

AMERICAN INFLUENCE ON POST-WORLD WAR I  
RECOVERY OF GERMANY

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General Studies

by

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## ABSTRACT

AMERICAN INFLUENCE ON POST-WORLD WAR I RECOVERY OF GERMANY,  
by Major Tyler S. McKee, 86 pages.

The Treaty of Versailles imposed conditions upon Germany that led directly to the collapse of its currency and economy. The United States was directly involved in, and essential to, the economic recovery of Germany following World War I. The political and security concerns prevented Germany's neighbors from taking a lead in the recovery effort, which, along with the strong economy in the United States led to American leadership of the recovery effort. There were two major undertakings led by the United States, first the Dawes Plan which balanced the German budget and stabilized the currency, and second the Young Plan which attempted to establish a final amount of reparations that Germany was required to pay. Throughout this process, the United States maintained control over European war debt and additional loans to Germany, which gave the United States influence over the global economy. This came to an end during the Great Depression, as the United States began to extricate itself from the global economy.

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## ACRONYMS

BIS	Bank of International Settlements
NSDAP	<i>Nationalsozialistische Deutsche Arbeiterpartei</i> (National Socialist German Worker's Party or Nazi Party)
SPD	<i>Sozialdemokratische Partei Deutschlands</i> (Social Democratic Party of Germany)

## CHAPTER 1

### INTRODUCTION

The three great democratic powers, Britain, France and the United States, were also the three great creditor powers of the world; it was their financial resources and leadership as well as their commodity markets on which the world depended for its stability after the First World War.

— Robert Boyce, *Paths to War: New Essays on the Origins of the Second World War*

Conflict, in many ways is simply the pursuit of power. At any given time throughout history, somewhere around the world, someone has struggled for power. The scale of the conflicts has varied, along with the doctrine and the technology. The quest for power through conflict is, by its very nature, destructive. As our societies have developed, our economies have become increasingly dependent upon a highly technical and complex infrastructure, as well as economies of other countries and regions. If the goal of conflict is to gain a position of relative power, then economies are a natural center of gravity, with a very vulnerable supporting infrastructure.<sup>1</sup> However, due to the interdependence of global economies, the defeat of another nation may have a lasting economic impact on more than those directly involved in the conflict.

The United States withdrew from Iraq in 2011 after seven years of conducting stability operations. In line with Army doctrine, the intent of stability operations was to ensure that Iraq's government was able to secure and administer the nation and that the economy was prepared to support the ability of the government to provide for the Iraqi

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<sup>1</sup> William J. Long, "Economic Vulnerability in International Relations: East-West Trade, Investment, and Finance," *The American Political Science Review* 88, no. 3 (September 1994): 797, accessed May 16, 2015, <http://www.jstor.org/stable/2944864>.

people.<sup>2</sup> The success of the initial operation to remove the controlling Baath regime complicated the post-conflict recovery by attacking the vulnerabilities of the economic infrastructure as well as those that had the knowledge and abilities to effectively manage those systems. Iraq is just one current example. Conflicts with similar outcomes are underway across the globe in places like Ukraine, Syria, Somalia, and in a less traditional sense, the power struggle between the government and drug cartels in Mexico. If, or when, these conflicts end, the economies of these countries will most certainly be in ruins.

In order for stabilization of a post-conflict nation to occur, the economy must provide for a stable currency, enough capital to meet the needs of a balanced budget for that country, and the infrastructure that the economy relies upon must be restored. If the economy is not restored, then the government cannot fund those services that are necessary to maintain peace and order. The question becomes, where does the necessary capital come from and how will the currency be stabilized? Currently the United Nations provides a source of international support through the International Monetary Fund.<sup>3</sup>

The International Monetary Fund and the United Nations are a product of the belief that nations are inextricably related and must work together for their mutual benefit. The international community learned this lesson the hard way following World

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<sup>2</sup> Headquarters, Department of the Army, Army Doctrine Publication 3-07, *Stability* (Washington, DC: Government Printing Office, August 2012), 6-7.

<sup>3</sup> International Monetary Fund, Policy Development and Review and Treasurer's Departments, and the World Bank, Resource Mobilization Department, *Assistance to Post-Conflict Countries and the HIPC Framework*, International Monetary Fund, April 20, 2001, accessed February 21, 2015, <http://www.imf.org/external/np/hipc/2001/pc/042001.pdf>, 7-12.

War I. After World War I, Britain and France used the Treaty of Versailles to punish Germany, not realizing all of the future economic and political impacts. According to German economist Hjalmar Schacht, the German economy was in no way able to meet the requirements of the treaty and collapsed under its pressure.<sup>4</sup> The United States was an emerging global force with a dominant economy. However, the success or failure of the economies of Europe was directly linked with the U.S. economy. The United States was involved in two actions that attempted to address the issue of German economic stability, the Dawes Plan and the Young Plan. It will be shown that these were internationally driven plans focused on Germany's stability, but the plans had underlying benefits for the economies of Europe and North America. Unfortunately, protectionist actions within the United States inadvertently upset the gains that the United States had previously made.<sup>5</sup>

The purpose of this thesis is to identify the lessons that can be learned from the post-World War I efforts to stabilize the German economy, as well as how those lessons might be applied to future post-conflict stability efforts. The primary research question is: What were the economic impacts of the Dawes Plan, Young Plan, and the Smoot-Hawley Act on the post-war economic stabilization of the Weimar Republic? Secondly, the research will address the following questions:

How did these economic policies impact the success/failure of the Weimar Republic?

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<sup>4</sup> Hjalmar Schacht, *The End of Reparations*, trans. Lewis Gannett (New York: Jonathan Cape and Harrison Smith, 1945), 1-13.

<sup>5</sup> Smoot-Hawley Act was an American domestic policy focused on tariff controls that had international ramifications.

What were the immediate impacts of the Versailles Treaty, and why were subsequent plans necessary?

What did the Dawes Plan attempt to accomplish?

What did the Young Plan attempt to accomplish?

How did the Smoot-Hawley Act affect Germany?

The answers to these questions establish a body of knowledge relevant to the current dilemma facing the United States as operations across the globe enter the post-conflict phase where economic stability becomes paramount to the future of those regions.

The thesis is organized chronologically, beginning with the Treaty of Versailles and ending with the global depression. The next chapter discusses the background of why international economic intervention was necessary, specifically the ramifications of the Treaty of Versailles. Chapter 3 discusses the formation of the Dawes Committee and the good and bad qualities of the Dawes Plan itself. The Dawes Plan chapter is logically followed by discussion of the Young Plan, which was necessary to address some of the unanswered questions generated by the Dawes Plan. This chapter combines discussion of the formation of the Young Committee and the Young Plan with the effects of a rise in American economic protectionism and the subsequent global depression.

The primary source material from several key individuals gives great insight to the difficulties that faced the numerous committees involved in these plans. John Maynard Keynes wrote of his personal experience at the Paris Peace Conference where the Treaty of Versailles was developed.<sup>6</sup> Charles Dawes and his brother, Rufus Dawes,

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<sup>6</sup> John Maynard Keynes, *The Economic Consequences of the Peace* (London: MacMillan and Co., 1919), 1-26.

published journals from their experience on the Dawes Committee.<sup>7</sup> Finally, Hjalmar Schacht provided his perspective on the development of the Young Plan.

Other key sources were more comprehensive studies of the economic situation of this timeframe, such as William McNeil's study of the financial relationship between the United States and the Weimar Republic,<sup>8</sup> and Melvin Leffler's more broadly based study of America's pursuit of European stability between the World Wars.<sup>9</sup> Douglas Irwin provided understanding of how American protectionism grew during the late 1920s and early 1930s.<sup>10</sup>

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<sup>7</sup> Charles G. Dawes, *A Journal of Reparations* (London: MacMillan and Co., 1939), v-x; Rufus C. Dawes, *The Dawes Plan in the Making* (Indianapolis, IN: The Bobbs-Merrill Company, 1925), 17-25.

<sup>8</sup> William C. McNeil, *American Money and the Weimar Republic: Economics and Politics on the Eve of the Great Depression* (New York: Columbia University Press, 1986).

<sup>9</sup> Melvyn P. Leffler, *The Elusive Quest: America's Pursuit of European Stability and French Security, 1919-1933* (Chapel Hill: The University of North Carolina Press, 1979).

<sup>10</sup> Douglas A. Irwin, *Peddling Protectionism: Smoot-Hawley and the Great Depression* (Princeton, NJ: Princeton University Press, 2011).

## CHAPTER 2

### THE BACKGROUND

Public sentiment is always the final arbiter, but when public opinion is approached in a political campaign by the commingled arguments of politicians and economists, conducted in an atmosphere surcharged with the interjected smoke and fog of the demagogues, it lacks a basis for intelligent differentiations.

— Charles G. Dawes, *A Journal of Reparations*

The political and military upheaval in Germany led to capitulation in November 1918; however, the certainty of defeat had been at least a year in the making. Of future consequence, the Germans had imposed an armistice on Russia the previous December at Brest-Litovsk. The Russians were in no place to resist the Germans, and Lenin ceded control of, “300,000 square miles of territory, inhabited by more than 50 million people . . . [lost] one-third of her railway mileage, three-quarters of her iron production facilities and 90 percent of her coal production.”<sup>11</sup> Germany required Russia to pay six billion marks in reparations for damages and losses to German financial interests. The German General Staff negotiated with Russia through threats and military action, and through force imposed extremely unfavorable conditions on Russia.<sup>12</sup>

The peace treaty allowed Germany to reallocate resources to the western front and to plan an offensive to allow the German Army to seize the initiative and finally defeat the Allied powers. This shift gave Germany approximately 200 divisions in the west by

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<sup>11</sup> Sydney D. Bailey, “Stalin’s Falsification of History: The Case of the Brest-Litovsk Treaty,” *Russian Review* 14, no. 1 (January 1955): 24-35, accessed January 18, 2015, <http://www.jstor.org/stable/126074>.

<sup>12</sup> Hannah Vogt, *The Burden of Guilt: A Short History of Germany 1914-1945*, trans. Herbert Strauss (New York: Oxford University Press, 1964), 27-28.

March 1918. The Germans conducted five attacks as part of the spring offensive and won several tactical victories, however, the decisive defeat of Allied forces never materialized. Two major factors supported the Allied defense against the German offensive. The first was the influx of U.S. soldiers, and the second was the employment of Allied tanks.<sup>13</sup> The failure of the German offensive, combined with defeat of the central powers in Macedonia and Serbia in September and October of 1918, left little prospect of suing for peace from a position of strength.<sup>14</sup>

The German Supreme Command realized that the conditions of the western front were only getting worse, and the strain of supporting the war effort at the cost of the home front had taken an enormous toll. They therefore, relented to the idea of an armistice.<sup>15</sup> In the face of an impending armistice, Prince Max von Baden became the Chancellor. It was his role to see the country through the peace process, but before he appealed for an armistice, he required a written request from the German Supreme Command. This was done in an attempt to deflect direct responsibility from political control to military control. Hindenburg's letter clearly outlined the dire situation to the Chancellor.<sup>16</sup> Von Baden requested that President Woodrow Wilson act as a mediator for the establishment of an armistice.<sup>17</sup> Wilson accepted on the condition that it could not be

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<sup>13</sup> Vogt, 28-29.

<sup>14</sup> Ibid.

<sup>15</sup> David Reynolds, *The Long Shadow: The Legacies of the Great War in the Twentieth Century* (New York: W. W. Norton and Company, 2014), xxviii.

<sup>16</sup> Vogt, 29-30.

<sup>17</sup> Ibid., 30.

possible for hostilities to resume.<sup>18</sup> The German government interpreted this to mean that abdication of the Kaiser and the Crown Prince was required. Ideology had shifted to favor socialist republican government, and following the resignation of Chancellor Max von Baden on November 9, 1918, Social Democrats Friedrich Ebert and Phillip Scheidemann declared the establishment of the German Republic.<sup>19</sup>

Chancellor Max von Baden made a logical decision to approach President Wilson to be the arbiter of peace. In January of 1918, President Wilson issued his Fourteen Points in a speech to congress. These points included the terms that the president believed that the Allied powers were willing to accept. He called for the self-determination of nations, militaries limited to only what was necessary for national defense, and for open diplomacy between nations.<sup>20</sup> Wilson's Fourteen Points were the foundation of the armistice, signed on November 11, 1918.

The Paris Peace Conference, convened in January of 1919, and was comprised of representatives from over thirty countries, with France, Britain, Belgium, Italy, and the United States, taking leading roles. The noticeable absence of Russia was due to a separately arranged peace with Germany, as well as the looming threat of Bolshevism.

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<sup>18</sup> Vogt, 34-35.

<sup>19</sup> William L. Shirer, *The Rise and Fall of the Third Reich: A History of Nazi Germany* (New York: Simon and Schuster, 2011), 52.

<sup>20</sup> Woodrow Wilson, "America's Terms of Peace," *The Advocate of Peace (1894-1920)* 80, no. 2 (February 1918): 45-47, accessed May 29, 2015, <http://www.jstor.org/stable/20667967>.

