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THE STRUGGLE FOR STABILITY:
AMERICAN POLICY TOWARD FRANCE, 1921-1933

DISSERTATION

Presented in Partial Fulfillment of the Requirements for
the Degree Doctor of Philosophy in the Graduate
School of The Ohio State University

By

Melvyn Paul Leffler, B.S.

* * * * *

The Ohio State University
1972

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I am especially grateful to Dr. Marvin R. Zahniser for suggesting this topic to me and for guiding me through every stage of the dissertation. Throughout my graduate career, his objectivity, integrity, and sincerity have been a real inspiration to me. I am also indebted to Professors John C. Burnham, Andreas Dorpalen, Al Eckes, Mary Young, and Hans Trefousse. Each of them has read the dissertation with care and has offered thoughtful advice. During the course of my work, I have benefited also from many long conversations with Robert Van Meter, jr., Denise Artaud, and Charles Robinson. Their insight and knowledge of the interwar era has contributed to my own understanding of this period. Naturally, however, I alone am responsible for the interpretations and conclusions herein presented.
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CHAPTER I

INTRODUCTION

After the turmoil, devastation, and dislocation of World War I, American foreign policy makers wanted to help construct an economically stable and politically tranquil Western Europe. Neither naive nor idealistic, these officials identified American self-interest with the economic rehabilitation and political pacification of a strife-torn Europe. They believed that peace, prosperity, and stability in the Old World would enable the United States to expand economically while remaining politically unentangled.

Throughout the 1920's and early 1930's, many leading Americans considered American economic expansion to be closely tied to the commensurate expansion of Western European economies. The Old World was not only the best market for American exports (especially for American raw materials), but was also the principal consumer of the goods of this nation's best customers in other parts of the world. In addition, Western European know-how, capital, and technology were considered indispensable for world-wide economic progress. This is to say that many far-sighted and perspicacious Americans perceived the world economy as an economic unit that under proper management would be constantly expanding.
If this were the case, the United States need not struggle to secure larger parts of a stable pie, but had only to cooperate constructively to enlarge the entire pie in which it had a substantial interest.

The economic prosperity and political stability of Western Europe also were desired because of their relationship to another cardinal aspiration of Americans: the desire to maintain America's political aloofness from European affairs. Influential Americans in government, in politics, in business, and in academia, throughout the 1920's and early 1930's, tended to observe the world from an economic perspective. They believed that political stability and international tranquility depended upon viable economic foundations. Wars were caused by economic hardship, economic suffering, and economic competition. If nation-states cooperated in an economically constructive way, and if prosperity resulted therefrom, political rivalries could be alleviated and political tensions could be resolved. This economic viewpoint impelled many American economic and political leaders to minimize the importance of political commitments and collective security arrangements. Political aloofness, however, was not considered inimical to a stable world, since it was believed that stability depended upon economic prosperity and prosperity depended upon establishing a community of common economic interests among the developed and industrialized powers.
Throughout the years of the Republican ascendancy, American officials articulated a lively interest in European stability. President Warren G. Harding, in several messages to Congress in 1921 and 1922, discussed the importance of restoring the world to the stable ways of peace. His Secretary of State, Charles Evans Hughes, repeatedly stressed this nation's concern with European stability and asserted this nation's desire to help facilitate European recuperation. Secretary of Commerce Herbert Hoover maintained that the paramount task of American officials next to the solution of domestic economic problems, "was the advance of Europe toward the degree of stability which we ourselves enjoy."

In the mid-1920's, Harding's successor, Calvin Coolidge, often noted the salutary impact that European stabilization was having upon American business conditions. Ogden Mills, Under Secretary and later Secretary of the Treasury, summarized eight years of Republican foreign policy in 1928 by detailing Republican efforts to bring about peace and stability. And after the bubble of prosperity burst and the Great Depression worsened, President Hoover and Secretary of State Henry Stimson often referred to the ominous impact of European instability on the American economy.¹

¹For Harding's speeches, December 6, 1921, and December 8, 1922, see Department of State, Papers Relating to the Foreign Relations of the United States, 1921, I (2 vols.; Washington, 1936), xx-xxv; ibid., 1922, I (2 vols.; Washington, 1938), vii, xiv-xv. (Hereinafter, this source
Prominent government officials were not alone in recognizing the overriding importance of European stability. Business organizations, including the National Association of Manufacturers (N.A.M.), the National Foreign Trade Council (N.F.T.C.), and the Chamber of Commerce of the United States (C.C.U.S.) understood that the political rehabilitation and material restoration of Europe would contribute to the orderly and predictable environment that was so necessary for commercial prosperity. They persistently called upon the American government to initiate policies aimed at restoring stability. General business

shall be cited as F.R., year, volume, page.) For Hughes' expressions, Charles Evans Hughes, "Deal Only With Upright States," Nation's Business, 10 (June 5, 1922), 12; Hughes to A. Lawrence Lowell, July 20, 1922, Box 31, Charles Evans Hughes Papers (Manuscript Division, Library of Congress); Secretary of State to the British Chargé, October 15, 1923, F.R., 1923, II, 70. For quote by Hoover, see Herbert Hoover, "A Year of Cooperation," Nation's Business, 10 (June 5, 1922), 12. For Coolidge's statements, see Howard H. Quint and Robert Ferrell, The Talkative President (Amherst, Mass.; 1964), pp. 142, 186, 188. For Mills' summary, see Ogden Mills; "Our Foreign Policy," Foreign Affairs, 6 (July, 1928), 559, 563, 566, 572. For typical statements of Hoover and Stimson, see William Starr Myers and Walter Newton, The Hoover Administration (New York, 1936), pp. 93-94; House, Committee on Foreign Affairs, General Disarmament Conference (Washington, 1932), pp. 24-25, 32-33.

While talking continually of stability, American officials and businessmen tended not to offer a precise definition of what they meant by this term. Sometimes they were thinking of the more limited task of stabilizing European currencies. But usually they were thinking in larger terms and were referring to the desirability of normalizing European political relations and of restoring the European economy to a healthy and viable state.
sentiment was well expressed in the "Final Declaration" of the N.F.T.C. in 1928:

We who are the producers and traders in the United States have very much in common with the other peoples of the world. We wish them all peace, stability, and prosperity. So will their trade grow and thrive. So will ours advance.  

Similar assertions of America's stake in world peace and progress found their way into congressional hearings and Senate debates. Democrats as well as progressive Republicans could all theoretically agree with Administration spokesmen that a stable Europe and a stable world were desirable objectives. It was widely acknowledged "that peace and the liberty of action it insures are the things [America] most needs to work out her destiny." 

