 witnessed the Hitler Putsch and the height of German inflation. Nevertheless, Hitler's failed effort revealed just one of many extreme politicians in Germany. Hitler's actions only contributed to Germany's political-economic disarray in November 1923 (Gilbert 1997). It took twelve months of chaos in Germany before Britain, with the help of the United States, was able to convince France's Poincaré to agree to help set up a committee to examine Germany's capacity to pay.

America's first active involvement with the Dawes Plan was a hindrance, rather than a help in the forging of international financial agreement. Despite the government's reluctance to get involved in the financial crisis, in March 1922, the U.S. Congress decided to create a five-man World War Foreign Debt Commission. This Commission was chaired by one of the richest men in America, Andrew Mellon, the Secretary of the Treasury. In addition, the Commission included Charles Evan Hughes, the Secretary of Commerce; Herbert Hoover; Senator Reed Smoot, one of the authors of the later and infamous Smoot-Hawley Tariff; and Representative Theodore Burton. The Commission focused narrowly on how American loans could be repaid, rather than on the global financial situation. Congress was concerned that the Republican administration would be too lenient on debtors and placed a floor of 90 percent of dollar amounts on any settlement. A British delegation went to Washington in December 1922, led by Stanley Baldwin, the Chancellor of the Exchequer and Montagu Norman, Governor of the Bank of England, to try to reach mutually acceptable terms. Although the U.S. administration was willing to settle for 60 cents on the dollar, it was limited by Congress's determination to receive 90 cents on the dollar. Britain received conflicting advice about even accepting the first American offer and France bluntly refused; however, both eventually accepted the offer. As a result, finding a compromise with their own debts with other countries became harder (Ahamed 2009).

To say that there was a lot of uncertainty about the future is an understatement. Unbeknownst to the Powers, German economic and political misery in the 1920s reached "rock bottom" in November 1923: French and Belgian troops remained in the Ruhr; political discord was still the rule in Germany; and taxes accounting for only 1 percent of government expenditures. Notwithstanding all of these problems, German financial leaders still found it possible to stabilize the freefalling Mark. Led by its energetic new President of the Reichsbank, Hjalmar Schacht, Germany created the Rentenbank, which established the Rentenmark, a purely domestic currency backed by mortgages on land used by agriculture and industry, replacing gold as security for currency issued. The new currency was used in measured form to fund the government and Reichsbank activities. The stabilization was a necessary but not sufficient step toward restoring financial stability. Most government and financial leaders, in and outside of Germany, understood that the Rentenmark would only serve as a temporary solution (Holborn 1969).

The Dawes Plan was "concocted" only after Germany had taken steps to curb its inflation, but this was not the first time Americans and other capital rich countries evidenced serious interest in German investment. Soon after the war ended, Germany attracted a great deal of foreign capital. In 1921, foreign deposits at the seven Berlin great banks rose from $13.7 billion in 1919 to $41.6, almost a third of the total. Even before Dawes Plan, purchases of German bonds and stock increased enormously. Net capital inflow from 1919 to 1923, came to 13 billion Goldmarks, which allowed Germany to fund a trade deficit (Ferguson 1998). But these capital inflows did not buy stability. Ensuring stability required faith in the currency and Germany's continued ability to pay its debts. Inflation had virtually destroyed German banks' domestic sources of funds and the internal financing capacity of most companies, unless they sold goods whose value kept up with inflation, or could earn foreign currency. As a result, circumstances often led to investment in areas whose value only was avoiding the effects of inflation (Kobrak 2002).

In early 1924, holding on to the stabilization gains was almost unimaginable without the agreement arranged by American experts, private banks, and Federal Deposit Bank of New York (FDBNY). The initial group contained no official U.S. government representation and was merely charged with determining Germany's capacity to pay. Once that amount was determined, then the payments would flow almost automatically, taking repayment out of the political fray, which had played such an important role in discussions. The immediate cause of the meetings involved several connected circumstances: Germany's winter 1923 default on payments toward the 1921 London demand of 132 billion Goldmarks in total reparations; French and Belgian occupation of the Ruhr district; the upsurge of German inflation during 1923 brought on by German resistance to the occupation; the freefall of the Mark; and the erosion of the French Franc.

The expertise of those who gathered in the spring of 1924 to draw up the Dawes Plan was a testament to the gravity of the situation (Maier 1975). Unwilling to budge on its own receipt of private loan payments and reluctant to send official representatives to meetings and use American power to settle "European disputes," the U.S. government favored a panel of apolitical experts to tackle the reparations question. It was a distinguished group. The Committee included ten experts: two each from Belgium, the United Kingdom, France, Italy, and the United States. The American experts were Owen Young, President of General Electric, and Charles G. Dawes. The Committee was chaired by Dawes, who later was elected Vice President of the United States (1925–1929), and who won the Nobel Prize (1925) for his work in stabilizing European finances. Young and Dawes had been appointed by Commerce Secretary Herbert Hoover, but they were not U.S. government representatives. Dawes was actually asked by the London committee to sort out the reparations questions. European representatives were leading businessmen; central bank officials, including Jean Parmentier, the French Ministry of Finance's leading expert on international payments, outspoken critic of his government's fiscal policies; and reparations skeptics (Maier 1975).