Also noticeably absent were representatives from Germany.<sup>21</sup> From the beginning, the peace was imposed upon Germany rather than negotiated. Disputes between members of the conference caused negotiation of most aspects of the treaty for almost six months. The four major nations provided representation to the conference through Prime Minister Georges Clemenceau from France, Prime Minister David Lloyd George from the United Kingdom, Prime Minister Vittorio Orlando from Italy, and President Woodrow Wilson from the United States.

John M. Keynes discussed the distinctive personalities at the Paris Peace Conference in his book, *The Economic Consequences of the Peace*. He stated that Clemenceau was primarily concerned with issues of French security and he believed that security was only attainable through the bolstering of France's economy and the constraint of Germany's military and economic capabilities.<sup>22</sup> Keynes described the British goal was one of advancing their own economic position through control of Germany's foreign holdings. The representatives of both nations were interested in making Germany pay reparations for the damages and costs of the occupation. Keynes was not impressed with President Wilson's ability to negotiate, however he did admire the president's stern support for the tenets of the armistice.<sup>23</sup>

There were several conflicts that occurred during the conference, primarily between Wilson and Clemenceau but to a lesser extent involving Lloyd George. The

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<sup>21</sup> U.S. Department of State, Office of the Historian, "The Paris Peace Conference and the Treaty of Versailles," U.S. Department of State, accessed May 4, 2015, <https://history.state.gov/milestones/1914-1920/paris-peace>.

<sup>22</sup> Keynes, 17-18.

<sup>23</sup> *Ibid.*, 14-26.

issue of reparations was at the heart of the matter. Wilson tenaciously hung to his Fourteen Points; of utmost importance to the president in furthering those ideas was the formation of the League of Nations.<sup>24</sup> John Maynard Keynes, who was at the conference as a representative of the British Treasury, described Wilson as being outclassed when negotiating with the other three members.<sup>25</sup> Keynes advocated for a reduction in German reparations, paired with a forgiveness of inter-allied debt.<sup>26</sup> However, Wilson strongly opposed this.<sup>27</sup> Keynes left the conference in protest. He believed that the treaty was in direct conflict with the articles of the armistice. Furthermore, he recognized the proposal's lasting economic effects on the economies of Europe.<sup>28</sup>

President Wilson did not have the support of the senate at home in the United States. Senator Henry Cabot Lodge led the opposition and feared that the creation of the League of Nations had the potential to entangle the United States in another war in Europe.<sup>29</sup> The president had opposed the reparations, but conceded to their inclusion, in

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<sup>24</sup> Leffler, 18.

<sup>25</sup> Keynes, 22-24.

<sup>26</sup> Ibid., 125, 129-130.

<sup>27</sup> Reynolds, 132.

<sup>28</sup> Phillip M. H. Bell, *The Origins of the Second World War in Europe* (New York: Addison Wesley Longman, 1997), 23.

<sup>29</sup> Leffler, 38-39.

order to ensure the future of the League of Nations. However, he was unable to secure the treaty's ratification in the United States because of opposition to the League of Nations.<sup>30</sup>

In late June of 1919, the Paris Peace Conference finally resulted in the Treaty of Versailles. German economist Dr. Hjalmar Horace Greeley Schacht believed it was not a treaty at all, but rather a verdict and sentence, "What is called the peace treaty of Versailles is no treaty, and it has not brought peace. The essence of a treaty is that two parties, after stating their cases, reach a common agreement. It was presented to the Germans, and they were compelled, under threat of force to sign it."<sup>31</sup>

The Treaty of Versailles consisted of 440 articles and numerous annexes addressing such topics as the establishment of the League of Nations, demilitarization, redistribution of German foreign holdings, and war crimes.<sup>32</sup> Clemenceau's desire to establish French security through improvement of their own economic situation, coupled with the diminishment of German military, industrial, and economic capability was achieved. The treaty threatened Germany's economic recovery primarily through Articles 231 through 312, which addressed the requirement to pay reparations to Allied nations, German financial limitations and obligations, and numerous economic constraints, such as tariff policies.<sup>33</sup> Additionally, Articles 45 through 50 put the resources and

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<sup>30</sup> H. L. Lutz, "Inter-Allied Debts, Reparations, and National Policy," *Journal of Political Economy* 38, no. 1 (February 1930): 34, accessed May 29, 2015, <http://www.jstor.org/stable/1823216>.

<sup>31</sup> Schacht, 1.

<sup>32</sup> League of Nations, *The Treaty of Peace Between the Allied and Associated Powers and Germany*, World War I Document Archive, accessed November 4, 2014, <http://net.lib.byu.edu/~rdh7/wwi/versailles.html>, 11-12.

<sup>33</sup> *Ibid.*, articles 231-312.

administration of the Saar Basin under the control of France, severely impacting German coal production and exportation. The treaty removed sources of revenue in the Saar, formalized the Allied seizure of overseas colonies, required Germany to pay the costs of supporting an army of occupation, and to pay an indeterminate amount of reparations to the Allied nations. Additionally, Germany had to receive imported goods at a lower taxed rate than domestically produced goods, thereby devaluing their own resources.<sup>34</sup>

Germany accepted the treaty on June 23, 1919. Although the new German Republic leadership in the Reichstag viewed the treaty as a “dictated peace,” they believed that the opportunity to make changes to the treaty could be worked out in the future.<sup>35</sup> Minority conservative nationalist political parties like the Catholic Center Party, voted against ratification of the treaty.

The republic experienced violent political, economic, and social turmoil in the years following acceptance of the Treaty of Versailles. The political establishment of the new republic was not rooted in their history or culture. Across Europe, there was a debate about the relationship of the state to its economy.<sup>36</sup> Conservative nationalists and communists took turns during this period trying to impose their ideas upon the country, and in the different German states. Uprisings threatened public order and required martial

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<sup>34</sup> League of Nations, *The Treaty of Peace Between the Allied and Associated Powers and Germany*, 11-12, articles 45-50.

<sup>35</sup> Vogt, 45.

<sup>36</sup> McNeil, 276.

law to prevent the collapse of the republic.<sup>37</sup> The violence even included assassinations and battles in the streets of major cities.<sup>38</sup>

The young republic fought for its survival both in the literal sense and in the face of impending economic disaster. By November 1918, the reichsmark had already lost more than two-thirds of its value against the dollar. Germany funded World War I through a combination of war bonds and by printing money, as opposed to increasing the taxation of the people.<sup>39</sup> The interest and reimbursement of war bonds competed with the costs of day-to-day fiscal administration, and the Treaty of Versailles added the further burden of reparations payments. The republic exacerbated the issue when they approved new expenditures and printed more currency, which devalued the mark and increased inflation.<sup>40</sup>

However, the industrial sector of the German economy that benefitted from the diminishing value of the mark, “large-scale enterprises took advantage of their easy access to credit to make huge inflation profits which were ploughed back into industrial and commercial expansion.”<sup>41</sup> Unfortunately, those that had no access to credit bore the burden of the growth of industrial infrastructure. This disparity led some to believe that

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<sup>37</sup> Steven B. Webb, “Fiscal News and Inflationary Expectations in Germany After World War I,” *The Journal of Economic History* 46, no. 3 (September 1986): 781, accessed May 19, 2015, <http://www.jstor.org/stable/2121484>.

<sup>38</sup> Brigid Doherty, “Figures of the Pseudorevolution,” *October* 84 (Spring 1998): 66, accessed May 29, 2015, <http://www.jstor.org/stable/779209>.

<sup>39</sup> Vogt, 68.

<sup>40</sup> *Ibid.*, 68-69.

<sup>41</sup> Bruce Kent, *The Spoils of War: The Politics, Economics, and Diplomacy of Reparations 1918-1932* (Oxford, UK: Clarendon Press, 1989), 171.

there was a deliberate effort to drive up inflation for the benefit of the industrialists.<sup>42</sup> Sadly however, it seems that the Finance Minister, Matthias Erzberger and President of the Reichsbank, Rudolph Havenstein, were unaware of the repercussions of their poor monetary policy. Havenstein bragged publicly of his ability to print forty-six billion marks per day, and Erzberger justified the printing of new currency by stating that it was necessary in order to cover the import-export deficit.<sup>43</sup>

Depreciation continued putting a heavy strain on the working class of Germany, “It pounds daily on the nerves: the insanity of numbers, the uncertain future, today, and tomorrow become doubtful once more overnight. The lines always send the same signal: the city, the big stone city will be shopped empty again.”<sup>44</sup> The longer the currency was held, the less it was worth. This led to a change in the frequency that workers were paid, and it drove consumers to change currency into something tangible as quickly as possible.

Hyperinflation was at its worst in the summer of 1922; the dollar was now worth one thousand times the value of the mark.<sup>45</sup> To make matters worse, 1922 was also a poor year for German agricultural production.<sup>46</sup> In the face of these troubles, the German government requested a moratorium on reparation payments, in order to give the nation

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<sup>42</sup> Vogt, 69-70.

<sup>43</sup> *Ibid.*, 69.

<sup>44</sup> Friedrich Kroner, “Overwrought Nerves,” in *The Weimar Source Book*, eds. Anton Kaes, Martin Jay, and Edward Dimendberg (Berkeley: University of California Press, 1994), 63.

<sup>45</sup> Vogt, 74.

<sup>46</sup> Kent, 172.

time to stabilize their currency.<sup>47</sup> Members of the Reparations Commission, established by the Treaty of Versailles to oversee reparations from Germany, were unable to negotiate because of the burden their countries faced due to inter-allied war debt. France owed the United States nearly four billion dollars and Britain owed almost four and a half billion.<sup>48</sup> Without relief from the United States of their debt, there was no way for their budgets to cover their domestic requirements and those debt payments.<sup>49</sup> The U.S. Congress blocked any debt forgiveness or adjustment, which prevented possible relief from facilitating a compromise.<sup>50</sup>

Germany had the ability to correct some of the hyperinflation that it experienced by decreasing spending on social programs, unemployment relief, food subsidies, and by imposing a national income tax. However, they chose not to do this in order to demonstrate that the reparations were impossible to satisfy.<sup>51</sup> Subsequently, the Reparation Committee determined that Germany voluntarily defaulted on its reparations payments.<sup>52</sup>

French Prime Minister Raymond Poincaré, had taken a strong position against German reluctance to meet the requirements of the Treaty of Versailles. He saw the coalmines and timber resources in the Ruhr as a means to compensate France for

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<sup>47</sup> Vogt, 74.

<sup>48</sup> Bell, 23-24

<sup>49</sup> Kent, 191.

<sup>50</sup> Leffler, 65.

<sup>51</sup> Reynolds, 134-135.

<sup>52</sup> Kent, 207-208.

Germany's failure to meet its obligations.<sup>53</sup> France occupied the Ruhr in January 1923. Germany no longer had the military means to resist the occupation, and instead called upon the population to resist production for the French.<sup>54</sup> The workers in the Ruhr refused to work for the French. Their unemployment had to be subsidized by the German government through more newly printed money. The effect on Germany, beyond having lost the resources of the Ruhr, was more hyperinflation brought about by sixty-two printing firms that produced marks around the clock and flooded the market with new currency.<sup>55</sup>

In the United States, Republicans had taken control of the White House and congress in the 1920 election. They succeeded based on a conservative platform that largely supported protectionist and internally focused economic policies, such as tariffs to control the prices of imported goods competing with domestic goods.<sup>56</sup> However, at the same time there was a call for foreign market expansion. In response to an economic depression in the United States from 1920-1921, international trade, tariffs, currency exchange rates, and access to foreign markets were a top priority for congress and the Harding administration. Congress passed legislation intended to alter the tariff structure

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<sup>53</sup> Kent, 209.

<sup>54</sup> Ibid., 213.

<sup>55</sup> Vogt, 74-75.

<sup>56</sup> Percy W. Bidwell, "Tariff Reform: The Case For Bargaining," *The American Economic Review* 23, no. 1 (March 1933): 137, accessed May 20, 2015, <http://www.jstor.org/stable/55>.

in order to allow more flexibility and equality between the United States and its trade partners.<sup>57</sup>

Inflation in Europe caused concern in the American markets. European merchants took advantage of the extremely favorable exchange rates, which led to an American fear of an increased supply of goods driving down the value of American goods.<sup>58</sup> The United States national interest was therefore directly affected by hyperinflation in Germany, as well as inflation across Western Europe. The French occupation of the Ruhr created a dilemma for President Warren G. Harding and his Secretary of Commerce Herbert Hoover. The dilemma was that they needed to convince France that if Germany's economy could be stabilized, it was in a much better position to make reparations payments. However, any open discussion of this policy had the potential to cause further economic damage by encouraging Germany's continued resistance to the French occupation. Secretary of State Charles Evans Hughes and Secretary Hoover believed that, "a prosperous Germany constituted the prerequisite of the reconstruction of Europe, the revitalization of the international economy, and the creation of a viable liberal capitalist community."<sup>59</sup>

Throughout the summer of 1923, Secretary Hughes pushed for a plan that he had originally presented in December of 1922, which called for an international committee to

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<sup>57</sup> Leffler, 52-53.

<sup>58</sup> M. E. Falkus, "United States Economic Policy and the 'Dollar Gap' of the 1920s," *The Economic History Review, New Series* 24, no. 4 (November 1971): 599, accessed May 29, 2015, <http://www.jstor.org/stable/2648917>.