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³Even the isolationist Senator William E. Borah declared that "there is no Senator here but would be very glad to contribute to the restoration of Europe, not only as a matter of humanity but as a matter of enlightened selfishness." See Congressional Record, 67 Congress, 2 Session, January 25, 1922, p. 1684. A good illustration of congressional interest in European stability was reflected in the investigation of the impact of European exchange fluctuations on the international economy. See Senate, Committee of Gold
A major element of America's destiny was boundless economic expansion. There can be little doubt that America's interest in European stability stemmed from the premise that American prosperity was interwoven with the economic reconstruction of Europe. From the very onset of his Administration, Harding recognized the critical importance of expanding American trade in order to market the nation's surpluses. In December of 1921, he bluntly told the Senate, "We do not seek a selfish aloofness, and we could not profit by it, were it possible." Profits, the President recognized, lay in commercial intercourse with the rest of the world, both in selling and buying.\textsuperscript{4} Harding's sentiments were by no means formed in a vacuum. All the leading members of his cabinet were aware of the impact of Europe's unstable financial and economic environment on American commerce and on the American economy.\textsuperscript{5}

\textsuperscript{4}See Message of Harding to Congress, December 6, 1921, F.R., 1921, I, xxiv-xxv; Harding to Hoover, May 17, 1921, Box 5, File 3, Folder 1, Presidential Case File (PCF), Warren Harding Papers (The Ohio Historical Society, Columbus, Ohio).

\textsuperscript{5}Hoover to Harding, Box 5, File 3, Folder 2, ibid.; Memo of Conversation between Hughes and the British and French Ambassadors, April 25, 1921, F.R., 1921, II, 49; for Mellon's opinion, see Senate, Committee on Finance, Refunding of Obligations of Foreign Governments (Washington, 1921), pp. 3-5, 57-58.
The realization of the interdependence between European and American prosperity became especially pronounced during the severe economic downturn of 1920-1921 and during the European reparations crisis of 1922-1923. Many businessmen and politicians came to acknowledge that the interests of America and Europe were "indissolubly united" and that the return of normal, healthy times in the United States would be hastened by the resuscitation of European purchasing power. The European market assumed special importance because it was believed widely that the general deterioration in business conditions stemmed from the plight of American agriculture. Since very substantial percentages of American cotton, wheat, and tobacco production were marketed in Europe, the revitalization of European economies became more and more urgent. By the spring of 1922, major economic interest groups were focusing attention on the deleterious effects of European conditions on American business and were calling for appropriate action. Several

months later the situation had become so foreboding that Senator William E. Borah proposed an amendment to the naval appropriations bill calling for an international economic conference. Much sympathy existed for this proposal, especially within the farm bloc. Senator Charles McNary of Oregon summed up prevailing sentiment when he said:

"It is clear to me that unless something is done to stabilize economic conditions in Europe this country is going to suffer. The farmers and manufacturers must have markets for their products and unless conditions in the world improve, they are not going to have these markets."

During the early 1920's, Americans generally looked to Europe as a market for surplus American goods. They

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7Commercial and Financial Chronicle, 115 (December 30, 1922), 2847; also see A. William Castle], "Two Years of American Foreign Policy," Foreign Affairs, 1 (March, 1923), 18.
desired European economic reconstruction and political pacification as foundation stones for the rejuvenation of European purchasing power. In these early post-war years, Europe was perceived more as a consumer of American goods than as a possible competitor in the markets of the world. Only when the German mark depreciated precipitously between 1921 and 1923 was there widespread apprehension over the future of American exports. With the return of more stable financial and political conditions in Europe in the mid-1920's, however, more uncertainty developed about the respective roles of the American and European economies. Anxieties over European competition for markets in the underdeveloped areas of the world did emerge.

Nevertheless, what is striking was the degree to which Europe's industrial recovery was welcomed by American economic leaders. Increasingly, it was realized "that the civilized world is an economic unity, a living organism, of which each of the various countries is a vital and indispensable organ and that there can be no general well being

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throughout the whole unless there can be health and vigor in every part."\textsuperscript{10} American exporters came to perceive that the industrial powers which were their toughest competitors were also the largest consumers of American manufactured and agricultural products. Thus, the prime task of businessmen was to contribute to the constant growth of total world demand. Herbert Hoover told the Export Managers Club in 1926 that "our export trade does not grow by supplanting the other fellow but from the increased consuming power of the world." Hoover's successor in the Commerce Department, Robert P. Lamont, shared this perspective. Lamont insisted that "The one thing most essential to the progress of our export trade is an increase in buying power all over the world. We cannot build it up by merely becoming more efficient nor by driving competitors out of foreign markets."\textsuperscript{11}


\textsuperscript{11} For Hoover's view, see Herbert Hoover, \textit{The Future of Our Foreign Trade} (Washington, 1925), pp. 7-8. For Lamont's opinion, see Robert P. Lamont, "Prospects of United States Foreign Trade," in \textit{N.F.T.C., Official Report}, 1929 18. Also see James A. Farrell (President of the N.F.T.C.), "Foreign Trade Progress," \textit{ibid.}, 1928, 208-209. Klaus Schoenthal describes the transformation that occurred in American business perceptions toward Germany in the 1920's. Germany was increasingly viewed as a partner and consumer rather than as a competitor. He writes that "Loans, economic penetration, and mutual trade were of dominant importance for the formation of American attitudes toward Germany in the last half of the decade. The old fears of Germany as a competitor had almost completely vanished by 1929." See Klaus Ferdinand Schoenthal, "American Attitudes Toward Germany, 1918-1932" (unpublished doctoral dissertation, The Ohio State University, 1959), p. 181.
This view became an integral part of the liturgy of the nation's leading foreign trade organization, the N.F.T.C. In fact, the belief that American prosperity was related to a healthy world economy and that the latter was linked inextricably to a vigorous European economy became so deeply rooted that neither stock market crash, nor European financial debacle, nor deepening depression could alter it. From this perspective, Europe held a vital place in the world economy. Not only did Europe directly buy a major share of American exports, but her total purchasing power strongly influenced the demand for American goods in most of the other lesser markets of the world. In addition, many American economic leaders anticipated that European capital would play an increasingly significant role in developing economically backward areas, and by so doing, in stimulating total world demand.\textsuperscript{12}

Economic growth, business cooperation, and material prosperity were perceived as the factors upon which a peaceful world could be constructed. Charles Evans Hughes put the matter bluntly when he asserted that "There will be no permanent peace unless economic satisfactions are enjoyed." International amity, he contended, would result from the improvement in the standard of living of all the peoples of the world. This was not a unique point of view. Cordell Hull, Franklin Roosevelt's Secretary of State, also assumed that political tranquility followed economic harmony. If peace had its roots in prosperity, it was a natural corollary that political problems stemmed from economic disputes. Many Americans shared the view that "political questions

13For Hughes' attitude, see Charles E. Hughes, The Pathway of Peace (New York, 1925), pp. 55-109. For Hull's feelings, see Cordell Hull, Memoirs (2 vols.; New York, 1948), I, 355, 364-365, 125. Charles G. Dawes also referred to economic peace as "the best antidote for war." See Charles G. Dawes, A Journal of Reparations (London, 1939). The belief that economic prosperity would contribute to political tranquility was not a one-way street. A complementary belief was that peace would facilitate economic growth. Secretary of Commerce Lamont stated that "All that is necessary to assure steady and large growth of foreign trade throughout the world, and of our own trade in particular, is peace." See Lamont, "United States Foreign Trade," 17. It is quite possible that Coolidge made "peace" the leading principle of American diplomacy as a result of his conviction that peace and order were the prerequisites for economic well being. For Coolidge's commitment to peace, see for example, F.R., 1924, I, xx. Also see Calvin Coolidge, The Autobiography of Calvin Coolidge (New York, 1929), p. 181. The trend toward looking at international politics from an economic point of view may well have been related to the influence of the revisionist literature on the origins of World War I and its emphasis on the economic sources of that conflict.
would settle themselves when the economic questions had been adjusted." This conviction sometimes caused Americans to be indifferent to the political sources of international conduct as well as distrustful of political guarantees.  