The assignment was long and difficult. At the very end of January 1924, the Committee of experts traveled to Berlin on the first train that travelled directly from Paris to Berlin since the war. As the Committee was there to view the “privations” of the German people, their hosts made sure that their lodgings delivered this message. But the new head of the Reichsbank, Schacht, who was credited with stabilizing the Mark, was in a delicate position. He knew that the Committee needed him, but only a group of foreign experts could mobilize enough lending to keep the value of the Mark steady and arrange for a rescheduling of reparations. Vain as he was, Schacht also feared that the foreigners would try to take credit for his achievements. The Committee took nearly four months to hammer out a concise series of recommendations, which included reduced reparations payments in the near term, a large international loan to stabilize its currency, and pay for initial reparations (Ahamed 2009).

The Plan included a multifaceted approach to solving the transfer problems. The Commission recommended that less than half of the payments would be raised by the federal budget (working up to half of total reparation payments). Revenue on certain tariffs and taxes would serve as a guarantee on these payments. It is estimated that total annual payments could be as high as 2.5 billion Marks, a figure the Germans considered unrealistic. Both the Commission and the German government agreed that for any of these estimates to be realistic, Germany would have to regain its productive capacity; for this, stable inflation and foreign exchange rates were necessary. To this end, the Commission recommended that the Reichsbank have more independence from the government (Holborn 1969). The centerpiece of the 1924 Dawes Plan was an 800 million Goldmark loan to Germany, 50 percent to come from the United States, 25 percent from Britain, and the rest from France and several other countries. The Plan required all Europeans to pay all their debts. It succeeded in curbing inflation and capital flight in Germany, encouraging further private loans, and setting the stage for healthy growth from 1925 to 1929. But even before the 1929 depression, there were signs the German economy was softening. Dependent on U.S. bank financing and facing increasing import barriers in many countries, Germany’s private and public spending weakened in 1928.

The Dawes Plan was an enormous step toward a rational treatment of economic issues. It seemed to represent a turning point for Europe after World War I by quieting the reparations wrangling. The loan that was the linchpin of the Plan was successfully floated, which started a boom in other private lending to Germany, signaling growth and stability. But the basis of the Plan, as the Committee’s leaders planned, avoided the confrontation of many serious issues. Important questions, in particular questions addressing the total reparations bill, were not dealt with at all. Germany’s view of itself as an innocent victim continued to fester resentments in the country. Money went into projects with little hope of freeing the parties from dependence on the circulation of loans from the United States to Germany to pay for reparations to the Allies and in turn to pay for their debts to the United States (Ahamed 2009). Despite the many favorable terms, the nationalist German reaction was strong and negative. Many German politicians resented ceding so much control of the Reichsbank and other German institutions to foreigners, including placing an American agent in Germany to supervise the collection of reparations and other economic matters (Holborn 1969).

Creating the Plan was not enough. In the summer of 1924, financial leaders from North America and Europe met in London for what was probably the most important financial conference of the interwar years. Acceptance of the meeting owed a lot to the changing of the guard in Great Britain and France, whose governments had been at loggerheads about the Ruhr occupation. Support for the Dawes Plan Report was far from universal. A new labor government was installed in Great Britain, but most importantly, France's warrior President Raymond Poincare had to cede some power to Edouard Herrior, whose government was more willing to make compromises (Gilbert 1997).

The conference was called by Britain's new labor government to pass judgment on the Dawes Plan. The American government wanted to make sure that the Dawes proposals were not perceived as official U.S. policy. The proposals focused on restructuring reparations payments and finding sufficient financing for Germany to provide confidence to creditors that country's chronic inflation and unwillingness to pay would become part to the postwar past. The only concession the French could negotiate was a delay of one year in their withdrawal from the Ruhr.

From the summer of 1924 well into 1926, Europe and the United States still found themselves needing to resolve the many "equivocations" that characterized postwar conferences before they could have any hope of laying the foundation for a few years of possible stability. Such an outcome, however, would be no mean achievement. Even these eased terms were met with skepticism in the German government, the British Treasury, and in U.S. banking circles. They tried to build in flexibility and monitoring that would permit quick adjustments if conditions changed. Amounts of payments could be increased, and an Agent was appointed to ensure that Germany paid the maximum possible. The Agent still had to protect Germany from another inflation spiral which could be brought on by excessive payments. The experts counted on capital inflows to pay some reparations, but a sustainable flow of payments required Germany to register fiscal and current account surpluses. Given that much of the private money would come from the United States, the role of the Agent was filled by a private American banker chosen by J.P. Morgan. But troubled by ambivalence about the destabilizing effects of the loans, neither private bankers nor the U.S. government found a coherent method of supervising the private loans (McNeil 1986). Although the credit risks of the loans were sometimes discussed, hardly anyone took the new degree of foreign-exchange risk seriously.