<sup>59</sup> Leffler, 82-83.

analyze the reparations controversy.<sup>60</sup> The administration was concerned with the possibility of national entanglements resulting from several bilateral diplomatic negotiations, but Secretary Hughes' proposal benefited from separating political decisions from economic decisions.<sup>61</sup> The French however, were opposed to any negotiations, fearing that further talks might change the requirements of the Treaty of Versailles and negatively affect the repayment rate or sum Germany owed them. Poincaré also opposed any discussions that altered the reparations agreed upon in the 1921 London Schedule of Payments, until Germany ended resistance in the Ruhr. The British were still predominantly concerned with forgiveness, or adjustment to their own lingering war debt. It seemed that the major powers were at an impasse.

The impasse was finally overcome when German Chancellor Gustav Stresemann met French demands and called for an end to passive resistance.<sup>62</sup> Stresemann needed the United States to engage with Britain and France to address the reparations situation.<sup>63</sup> Stresemann's action gave the idea of a committee analysis of the reparations situation new life by meeting the French conditions. The Reparations Commission, originally established by the Treaty of Versailles, worked to find a solution for all parties by establishing two committees. The first was focused on how to stabilize the currency of

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<sup>60</sup> Frank C. Costigliola, "Anglo-American Financial Rivalry in the 1920s," *The Journal of Economic History* 37, no. 4 (December 1977): 916, accessed May 29, 2015, <http://www.jstor.org/stable/2119348>.

<sup>61</sup> Leffler, 90.

<sup>62</sup> George Boas, "Stresemann: Object Lesson in Post-War Leadership," *The Public Opinion Quarterly* 8, no. 2 (Summer 1944): 235-236, accessed May 29, 2015, <http://www.jstor.org/stable/2745574>.

<sup>63</sup> Leffler, 87.

Germany and balance its budget. The second committee explored methods of returning German capital from abroad. Both of these committees were comprised of economic experts rather than diplomats. These steps met the goals established by Secretary of State Hughes.<sup>64</sup>

France used the Treaty of Versailles as a mechanism to ensure its own security. As the Reparations Commission applied the provisions of the treaty, Germany's currency failed under the strain. The United States was a powerful economic nation on the rise to superpower status and the countries of Europe, both Allied and central powers, were at its mercy. The United States used its economic power to drive an agreement to address the shortcomings of the treaty.

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<sup>64</sup> Leffler, 89-90.

## CHAPTER 3

### THE DAWES PLAN

It was the endeavor of the experts to found their plan upon the principles of justice, fairness, and mutual interest, relying for its acceptance thus prepared upon that common good faith which is the enduring hope for the universal safeguarding of peace.

— Charles G. Dawes, “Nobel Peace Prize Acceptance Speech”

The terms of the Treaty of Versailles had caused the economic deterioration of Europe, and something needed to be done to relieve the pressure and get European countries back on track toward economic stability. French Premier Raymond Poincaré, concerned with the strategic security of the nation, exerted an exorbitant amount of pressure on the German economy through the occupation of the Ruhr basin. The German workers in the occupied area resisted supporting the French and were consequently unemployed or expelled from the area adding to the financial burdens of the Weimar Republic.<sup>65</sup> The controlling Social Democrats of the Weimar Republic opposed taking the necessary measures to balance the budget through a decrease in spending and an increase in taxes. This led to the economy collapsing and a period of hyperinflation that made the mark virtually useless.<sup>66</sup> Chancellor Stresemann knew that the only way to solve Germany’s economic dilemma was to bring the five powers back to the negotiating table, which required concessions from Germany. He called for an end to resistance, which helped to open the door to negotiations.

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<sup>65</sup> Webb, 787.

<sup>66</sup> Vogt, 74-75.

Following the war, the United States had the resources and capital to ensure its influence in international affairs, especially in comparison to the debt strapped and war torn economies of Europe. France, Britain, and Germany expected the United States to take a lead role in any negotiations due in large part to its perceived objectivity. In December of 1922, Secretary of State Charles Evans Hughes gave an address to the American Historical Association that provided a potential way ahead for improved economic conditions of Europe. In his speech, he called for a committee of experts in finance and economics to evaluate the requirements of reparations, and to evaluate Germany's ability to pay the reparations.<sup>67</sup>

Secretary Hughes' speech showed the depth of his understanding of the situation in Europe and what he thought was necessary to overcome the political stalemate that was currently preventing economic recovery. He recognized the international impacts of European economic hardships and specifically the impacts on American markets. The United States however, could not impose a solution upon Europe; rather it required the acceptance of the sovereign governments of the European nations. Hughes very deliberately ensured that the issue of debts to U.S. creditors were in no way linked to the reparations owed by Germany.<sup>68</sup> The enduring theme that helped to bolster Hughes' proposal was his claim that, "There can be no economic recuperation in Europe unless Germany recuperates. There will be no permanent peace unless economic satisfactions are enjoyed."<sup>69</sup> He recognized that politicians' and diplomats' obligations to their

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<sup>67</sup> Charles Dawes, *A Journal of Reparations*, 239-245.

<sup>68</sup> *Ibid.*, 240-241.

<sup>69</sup> *Ibid.*, 241.

respective constituencies limited their capabilities, and recommended the use of a committee of influential experts in the fields of economics and finance. In December of 1922, France had not yet occupied the Ruhr, and Secretary Hughes tried to dissuade any military action that might hinder economic recovery.

The Reparations Commission did not immediately accept Hughes' proposal. Britain was the first major power to consent to the formation of a committee of experts. The French were initially reluctant, due to opposition in the Ruhr. Once Stresemann called for an end to resistance in late September of 1923, France agreed to the formation of the committee.<sup>70</sup> Lloyd George arbitrated an agreement that the committee of experts not focus on Hughes' recommendation to evaluate Germany's ability to pay, but rather, how to set the conditions for Germany to be able to pay.<sup>71</sup>

The Reparations Commission's implementation of Secretary Hughes' proposal established two committees of experts. In general, the First Committee focused on how to balance Germany's budget, as well as stabilizing its currency. The Second Committee focused on the repatriation of German capital.<sup>72</sup> The First Committee's work and recommendations had the most lasting impact on European economic recovery, and is commonly referred to as the Dawes Plan, named after Charles G. Dawes, the American financier who led the committees of experts.<sup>73</sup>

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<sup>70</sup> Leffler, 87-89.

<sup>71</sup> Kent, 227-228.

<sup>72</sup> Leffler, 89-90.

<sup>73</sup> Rufus Dawes, 17-20.

Once the Reparations Commission accepted the idea of a committee of experts, the represented countries set about assigning members that could best balance their interests and give credibility to the committee. The United States, Britain, France, Italy, and Belgium each selected two members. Secretary of State Hughes determined the representative for the United States. His first choice was Charles G. Dawes, a Midwestern Republican and well-known banker. Dawes had also served as a brigadier general in World War I, working with the French as the American Expeditionary Force Chief of Supply Procurement, and during the Harding administration as the First Director of the Budget. Hughes also choose Owen D. Young. Young had been a lawyer and served as the Chairman of the Board of Directors for both General Electric and for the Radio Corporation of America, with previous business experience in Germany.<sup>74</sup> Dawes was the Chairman for the First Committee of Experts, and Young took leadership of the subcommittee on currency stabilization.<sup>75</sup>

The United Kingdom provided Sir Robert Kindersley, the Governor of the Hudson Bay Company and a director of the Bank of England, as well as Sir Josiah Stamp, a businessmen and expert on economics. Jean Parmentier represented France; he had banking experience as well as experience in the French Finance Ministry. Parmentier proved to be essential when it came time to convince the French of the value of elements of the Dawes Plan. France was also represented by Professor of Politics and Economics, Edgard Allix.<sup>76</sup> The Italians sent Alberto Pirelli and Federico Flora, and Maurice Houtart

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<sup>74</sup> Rufus Dawes, 20.

<sup>75</sup> Charles Dawes, *A Journal of Reparations*, 282-283.

<sup>76</sup> *Ibid.*, 248.

and Emile Francqui represented Belgium, although they were experts in their own right, they often found themselves in positions of support rather than leading the discussions. Their influence directly correlated to the influence that their respective countries had in the realm of international politics and economics. Finally, Germany was not offered representation on the committee.

The Reparations Commission clearly defined the function of the First Committee of Experts. They were to meet, “in order to consider, in accordance with the provisions of Article 234 of the Treaty of Versailles, the resources and capacity of Germany [and] entrusted with considering the means of balancing the budget and the measures to be taken to stabilize the currency.”<sup>77</sup> Secretary Hughes notified Dawes that he had been selected to represent the United States as the Chairman of the First Committee of Experts on December 7, 1923. Between being nominated and arriving in Paris in early January 1924, Dawes and Young worked together to outline what they believed to be the essential elements of a solution to the economic problems that faced Germany.<sup>78</sup> Prior to his first meeting with the committee, Dawes attempted to meet with representatives from each of the five countries represented on the committee in order to evaluate their acceptance of his view of the purpose of the committee. He even went so far as to provide each of the representatives with his proposed opening address. His impression from those meetings was that his address should be well received. Dawes made the critical address to the First Committee of Experts on January 14, 1924.<sup>79</sup>

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<sup>77</sup> Charles Dawes, *A Journal of Reparations*, 246.

<sup>78</sup> *Ibid.*, 1-11.

<sup>79</sup> *Ibid.*, 16-20.

The address established not only objectives of the committee, but also its limits. Dawes drew an analogy between the unity of command, formed through the coordination and cooperation of the Allied powers, that was required to win World War I and the unity of effort necessary to solve the economic issues effecting Europe. He recognized that it was essential to form a coalition of partners with the ability to address Europe's stability. He knew that the assignment the committee had received addressed the heart of European economic problems, "the world realized that if the German people lose their capacity to work, Germany loses her capacity to pay those reparations which are so great an element in European solvency."<sup>80</sup> Dawes wanted to ensure that the committee focused on the most current situation, and not the circumstances of the previous year. He believed that it was essential to approach the problem from a business perspective, without the encumbrances of political circumstances. As he stated in his speech, "We are not asked to determine the legality of the occupation of the Ruhr; we are not asked to declare the political effects of this or that prospective act of common sense, it is for them, not us, to be concerned with political effects."<sup>81</sup> Dawes ensured that the committee did not allow itself to become encumbered by the political arguments that complicated Germany's problems, but rather they should use all available resources, time, and effort to focus on solving the economic problems that they were selected to address. This proved to be a wise and insightful example of the leadership that Charles Dawes brought to the Committee of Experts.

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<sup>80</sup> Charles Dawes, *A Journal of Reparations*, 28-29.

<sup>81</sup> *Ibid.*, 29.

The arguments against Germany having to pay reparations derived from Germany's minimal capacity to pay. Dawes and Young however, concluded that unless Germany had a stable currency and a balanced budget, the issue of their capacity to pay was irrelevant.<sup>82</sup> They established that in order to balance the budget, they must first stabilize the currency. Dawes closed his initial address to the Committee of Experts by making German currency stabilization the first order of business, "The first step which we should take . . . is to devise a system for stabilizing Germany's currency, so that we can get some water to run through the budget mill. Let us build the mill after we find the stream to turn its wheels."<sup>83</sup>

Although Germany was not represented on the committee, members met with the head of the Reichsbank, Hjalmar Schacht, early in the process, and found that he was very agreeable to the goals that Dawes established.<sup>84</sup> There was fear that Schacht might make changes too quickly, before the committee could conduct proper analysis. Schacht wanted to return the Reichsbank to a gold standard, which was "something upon which [the] committee had already come to a practical understanding."<sup>85</sup> Dawes and Young feared that if Schacht implemented a plan to restore a gold standard of his own accord, it could be perceived that it was with the approval of the Committee of Experts. Within two days, the committee established a plan that proposed the reorganization of the Reichsbank, making it independent from governmental controls, and based on a gold

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<sup>82</sup> Rufus Dawes, 48-51.

<sup>83</sup> Charles Dawes, *A Journal of Reparations*, 31.

<sup>84</sup> Rufus Dawes, 54.

<sup>85</sup> Charles Dawes, *A Journal of Reparations*, 52.

standard. Gold and foreign currencies that existed within Germany, and subsidies from foreign investment provided the initial capital. In an attempt to gain German support for the plan, Schacht was given credit for much of the conceptualization of the plan.<sup>86</sup>

From mid-January 1924 until early April 1924, the First Committee of Experts analyzed the problems of stabilizing Germany's currency and balancing the budget. On April 9, 1924, Dawes submitted the plan developed by the committee to the Reparations Commission. Article VI addressed the issue of stabilizing the currency, calling for the establishment of a new national bank (Reichsbank) and the return of the mark to a gold standard, as previously agreed to with Schacht. The plan established a Reichstag administering commission consisting of 50 percent German members and 50 percent foreign members.<sup>87</sup> In order to balance the budget, Article VII called for temporary relief from making reparations payments, in order to give the economy time to stabilize.<sup>88</sup> Article VIII provided a way ahead for a balanced budget that addressed internal and external financial obligations. The plan established sources of income for the government, which Article IX addressed. The plan required Germany to establish an income tax commensurate with other European countries, and debentures against railways and industry.<sup>89</sup>

Article X addressed the issue of reparations by establishing a graduated system of repayment. Germany's payments started low and increased year by year, with payments

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<sup>86</sup> Charles Dawes, *A Journal of Reparations*, 52-54.