If international problems were essentially economic in nature, the application of "business methods" was seen as the most efficacious means of solving them. It is important to recall that the social sciences first assumed a prominent position in American society in the 1920's. This had an important bearing on American diplomacy as well as on every other phase of American life. There was a

14 See statement by Senator Joseph I. France, Cong. Rec., 67 Cong., 2 Sess., February 22, 1922, p. 2882. In a letter to George Henry Payne (Secretary, Committee of American Businessmen), Otto Kahn, the influential New York financier (Kuhn, Loeb, and Company), cogently expressed the sentiment prevailing among American businessmen. He wrote, "The most pressing problems which the world faces today are, not political, not even primarily social in character, but relate to matters of practical economics, questions of trade, employment, production, consumption, distribution, transportation, finance, etc. . . . ." See Kahn to Payne, November 21, 1921, Box 172, Otto Kahn Papers (The Princeton University Library, Princeton, New Jersey). For other references to the economic motivations of international political behavior, see J. D. Mooney (President, General Motors Export Company), "The Economic Recovery of Europe and Its Relation to this Country," Consensus, 15 (January, 1931), 14; Norman Davis to William Dodd, June 21, 1934, Box 12, Norman Davis Papers (Manuscript Division, Library of Congress); William Borah to Norman Davis, February 7, 1923, Box 227 (Europe), Borah Papers. Owen Young frequently voiced his distrust of political guarantees of any sort and insisted that politics had to follow where business led. See Ida Tarbell, Owen Young (New York, 1932), p. 179; General Electric Company, Addresses of Owen Young and Gerard Swope (New York, 1930), pp. 163, 237-239.
prevailing notion that appropriate solutions to international problems would emerge from the objective and scientific analysis of their economic roots. This is what American leaders meant when they talked of the application of business principles to international relations. In this scheme of things, it became increasingly necessary to isolate what were believed to be the substantive economic issues from their political super-structure. American leaders in public and private life maintained that domestic and international political factors only confused and obscured what were admittedly complex, but nevertheless soluble, international economic questions. Secretary of State Hughes aptly stated that "It is not lack of machinery which stands in our way, but the attitudes and opinions of people." Many of his contemporaries agreed that "Wherever economic, financial, or commercial problems have been handled as matters of national or international politics, the normal recovery in many cases has been seriously impaired."\(^{15}\)

\(^{15}\)For a brief discussion of the role of the social sciences in the 1920's, see Henry F. May, "Shifting Perspectives on the 1920's," *The Mississippi Valley Historical Review*, 43 (December, 1956), 405-427. For Hughes' statement, see Hughes to A. Lawrence Lowell, July 14, 1922, Box 44, File 20, Folder 13, PCF, Harding Papers. Also see, Alan G. Goldsmith (Chief of the Western European Division of the Department of Commerce), *Economic Problems of Western Europe* (n.p., 1923), p. 1; Charles E. Hughes, "Deal Only with Upright States," 11; Myron Herrick to Thomas Lamont, September 13, 1922, Box 12, Myron Herrick Papers (The Western Reserve Historical Society, Cleveland, Ohio); Mortimer L. Schiff to Herrick, May 16, 1922, Box 12, *ibid.*
This viewpoint motivated American officials to try to construct economic criteria and non-political mechanisms for the solution of such key international problems as war debts and reparations. The "capacity to pay" formula and the "expert committees" were products of the American imagination. They were excellent illustrations of the ingenious American efforts to pretend that politics and economics could be divorced. It is safe to say that key American policy makers understood that expert committees and non-partisan commissions could not ignore political influences altogether. Yet, such devices provided excellent and sophisticated means for pushing politically explosive (but economically desirable) debt settlements through Congress and for exerting the power of the United States in world affairs.

American officials considered the expert committees to be especially effective instruments of policy implementation. Since they felt the reparations crisis to be the crux of the international imbroglio but hesitated to intervene directly in it because of possible domestic political repercussions, they were more than happy to use American businessmen as their proxies at international conferences. In reality, the so-called business approach to the reparations enigma was an effort not only to remove reparations from European politics, but also from American politics. As we shall see, the reluctance of Republicans to become involved
officially in the reparations dilemma was a matter of expediency rather than principle. President Coolidge himself wrote to Charles G. Dawes, the American Chairman of the first Experts Committee that, "Had you been representing the Government you would have been hampered, and no doubt your proposed action would have become the object of political controversy here." In other words, so long as the demands of the American business community coincided with those of the American government, there was little incentive for the latter to involve itself officially and thereby risk domestic criticism.\(^{16}\)

The predisposition of successive Republican administrations to perceive international problems from an economic perspective and to advocate "business" solutions meant that American involvement in world affairs was primarily of an economic character. This, however, did not mean that the United States remained aloof from European

\(^{16}\) For Coolidge's statement, see Dawes, *Journal of Reparations*, 247; also see Hughes, *Pathway to Peace*, 108. For Harding's belief in the possibility of a wholly unbiased economic solution to the reparations problem through the use of experts, see Harding to Harold DeWolfe Fuller, February 2, 1923, Box 271, Folder 1, PCF, Harding Papers. For Coolidge's belief in the efficacy of finding a business rather than a political solution to the reparations dilemma, see Message to Congress, December 3, 1924, *F.R.*, 1924, I, xix-xx. American bankers and businessmen persistently tried to secure the cooperation of their foreign business associates in pressuring European governments to agree to the application of business principles to international problems. See American Bankers Association, *The Problems of Economic Restoration* (n.p., 1925), especially pp. 31-32.
political affairs. In fact, the latent and actual financial power of the United States significantly influenced not only European economic settlements but also European political settlements. This was because any plan for European political and economic restoration depended upon credit, and during the 1920's the ability of the American people to furnish the necessary capital was unlimited. Adequate credit was needed not only for the reconstruction of devastated areas and for the stabilization of currencies, but also for the commercialization of German reparation obligations. Since the latter was linked to French occupation policy in the Rhineland, the availability of American capital indirectly affected the entire climate of European politics.\(^\text{17}\)

Both Europeans and Americans frequently commented upon the ubiquitous power of the United States. Viscount D'Abernon, the British ambassador to Germany from 1920-1926, stated that

> In all the more important developments in Germany during the post-war years, American influence has been decisive. Eliminate action taken on American advice or in assumed agreement with American opinion, or in anticipation of American approval, and the whole course of policy would be altered.

Gustav Stresemann, German Foreign Minister from 1923 to 1929,

\(^{17}\)These statements will be elaborated upon subsequently. But for references to the importance of American capital, see, for example, Herrick to Hughes, July 9, 1923, Box 14, Herrick Papers; Jacques Seydoux, _De Versailles au Plan Young_ (Paris, 1932), pp. 212-215; André Tardieu, _France in Danger_ (London, 1935), pp. 28-29.
cogently noted that "the whole question of the reconstruction of Europe cannot be solved without America . . . ."