The London Conference's recommendation for implementation of the Dawes Plan were approved by several nations. By the end of the summer, the British, French and, even the German governments had accepted its decision. The loss of sovereignty excited many nationalist passions, but by September 1, 1924, the Plan went into operation (Holborn 1969). New York bankers were quick to implement it. In October 1924, Jack Morgan signed the loan agreement to make an 800 million Goldmark loan to the German government, committing his bank and others. The loan sold at a 13 percent discount, with a 5 percent coupon.[10] The deal paved the way for the long-

[10] *There is a little confusion about the numbers. According to Tooze, they sold at 800 for a bond with a face value of 1027, which makes the price 78 percent, not 87 percent, for 6.4 percent yield (p. 451).*

term stabilization of the Mark and massive private inflows of capital both public and private. Americans were in search of higher yields. The capital inflows helped repair some of what had been destroyed by hyperinflation, but the influx in capital implied a deficit on the trade account, upward pressure on prices and wages, and an uncompetitive exchange rate. When the money flowed, both creditors and debtors could avoid thinking about a day of reckoning. Some hoped that debt would give Germany leverage (Tooze 2014).

Although the American government did not affix its signature to the Plan, the U.S. share of the private bonds launched in New York in October 1924 was quickly sold out. By the end of the first day, they were nearly all bought up. The enthusiasm was so great that the bond issue was soon ten times over sold, seemingly heralding a new era of international finance. From 1925 to 1929, Germany became the second largest destination for American capital after Canada. Private investors put in nearly $3.0 billion, over twice what Germany received under the Marshall Plan after World War II (McNeil 1986). By 1930, German had accumulated 26 billion RM in foreign debt (without reparations), approximately 35 percent of its national income. From 1925 to 1928, roughly one-third of Germany's total investment was financed by foreign capital. At the height of the Dawes Plan, German bonds accounted for 20 percent of the foreign issues in the United States.

Neither the United States nor Germany had much experience with their new roles, which added to the political and economic difficulties. Until World War I, the U.S. share of world outward foreign investment was relatively small. The U.S. foreign direct investment (FDI), for example, was only one-third of Great Britain's (Jones 1996). Germany had borrowed little from abroad. There was a great debate about how the money would be used, to increase productive capacity or for social projects. In the end, the funds were not well spent and Germans resented their new dependence. With increased expenditures and increasing dependency, German foreign and domestic policies clashed. Much of the lending went to city governments, which were debt-free thanks to the inflation, and starved for investment for a decade while their populations grew. The missing link was assurance that inflation would not destroy the value of the debts. This required putting German monetary policy on a sound basis and instituting outside controls. It was America's first use of financial power (McNeil 1986).

Some were optimistic about the Plan's effects. *The Economist* thought the Plan "from the get-go" a great improvement on previous attempts to sort out the German situation, but the magazine feared one of its weaknesses was that German prosperity might be bought at the price of English unemployment. *The Economist* credited the Dawes Committee, however, with freeing the world from the terrible mistake of the Ruhr invasion. Wisely, it also recognized that new credits to Germany might eventually stimulate demand for English exports.[11]

The implementation of the Dawes Plan may have had some effect on FDI into Germany by reducing macroeconomic uncertainty, but the evidence is mixed. Many American companies looked at acquiring German firms during the inflation period and several did. The most famous of the acquisitions was Tabulating Machine Company's (now IBM) 1922 purchase of

[11]The Economist, *"The Results of the Conference," August 23, 1924.*

Dehomag, a German company with which it had successfully worked for years but which had fallen on hard times during the inflation period (Heide 2004). The partnership was traumatic, especially in the 1930s, but the greatest obstacle to greater direct U.S. investment was the attitudes of Germans to foreigners coming in and buying up their assets at bargain basement prices, which led to private and public measures to hinder the process. Several other big investments, such as Ford's, GM's, and GE's followed in the 1920s, but the amount of total FDI was dwarfed in comparison to the portfolio investment. Little or no evidence exists that short-term foreign credits influenced those investment decisions (Wilkins 1974; Feldman 1989).