<sup>87</sup> *Ibid.*, 98-302.

<sup>88</sup> *Ibid.*, 302-303.

<sup>89</sup> Rufus Dawes, 286-287.

reaching the maximum amount in the fifth year.<sup>90</sup> This gave the economy time to stabilize, delaying the pressures of the reparations payments. Additionally, Article X established a mechanism to require Germany to pay more than the previously established annual requirement if Germany were more prosperous than expected. Finally, in order to establish a stabilized currency and to provide the means to initially balance the budget, the plan recommended foreign loans in the amount of 800,000,000 gold marks.<sup>91</sup> The plan called for loans from private banks, rather than from any government.

The Dawes Plan, attempted to establish a sound system that could generate a surplus of funds that could be used to make reparations payments in a method that maintained the stability of the currency.<sup>92</sup> Dawes predicted the need for further agreements to address this larger issue, specifically he stated, “It foreshadows a settlement extending in its application for a sufficient time to restore confidence, and at the same time is so framed as to facilitate a final and comprehensive agreement as to all the problems of reparation and connected questions as soon as circumstances make this possible.”<sup>93</sup>

Another important element of the Dawes Plan was to establish an Agent General to manage the amount of reparations payments that Germany made and prevent any

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<sup>90</sup> Rufus Dawes, 343-345.

<sup>91</sup> George A. Finch, “The London Conference on the Application of the Dawes Plan,” *The American Journal of International Law* 18, no. 4 (October 1924): 719, accessed May 19, 2015, <http://www.jstor.org/stable/2188845>.

<sup>92</sup> John Fischer Williams, “Reparations,” *International Affairs* 11, no. 2 (March 1932): 188-189, accessed May 19, 2015, <http://www.jstor.org/stable/3016302>.

<sup>93</sup> Charles Dawes, *A Journal of Reparations*, 347.

payments that might have a negative impact on the value of the new gold mark.<sup>94</sup> The selection of the Agent General fell upon the Coolidge administration, in conjunction with financial experts at J. P. Morgan, they ultimately selected Seymour Parker Gilbert.<sup>95</sup> The graduated system of reparations payments required Germany to pay 2.5 billion gold marks in the fifth year following implementation of the plan and this was seen as entirely too high by “officials in the British Treasury, German Government, and American banking circles.”<sup>96</sup> German Foreign Minister Stresemann believed that another agreement was inevitable and that Gilbert supported them in this request.<sup>97</sup>

The five years following the implementation of the Dawes Plan were filled with economic fluctuations, which complicated the Agent General’s ability to ensure that Germany paid everything that it was capable of paying, without destabilizing its currency. The plan was initially successful and the stabilization of the currency facilitated an influx of foreign capital into Germany. American and other foreign investors injected over \$25 billion in the German economy, and by 1929 this investment helped increase production to levels 33 percent higher than before World War I.<sup>98</sup> According to German economics professor Dr. Max Sering, “the loans obtained abroad have gone

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<sup>94</sup> Max Sering, *Germany Under the Dawes Plan: Origin, Legal Foundations, and Economic Effects of the Reparation Payments*, trans. S. Milton Hart (London: P. S. King and Son, 1929), 63.

<sup>95</sup> Finch, “The London Conference on the Application of the Dawes Plan,” 707.

<sup>96</sup> McNeil, 27.

<sup>97</sup> *Ibid.*, 31-32.

<sup>98</sup> J. Llewellyn et al., “The Golden Age of Weimar,” Alpha History, accessed February 27, 2015, <http://alphahistory.com/weimarrepublic/golden-age-of-weimar>.

preponderantly to swell wages and salaries, and have consequently increased the purchasing power of the masses.”<sup>99</sup> However, the Dawes Plan was dependent on Germany producing a trade surplus in order to make payments without destabilizing the currency, but only during a short period in 1925 did that trade surplus exist.<sup>100</sup>

This period involved a high degree of instability caused by the flow of loans out of the United States. Foreign capital flow must be controlled in the same way that reparations payments are controlled. An influx of foreign currency devalues the domestic currency because too much money chases too few goods, with the potential of causing inflation. Banks in the United States gave loans to both public and private institutions in Germany regardless of effects loans had on the currency. In order for the Dawes strategy to work, it required a balanced budget; however, the loans threatened this strategy.

Because of the readily available capital, the German provincial and municipal governments found themselves spending beyond their budgets in order to provide for social and infrastructure programs, often to gain the support of their constituencies. By 1927, there was a sense of prosperity that was bolstered by the accumulation of debt.<sup>101</sup>

By 1927, bankers in the United States, as well as Hjalmar Schacht at the Reichsbank and Gilbert, the Agent General, all became concerned with the political and economic pressures resulting from these loans. Politically, loans gave the United States excessive influence over Germany. Economically, Britain and France were concerned with their need for reparations to repay the United States. The consensus was that if the

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<sup>99</sup> Sering, 170.

<sup>100</sup> McNeil, 104-105.

<sup>101</sup> Sering, 157-159.

loans continued uncontrolled, then conflict might arise over whether the repayment of the loans might take priority over the reparations payments.<sup>102</sup> Any change to the influx of loans threatened Germany's ability to pay reparations to Britain and France, which Britain and France needed, in order to pay their war debts to the United States.

The political control of the Weimar Republic changed often from its establishment in 1918 until its end in 1933. The years 1924-1929 however, were relatively stable due to the economic situation created by the Dawes Plan. The economic stability specifically attributed to the political marginalization of the parties on the extreme left and right. Political parties, like in most western countries during this period followed partisan, and labor and industry lines. The extreme fluctuations in the currency prior to the Dawes Plan created disparity between those with the means to withstand the fluctuations and those that did not. The differences in the ability to protect wealth exacerbated the rift between labor and industry leaders. The Dawes Plan alleviated some of these differences so support for the ultra-conservative and ultra-liberal parties waned.<sup>103</sup> Unfortunately, acceptance of any agreement to pay reparations was exploited by right wing political parties, including the National Socialist German Worker's Party (NSDAP).<sup>104</sup> As loan controls and limitations on the influx of foreign capital began to affect the prosperity associated with the Dawes Plan, the NSDAP gained support. By 1927 conservative parties began to recognize that foreign capital caused a growth in

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<sup>102</sup> McNeil, 137-138.

<sup>103</sup> Vogt, 83.

<sup>104</sup> German Propoganda Archive, "Facts and Lies about Hitler," accessed May 29, 2014, <http://research.calvin.edu/german-propaganda-archive/tatsachenundluegen.htm>.

government expenditures that was unsustainable and their respective political parties became more and more “disenchanted” with the government’s excessive spending.<sup>105</sup>

Despite the success of the Dawes Plan, it was far from flawless. First, the Committee of Experts failed to identify an endstate for reparations in the form of a total amount owed, or even by establishing a date by which it must be secured. The committee did not make a decision to determine Germany’s capability to pay, or provide for a situation when a surplus did not exist to meet the “standard year” requirement of 2.5 billion Gold Marks.<sup>106</sup> Additionally, the balanced budget stipulations required restraint on the part of the German government, which had become entirely dependent on foreign loans, “The future of the Dawes scheme therefore depended entirely on the financial cooperation of the German government and the support of the international investing public, neither of which could be relied upon.”<sup>107</sup> Agent General Parker Gilbert accused German Finance Minister Heinrich Köhler of allowing the economy to fail, to prove that they were incapable of paying despite Gilbert’s warnings, and his “principle concern was with growing Reich deficits and the Reich’s agreement to increase state revenues without reaching a financial settlement.”<sup>108</sup>

France’s desire for security had not entirely been settled, and they still maintained an occupying force in the Rhineland.<sup>109</sup> The Dawes Plan had been necessary in 1923 to

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<sup>105</sup> McNeil, 276.

<sup>106</sup> Sering, 234.

<sup>107</sup> Kent, 245.

<sup>108</sup> McNeil, 183.

<sup>109</sup> Vogt, 87.

establish economic stability; however, the plan backfired in the sense that, the intermingled issues of war debt, reparations, and the amount of American capital on loan to Germany, had the potential to cause the same sort of interdependent and complex national interest situation that had preceded World War I.<sup>110</sup>

This tenuous security situation was apparent to Germany as well. For their own security and national interest, the disarmament that followed the war needed to be resolved and the French forces occupying the Rhineland needed to be removed.<sup>111</sup> The approval of the Dawes Plan within Germany was contingent upon the latter, however no timeline had been established to force out the French. In addition, although Germany did not have the strategic power to remove the French, the German government prepared for rearmament through the research and the development of the infrastructure necessary to rebuild military capability. Despite the limitations the Treaty of Versailles placed upon Germany, the Dawes Plan supported rearmament through, “the government diversion of \$190 million from Dawes Plan loans to AEG, Krupp, Siemens-Schuckert, and Thyssen [specifically] for rearmament.”<sup>112</sup> The Weimar Republic failed to enforce a balanced budget, which ultimately led to Parker Gilbert advocating for a new plan with more specifically dictated requirements.<sup>113</sup>

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<sup>110</sup> H. L. Lutz, “Inter-Allied Debts, Reparations, and National Policy,” *Journal of Political Economy* 38, no. 1 (February 1930): 53, accessed May 29, 2015, <http://www.jstor.org/stable/1823216>.

<sup>111</sup> Vogt, 87.

<sup>112</sup> Holger H. Herwig, “Innovation Ignored: The Submarine Problem,” in *Military Innovation in the Interwar Period*, eds. Williamson Murray and Allan R. Millett (New York: Cambridge University Press, 2009), 233.

<sup>113</sup> Leffler, 183-184.

The Dawes Plan served the U.S. national interest, which required the economic and political stability of Europe. Secretary of State Hughes had recognized that the involvement of the United States was the only way to secure stability. The Dawes Plan, although it was incomplete as mentioned above, attempted to focus on economic concerns, separate from political influence. The plan specifically stabilized the currency, and set the conditions for an influx of foreign capital needed for Germany's recovery. Additionally, the plan bolstered the influence of the United States over the international economic community. The United States had secured the ability of the Allies to pay their war debts and had secured influence over Germany through the large loans associated with the Dawes Plan. However, the shortcomings of the plan had to be addressed, and the United States, once again, was at the forefront.

## CHAPTER 4

### THE YOUNG PLAN AND AMERICAN PROTECTIONISM

Right-wing attacks on the Young Plan would bring industrialists and agrarians to the final break with the Weimar system and begin the process that would lead the Nazi party into alliance with more traditional rightists.

— William C. McNeil, *American Money and the Weimar Republic; Economics and Politics on the Eve of the Great Depression*

Parker Gilbert, more than anyone, pressed to address the political and financial entanglements the Dawes Plan had created. Agent General Parker Gilbert was in a unique position to see the economic capability, and budgetary miss-steps of the Weimar Republic. He was very concerned with the dependence that Germany had developed, using foreign capital to cover deficit spending. By 1927, he actively opposed loans and lobbied for fiscal restraint to the Weimar government.<sup>114</sup> Gilbert's fight to bring some constraint to the issuance of loans from private banks in the United States put him at odds with the banking community, especially when he influenced the State Department to forbid a loan of thirty million to the state of Prussia.<sup>115</sup> He was not the only one to take notice of the severity of the problem; Reichsbank Minister Schacht warned the Association of German Cities that, "in future negotiations on the Dawes Plan, Germany will be reproached for the excessive foreign indebtedness of the public corporations."<sup>116</sup>

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<sup>114</sup> Kent, 272-273.

<sup>115</sup> "The Acting Secretary of State to the Ambassador in Germany," *Foreign Relations* 2 (September 26, 1927): 728, accessed May 29, 2015, <http://digicoll.library.wisc.edu/cgi-bin/FRUS/FRUS-idx?type=turn&entity=FRUS.FRUS1927v02.p0836&id=FRUS.FRUS1927v02&isize=text>.

<sup>116</sup> McNeil, 181.

Schacht's caution foreshadowed Gilbert's warnings to the Weimar Republic. In October 1927, Gilbert warned the Reich Finance Minister Heinrich Köhler that the Weimar Republic was endangering its solvency by "developing and executing constantly enlarging programs of expenditure and of borrowing, with but little regard to the financial consequences of their actions."<sup>117</sup> Gilbert went one step further in his annual report to the Reparations Commission the following December. He recommended that the Dawes Plan be revisited in order to consider a "final reparations settlement."<sup>118</sup> The Agent General worked for the next year to arrange and convince the representative countries of the necessity of a new settlement.

After three years of administering the Dawes Plan for the Reparations Commission, Gilbert recognized several issues that surfaced. He concluded that the combination of issues might lead to an economic disaster having international implications.<sup>119</sup> As mentioned previously, he was concerned with poor budgetary controls within the Weimar Republic, which continued to spend beyond its means in order to support entitlement programs.<sup>120</sup> This unresourced spending and the numerous loans from American banks were compounded by poor administration of the German railroad, the Reichsbahn, which was one of the Weimar Republic's primary sources of income.<sup>121</sup>

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<sup>117</sup> McNeil, 183.