Louis Dubois, French chairman of the Reparations Commission in the early 1920's, likewise asserted that "No decision was ever taken, not only without his [the unofficial American delegate's] advice but even without his consent."\(^{18}\)

It should not be surprising, then, to find that American representatives in European capitals and at international conferences were constantly impressed with the extent of American influence. American ambassador to France, Myron Herrick, correctly noted that the war had "brought an economic power and a moral authority to America that it never [had] enjoyed before." As a result of this moral force and financial power, the desires of the United States government and of American financiers were always considered

\(^{18}\) For D'Abernon's statement, see Lord D'Abernon, An Ambassador of Peace (3 vols.; London, 1929), I, 18. D'Abernon's opinion can be taken seriously. He closely collaborated with German Foreign Minister, Gustav Stresemann, and was on very close terms with him. For Stresemann's statement, see Eric Sutton (ed.), Gustav Stresemann: His Diaries, Letters, and Papers (3 vols.; London, 1937), II, 263; for Dubois' statement, see Sheldon Whitehouse to Secretary, January 31, 1928, General Records of the Department of State, File No. 851.51/1307, RG 59 (National Archives). (Hereinafter a decimal number standing alone will indicate RG 59 in State Department Files, National Archives.) The English, too, were very intent on reconciling their foreign policy with American diplomatic goals. See, for example, W. N. Medlicott, Douglas Dakin, and M. E. Lambert (eds.), Documents on British Foreign Policy, Series 1A, Volume I (London, 1966), 877. (Hereinafter, this shall be cited as D.B.F.P., series, volume, page.)
by European decision-makers.¹⁹

Naturally, if American policy makers were to contribute constructively to the maturation of a stable Europe, they had to use their economic and financial prowess in a wise and enlightened fashion. An astute understanding of the functioning of the international economy and a keen insight into the role of the United States in the international economic arena were required. Furthermore, a clear vision of the intimate relationship between economic stability and international security was necessary. To a larger degree than heretofore has been recognized by American historians,²⁰ influential Americans did understand the

¹⁹Herrick to Hoover, January 22, 1929, Box 25, Herrick Papers; Charles G. Dawes, Journal as Ambassador to Great Britain (New York, 1939), p. 272; "List of Memoranda for Norman Davis," No. 2, March, 1932, Box 20, Davis Papers. This memorandum was unsigned, but was probably written by Hugh Gibson, Ambassador to Belgium and Acting Chairman of the American Delegation to the Geneva Disarmament Conference in 1932. Also see Alanson Houghton (Ambassador to Germany) to Hughes, March 6, 1923, Box 4B, Hughes Papers; Herrick to Coolidge, April 3, 1924, Box 16, Herrick Papers. From the onset of the post-war period, American businessmen were aware that Europeans regarded the United States "as the most powerful country in the world, commercially and financially." See, for example, Special Committee (of the C.C.U.S.), "European Problems Affecting American Business," Nation's Business, 9 (October 5, 1921), 7. Also see, Henry T. Allen, My Rhineland Journal (Boston, 1923), pp. 364-365.

²⁰For the most part, American historians have been severely critical of the foreign economic policies of the United States in the inter-war period. They have especially denounced American debt, tariff, and loan policies and have elaborated upon the incongruities of the United States collecting debts while maintaining insurmountable tariff barriers. In a cogently written footnote, Benjamin Rhodes
workings of the international economy. Many of them also were aware of the important relationship between international security and economic progress.

There was a prevailing belief in the 1920's and 1930's that the reintegration of Germany into the international economy was the fundamental prerequisite for the creation of an economically healthy and stable Europe. Democrats and Republicans, bankers and farmers, internationalists and isolationists all agreed that the

has summarized these criticisms. See Benjamin D. Rhodes, "Reassessing 'Uncle Shylock': The United States and the French War Debt, 1917-1929," The Journal of American History, 55 (March, 1969), 787-788, footnote 1. It has been a commonly accepted assumption that few Americans understood the significance of the transition from debtor to creditor status. See, for example, L. Ethan Ellis, Republican Foreign Policy, 1921-1933 (New Brunswick, New Jersey, 1968), p. 36. As a consequence of this ignorance, historians have claimed, American policy makers simply responded to the provincial demands of the American people. See, for example, Dexter Perkins, "The State Department and Public Opinion," in Gordon Craig and Felix Gilbert (eds.), The Diplomats, 1919-1939 (Princeton, 1953), pp. 282-308. Thus, America's "foreign economic relations proved to be the most perilous aspect of neo-isolationism." See Selig Adler, The Uncertain Giant (New York, 1966), p. 70.

Several authors, however, have recently contested the traditional conception of American naivete, inflexibility, and insensitivity on such issues as debts, loans, and trade. See Carl Parrini, Heir to Empire (Pittsburgh, 1969), pp. 249-259; Rhodes, "Reassessing 'Uncle Shylock,'" 787-803; Robert K. Murray, The Harding Era (Minneapolis, 1969), pp. 360-365. Even Joseph Brandes, who is generally critical of Hoover's economic nationalism (as reflected in American trade policy), acknowledges the latter's efforts to develop a coherent loan policy. See Joseph Brandes, Herbert Hoover and Economic Diplomacy (Pittsburgh, 1962), p. 151 ff. For a good description of the diverse strands of thinking that permeated the American business community, see Joan Hoff Wilson, "The Role of the Business Community in American Relations with Russia and Europe" (unpublished doctoral dissertation, Berkeley, 1966).
re-establishment of German productivity was the first step toward European prosperity. They believed that the entire economic fabric of Europe was interwoven with German industrial development. Therefore, the bankruptcy of Germany, the total collapse of the elaborate framework of her financial and economic life, would have had a devastating impact on the rest of Europe. In a long and carefully written letter, Norman Davis, former Assistant Secretary of the Treasury and Under Secretary of State in the Wilson administration, explained to Secretary of State Hughes that

Through the highly industrial developments of Europe prior to the war, Germany had become the axis, and the rehabilitation of Europe and its continued prosperity is most dependent upon that of Germany. Unless Germany is at work and prosperous, France can not be so, and the prosperity of the entire world depends upon the capacity of industrial Europe to produce and purchase.

Hughes, himself, came to believe that "There [could] be no economic recuperation in Europe unless Germany recuperates." Even "irreconcilables" such as Senators William Borah and Joseph France supported this viewpoint and urged appropriate American action.21 We shall see that this perspective

21 Davis to Hughes, March 12, 1921, Box 27, Davis Papers; Hughes, Pathway to Peace, 55; Statement by France in "World Prosperity," Consensus, 7 (April, 1922), 11; Statement by Borah, in Cong. Rec., 67 Cong., 2 Sess., January 25, 1922, p. 1684; Robert James Maddox, William E. Borah and American Foreign Policy (Baton Rouge, 1969), pp. 123-125; Dawes, Journal of Reparations, 30; Frank Vanderlip, What Next in Europe (New York, 1922), p. 87; Herrick to Hughes, October 13, 1921, Box 10, Herrick Papers; J. E. Dunning to Otto Kahn, October 2 and October 9, 1919, Kahn
significantly influenced official and unofficial American action toward Western Europe, and especially toward France, throughout the 1920's and early 1930's.\textsuperscript{22}