Central Bankers and Golden Fetters

Financial historians disagree about the degree to which central bank cooperation held the pre-1914 economic architecture together, but they agree that the cooperation was bilateral and less extensive than that following the World War I (Borio and Toniolo 2008). Although central bankers in the nineteenth century were already members of an exclusive club, their activities were not part of public consciousness and they rarely met to coordinate policy. Economic statistics were relatively new. Bankers communicated between New York and London by letter, which took a week or two; by cable if a situation was urgent, and later by telephone. Transatlantic trips took at least five days, and usually required great commitments of time (several months) and staff in the form of at least one manservant.

J.P. Morgan and other private bankers performed many of the functions of central banks in the United States and Canada—two countries which established permanent central banks relatively late. Even round-trips between London and Paris could not be done easily in a day. When major panics occurred, international cooperation was sometimes required to deal with a crisis, such as that in 1890 in the aftermath of the Barings' Crisis, but this was by and large achieved without face-to-face meetings. During the worst crisis between 1870 and 1914—the closing of markets in the summer of 1914—the central banks acted alone, much as they would have in the eighteenth century, a policy continued during the war. In one sense, and unlike today, their overriding mission was simpler—preserving the value of their currency (James 2013). The idea of a supra-central bank had been floated before World War I and the Genoa Conference contained a recommendation for it. Even creating an international bank whose mission included coordinating international payments would not come to fruition until 1931 (Borio and Toniolo 2008).

The era of central bank coordination really began in the 1920s, aided by personal relationships and technology. Indeed, one of the main countries, the United States, did not even have a central bank until shortly before World War I. The central bankers developed a sense of mission in the 1920s (James 2013). International cooperation required rejection or reinterpretation of a purely national view of central banks' responsibility to their nations. Like today, central banks then had to recognize that national currency and banking stability had to be set in the context of international stability. The League of Nations' efforts to stabilize the international economy saw an explicit role for central bank cooperation in many areas, especially reducing the amount of gold necessary to be held as reserves. The 1920s were the beginning of central banks really speaking together, but central bankers resisted what they perceived as League encroachments onto their territory (Clavin 2013; James 2013).

During the 1920s, this group of central bankers consisted of Montagu Norman (Bank of England), Benjamin Strong (Federal Reserve Bank of New York), Hjalmar Schacht (Reichsbank), and Émile Moreau (Banque de France). The task of coordinating central bank policy in the interwar era was not easy. The difficulties of dealing with international financial crises, their governments, and rival attempts to coordinate economic policy took their toll on this "exclusive club" in one way or another. Strong died; Moreau retired; and Schacht resigned in a dispute with his own government, but later returned under the Nazis. Only Norman, who seemed to thrive with the crisis, survived in his post through the banking crises of 1931, but suffered bouts of mental illness.

Their meetings tended to be *ad hoc*. Many meetings were connected to trips for other purposes. Norman's March 1923 meetings with his colleagues at the Banque de France, for example, were scheduled to coincide with his annual vacation in France. Some were secret. Norman especially talked about a more formal organization of central bankers to take responsibility for European finances and economic recovery. As members of an elite brotherhood of experts, standing above politics, Norman and his colleagues believed that they could fill a vacuum left by politicians. After the Genoa Conference in 1922, Norman pushed this idea with Strong, who rejected it, fearing that such a conclave would try to force the United States to use its reserves to finance Europe. Nevertheless, by 1923, their friendship and respect blossomed into a "club" of two. The idea of institutionalizing central bank cooperation would have to wait.

Much of their collaboration focused on getting countries back on the Gold Standard (or some version of it) and keeping countries on this standard. As discussed, the inclination by some countries to quickly return to the pre-war Gold Standard may have been completely unnecessary and may have undermined stability. Some countries took different approaches. In 1925, despite warnings, the United Kingdom went back on gold at its prewar sterling value, a matter of national pride, but a policy that deflated the UK economy and increased unemployment. British gold reserves compared to currency in circulation had been halved from 1913 to 1923. Despite these reduced gold levels, Norman pressed for Britain's return to gold at Sterling's prewar rate of $4.86. Even with the recession and deflation, Britain's price level was still 10 percent too high. In November 1924, a new government led by Stanley Baldwin (Norman's friend) took over. Winston Churchill was this government's surprising pick for Chancellor of the Exchequer. Norman lobbied hard and succeeded in getting the United Kingdom back on the Gold Standard at the old rate (Ahamed 2009). In contrast, a year later, France went back to gold, but at a level 80 percent below the Franc's prewar rate. The French government and central bank pushed a policy of accumulating gold to enhance French financial power and shield it from economic turbulence, rather than for the creation of money (Eichengreen 1986).