<sup>118</sup> *Ibid.*, 192.

<sup>119</sup> Kent, 273.

<sup>120</sup> James W. Angell, "The Reparations Settlement and the International Flow of Capital," *The American Economic Review* 20, no. 1 (March 1930): 82, accessed May 20, 2015, <http://www.jstor.org/stable/1805663>.

<sup>121</sup> Leffler, 182.

Gilbert recognized that in order for a national level budget to be set, the Weimar Republic's government needed to know its exact reparation obligations. The German states were unable to solidify their own budget, which often led to a reliance on external loans.<sup>122</sup> He became concerned that the Transfer Protection provision of the Dawes Plan was too forgiving, and enabled the Weimar Republic to accept too much risk in their budgetary practices. In his annual report to the Reparations Commission in December 1927, Gilbert addressed the mounting problem: "there will surely come a time . . . when the system of protection established by the Plan will be less productive of reparations for the creditor Powers themselves than a system which gives Germany a definite task to perform on her own responsibility, without forcing supervision and without transfer protection."<sup>123</sup>

Parker Gilbert worked throughout 1928 to convince the recipient nations that an agreement was necessary. Gilbert convinced Britain and France that any agreed upon settlement (of the amount Germany owed) would be sufficient to cover their debts to the United States. Germany recognized that a linkage between war debts and reparations was insufficient to solving Germany's capacity to make those payments. German Chancellor Hermann Müller called for a new committee of experts to address the issue of Germany's capacity to pay.<sup>124</sup>

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<sup>122</sup> McNeil, 192-193.

<sup>123</sup> Ibid., 192.

<sup>124</sup> Leffler, 186.

The Reparations Commission acquiesced and formed another committee of experts with the goal of reaching a final settlement for reparations.<sup>125</sup> The Reparations Commission appointed Owen D. Young as the Chairman of the new committee. Unlike the Dawes Committee, Germany had several representatives. Dr. Hjalmar Schacht, the President of the Reichsbank, was Germany's primary representative. Dr. Schacht's tendency to support contradictory views complicated the ability of the committee to achieve its goals.<sup>126</sup>

The committee did not enjoy the same circumstances that enabled the Dawes Committee to act without regard to political situations. The economic improvements since 1924 created a situation that was less urgent. Previously, Germany had been in the middle of economic collapse, with the potential to take Europe with it.<sup>127</sup> In 1927, the situation had changed for the better and gave France and Britain negotiating room to pursue the establishment of a link between German reparation payments and their own war debts. Parker Gilbert led them to believe this possibility existed as he built consensus for the committee.<sup>128</sup> However, U.S. President Herbert Hoover and Secretary of State Henry Stimson repeatedly opposed this proposition much to the disadvantage of the

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<sup>125</sup> The committee was composed of several members that previously served under Dawes, such as Emile Francqui from Belgium, Jean Parmentier and Edgar Allix from France, Alberto Pirelli from Italy, Josiah Stamp from Great Britain and Owen Young from the United States. Owen D. Young, "Settlement of the Reparation Problem: Report of the Committee of Experts," *The American Journal of International Law* 24, no. 2 (April 1930): 82, accessed May 19, 2015, <http://www.jstor.org/stable/2212799>.

<sup>126</sup> McNeil, 225-227.

<sup>127</sup> Lutz, 59-60.

<sup>128</sup> Leffler, 203.

committee's efforts.<sup>129</sup> Additionally, the German government linked the issue of evacuation of the Rhineland to any future agreements regarding settlement of reparations.<sup>130</sup>

Although the economies of the involved countries were in better shape than in 1923, there were remaining factors that affected economic stability. President Herbert Hoover's desire to support the campaign promises that contributed to his landslide election, led to his support of an aggressive tariff policy. Tariff reform contributed to market volatility and complicated the efforts of the Young Committee, "the speculative frenzy on Wall Street, the drain of gold from Europe, and the termination of almost all foreign loans by the United States," all complicated the process.<sup>131</sup>

By June 1929, Owen Young had provisional support from the committee's members and finalized his report to the Reparations Commission. Unfortunately, the plan only received "unequivocal support" from the United States for the first few months after publication.<sup>132</sup> Ratification by Germany was a drawn-out process, which resulted from disagreements over the proportional distribution of German reparations payments.<sup>133</sup>

Nevertheless, Germany ratified the plan and it resulted in a reduction in German reparations, "Under the new agreement, annual payments started at 1.7 billion

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<sup>129</sup> Leffler, 202-207.

<sup>130</sup> Carl Bergmann, "Germany and the Young Plan," *Foreign Affairs* (July 1930), accessed March 14, 2015, [www.foreignaffairs.com/articles/69083/carl-bergmann/germany-and-the-young-plan](http://www.foreignaffairs.com/articles/69083/carl-bergmann/germany-and-the-young-plan).

<sup>131</sup> Leffler, 204.

<sup>132</sup> Kent, 303.

<sup>133</sup> Schacht, 72-78.

reichsmarks, rose to 2.43 billion reichsmarks and fell slowly until all reparations were to be paid off at the end of fifty-nine years.”<sup>134</sup> This worked out to an average of 2.08 billion reichsmarks per year and a total of 112 billion reichsmarks.<sup>135</sup> These annual payments came with the provision that the first one-third of each annuity was required to be paid, however the remaining two-thirds had a “modified transfer protection” that allowed for the payment to be delayed for up to two years in the event that Germany was unable to provide the foreign currency.<sup>136</sup> The committee removed the requirements from the Treaty of Versailles and the Dawes Plan for a Reparations Agent, a Transfer Committee, and for foreign representatives on the board of the Reichsbank.<sup>137</sup> However, the Young Plan established the Bank for International Settlements (BIS), which assumed the “collection, administration and distribution of the annuities payable as reparations.”<sup>138</sup> The committee also eliminated foreign control of the German railroads. Finally, they called for the removal of all foreign troops from the Rhineland five years earlier than required by the Treaty of Versailles.<sup>139</sup>

In Germany, political support was absent. Young’s revision was necessary to avoid the continuation of the precarious situation brought about by the Dawes Plan, rather

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<sup>134</sup> McNeil, 233.

<sup>135</sup> Young, 93-95.

<sup>136</sup> McNeil, 233.

<sup>137</sup> Angell, 83-84.

<sup>138</sup> Bank of International Settlements, “BIS History-Foundation and Crisis (1930-39),” accessed March 14, 2015, [https://www.bis.org/about/history\\_1foundation.htm](https://www.bis.org/about/history_1foundation.htm).

<sup>139</sup> Bergmann.

than having many helpful attributes. Despite the many positive points of the new agreement, such as the evacuation of the Rhineland and the immediate reduction in annuities, the acceptance of paying reparations for fifty-nine years carried more weight in the political future of the Weimar Republic. This led to the end of the political control for the Social Democratic Party of Germany (SPD).<sup>140</sup>

Ratification of the Young Plan had difficulties; however, there were definite benefits to Germany. The foremost benefit was that the plan required the evacuation of all foreign troops from the Rhineland five years ahead of the schedule established by the Treaty of Versailles.<sup>141</sup> France had associated the need to occupy the Rhineland as a means to ensure that reparations payments were made. The relationship between occupation and reparations carried forward to the work of the Young Committee, and became part of the settlement of the reparations issues.<sup>142</sup>

The Young Plan's removal of the internal controls imposed by the Treaty of Versailles and the Dawes Plan had the potential to yield political praise from the German constituency. The plan freed the Reichsbank and Reichsbahn from the control of foreign board members, a benefit that should have been appealing to the more nationalistic political parties, such as the NSDAP; however, they maintained their opposition to any

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<sup>140</sup> McNeil, 233.

<sup>141</sup> "International Agreement on the Evacuation of the Rhineland Territory," *The American Journal of International Law* 24, no. 2 (April 1930): 144-152, Supplement: Official Documents, accessed May 29, 2015, <http://www.jstor.org/stable/2212800>.

<sup>142</sup> Bergmann.

acceptance of reparations. The establishment of the BIS removed the controlling Agent General for Reparations and the Transfer Committee.<sup>143</sup>

The SPD could have also politicized the fact that the Young Plan reduced the amount of the annuities as compared to the Dawes Plan.<sup>144</sup> The plan provided for at least an initial relief of approximately 700 million reichsmarks per year for the first three years.<sup>145</sup> The Dawes Plan had previously provided for an adjustment to the annuities based on how well the German economy was doing. In an evaluation of the Young Plan, the state of the economy must be estimated. If the economy improved and the annuities were increased (under the Dawes Plan rules), then the savings under the Young Plan could have been greater. Unfortunately, there is no way to speculate how well the German economy was going to do under the previous plan, so the benefits of the Young Plan beyond the first three years are not calculated.

The BIS had the intended purpose of supporting the transfer of funds between nations, while protecting the currency values of the countries involved. It was also intended that the BIS commercialize the portions of the annuities that it held through the issuance of bonds and through reinvestment in Germany. The BIS did not live up to these expectations. By 1931, Dr. Hjalmar Schacht wrote, “The Bank for International Settlements has thus far shown no initiative whatever; it seems content with the role of a bureau of accountancy.”<sup>146</sup>

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<sup>143</sup> Bergmann.

<sup>144</sup> Kent, 302.

<sup>145</sup> Bergmann.

<sup>146</sup> Schacht, 213.

One aspect of the Young Plan that caused opposition was the fact that the plan required annuities for another fifty-nine years. A separate agreement of the creditor powers (that excluded the United States) coincided with the publication of the Young Plan, it declared that any reduction in the debt owed in accordance with the inter-allied loans will be passed on to Germany through a reduction in the annuities.<sup>147</sup> This fact put the onus for any future reparations relief on to the United States. However, the United States had shown for the previous ten years that it was unwilling to reduce the debts of the creditor nations. Therefore, no potential for future relief of the reparations was likely. The NSDAP used the burden placed on the next two generations as justification to oppose the controlling SDP.<sup>148</sup>

Another possible issue of contention was the loss of transfer protection offered by the Dawes Plan.<sup>149</sup> The uncontrolled transfers of currency between nations exacerbated hyperinflation in 1923. The First Committee of Experts, under Dawes, clearly delineated the difference between Germany's capacity to pay and the ability to transfer payments without destabilizing currency. If the transfer of currency risked destabilizing the value of the currency then a moratorium could be imposed to allow the payment to be reinvested in Germany, for the owed nation to receive deliveries in kind, or surplus exports free.<sup>150</sup>

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<sup>147</sup> Bergmann.

<sup>148</sup> Adolf Hitler, "Open Letter from Adolf Hitler to the Reich Chancellor," German Propoganda Archive, accessed May 28, 2015, <http://research.calvin.edu/german-propoganda-archive/hitleranbruening.htm>.

<sup>149</sup> The Dawes Plan utilized a committee to determine the amount of payments or trade in kind that could be managed without destabilizing the currency of the creditor countries or Germany.

<sup>150</sup> Rufus Dawes, 348-350.

The Young Plan replaced the transfer protection with the one-third/two-thirds rule, in conjunction with the establishment of the BIS.<sup>151</sup> The transfer protection clause was a critical element of the Dawes Plan that led the Social Democratic Party to gather enough support in the Reichstag to pass that plan. The German Nationalist People's Party supported the Dawes Plan because of transfer protection and the evacuation of the Ruhr. The lack of a transfer protection clause, or "safety valve" in the Young Plan resulted in insufficient support for the plan in the Reichstag.<sup>152</sup>

Germany balanced two opposing political policies in the year following the contested ratification of the Young Plan. The first was the support of social programs through deficit spending, and the second was fulfilling the requirements of the Young Plan.<sup>153</sup> The economic budget cuts required to fund both social programs and reparations requirements were unacceptable to Germany. Chancellor Müller (SPD) attempted to pass the necessary budget cuts, however this led to the end of SPD control of the Reichstag and a coalition of Center Party and the German National People's Party took control.<sup>154</sup> The new Chancellor, Heinrich Brüning, of the Center Party, in an attempt to balance the two conflicted policies, implemented measures for the deflation of the reichsmark. This

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<sup>151</sup> The one-third/two-thirds rule required payment for the first one-third of the annuity, however, payment of the remaining two-thirds could be delayed if necessary.

<sup>152</sup> Dawes, *A Journal of Reparations*, xxix.

<sup>153</sup> McNeil, 235.