To facilitate the reintegration of Germany into the world economy, it was imperative that her reparations burden be modified, that her currency be stabilized, and that her economy be lubricated with American loans and credits. Many American business leaders and politicians realized these facts. During the early years of the 1920's, reparations were identified as the major source of the European economic crisis. All the evils of the European financial environment--inflation, unbalanced budgets, and fluctuating exchanges--were traced to the unreasonable reparations burden imposed upon Germany. Businessmen and bankers came to believe that the reparations enigma had to be settled along economic lines before they could undertake

\textsuperscript{22}The belief in the importance of the German role in the international economy did not first emerge in the 1920's. It had influenced American representatives at the Paris Peace Conference in 1919. See, for example, N. Gordon Levin, \textit{Woodrow Wilson and World Politics} (London, 1968), pp. 123-154. Yet, as the German financial situation deteriorated from 1921-1923 and as Europe appeared on the threshold of economic disaster, Americans became more firmly convinced of the crucial economic role of Germany. This conviction intensified as American investments in and trade with Germany multiplied throughout the mid- and late 1920's. See Schoenthal, "American Attitudes Toward Germany," 173-181.
further constructive action on such issues as inter-governmental debts, trade, currency stabilization, and loans. Not only would a reasonable reparations accord contribute to the recovery of Europe, but it would also moderate German commercial competition which had intensified as a result of the inflation of the mark.  

Many American business leaders and economic interest groups understood that a reparations settlement constituted only one element in the program of European recovery, even though this was a vital component as far as Germany was concerned. As a youthful creditor nation, the United States also had a responsibility (and an opportunity) to help stabilize European currencies, to mobilize capital for

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23 For references to the key importance of the reparations issue, see Special Committee (of the N.F.T.C.), "Report on European Conditions," 8-25; Fred I. Kent, "Factors that will Help the Exchange Situation," N.F.T.C., Official Report, 1922, 403-409; address by Charles E. Mitchell (President of National City Bank) to the Bond Club of New York in Commercial and Financial Chronicle, 115 (November 25, 1922), 2320; Kahn to James Loeb, July 27, 1922, Box 179, Kahn Papers; statement by John H. Fahey (former President of the C.C.U.S.) in "The Balance Sheet of Europe," 17-23; Goldsmith, Economic Problems, 1, 22; statements by Oswald Garrison Villard and W. Irving Bullard in "World Prosperity," 19-31; Borah to F. G. Hagenbarth, September 22, 1922, Box 215 (Foreign Debt), Borah Papers; Mills, "Our Foreign Policy," 563. For references to the possible indirect impact of German reparations on American trade, see Kahn to Harding, August 31, 1921, Box 170, File 172, Folder 2, PCF, Harding Papers; Hoover to Harding, January 4, 1922, Box 5, File 3, Folder 2, ibid.; Vanderlip, What Next in Europe, 105-107.

24 For American interest in European stabilization, see, for example, Special Committee (of the C.C.U.S.), "European Problems," 3; "Final Declaration," N.F.T.C.,


inter-governmental debts. Many prominent spokesmen for the American business community realized that these goals could be achieved if the American government and if American financiers and businessmen pursued far-sighted and enlightened policies on the crucial issues of loans, debts, and trade. They understood that both as creditor and as exporter, the American nation would profit from the stabilization of European currencies. They often realized that


the transition to a creditor nation meant that the United States had to increase imports substantially (if not to become a net importer of goods). Many of them recognized that war debt payments would only complicate the problems of being both a creditor and an exporter at the same time. As a result of these observations, many business leaders not only called for lenient debt settlements, but also urged that larger amounts of foreign loans be extended in order to maintain American exports at a high level without disrupting the necessary equilibrium in the balance of payments. Such policies, if effectively implemented, would have helped to create the prosperous and stable Europe that was understood to be in the self-interest of the United States.

In addition to their insight into the workings of the international economy, many American businessmen and bankers also perceived a close relationship between international security and economic progress. Both the N.F.T.C. and the C.C.U.S., in their respective examinations of

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28 These statements synthesize much of the material referred to in footnotes 23 to 26.

29 Clear distinctions must be made between knowledge and action. If accurate perceptions do not exist, then intelligent action is not likely to follow. However, if cognitions are astute, then constructive action will or will not follow depending upon the significance accorded to the actor's perceptions. At this juncture I am simply trying to demonstrate the existence of certain perceptions and am not trying to explain reasons for action or inaction.
European economic conditions in the early 1920's, emphasized the connection between the security and reparations issues and stressed the importance of solving both questions simultaneously. It was recognized that "In Western Europe, the French fear of future military aggression by a rehabilitated and revived Germany influences the whole problem." Consequently, the Special Committee of the C.C.U.S. concluded that "there is no escape from the fact that the relation of the restoration of Germany to peace in Europe and security for France, and Germany's neighbors, is the question which must be met first." In general, then, the crucial significance of a German-French rapprochement was widely recognized and the really critical questions were how to bring it about and to what extent should the United States actively involve itself.30

Since public sentiment and congressional opposition forbade any substantive political commitments to guarantee

30 Special Committee (of the C.C.U.S.), "European Problems," 4-6; Special Committee (of the N.F.T.C.), "Report on European Conditions," 9, 23-25. For other references to the importance of stabilizing Europe through a Franco-German rapprochement that would satisfy Germany economically and France strategically and politically, see Leffingwell, "War Debts," 30-31; statement by Edward A. Filene in "The Balance Sheet of Europe: Reparations and International Debts," Consensus, 8 (March, 1923), 43-44; statement by Hans Morgenthau in "The Balance Sheet of Europe," ibid., 8 (January, 1923), 26; Otto Kahn, Reflections of a Financier (New York, 1921), 16-17; Hoover to Harding, January 4, 1922, Box 5, File 3, Folder 2, PCF, Harding Papers; Colonel D. L. Stone to Joseph H. Defrees, October 14, 1921, Box 10, Herrick Papers; Hughes to Poincaré, August 23, 1922, 851.51/332.
European security. Americans tried to make their contribution to European stability through the provision of loans, the stabilization of currencies, the readjustment of debts, and the advocacy of disarmament. By no means, however, was this economic approach to international relations simply a matter of political expediency. American policy makers preferred this economic approach to the alternative course of political involvements and strategic commitments because they believed it minimized the chances of the United States becoming embroiled in wars that might be unrelated to American national security. Moreover, the events which led up to World War I—the growth of alliances, the build up of armaments, the balance of power—had impelled Americans to become legitimately distrustful of the political-military means of preserving the peace. Frank Kellogg, Coolidge's Secretary of State, appropriately declared that the United States "does not believe that the peace of the world or of Europe depends upon or can be assured by treaties of military alliance. The futility of such as guarantees of peace is repeatedly demonstrated in the pages of history." 31

Though there was much rhetoric about the efficacy of public

31 Frank Kellogg, "The War Prevention Policy of the United States," Foreign Affairs, Supplement to Volume 6 (March 15, 1928), xi. If military alliances could not be trusted neither could the League of Nations. Many Americans perceived the League as an alliance that was aimed at preserving the status quo and that would have infringed upon the independence of American foreign policy.
opinion as a means to insure proper international behavior, American policy makers hoped that European stability would be fostered through the implementation of enlightened economic policies. They assumed that if these enabled each of the major powers of Western Europe (and the United States) to enjoy economic health and political tranquility, the likelihood of good conduct would be greatly enhanced.