The real obstacle to the return to the Gold Standard, however, was the concentration of gold. Whereas the United States held approximately 40 percent of the gold reserves of the four largest economies in 1913, after the war that percentage climbed to nearly 70 percent of the total. Even the

United States, with all the relative economic advantages derived from distance and late entry into the war, would have some difficulty in going back to its prewar conversion rate. Its price levels were 150 percent higher than prewar, compared with the UK's, France's, Germany's, which ended the war with 200, 300, and 400 percent of their respective prewar price levels. There were only two options for going back on the Gold Standard: deflate national currencies, a painful process of economic contraction, or reduce the value of currencies in gold, an admission of past mistakes. With a combination of fiscal, monetary constraint and additional gold, the United States went back on the gold standard first, in 1921. Getting the other major countries back onto gold would evidently be less easy. Britain's postwar recession was more severe and longer than the United States, but the greatest problem was in Germany.

In 1924, after Schacht had stabilized the new Mark (Rentenmark), he went to England to meet with Norman to find a long-term solution. Norman was cordial and forthcoming. Even before the Americans had arrived for the Dawes Plan meeting, the two bankers agreed that the Bank of England would lend money to the Reichsbank and that the Reichsbank would agree to hold Sterling in reserve and make loans in Sterling. The loan would serve as an international seal of approval for Germany's financial progress, helping to catalyze desperately needed trade and international commerce. Although the scheme was made obsolete by the Dawes Plan, this was the first of many concerted actions by central bankers acting collectively "on their own." Norman went so far as to try to enlist his new friend, Benjamin Strong, in the project (Ahamed 2009).

Politics, however, impinged on their work in many ways. Against the background of intense anti-American sentiment in France in the summer of 1925, Moreau, Norman, and Strong at first met secretly in Paris, away from the Banque de France, in places where there was less chance of being seen, all to discuss loans designed to help France move back to the gold standard. France had negotiated better terms for payment of its debt to Britain and the United States, but American recalcitrance had contributed greatly to a collapse of the French currency. The Franc was the last major currency to go back on the Gold Standard, for which the Banque needed a loan. But Strong and Norman demanded that the French government grant the Banque de France more independence as a condition. Moreau blamed Norman for his inability to get a loan from his British and American counterparties. Raymond Poincaré's return to power oddly reassured markets. A centrist who seemed above party politics, he had served before as President and Prime Minister, but with a mixed track record. This record included ardent, intransigent anti-German views that seemed to have been mollified. Although he was the architect of the Ruhr Policy, Poincaré also helped set the Dawes Plan in motion. By the end of 1926, the Franc was again convertible into gold.

The cooperation of the 1920s was particularly bedeviled by its personalization, depending as it did on the relationship of four men in particular, each of whom were fragile in his own way. A year later after France went back on gold, at a secret meeting held at the U.S. Under Secretary of the Treasury's house, Schacht and Norman demanded a cut in U.S. interest rates in hopes of improving European lending. According to many commentators, the meeting directly led to rate cuts which fed the bubble in U.S. equities in addition to European investment. By 1929, Benjamin Strong was dead and the Federal Reserve raised interest rates, cutting short the U.S. equity boom and European investment, pointing to one of the downsides of coordination in the interwar period (James 2013). By the spring of 1930, both Schacht and Moreau were also gone, leaving Norman alone to deal with the beginnings of the Depression, increased discord over reparations, and the threat of bank failures.

Feeding the Beast: Young Plan and The Hague Conferences

Even before the 1929 New York Stock Market Crash, evidence mounted that there were significant cracks in the international financial system based on the Dawes Plan and the return to gold. In 1928, a new cycle of commissions and conferences began. In many respects, the Dawes Plan had worked well. Yet despite its ability to calm markets, the Dawes Plan and Gold Standard political economy of the 1920s had many flaws. Much of the lending that went into Germany was for consumption, investment with little payback, or to fund other debt payments (James 1986). About 40 percent of the German loans went for local or regional governments. Short-term credits played a greater role in German finance than for most other countries (Feinstein, Temin, and Toniolo 1997). Germany's capacity to pay had not been well identified. Germany's ability to revive exports, grow its economy, or tax at a higher level fell short of amounts necessary to cover its external debts. Much of the new short-term borrowing was denominated in foreign currency and much was used to pay for current tranches of its external debt (Holborn 1969). This stopgap method functioned reasonably well until the U.S. Federal Reserve raised U.S. interest rates to slow the U.S. growing stock market bubble and until political risk mounted in Germany.

In 1928, German and American officials agreed to discuss a revision of the Dawes Plan, but there was little room for negotiation (Holborn 1969). Owen D. Young was called upon to head the commission that convened in Paris in February 1929, approximately seven months before the Wall Street crash. With German increased reluctance to make larger payments, France was already recalling significant amounts of its credit to Germany. Britain maintained that the reparation payments must cover its transfers to the United States and France plus an indemnity for rebuilding France (Holborn 1969). Once again, the Commission focused on the amount and timing of German reparations, not on how they were funded and the choices made. As a result, the Plan added risk to the financial system. Wall Street worried that making repayment on old and new private loans would become more difficult with the increasing reparation payments called for by the Dawes Plan.