<sup>154</sup> Heinrich A. Winkler, "Choosing the Lesser Evil: The German Social Democrats and the Fall of the Weimar Republic," *Journal of Contemporary History* 25, no. 2/3 (May-June 1930): 206, accessed May 29, 2015, <http://www.jstor.org/stable/260730>.

was an attempt to “crash land the German economy.”<sup>155</sup> Heinrich Brüning had the goal of reducing spending on social programs and ultimately eliminating reparations.<sup>156</sup> He did this at the cost of doubling unemployment, a political boon for the National Socialist Party.<sup>157</sup> Hitler capitalized on the suffering of the German people, “The suffering of his fellow Germans was not something to waste time sympathizing with, but rather to transform, cold-bloodedly and immediately into political support.”<sup>158</sup> The global depression, in conjunction with the austerity measures that were imposed through Brüning’s actions placed the German people in a desperate economic situation and Hitler’s Nazi Party offered a potential solution.<sup>159</sup> Hitler used rhetoric opposed to reparations, the Dawes Plan, and the Young Plan as part of his speeches between 1923 and his rise to Chancellor in 1933.<sup>160</sup>

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<sup>155</sup> Adam Tooze, *The Wages of Destruction: The Making and Breaking of the Nazi Economy* (New York: Viking, 2007), 17.

<sup>156</sup> Reynolds, 136.

<sup>157</sup> McNeil, 235.

<sup>158</sup> Shirer, 136-137.

<sup>159</sup> John L. Snell, “Hitler’s Success as a Case Study in Interpreting History,” *The History Teacher* 1, no. 2 (January 1968): 27-28, accessed May 22, 2015, <http://www.jstor.org/stable/3054399>.

<sup>160</sup> In May 1923 Hitler declared that the reparations were an attack on the existence of Germany, “So these requirements must have a very definite purpose, an agenda which goes far beyond economics. France does not want reparations; it wants the destruction of Germany.” Adolf Hitler, “Hitler Speech: May 4, 1923,” *Comicism.tripod.com*, accessed May 28, 2015, <http://comicism.tripod.com/230504.html>. He continued to oppose the Dawes and Young plans, as “illusions” of success. Adolf Hitler, “Open Letter from Adolf Hitler to the Reich Chancellor.”

Politics within the United States threatened the potential success of the Young Plan. As early as 1923, Secretary of State Hughes and President Coolidge prevented any association between reparations and the inter-allied loans. This had been politically essential because any relief of the inter-allied loans potentially had effect of shifting the financial burden of the war to the American taxpayer.<sup>161</sup> This continued through the development of the Young Plan, where, “the American experts were accused of sacrificing traditional United States policy of separating war debts and reparations” and ultimately had to separate the issue.<sup>162</sup> Although there was no potential relief of the war debts as a negotiating measure, Owen Young did establish that the minimum amount that Germany was required to pay in each annuity was equivalent to the war debts owed to the United States.<sup>163</sup> The Dawes Plan was made possible by an initial loan to Germany from private U.S. banks. This too, was a separate payment from the annuities established in the Young Plan. Since 1919, the United States showed a consistent policy of disassociating any loans from the issue of reparations regardless of the source of the loan (private or public).<sup>164</sup>

The issue of loans and reparations, although at the forefront of this discussion, from the perspective of American politics, were secondary to the domestic issues

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<sup>161</sup> Williams, 199-200.

<sup>162</sup> Leffler, 206.

<sup>163</sup> Bergmann.

<sup>164</sup> Lutz, 54-55.

surrounding American agriculture.<sup>165</sup> In Hoover's Republican nomination acceptance speech during the presidential campaign of 1928, he declared that issues surrounding agriculture were the most urgent issues facing America.<sup>166</sup> Hoover's role as the Secretary of Commerce during World War I had put him at odds with American farmers over the issue of price controls limiting the amounts that could be charged for exported agricultural commodities, specifically wheat.<sup>167</sup> In order to overcome his lack of popularity, Hoover made campaign promises to support domestic agriculture through the tariffs and the formation of a federal farm board to help regulate the market. The U.S. agriculture lobby pressed for subsidies and tariff reform for several years, but Coolidge vetoed their efforts.<sup>168</sup> The loss of the farming constituency for Republicans was an issue that had the potential to split the Republican Party and bring Democrats to control of the house and the Presidency. Hoover prioritized domestic issues; his inaugural address did not address the efforts of Parker Gilbert and Owen Young to settle the issue of reparations.<sup>169</sup> Hoover followed through with his campaign promises for tariff reform, the

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<sup>165</sup> Gilbert C. Fite, "The Agricultural Issue in the Presidential Campaign of 1928," *The Mississippi Valley Historical Review* 37, no. 4 (March 1951): 653-659, accessed March 16, 2015, <http://www.jstor.org/stable/1889362>.

<sup>166</sup> *Ibid.*, 661.

<sup>167</sup> *Ibid.*, 657.

<sup>168</sup> Katherine A. Towle, "The Presidential Veto Since 1889," *The American Political Science Review* 31, no. 1 (February 1937): 52, accessed May 29, 2015, <http://www.jstor.org/stable/1948043>.

<sup>169</sup> President Herbert Hoover, "Herberg Hoover Inaugural Address, March 4, 1929," Bartleby.com, accessed May 19, 2015, [www.bartleby.com/124/](http://www.bartleby.com/124/).

results of which, undid much of the recovery effort that was achieved through the Dawes and Young Plans.

From the presidential campaign period of 1928 through the ratification of the Young Plan in 1930, the idea of protectionism gained political support.<sup>170</sup> This nationalistic perspective on economic concerns countered, if not disregarded the lessons learned following World War I that taught that the markets of trade partners are inextricably linked, and the subsequent effects of trying to control the market will invariably have a negative impact.

Tariff regulation within the United States following World War I had implications on the economic recovery of Germany, beginning with passage of the Fordney-McCumber Tariff Act of 1922.<sup>171</sup> This was a very detailed law outlining the duties to be paid on a comprehensive list of imported products. Unfortunately, because the Fordney-McCumber Tariff Act preceded the economic boon that took place in the last half of the 1920s, it bolstered the credibility of tariffs. This view did not take into account the effective recovery and stabilization of Europe that contributed to the economic success of the period.<sup>172</sup> Farmers throughout the United States used the economic success of the mid-1920s, which came from profitable exportation to Europe, to finance expansions of farms and for the purchase of machinery to increase their output. However, increased

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<sup>170</sup> Protectionism is the idea that the price of internationally produced goods should be controlled through duties in order to support the value of domestically produced goods. The idea applies to both industry and agriculture. Irwin, 28.

<sup>171</sup> Ellery C. Stowell, "Tariff Relations with France," *The American Journal of International Law* 24, no. 1 (January 1930): 110, accessed May 30, 2015, <http://www.jstor.org/stable/2189305>.

<sup>172</sup> Leffler, 196.

domestic production in Europe encouraged farmers to export their goods to the United States. The surplus of agricultural produce in the United States drove prices down. The lower value of their goods, stressed the farmers' ability to pay off outstanding loans, so they lobbied their representatives to find a way to increase the value of their goods. Debate included farm subsidies and an increase on tariffs. By the time the campaign for the 1928 presidential election came around, agriculture and industry alike demanded a revision to the tariffs of 1922.<sup>173</sup>

Republicans had traditionally been supported by the industrial centers in the northeastern United States and those manufacturers and textile producers were a powerful lobby to increase tariffs.<sup>174</sup> The industrial lobby heavily influenced the Republican-controlled House of Representatives because of the proportion of Representatives from the populated industrial centers of the northeast.<sup>175</sup> The senate was another story. Although the senate was also controlled by the Republican Party, the Senators and constituents of Midwestern and western states were more concerned with agriculture and natural resources. With their support, tariff reform had a chance to overcome opposition from Democrats in the senate. Southern Democrats opposed any increase on tariffs because their goods were typically exported and faced possible retaliatory tariff increases.<sup>176</sup> The Democrat's concerns proved prophetic.

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<sup>173</sup> Irwin, 17-18.

<sup>174</sup> Wilford J. Eiteman, "The Rise and Decline of Orthodox Tariff Propoganda," *The Quarterly Journal of Economics* 45, no. 1 (November 1930): 37-38, accessed May 20, 2015, <http://www.jstor.org/stable/1882526>.

<sup>175</sup> Fite, 665.

<sup>176</sup> Irwin, 19-20.

In 1927, the League of Nations called for a world economic conference to take place in Geneva, Switzerland.<sup>177</sup> It focused on the economic situation in Europe and was represented by fifty countries, to include the United States. Los Angeles banker, Henry Robinson led the unofficial group of U.S. representatives. They addressed the needs of European trade using the interstate commerce of the United States as an example, “Instructed by our own experience, the American Committee feel that substantially similar freedom of commerce and trade in Europe would inevitably result in great benefit to the European people.”<sup>178</sup> The resulting options were to either reduce or get rid of tariffs, and to avoid retaliatory “*tarifs de combat*.”<sup>179</sup> Although European countries supported diminished trade barriers for inter-European trade, they held the United States to a different standard.<sup>180</sup> The conference unfortunately, failed to settle the issue of tariffs between the United States and the major European powers.<sup>181</sup> The United States had a single system of tariffs that applied the same tariff rate to all countries, whereas many countries negotiated the tariff rates based on production cost and standard of living

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<sup>177</sup> Wallace McClure, “National Economic Independence in the Light of the International Economic Conference,” *The American Journal of International Law* 21, no. 4 (October 1927) 668-670, accessed May 20, 2015, <http://www.jstor.org/stable/2188476>.

<sup>178</sup> W. Leslie Runciman, “The World Economic Conference at Geneva,” *The Economist Journal* 37, no. 147 (September 1927): 466, accessed March 16, 2015, <http://www.jstor.org/stable/2223577>.

<sup>179</sup> *Ibid.*, 470.

<sup>180</sup> Bidwell, 143-144.

<sup>181</sup> McClure, 671.

differences with the exporting country, or established some sort of parity of tariffs between the two trading partners.<sup>182</sup>

In general, the Fordney-McCumber Act appeared successful, “because of the strong recovery, European exports were growing at a steady pace, which masked any disruption that the tariffs caused.”<sup>183</sup> However, a revision to the outdated tariffs was necessary due to changes in the types of goods produced, and locations where they were manufactured and sold. This round of tariff reform began prior to, and during the campaign cycle of 1928, however, work did not begin in earnest until after President Hoover’s inauguration in March 1929. Hoover’s tariff revision focused on supporting agriculture prices to protect farmers, and providing the executive branch the ability to apply flexible tariffs as necessary. The latter conflicted with the traditional role of the legislative branch. Development of what became known as the Smoot-Hawley Act was fraught with issues. Members of congress accused each other of logrolling, an allegation that implied that representatives traded votes with each other for support of tariffs deemed critical to their individual constituencies.<sup>184</sup> Additionally, issues such as the president’s request for the ability to adjust tariffs divided the house and senate. The house, senate, and president did not come to terms on the bill until June 1930. The final bill detailed tariffs almost 3,300 items, and included the president’s flexible tariff

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<sup>182</sup> Leffler, 168.

<sup>183</sup> Irwin, 150-151.

<sup>184</sup> Colleen M. Callahan, Judith A. McDonald, and Anthony P. O’Brien, “Who Voted for Smoot-Hawley?” *The Journal of Economic History* 54, no. 3 (September 1994): 683, accessed May 30, 2015, <http://www.jstor.org/stable/2123873>.

control.<sup>185</sup> The bill passed despite the fact that over one thousand economists of the American Economic Association opposed it.<sup>186</sup> The State Department collected complaints from thirty-nine different countries, several of these complaints warned of potential economic retaliation.<sup>187</sup> Senate Republicans declared that the tariff issue was a domestic matter and the concerns of the foreign interests were irrelevant. Senate Democrat Furnifold Simmons from North Carolina eloquently diverged from the Republicans arguing, “It would tend to provoke retaliations and create a psychology among our foreign purchasers which would be inimical if not destructive to our commercial relations.”<sup>188</sup>

Although there is no direct causation that can be proven to exist between the Smoot-Hawley Act and the stock market crash of October 29, 1929, several economists believe it was a contributing factor.<sup>189</sup> The bill had been in the works throughout most of 1929 and was often discussed in the major newspapers; however, it had not yet been passed when the stock market crashed. The senate seemed to be on the verge of defeating

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<sup>185</sup> Richard N. Kottman, “Herbert Hoover and the Smoot-Hawley Tariff: Canada, A Case Study,” *The Journal of American History* 62, no. 3 (December 1975): 632, accessed May 30, 2015, <http://www.jstor.org/stable/2936217>.

<sup>186</sup> Irwin, 146, 223.

<sup>187</sup> The Economist, “The Battle of Smoot-Hawley: A Cautionary Tale About How a Protectionist Measure Opposed By All Right-Thinking People Was Passed,” *The Economist*, December 18, 2008, accessed May 30, 2015, <http://www.economist.com/node/12798595>.

<sup>188</sup> Irwin, 145-147.

<sup>189</sup> Bidwell, 146.

the bill at that time.<sup>190</sup> However, the falling stock market was further justification for the bill, which ultimately passed eight months later.