This economic view of the world can best be illustrated by examining the American attitude toward the issue of disarmament. From the very onset of the 1920's, the United States government looked upon disarmament as a means of reducing financial burdens and thereby stimulating economic recovery and the relaxation of international tensions. Secretary of State Hughes opened the Washington Disarmament Conference in 1921 by insisting that, "If there is to be economic rehabilitation, if the longings for reasonable progress are not to be denied, if we are to be spared the uprisings of peoples made desperate in the desire to shake off burdens no longer endurable, competition in armament must stop." This tendency to look upon disarmament as an economic and fiscal issue was particularly pronounced in the case of land disarmament. President Coolidge told Congress in 1925 that "If the energy [of European nations] which now goes into military effort [i.e., the manufacture of armaments] is transferred to productive endeavor, it will greatly assist economic progress." After 1929, the impact
of the Great Depression intensified the inclination of American statesmen, especially Hoover, to consider limited land disarmament as an essential prerequisite for the economic revitalization of the Western World. Arms expenditures contributed to unbalanced budgets, to the instability of currencies, and to the weakening of credit arrangements. Arms expenditures also stimulated political instability which, in turn, exacerbated the problems of economic recovery.\textsuperscript{32} Since Americans believed peace to be based upon foundations of economic health and not upon those of military strength, it was predictable that they would constantly reaffirm their conviction that disarmament itself was a guarantee of security.

This thesis that American policy makers understood the importance of creating a stable and prosperous Europe and possessed a somewhat coherent viewpoint on how to achieve it departs radically from the traditional interpretation of American diplomacy in the inter-war period. Most American

\textsuperscript{32}Hughes, \textit{Pathway of Peace}, 24-25; Message of Coolidge to Congress, December 8, 1925, \textit{F.R.}, 1925, I, xii; Myers and Newton, \textit{Hoover Administration}, 278; statement by Stimson in House, \textit{Foreign Affairs, Disarmament Conference}, 32-33; Davis to Hugh Wilson, January 29, 1932, in Hugh R. Wilson, \textit{Disarmament and the Cold War in the Thirties} (New York, 1963), 20. Virtually nobody in the 1920's and 1930's thought of armaments as a means of stimulating the economy. Since budgetary deficits were deplored and since expenditures on armaments were costly and would have added to a tax burden already considered onerous, disarmament was considered the only viable alternative to an oppressive and economically stultifying level of taxation.
historians and political scientists writing after the Second World War have criticized American diplomacy between Versailles and Munich as being legalistically inclined and moralistically motivated. Tremendously influenced by America's repudiation of the League of Nations, by the failure of appeasement, by the brutality of Nazi aggression, and by the emergence of what appeared to be Soviet expansionism, these scholars have equated realism with collective security, with political involvement, and with the readiness to use force. Because in the long run, American policy makers failed to construct the economic basis of a peaceful world, most post-World War II writers have ignored the economic assumptions that so greatly influenced the international perspective of influential Americans in the 1920's and early 1930's. Since these writers have assumed that international security could be guaranteed only through military preparedness and political commitments, they have completely overlooked the fact that policy makers in the 1920's and early 1930's considered the economic approach to be the realistic one.

This is not to argue, as have some economic determinists, that American foreign policy in the inter-war years was motivated by a ruthless pursuit of markets, investment

(Chicago, 1953). This latter work is so permeated with hyperbole, so blatantly oblivious of American economic aims and economic strategy, and so concerned with influencing policy and people in the 1950's, as to make its historical veracity all but problematical. Osgood concludes his discussion (p. 362) of the 1920's and early 1930's with the statement:

"The point here is that a whole area of relevant calculations and actions in the realm of power politics . . . was virtually ruled out of consideration by the prevailing American approach to international relationships; that is, by a politically ignorant and irresponsible moral impulsiveness, a utopian view of the problem of mitigating international conflict and a blind aversion to war and the instruments of war as absolute evils abstracted from the conflicts of power and national self-interest which leads to war."

Such a lengthy statement is worth quoting because it accurately reflects an entire era of historiography (stretching from the late 1940's into the middle 1960's) on American diplomacy from 1920 to 1933. See, for example, Robert Ferrell, Peace in Their Time (New Haven, 1952); Robert Ferrell, American Diplomacy in the Great Depression (New Haven, 1957); William Leuchtenburg, The Perils of Prosperity (Chicago, 1958); John Hicks, Republican Ascendancy, 1921-1933 (New York, 1960); L. Ethan Ellis, Frank Kellogg and American Foreign Relations (New Brunswick, New Jersey, 1961); Foster Rhea Dulles, America's Rise to World Power (New York, 1954); Betty Glad, Charles Evans Hughes and the Illusions of Innocence (Urbana, 1966); Alexander DeConde (ed.), Isolation and Security (Durham, 1957); Adler, Uncertain Giant.

The "realist" historians often have been so preoccupied with notions of collective security and with the efficacy of military power that they have lost sight of the economic underpinnings of American diplomacy. As a result, the foreign policy of the United States seemed to them to be naive, utopian, and moralistic. Though American policy makers did believe in law and moral suasion as a means of reconciling problems, their real hope was to avoid serious international tensions from arising in the first place. This, they felt, could be done by intelligently coping with the economic causes of conflict. It was the failure of American foreign economic policy not the naivete of it that had such ominous results.
opportunities, and raw materials. Though American commerce grew rapidly and though foreign loans and overseas investments multiplied, influential Americans did not consider American economic well-being to be dependent primarily upon foreign economic expansion. The growing realization of the importance of the international economy for American prosperity led to the end of isolationism, to increased involvement in European affairs, and to the desire to create a community of economic interests among the industrialized powers. But it did not generate the belief that the success of the American capitalist system was dependent upon foreign markets and upon events abroad.34


Williams and his students (Parrini and Gardner) contend that American diplomacy was an outgrowth of domestic imperatives and that an expanded foreign market was essential for the viability of the American system. They are correct in stressing American economic expansion and American economic involvement in world affairs, but they have gone too far in emphasizing the influence of the foreign market on decision-makers. Though foreign policy was
Throughout the period of the Republican ascendancy, government officials and business leaders maintained a fairly balanced perspective on the importance of the European market and of the international economy to American well-being. While recognizing the interaction between the formulated to win markets and to contribute to American prosperity, policy makers never considered foreign markets to be the essential ingredient contributing to American prosperity. Low taxes, balanced budgets, and the absence of inflation were considered to be more vital to American economic health. Naturally, there need not have been conflicts between these prerequisites and the search for foreign markets, but occasionally there were and the decisions on those occasions, as we shall see, are illustrative and informative of the priorities of the decision-makers.

Similarly, Williams and Parrini have failed to work out systematically the tensions and conflicts between the pursuit of the open door and the creation of the economic community. They usually emphasize the ideas of the most prominent policy makers and they fail to analyze sufficiently the actual course of diplomacy which responded to a matrix of factors, not limited to the ideal conceptualizations of Hughes, Hoover and Mellon. Thus, Parrini, in an otherwise excellent book, greatly underestimates the problems encountered by the community developers when he claims there were only two major economic flaws in their program: the failure to rationalize American loan policy and the failure to re-integrate Germany into the community. See Parrini, Heir to Empire, 267 ff.