Ostensibly the Young Plan diffused the reparations question by depolarizing them, but in substance Washington's refusal to allow any linking of war debts to reparations resulted in a disappointing agreement. Unlike the Dawes Plan, the Young Plan contained a 59-year schedule of payments averaging 2.5 billion RM. Once again, America's unwillingness to compromise on war debt left the allies with little room to reduce reparations, even though the Young Plan seemingly set German reparation payments to equal war debt payments to the United States (Tooze 2014).

During the deliberations, however, world economic conditions took a sudden turn for the worse. To get agreement to the Young Plan required

Table 1. US Private Long-term Foreign Investment, December 1930 (millions USD)

	FDI	Portfolio: Total portfolio	Portfolio: Government guaranteed	Portfolio: Private	Total foreign investment	Total World (%)
France	162	189	189	0	254	1.6
Germany	244	1,177	801	376	1,421	9.1
UK	497	144	144	0	641	3.9
Canada	2,049	1,893	1,270	623	3,942	25.2

Source*: Tooze 470–71.*

two Hague conferences, one before the New York Stock Market Crash, and then one after. Once again, conflicts between the British and French delayed the opening of serious talks. In many ways, the Young Plan tied Germany's payments to France and Britain to those countries' payments to United States, but it ignited a feverish debate in Germany. In particular, the proposed agreement rekindled anger in Germany at German war guilt and foreign dependence. Despite right-wing attempts to block acceptance, Germany approved its provisions in March 1930. But the fight against the Young Plan, coupled with the economic downturn, enhanced the reputations of right-wing parties—especially the once-fringe Nazi Party. Shocked by his government's disinclination to push for more reparations concessions in light of Germany's precarious position, Schacht resigned as President of the Reichsbank and in turn cultivated relations with the Nazi Party, whose accession to power brought him back to his old post (Holborn 1969).

As the Depression set in, reparations were anything but depoliticized. In Germany, they continued to enflame passions. The Young Plan emphasized the need for a clearer German sense of responsibility for the war. Ostensibly, it gave German more autonomy over its economy, but required a supermajority for its acceptance and other decisions, which outraged the right in Germany and made managing the economy more difficult. Germany was now freer (without oversight) to manage its own balance of payments, but in many respects, it left Germany on its own.

During the early 1930s, economic conditions deteriorated quickly. Bank failures turned what might have been a severe recession into a deep depression. Unilateral action by some nations led to conferences. The United States and other countries raised tariffs. As economic conditions deteriorated, more British and American experts came to the view that continued payment of any reparations would be impossible, with or without new loans. In 1931, U.S. President Herbert Hoover announced a one-year moratorium on German reparations, a convenient concession in that the funds were owed to other countries. Despite the moratorium, Germany continued its deflationary policies, in part aimed to prove that the reparations could not be paid. In June 1932, European countries met in Lausanne to find a solution to reparations, but with the British, Italians, and especially the Germans favoring a "clean slate," and France against any concessions, the conference understandably ended in failure (Feinstein, Temin, and Toniolo 1995, 51).

Table 1 points to a serious problem in the arrangements that existed at the time. There was a significant amount of FDI from the United States into

Germany. IBM, General Motors, Ford, and General Electric all established subsidiaries there during the 1920s, but there is little evidence that the restructuring of German debt helped. Even before stabilization, Germans preferred portfolio financing. The inflation created some very interesting opportunities for foreigners to buy inexpensive assets, but purchasing whole firms was hindered primarily by the Germans. Whereas in most of the countries in Table 1, U.S. FDI and portfolio investment was relatively balanced, American portfolio investment in Germany accounted for approximately 83 percent of the total. To a large extent, investors relied on German government guarantees, with little regard for the political risk posed by local and federal assurances. These figures do not even include deposits at German banks from foreign sources, which before 1929 at least were substantial (Wilkins 1974; Feldman 1989). Although distinguishing between consumption and investment is problematic, many of the expenditures had little positive impact on productivity (James 1986). Politicians and financiers had bought time with short-term facilities, but ultimately a long-term solution required greater productivity and flows that were less subject to volatility. As Eric Hobsbawm and others have noted, post-World War I leaders lacked the will to make the political compromises necessary to build solid infrastructure (both financial and otherwise) which would withstand the imbalances left by the war (Hobsbawm 1994).