By the end of 1929, the Wall Street crash, the impending increase in tariffs, and the actions of the Young Plan weighed over Europe's relationship with the United States. The potential increase in tariffs and the loss of foreign loans made it difficult for European countries, especially Germany, to earn the dollars that were necessary to service debts to the United States.<sup>191</sup> In June of 1929, Gustav Stresemann, now the Foreign Minister, but previously the Chancellor of Germany, voiced the frustrations "of Europe becoming a colony of those who have been more fortunate than us," and that European countries "must find a way together to counter a competition that weighs heavily on us all."<sup>192</sup> This was a departure from Stresemann's more typical pro-American outlook. Stresemann died October 4, 1929, before Germany ratified the Young Plan, and before the stock market crash in the United States.<sup>193</sup>

Trade policies that previously only adjusted for differences in the cost of living and cost of production between trade partners, shifted to deliberate trade discrimination.<sup>194</sup> Smoot-Hawley historian and economist Douglas Irwin remarked that the "tariff helped give rise to an especially damaging development: the spread of

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<sup>190</sup> Bidwell, 57-58.

<sup>191</sup> Angell, 86.

<sup>192</sup> Tooze, 15.

<sup>193</sup> Vogt, 88.

<sup>194</sup> G. John Ikenberry, "The State and Strategies of International Adjustment," *World Politics* 39, no. 1 (October 1986): 59, accessed May 19, 2015, <http://www.jstor.org/stable/2010298>.

discriminatory trade policies. And because of the smoldering resentment of the American tariff, the United States was a particular target of those discriminatory policies.”<sup>195</sup>

Following the Smoot-Hawley Act, retaliation began almost immediately from Canada, Cuba, Mexico, France, Spain, and Italy.<sup>196</sup>

In the year following the passage of the Smoot-Hawley Act, the depression spread across Europe. The combination of currency transfers for debts and annuities, combined with trade barriers and trade discrimination contributed to the spread of the depression. In Germany, Heinrich Brüning pursued an aggressive policy of deflation that lowered the cost of German exports on the international market, thereby generating high demand and bringing an influx of foreign currency into Germany. Lowering the cost of goods was necessary in response to the advent of increased tariffs. In order to accomplish the deflation, Heinrich Brüning cut government spending on social programs and salaries, which removed currency from circulation.<sup>197</sup>

The Reichstag did not support these austerity measures. The Weimar Constitution’s Article 48, allowed the president to take action without the consent or approval of the Reichstag in certain (undefined) emergencies.<sup>198</sup> Chancellor Heinrich Brüning convinced President Paul V. Hindenburg to implement his plan for deflation by

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<sup>195</sup> Irwin, 176.

<sup>196</sup> Ibid., 170.

<sup>197</sup> Kent, 326.

<sup>198</sup> David Dyzenhaus, “Legal Theory in the Collapse of Weimar: Contemporary Lessons,” *The American Political Science Review* 91, no. 1 (March 1997): 124, accessed May 20, 2015, <http://www.jstor.org/stable/2952263>.

emergency decree.<sup>199</sup> The use of Article 48, and subsequent emergency decrees to dissolve the Reichstag in July of 1931, and call for new elections had disastrous effects for the continued existence of the Weimar Republic.<sup>200</sup>

Trade barriers were not the only thing causing the international economy to suffer in the summer of 1931. A lack of capital collapsed the Creditanstalt Bank of Vienna and triggered a run that could not be stopped by the support of loans.<sup>201</sup> The collapse of this bank began a banking crisis that led to the failure of banks throughout Europe and the United States. Failure of banks caused the remaining banks in the affected countries to increase interest rates and implement a constriction of credit. In Germany, Heinrich Brüning enacted foreign currency transfer controls and rationing through another emergency decree in July 1931 in order to minimize capital flight, which attempted to avoid the destabilization of the reichsmark.<sup>202</sup>

Brüning's austerity measures had vastly increased unemployment and the German economy continued to contract in the face of trade barriers. The loss of foreign currency from exports made payment of loans and reparations annuities, without further currency devaluation, impossible.<sup>203</sup> President Herbert Hoover feared that Heinrich Brüning might

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<sup>199</sup> Winkler, "Choosing the Lesser Evil," 207.

<sup>200</sup> Kent, 327.

<sup>201</sup> Robert Boyce, "World Depression, World War: Some Economic Origins of the Second World War," in *Paths to War: New Essays on the Origins of the Second World War*, eds. Robert Boyce and Esmonde M. Robertson (New York: St. Martin's Press, 1989), 69-70.

<sup>202</sup> Irwin, 171.

<sup>203</sup> Bell, 155.

use these issues as justification to default on debts and annuities. In a surprising change of policy, President Hoover conceded that there was a link between the inter-allied war debts and the reparations payments. On June 20, 1931, President Hoover “proposed a general moratorium both on political payments by Germany and on inter-allied war debts.”<sup>204</sup> This was unpopular in congress and did not receive approval for another five months.<sup>205</sup>

The moratorium linked the Allied war debts with reparations, and Britain, France, and Germany used this linkage to reach agreement at the Lausanne Conference a year later when the moratorium was set to expire.<sup>206</sup> In this conference, Britain and France agreed to forgive German reparations requirements, if the United States agreed to forgive their war debts. However, the United States was not part of the conference. The U.S. House and Senate rejected the idea of forgiving the debt at the expense of the American taxpayer. The nation was suffering from the same economic depression as Europe, and protectionism was still the order of the day. By disapproving the Lausanne agreement, the countries reverted to the last agreed upon and ratified settlement, the Young Plan.<sup>207</sup> All Allied nations, with the exception of Finland defaulted on their loan payments to the

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<sup>204</sup> Tooze, 19.

<sup>205</sup> Paul Scheffer, “The United States and War Debts the Political Aspect,” *Royal Institute of International Affairs* 11, no. 4 (July 1932): 443, accessed May 20, 2015, <http://www.jstor.org/stable/3015763>.

<sup>206</sup> Bernadotte E. Schmitt, “British Foreign Policy, 1931-1932,” *The Journal of Modern History* 23, no. 2 (June 1951): 156, accessed May 31, 2015, <http://www.jstor.org/stable/1872059>.

<sup>207</sup> Leffler, 359.

United States within the next eighteen months.<sup>208</sup> By the end of 1933, “For all practical purposes, American efforts to harmonize domestic and foreign policies and contribute to European stability and French security, without compromising domestic priorities or incurring strategic commitments, ceased.”<sup>209</sup>

The combination of Brüning’s deflationary measures and the global depression resulted in over six million unemployed Germans by 1932.<sup>210</sup> Brüning’s drive for the use of Article 48 weakened the public confidence in the role of the Reichstag and the functionality of the Weimar Constitution. More and more power was assumed by the president. In the chaos ensuing from the economic decline and the constant elections to replace the frequently dissolved Reichstag, the people looked for someone to bring order. “The people allowed themselves to be dazzled by paramilitary force.”<sup>211</sup>

Throughout the development and implementation period of the Young Plan (from 1928 to 1933), Adolf Hitler’s NSDAP gained significant representation.<sup>212</sup> In the Reichstag elections of 1928, the Nazi Party earned only twelve seats.<sup>213</sup> This coincided with some of the lowest number of unemployed that Germany had seen since the end of

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<sup>208</sup> Schmitt, 156.

<sup>209</sup> Leffler, 359.

<sup>210</sup> Arthur van Riel and Arthur Schram, “Weimar Economic Decline, Nazi Economic Recovery, and the Stabilization of Political Dictatorship,” *The Journal of Economic History* 53, no. 1 (March 1993): 79, accessed May 31, 2015, <http://www.jstor.org/stable/2123176>.

<sup>211</sup> Vogt, 97.

<sup>212</sup> Tooze, 17.

<sup>213</sup> Snell, 26.

the war. Unfortunately, as the economy became more and more distressed and the numbers of unemployed increased, NSDAP representation in the Reichstag increased.<sup>214</sup> In the elections of 1930, the NSDAP earned 107 representatives.<sup>215</sup> By the time Hitler became the Chancellor in 1933, NSDAP representation had doubled and the Third Reich replaced the Weimar Republic.

Voters in the United States and Germany both pursued political solutions to the economic collapse that followed the Wall Street crash of 1929. Their solutions manifested themselves in vastly different ways; however, both nations strayed from the important lessons learned in the immediate aftermath of World War I. Most important of those lessons being the inter-relationship of the economies of the world's industrial powers.

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<sup>214</sup> Riel and Schram, 77-79.

<sup>215</sup> Vogt, 94.

## CHAPTER 5

### WHAT DOES IT MEAN?

I do not think that we should endeavor to take such a burden of responsibility. We have quite enough to bear without drawing to ourselves all the ill feeling which would result from disappointed hopes and a settlement which would be viewed as forced upon nations by this country which at the same time is demanding the payment of the debts owing to it.

— Secretary of State Charles E. Hughes, “Address to the American Historical Association.” Quoted in Charles G. Dawes, *Journal of Reparations*

The inextricable economic link between the United States and Europe made it necessary to work together for economic stability. The lessons learned following the disastrous implementation of the Treaty of Versailles made these linkages very apparent. As discussed in chapter 2, Britain and France were desperate to make Germany responsible, as well as economically liable for World War I. France and Belgium linked economic liability with their concern for security, and deployed an occupation force to the Ruhr River valley.<sup>216</sup> The occupation of the Ruhr created as many problems as it solved, and the economic solvency of the young Weimar Republic collapsed with the onset of hyperinflation. The success or failure of the economy of the United States was linked with Europe, and it played a leading role in the two major international actions that addressed German economic stability, the Dawes and Young Plans. The first plan separated the issues of inter-allied war loans and German reparations, and it deeply indebted Germany to the United States. The second plan continued to demonstrate the power and influence of the United States by reinforcing the separation between loans and

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<sup>216</sup> George A. Finch, “The Legality of the Occupation of the Ruhr Valley,” *The American Journal of International Law* 17, no. 4 (October 1923): 724-727, accessed December 4, 2014, <http://www.jstor.org/stable/2188659>.

reparations payments, it ensured that Germany paid loans to the United States first, and that minimum annuity payments were made to the Allied nations in an amount capable of covering what the Allies owed to the United States.<sup>217</sup> Unfortunately, isolationist and protectionist views within the United States led to the Smoot-Hawley Act, which greatly diminished the economic influence that the United States had established in the inter-war period.

Many lessons can be derived from these events; ultimately, however, the most important is the effect that domestic political and economic concerns had on the global economy. The lessons from Versailles, the Dawes and Young Committees, as well as the Smoot-Hawley Act, provide a starting point to determine how those lessons can be applied in the future.

As determined in chapter 2, the Treaty of Versailles had disastrous effects and was doomed from the start. A collection of figureheads with competing political agendas created the controversial treaty. France's desire for military security drove their desire for the political and economic constraint of Germany.<sup>218</sup> Great Britain was primarily concerned with economic recuperation. Woodrow Wilson used the treaty negotiations as the vehicle to fulfill his vision of the League of Nations. These divergent agendas resulted in a treaty that proved to be punitive in nature, and disregarded the international economic impact. The British contingent was the most economically focused element in the treaty negotiations and early on established the need to identify Germany's capacity

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<sup>217</sup> Bergmann.

<sup>218</sup> Keynes, 16-17.

to pay, and linking reparations payments with the inter-allied war debt.<sup>219</sup> John M. Keynes departed the negotiations in protest when he recognized that Wilson was not going to support these sensible positions. Wilson was willing to make concessions on economic issues when it had the potential to provide support for the establishment of the League of Nations; however, he refused to provide any relief for the inter-allied loans.<sup>220</sup> The inter-allied loans were the foundation of American economic influence upon Europe, which gave Wilson the leverage that he needed for acceptance of the League of Nations concept. The result of the Treaty of Versailles was the imposition of unrealistic expectations upon Germany. Germany's failure to meet the requirements of the treaty led to French occupation of the Ruhr.<sup>221</sup> The impact upon Germany's economy is undeniable. The French attempt to enforce German worker productivity, literally, at gunpoint led to passive resistance and further burdened the German government with subsidizing the unemployed. Whether or not the occupation was beneficial for France is arguable since, although German passive resistance slowed things down, French workers were able to assume the role.

The most important lesson learned from the events following the Treaty of Versailles were the impact reparations had on Germany's economy and the cascading effects on Europe and the United States. Reparations payments started the destabilization

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<sup>219</sup> Gregoire Mallard, "The Gift Revisited: Marcel Mauss on War, Debt, and the Politics of Reparations," *Sociological Theory* 29, no. 4 (December 2011): 233-234, accessed May 31, 2015, <http://www.jstor.org/stable/23076392>.

<sup>220</sup> Ibid.

<sup>221</sup> Boyce, "World Depression, World War: Some Economic Origins of the Second World War," 61.

of Germany's currency, which made it more beneficial for goods to be exported from Germany to capitalize on more valuable currency, which flooded those markets with inexpensive goods. The economies of Europe and the United States were connected and severe economic constraints imposed upon one nation had secondary effects on them all.

After the effects of the Treaty of Versailles began to surface, American Secretary of State Charles Evans Hughes recognized that the economic situation in Europe was going to impact the American economy. His initial call for a committee of experts to address the problems created by reparations was eventually accepted by the Reparations Commission. The United States needed the Committee of Experts to find a way to bolster Germany's ability to pay its reparations. The United States recognized that Germany's ability to make those payments was essential to give the Allied countries the ability to make their loan payments to the United States.<sup>222</sup> The United States risked the loss of international influence if one or more of the Allied nations defaulted on their loan.