As we shall see, their greatest failure may have been a political one: the failure to secure France's commitment, without prior British and American guarantees of French security, to a community that included Germany. Therefore, it becomes essential to analyze the prevailing strain of political isolationism in both the policy makers and the American people. In light of French demands, the community depended upon strategic commitments. The unwillingness of the United States to offer these was more than just a tactic of diplomacy. The reluctance of the "open door" historians to grapple systematically with this issue of political isolationism in the inter-war period is a great shortcoming in their work.
domestic and international economic environments, they neither considered the outcome of post-war American readjustment nor the success of economic recovery from the Great Depression to be contingent primarily upon markets abroad. In the early post-war years, the ability of the United States to emerge quickly from the recession of 1920-1921 convinced some people of the autonomy of the American economy. Subsequently, neither President Coolidge nor Secretary of Agriculture Henry C. Wallace had much hope for relieving the agricultural crisis through the exploitation of foreign markets. Even Hoover who, as Secretary of Commerce, worked assiduously to expand industrial exports, often cautioned others not to over-estimate American economic dependence on the international economy. Throughout the 1920's, there were frequent reminders that other industrial nations were far more dependent upon exports than was the United States and that there were many advantages in this relative self-curtailment. In October, 1930, Hoover maintained that this self-containment would enable the United States to extricate itself from the depression and to lead the rest of the world to recovery. For the most part, important economic interest groups agreed that recovery had to begin with internal developments and that the first step was to stabilize the domestic market. Franklin Roosevelt accurately summed up prevailing sentiment when he declared in his First Inaugural Address that "Our international
trade relations though vastly important, are in point of
time and necessity secondary to the establishment of a sound
national economy."\(^{35}\)

These attitudes indicate that although successive
administrations, from Harding to Roosevelt, sought to create
a stable and prosperous Europe, this never became the ex-
clusive or the dominant concern of American policy makers.
As a result, ambiguities and inconsistencies arose between
diplomatic goals and diplomatic policies. The United States
wanted to contribute to European prosperity and political
stability, but incongruities emerged in American foreign
policies that obstructed the achievement of these aims. The
United States government refused to formally link the war
debt and reparations issues; the United States government
insisted on debt repayments but maintained high tariff

\(^{35}\)For references to the ability of the United States
to recover independently from the rest of the world from
the depression of 1920-1921, see Julius H. Barnes (Presi-
statements by Coolidge and Wallace, see Quint and Ferrell,
Talkative President, 136; Henry C. Wallace, Our Debt and
Duty to the Farmer (New York, 1925), 133-134, 226-227. Also
see Herbert Hoover, "The Question of Stability Is a Great
Human Problem," Journal of the American Bankers Association,
23 (October, 1930), 257; N.A.M., Proceedings, 1927, 81-82;
Lamont, "United States Foreign Trade," 13-14, 20; Farrell,
"World Trade Outlook," 13; "Final Declaration," N.F.T.C.,
Official Report, 1931, viii; statement by Roosevelt in
Edgar G. Nixon (ed.), Franklin D. Roosevelt and Foreign
Affairs (3 vols.; more in progress; Cambridge, 1969), 19.
Roosevelt's statement reflected prevailing opinion, but,
as we shall see, his actions indicated a departure from the
aims of his predecessors.
barriers; the United States government desired to expand
world trade through unconditional most-favored-nation agree­
ments but failed to readjust tariff schedules; the United
States government informally banned loans to France but
acquiesced the export of large amounts of unproductive
capital to Germany; the United States government encouraged
disarmament but denigrated the importance of strategic
commitments.

These inconsistencies arose when the pressures of
domestic politics and the demands of economic interest groups
conflicted with the economic imperatives of international
stability, when the popular clamor for political aloofness
obstructed substantive efforts to insure international
security, and when short-sighted nationalist practices tended
to outweigh internationalist inclinations. The high priority
accorded to lowering taxes, balancing budgets, and prevent­
ing inflation often meant the subordination of international
considerations to secondary importance. Political partisan­
ship and intra-governmental rivalries between the executive
and legislative branches could also on occasion assume more
significance than the international ramifications of a
particular decision. In addition, sectional interest and
parochial demands not infrequently tended to obscure the
intimate relationship between domestic policies and their
international repercussions.36

36 There were a matrix of factors that were generally
The existence of the inconsistencies already alluded to, however, did not mean that American policy makers were aloof from, indifferent to, or ignorant of the European situation. When domestic priorities did not clearly conflict with international objectives, the United States took an active interest and played an important role, formally and informally, in reparation settlements, in the extension of loans, and in the stabilization of currencies. When considered vital to American prosperity. European stability and the international market were considered among the necessary ingredients. But they were not first in priority. All through the 1920's and early 1930's, there was much greater emphasis on the need to rationalize government expenditures, to lower taxes, to combat inflation, to maintain a balanced budget, and to carefully circumscribe foreign access to the domestic market. These need not have conflicted with the pursuit of foreign markets, but often they did. To cancel the debt, for example, would have had significant repercussions on the budget and on taxation. For a few references to the importance of government economy, and balanced budgets, see Message of Wilson to Congress, December 7, 1920, F.R., I, x; Coolidge, Autobiography, 182-183; William Butterworth, "The Future's Challenge to You," Nation's Business, 18 (May 20, 1930), 13-14. In this article, Butterworth, President of the C.C.U.S., declared that the major emphasis of the last decade had been upon decreasing taxes and retiring the national debt. He felt attention should now be focused on foreign trade. But if one reads through the issues of Nation's Business for 1930, 1931, and 1932, one is struck by the little attention focused on the foreign market. See, for example, "Organized Business Looks Ahead," ibid., 18 (May 20, 1930), 18; "Mr. Harriman's Business Platform," ibid., 20 (July, 1932), 20, 58-59; Silas Strawn, "How Business Views the Budget Crisis," ibid., 20 (June, 1932), 38; "Business Wants Fiscal Economy," Ibid., 20 (November, 1932), 14; N.A.M., The Platform of American Industry for 1932 (New York, 1932), 3-5. Also, skim through the volume (24) of the Journal of the American Bankers Association for 1931-1932 and through the annual Reports of the American Farm Bureau Federation for 1928 to 1933.
conflicts did exist, real efforts were made to compromise and to reconcile the differences between national and international pressures. Such was the case, for example, on such issues as the war debts, disarmament, and trade. Always seeking to encourage European economic stability and political tranquility, but weighing their importance against internal political and economic developments, American policy makers attempted, albeit unsuccessfully, to create the economic conditions and political super-structure of a peaceful world.