The consequences of failure were enormous. At the peak of the Depression, industrial production in Europe and North America fell to 72 percent and 54 percent respectively of their 1929 levels (Feinstein, Temin, and Toniolo 1997). Capital flight drained central European banks of a large percentage of their deposits, many of which were foreign, draining the Reichsbank of much needed reserves. Despite some help from foreign central banks and the Hoover holiday (moratorium)—a year-long suspension of reparations and inter-Allied debt payments unilaterally announced by the American President—the loan and deposit positions of German banks made them highly vulnerable. Some banks merged and in some cases, bad assets were removed from their books, but the contagion passed to other countries (James 2001). By 1934, the major powers had taken their currencies off gold, devalued, or instituted capital controls, or some combinational of all three. Countries that went off gold standard sooner did better during depression. While perhaps the problem lay in insufficient coordination, virtually nothing was done to address the banking sector weaknesses in the two most important economies, the United States and Germany. U.S. bank failures mounted from 5.6 percent in 1930, to 10.5 percent in 1931, 7.8 percent in 1932, and 12.9 percent in 1933. With the "help" of mergers, by 1933, the number of American banks had been halved from their 1929 level, but through a very traumatic process (Bernanke 2000).

In 1930, central bank cooperation had finally been institutionalized through the Bank of International Settlements (BIS). The BIS was established as an intergovernmental organization by Germany, Great Britain, Belgium, Italy, Switzerland, France, Japan and the United States to handle German reparation payments and act as custodian for funds pledged under the Young Plan. Even though the BIS was the first organization charged with encouraging central bank coordination, it had no financial or political clout and was helpless to head off the 1931 crisis and further bank failures. By the time Hitler came to power in Germany, 35 percent of

Deutsche Bank's capital, 91 percent of Dresdner Bank's, and 70 percent of Commerzbank's, Germany's three largest banks, were in government hands (James 2001).

Conclusion

As Barry Eichengreen and others have noted, the Great Depression had many causes, but the fact that the fundamental structural problems of the interwar period could not be dealt with through international financial co-operation must be seen as a major culprit for the Great Depression. During the late 1920s, the agreements discussed here produced substantial progress in restoring capital flows. From 1924 to 1930, between $9-11 billion flowed internationally: 60 percent from the United States, mostly in the form of long-term bonds, but these amounts were considerably lower than those before World War I. These currency flows were only approximately 60 percent of the annual flows from 1911 to 1913. In real terms, the 1924–1930 flows were only 40 percent of the annual amount in the few years preceding the war. Most of the post-1924 flows went to Germany and were very different from most of those of the prewar era. But in a world with less stable foreign exchange and interest rates, political risk greater, and trade relations more confrontational, the repayment was much riskier. In any case, after 1931, these cross-border flows dropped dramatically (James 2001).

Changes in production, labor, and social demands were among the challenges confronting financial leaders, but most importantly, the international meetings never succeeded in restoring sufficient financial confidence to avoid instability, especially as countries tied their currencies to gold. Those responsible for guiding world finance regularly overestimated growth and underestimated the impact of shocks to the system, given the changes that had occurred since 1914. Without a high degree of confidence, the reserves of gold and convertible currencies were simply insufficient to ward off capital flight in a system extremely dependent on short-term international cash flows, whose structure not only involved normal credit risk, but also a great deal of interest rate and foreign exchange risk (Balderston 1983; Eichengreen 1992a; James 1992).

This article is not a complete account of the many financial conferences and summits by leaders of the international financial community during the interwar period. As noted in my introduction, I excluded, for example, the regular London meetings dealing with restructuring short-term liabilities, which became a regular part of the 1930s. I have highlighted, however some aspects of the period that may be of particular interest to policymakers today. Although history does not repeat itself, comparing our own period with others reveals some interesting ironies and parallels. To paraphrase Karl Marx, sometimes the repetition or lack thereof may have a farcical quality. Even a casual observer notice, for example, the irony of the contrast between Germany's views about paying their debts in the 1920s and the German government's contemporary views about today's Greek debt.

There are at least four ways that the experiences of the 1920s resemble our own since 2008. The scenarios are similar enough that the failures of those summits may reinforce concerns about the consequences of our own summits. The first is simply the unfortunate importance financial conferences have for both eras and what this says about how finance has come to dominate the dilemmas of the global economy. To be sure, the interwar years were not the first period with a great many international conferences. They were not even the first in which finance played a significant role, but the very number of financial summits in the 1920s, as in our own, is testimony to the financial frailty of both periods. The issues may not be the same, but the relentlessness of the meetings and crises have a familiar ring. Perhaps more importantly, the level of activity—the number of meetings and proposals, and the absence of disaster—may give the misguided impression of achievement. Avoiding collapse for a decade, then and now, while regularly discussing the problems may cultivate overconfidence that still worse could not happen.