The experience of the Dawes Plan teaches us that a committee of economic experts was needed to address the issue of German solvency. This was not a problem that could have been addressed through ambassadors or other politically affiliated appointees. Another aspect that can be learned from this experience is that the committee needed to be requested by the Reparations Commission, rather than imposed by the United States. In order for the United States to gain legitimate economic influence, it could not be seen as taking control of the reparations process. Finally, a focus on specific economic goals prevented the interference of political agendas.

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<sup>222</sup> Lutz, 55-56.

The committee did not get everything right. First, the initial loan to Germany was necessary in order to stabilize the currency by the establishment of a gold standard. This loan benefited Germany greatly and accomplished its intended purpose of stabilizing the currency; however, the committee did not see the dangers of the influx of foreign loans that followed. In addition to devising a plan to stabilize German currency, the committee also worked to find a way to balance the German budget, but the committee did not take into account the effect of the constant influx of loans that occurred once the currency was stabilized. The payments toward these new debts were not included in the committee's budget and the Weimar Republic began to pile debt upon debt.<sup>223</sup>

The Dawes Plan also shows that in order to have been successful, the plan needed to make a final determination of what Germany owed, and set the terms and length of time to pay it. The Dawes Plan required that the boards of German banks, infrastructure, and resources had to have foreign members.<sup>224</sup> It also established a reparations agent to protect German economic interests by controlling the flow of payments out of Germany. These actions gave Germany an excuse to demonstrate that the plan had no potential for success. Furthermore, the plan did not address a bottom line amount for Germany to work toward; this indeterminate debt made the reparations issue ever more contentious.

It did not take long for the international community to recognize the shortcomings of the Dawes Plan. Parker Gilbert called for a new plan to settle the amount of reparations that Germany owed, and to remove some of the aspects of the Dawes Plan that protected Germany from being held financially accountable. Unfortunately, the

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<sup>223</sup> McNeil, 161.

<sup>224</sup> Rufus Dawes, 355-357.

Young Committee set the annuity amounts based on the peak economy of 1927. There was no foresight to recognize that the economy was going to decline and Germany might not have the means to pay the rates elevated by the circumstances of 1927.<sup>225</sup> The Young Committee based their plan on an optimistic outlook of the economic future in Europe, and did not plan for changes to the economic situation.<sup>226</sup>

The United States used the Young Plan to further its economic influence by maintaining the separation of inter-allied war debts and German annuities, and even separating German remittance of the Dawes loans from the annuities. However, the United States failed to see the correlation between its domestic policies that increased tariffs and its international efforts to gain and maintain economic influence through the Dawes and Young Plans.

Another very important lesson to be learned from the Young Plan is that the United States failed to recognize the fragile political situation that occurred in Germany. The plan was strongly opposed because it lacked substantial reduction in annuities, and required payments for what amounted to two generations. The ratification of the Young Plan provided the rallying cry of opposition for the NSDAP.

The Young Plan did not have a chance to become successful.<sup>227</sup> The United States, blinded by the domestic demands for economic protection lost sight of the lesson

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<sup>225</sup> Angell, 85-87.

<sup>226</sup> Williams, 193.

<sup>227</sup> HistoryLearning Site, "The Young Plan of 1929," February 2012, accessed May 31, 2015, [http://www.historylearningsite.co.uk/young\\_plan\\_1929.htm](http://www.historylearningsite.co.uk/young_plan_1929.htm).

learned following World War I, that economies are connected and burdens on the market in Europe will eventually be felt in the United States.

Whether or not the United States had a deliberate strategy to put the nations of Europe in a position of indebtedness to the United States is unclear. However, the facts demonstrate that their actions, to a point, supported this effort. Unfortunately, by 1928, the immediate concern to procure votes by addressing domestic issues caused a loss of participation in international economic issues.<sup>228</sup> The stock market crash, and the subsequent global depression, resulted in a divergence from the previously successful strategy of separating debt and reparations. The nations of Europe used this opportunity to collaborate (Lausanne Conference) and collectively defaulted on their payments to the United States.

Aspects of the inter-war period have the potential to influence how national strategy is formulated. First, it is often politically expedient at local, state, and national levels to make economic decisions that are popular with supporting constituencies. However, when addressing an international economic stabilization effort, one must keep in mind that economics are global in nature. Actions taken domestically will have global implications, and actions taken to support a recovering nation abroad will have implications upon that country's trading competitors and partners.

A second important lesson from the inter-war period is to establish controls to prevent the influence of the strong emotions of all concerned. A victorious nation should not take from the defeated nation; therefore, a third party should be used to oversee negotiations. The days of exacting tribute from the defeated are over, and considering the

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<sup>228</sup> HistoryLearning Site, "The Young Plan of 1929."

role that currencies support economies, this no longer works, and in fact, it contributes to further destabilization of economies.<sup>229</sup>

Third, monetary issues have an effect on the application of military force. The French occupation of the Rhineland and Ruhr were both affected by economic policy. Occupation of the Ruhr came from the failure of Germany to pay reparations in accordance with the Treaty of Versailles. Then, during the development of the Dawes Plan, the evacuation of the Ruhr was critical to the plan's success.<sup>230</sup> Later, the evacuation of the Rhineland was a selling point required for the ratification of the Young Plan. Additionally, for better or worse, the economic stabilization of Germany also facilitated German military rearmament and allowed for the infrastructural development that became necessary to support the nation's ability to wage war.

Next, it is necessary to separate the development of economic solutions from the influence of external political influence. Overall strategy is political in nature, however, the development of plans to implement economic policy are a separate matter. There are tenets for economic policy that must be followed in order to achieve economic stability, regardless of political goals. It is therefore important to address the issues exclusively when possible, as Charles Dawes said,

In negotiating settlements of such a nature, men of official position, in endeavoring to avoid offense to public opinion, tend to advocate proposals sacrificing economic principles for temporary political objectives, while economists, on the other hand, in applying economic principles, tend to disregard

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<sup>229</sup> Angell, 82-83.

<sup>230</sup> Dawes, *Journal of Reparations*, xxix.

existing public sentiment which, however prejudiced, ignorant or temporary at first, must finally determine the fate of the settlement.<sup>231</sup>

However, economic stability sets the conditions for political stability to follow. The two issues are not independent however, and must both be addressed. Ultimately, their success will be inter-dependent. Independent committees of experts were used in the development of the Dawes and Young Plans, with varying levels of success. Committees of experts are only effective when they can make decisions separate from external political influence. The political agendas of diplomats affected the economic decisions of the Treaty of Versailles.<sup>232</sup> Charles Dawes deliberately divorced the committee members from political decisions and influence.<sup>233</sup> Finally, political leaders influenced the development of the Young Plan, and the results were divisive in Germany.<sup>234</sup>

American involvement in the recovery from World War I was essential to provide the much-needed capital for currency stabilization and market investment. It was also critical for the United States to take part in order to provide a less-biased leadership function. The United States did not have an emotional or historical position that needed to be supported in negotiations, unlike Britain, France, and Germany. However, the United States did have something to gain. The control of European debt, gave rise to American political influence, and the tenacity with which successive presidential

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<sup>231</sup> Dawes, *A Journal of Reparations*, vii - viii.

<sup>232</sup> Keynes, 1-17.

<sup>233</sup> Rufus Dawes, 48-49.

<sup>234</sup> Bergmann.

administrations protected the control of that debt suggests that it was part of a consistent strategy.<sup>235</sup>

The United States seems to have had a consistent strategy that was supported by the actions of several administrations, from President Calvin Coolidge to President Herbert Hoover.<sup>236</sup> This allowed the United States to establish and maintain a dominant influence upon global economics and specifically European nations. This dominance emanated from financial capital that allowed for the ownership of European debt. The combined use of diplomacy and economics were the keys to the rise of national power for the United States.

Unfortunately, American protectionism distracted from European recovery from the ravages of World War I. Germany's recovery was on track until the United States began to focus on domestic economic concerns, without linking them to the international economic situation. The imposition of the Young Plan, and specifically the heavy handedness of Heinrich Brüning in imposing its mandates, contributed to the collapse of the Weimar Republic and set the conditions for the rise of Hitler and the NSDAP.<sup>237</sup>

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<sup>235</sup> Lutz, 59-61.

<sup>236</sup> Ibid.

<sup>237</sup> Vogt, 97.

## CHAPTER 6

### CONCLUSION

The nature of American policymaking also made a major contribution to reducing American ability to use its power to gain its ends. The Republican administration was reluctant to use government to make decisions that could be made by the free market.

— William C. McNeil, *American Money and the Weimar Republic; Economics and Politics on the Eve of the Great Depression*

The intent of this thesis was to determine the effect that American involvement had upon the Weimar Republic's recovery from World War I. In order to do that, the context of the recovery had to be established. This was accomplished first, through an analysis of the implications of the Treaty of Versailles, as well as the economic effects that the Treaty had on the Weimar Republic. Upon understanding the situation that the Treaty of Versailles created, the requirement for international intervention becomes obvious. It was then necessary to understand why the U.S. role in the development of the Dawes Plan was essential, and what the outcomes of that plan were. The Dawes Plan was however, incomplete and more international intervention was essential.<sup>238</sup> This led to the Young Plan, which was once again an American led plan. It was necessary to examine the Young Plan's attempt to complete the Dawes Plan and how it affected Germany. Finally, American legislation to reform tariffs, that coincided with the Young Plan, did not take into account its effects upon the international economy.<sup>239</sup>

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<sup>238</sup> Schacht, 40-41.

<sup>239</sup> Charles P. Howland, "Foreign Policy," *American Journal of Sociology* 36, no. 6 (May 1931): 904, accessed November 14, 2014, <http://www.jstor.org/stable/2767452>.

From this perspective, many lessons can be learned. First, economic recovery was not possible without the influx of American capital and leadership.<sup>240</sup> Both of these were essential for the initial stabilization of the reichsmark and the balancing of the Weimar Republic's budget.

Next, the United States turned to more protectionist economic practices, which had a negative impact on the global economy. The United States Congress developed tariff reform that supported the economic desires of their individual constituencies.<sup>241</sup> President Hoover saw the necessity of tariff reform as supporting the national economic interest. The U.S. legislature and President Hoover placed the United States at the center of their policy decisions without understanding the impact of their actions on the global economy. This turn inward was much worse in Germany, where support for nationalism grew as the economy fell into depression. The global depression was influenced by tariffs and retaliatory tariffs, and the imposition of international trade barriers.

The U.S. economic effects on the Weimar Republic must be separated into two phases. The first is the period following the Dawes Plan, from 1924-1927, and the second began with the call for what became the Young Plan, in 1927, and ends with the NSDAP's triumph in 1933. In the first phase, the United States was instrumental in providing the capital necessary to stabilize the currency and establish a strong central bank in Germany.<sup>242</sup> As mentioned before, during this period the Weimar Republic was

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<sup>240</sup> Dawes, *A Journal of Reparations*, xiii-xiv.

<sup>241</sup> Irwin, 61-62.

<sup>242</sup> Michael J. Hogan, *The Marshall Plan: America, Britain, and the Reconstruction of Western Europe, 1947-1952* (Cambridge, UK: Cambridge University Press, 1987), 8-9.

given the necessary means to balance their budget. Unfortunately, they did not choose to do so, and the influx of capital from foreign loans made possible by the Dawes Plan allowed the Weimar Republic to avoid responsibility for deficit spending, and continue to provide for social programs that they could not afford. These actions led directly to the second phase of U.S. involvement. The heavy-handed actions taken by Parker Gilbert led to the development of the Young Plan. Imposing the necessary measures to ratify the Young Plan required Heinrich Brüning to convince the German president to impose Article 48 of the Weimar Constitution which caused rapid government turnover and a lack of confidence in the Weimar Republic. This coincided with the growing global depression and German voters looked for strong political figures to bring stability and strength to the government.

Additionally, there are strategic lessons learned from America's involvement. The Treaty of Versailles showed that it is a mistake to allow purely diplomatic representatives to make decisions on economic policy. Rather, an economic strategy should be established by the president, and should incorporate the use of experts from private enterprise to develop the details of that strategy. A national economic strategy, unfortunately, does not have a specific representative within the executive branch who is purely focused on economic strategy. An economic strategy requires the use of numerous private and federal entities. Considering the effect that U.S. economic influence has had on its rise to power in the international community, the national strategy should rely heavily on a concerted effort to apply the economic instrument of power.

In post-conflict situations, economic recovery cannot be limited to the immediate areas affected by the conflict. Diplomatic economic efforts should start from an

understanding that all economies are inextricably linked.<sup>243</sup> Secondly, when possible, efforts should be made to increase the economic influence of the United States. The economic instrument of power has to be developed and resourced to be a viable tool for the nation in the same manner that diplomacy and the military are developed and resourced. This thesis supported this by showing the failures of the Treaty of Versailles, some of the successes of the Dawes Plan, and through the disjointed efforts associated with the development of the Young Plan. American economic influence grew from 1919 through 1929 due to a consistent strategy of investing in Germany and securing that investment through diplomacy, however, the lack of a broad economic strategy based on the interconnectedness of the global economy and shortsighted economic policies associated with the Smoot-Hawley Act threatened that hard-earned global influence.

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<sup>243</sup> Keynes, 128-129.

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