A second parallel experience is the degree to which the conferences' aims were undone by countries' attachment to their own narrow national interests instead of a more enlightened view of improving the global economy's financial health. This aspect of the 1920s experience is striking, perhaps because of the advantage of hindsight. Most evident was U.S. insistence on its private debts being repaid by other countries, while its government refused to provide any direct cover for the efforts. The United States, however, was not alone. France's insistence on using finance to destroy its rival and solve its own domestic problems contributed greatly to the interwar impasse. The UK's ill-conceived national pride in returning to gold at prewar levels contributed to the interwar frailties. German nationalism contributed to the financial fragility as well, reducing FDI and fostering a sense of victimization at the hands of foreigners, international finance, and later Jews. To be sure, progress has been made. Central bankers have found ways of institutionalizing cooperation about interest rates and other matters and banking regulation has become more cross-border. But many countries—including some that contain the largest amounts of financial activities—are still very reluctant to subsume their financial regulation to international bodies, undo the incentives that contributed so much to irresponsible risk taking, and lead the way to stricter control of financial matters. As in the 1920s, America's leadership as banker of last resort and largest economy in the global order has been inconsistent at best (Kobrak and Brean 2015).

Along these lines, a third insight involves the peculiar role of governments and experts in making and dealing with the calamities. As is true today, in the interwar period there was an unwillingness of political and expert leaders to admit their own culpability in creating and maintaining financial frailty. How many French, English, and German leaders expressed their regret about how their nation's leaders' (some were the same individuals) enthusiasm for war had led to the financial mess? How many American leaders noted disappointment about how their nation's finance had made the long war possible? And how many postwar experts bemoaned their lack of wisdom about rashly returning to prewar financial institutions? Given the failures of both political leaders and financial experts during and shortly after the war to warn against and avoid the cataclysmic conflict, their platitudes about public discipline and their complacency about their solutions seems odd, to say the least.

How many current and past political and economic leaders, some of whom are still involved in framing a new financial order today, admit their own mistakes leading up to 2008? As is the case today, during the interwar period there was a lot of blame to go around. Many of the leaders from the 1920s, like those today, exhibited a stubborn resistance to the questioning of their assumptions, many derived from a period whose financial conditions no longer applied. What stands out in this regard relating to our own era is the continued use of proprietary bank mathematical modeling to measure and control risk and continued regulatory acceptance of internalization of capital market transactions, both of which contributed to the recent crisis.

Perhaps more importantly, instead of addressing the causes of imbalances, then and now, many leaders who created the original problems rely on medium- and short-term cross-border debt financing to moderate criticism (James 2013). Perhaps this is no accident. The use of inherently risky structures and the mismatching of currencies and durations among assets and liabilities may appear politically preferable to hard structural reforms, a "kind of doubling down tactic" to postpone accepting responsibility. As in our present day, those providing and receiving the funds share the common predilection to wear financial blinders, to ignore dangerous financial complexity and dependencies inherent in foreign debt rather than FDI. Relying on their prewar sensibilities, the interwar leaders saw no harm in private capital movements, but did not heed the warning signs that the context for those private investments had radically changed, making them far more volatile and risky. Both public and private financial leaders seemed to ignore how inherently unstable these flows could be without government commitments to financial stability, a danger that at times caused issues even prior to World War I. But pre-war crises, though serious, had the advantage of the period's macroeconomic, political and transactional environment. They were manageable because of the pillars that held up the Gold Standard. The leaders of the 1920s wanted free capital movement without the discipline and the brakes; without the high degree of faith in nations' ability to manage disturbances, collectively or alone; and without transaction costs that served to slow down abrupt moves and to reduce the required amount of gold reserves. Although the Euro is not the 1920s Gold Standard and Chinese-dollar investments are not equivalent to the Dawes Plan, both entail some of the risks of the earlier financial architecture: namely, a mismatching of the borrower's ability to earn the currency in which the debt is denominated, the questionability of uses to which funds are applied, and a shaky commitment of creditors to the interests of debtors.

Optimistically, one might hope that a greater appreciation of institutions and their historical contexts, of the contrast between their period's financial and political architecture that of the period that preceded it, could have helped. As Lord Keynes pointed out, there was not enough historical and institutional sense to appreciate the difference between "intensely unusual, unstable, complicated, unreliable, temporary nature of the economic organization by which Western Europe lived for the last half century" and their own circumstances (Keynes 1920). If there was to be a solution to the post-World War I problems, as in our own era, key players would have had to accept more creative destruction: encouraging rather than inhibiting foreign purchases of domestic companies, letting productive capacity created to service war needs prove themselves with more efficient foreign competition, and major creditors agreeing to haircuts on their debt in exchange for reasonable adjustments by debtor countries. Given the shortage, though, of this historical sense, E. H. Carr's more pessimistic view may be justified. He wrote that the economic conferences were vitiated by the "assumption that there was some 'solution' or 'plan' which, by a judicious balancing of interests, would be equally favourable to all and prejudicial to none" (Carr 1939, 55).

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