In large part, American endeavors failed because the United States was unable to secure French adherence to those aims and policies considered indispensable for international economic prosperity. Reflecting upon the course of events in the inter-war period, Hoover and Ambassador Hugh Gibson pointedly concluded that "During the whole period from 1918 to 1939, [France] was the stumbling block to every proposal for world advancement." Many of their contemporaries, especially bankers and businessmen who were interested in the international situation, concurred that France remained "the great, fateful, and menacing question mark." Mortimer Schiff, senior partner in Kuhn, Loeb and Company, told the Bond Club of New York in early 1922 that it was necessary to speak first of France, for there lies the crux of the present situation. The road to economic peace lies through Paris. . . . [France] may not be able to enforce her own wishes and make her views
controlling, but she has the veto power over those of other countries involved. 37

The position of France assumed overwhelming significance because France, alone, of the major Western European powers, maintained a totally different perspective on international affairs than did the United States. 38 Whereas the United States believed in the economic basis of peace and placed special emphasis on the reintegration of Germany into the world economy, France viewed the world in political-military terms and was intensely apprehensive of an economically revitalized Germany. Whereas the major thrust of American policy was to support the Weimar government and

37 Herbert Hoover and Hugh Gibson, The Problems of Lasting Peace (New York, 1942), 143; Kahn to Felix Warburg, July 30, 1922, Box 190, Kahn Papers; Schiff, Europe in March, 1922 (New York, 1922), 9.

38 For the most part, influential British and German statesmen in the mid-1920's maintained the same type of economic perspective on international relations as did the United States. Their aim, at least in part, was to stabilize and rationalize the world economy in such a way as to enable all nations, especially the industrialized ones, to prosper. Austen Chamberlain, for example, possessed the identical objective, based on similar economic motivations, of re-introducing Germany into the community of nations. German leaders, such as Walther Rathenau, Wilhelm Cuno, and especially Gustav Stresemann, shared the Anglo-Saxon economic orientation and believed that international political pacification depended upon economic cooperation. For some information on Chamberlain's views of Germany and European stability, see John Connell, The 'Office' (London, 1958), 71; Harold Nicolson, King George the Fifth (New York, 1953), 407; Sir Austen Chamberlain, Down the Years (London, 1936), 152-153. For some of Stresemann's views on the United States, the international economy, and world peace, see Gustav Stresemann, Essays and Speeches (London, 1930), 57, 125, 129-131, 141, 154 ff.; Sutton, Stresemann, I, 56, 95-96.
to save the republic from economic collapse under the pressure of reparations, the major preoccupation of French policy was to insure French security by emasculating Germany's economic and military potential. As a result of these differences, influential Americans believed that in all their efforts to reconstruct Germany they "had the full cooperation of Britain, and usually of Italy, but always the opposition of the French Ministers."  

At best, Americans could have nothing but a benign contempt for France's inability both to recognize the economic interdependence of the modern world and to understand the economic foundations of international stability. Businessmen and bankers, as well as government officials, were irritated by the refusal of Frenchmen "to look at Europe as a whole, to comprehend that the welfare of France is related to the welfare of Europe." Such attitudes illustrated the congenital American failure to sympathize with the prevailing French view that a commercially and industrially powerful

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40 Frank Vanderlip, What Next in Europe, 141.
Germany was a latent military threat. To overcome this view, the United States would have had to make some strategic contribution to French security.

During the 1920's, the American government refused to contemplate any such action. It was politically unpopular and seemed to be unnecessary. German prosperity itself was considered a sufficient guarantee of stability. Therefore, the primary aim of official and unofficial American policy was to re-invigorate the German economy through the mobilization of capital and through the adjustment of reparation obligations. Dwight Morrow, prominent banker, diplomat, and adviser to presidents, wrote Hughes in 1924 that reparations need not be balanced against security as though the two things are contradictory. I have never believed that this was so. Such an antithesis really defines security as keeping your adversary weak. There is no real security that way.

In other words, though Americans might understand French apprehensions, they refused to credit them with any validity. Instead, they continually tried to persuade the French to accept the American thesis that a strong Germany would be a peaceful Germany.\(^1\)

The fundamental dichotomy of perceptions about Germany led to many acrimonious disputes between the United

\(^{1}\) Morrow to Hughes, July 12, 1924, Box 56 (Dawes Plan), Hughes Papers. Also see Thomas Lamont to Herrick, May 10, 1922, Box 12, Herrick Papers; Richard Washburn Child to Harding, May 22, 1922, PPF, Harding Papers.
States and France over such issues as reparations, loans, and disarmament. Since France tied action on reparations to reciprocal American action on war debts, the latter became an integral part of the general French-American controversy on how to stabilize post-war Europe. On the periphery, but nevertheless related to the other questions, was the issue of commercial policy. French and American officials argued incessantly over the chaotic effects of each other's trade practices. In effect, then, the United States and France disagreed both on the principal objectives of their diplomacy as well as on particular policies and tactics.

So long as American foreign policy makers sought to create a stable Europe, their ability or inability to reconcile their differences with the French was bound to have a crucial impact on all their endeavors. From the onset of the Harding administration through the first months of the initial Roosevelt administration, both government officials and prominent businessmen made strenuous efforts to resolve the differences between the two nations. In these attempts, American emissaries and spokesmen were seriously handicapped by the inconsistencies and contradictions in American foreign policy that arose out of domestic political, economic, fiscal, and ideological considerations. The French ruthlessly exposed the economic and political shortcomings of American debt, loan, tariff, and disarmament policies and used them
as legitimate reasons and convenient rationalizations for their own insistence on large reparation payments, on the two column tariff, and on political guarantees.

Despite the inconsistencies in American policy, throughout most of the 1920's American economic and financial prowess usually compelled the French to moderate their policies and to accept American (and British) dictates. The constellation of power between the two nations, however, came much more into equilibrium after the de jure stabilization of the franc in 1928 and after the onset of the depression in 1929. This change in the balance of power between the two nations, combined with the financial collapse of Germany and Britain and the commencement of Japanese aggression in the Far East, impelled American policy makers to try even harder to iron out the inconsistencies in American foreign economic policies and to modify the nation's intransigent position on the disarmament-security issue. French officials, especially those in the governments of the Cartel des Gauches in 1932 and 1933, tried desperately to encourage and to reciprocate any American movement in the direction of a rapprochement. Expectations were high that the new Democratic administration would bring these mutual efforts at reconciliation to fruition. Roosevelt's abandonment of this goal in mid-1933, his conscious decision to detach American recovery efforts and to dissociate the United States politically from the European imbroglio, was a severe blow to
European peace and stability and a repudiation of the foreign policy of his predecessors.

Throughout the 1920's and early 1930's, American policy makers were confronted with unusual difficulties in their attempts to stabilize Europe by reconciling Franco-American differences. To begin with, American officials had to decide how they would make the American contribution to European stability proportionate to the value of European stability to American self-interest. This was an inordinately complex task because intelligent and honest individuals disagreed not only on the importance of European stability but also on the significance of any particular contribution to it. Consequently, decision-makers had to measure meticulously the salutary international effect of any concession to France and to determine whether it was offset by the possible sacrifice of internal political, fiscal, ideological or economic goals. In addition, from the international perspective, American officials had to decide what policies and tactics would be both efficacious in stabilizing Europe and at the same time appealing to France. To placate the apprehensions of the French at the expense of the over-all objective of stability would have accomplished nothing.

In the chapters that follow, several controversial areas of the foreign policy process will be explored: the relationship between the domestic and international objectives of American policy makers; the relationship between
the international goals of businessmen and those of the United States government; the risks and possibilities of legislative control of foreign policy; the interaction between public opinion and executive decision-making; the potentialities and limitations of financial power; and the dangers and benefits of ambiguity in foreign policy objectives. Both the interest and the significance of American policy toward France in the post-World War I period stem from the fact that in the course of molding their diplomatic strategies to stabilize Europe, American policy makers had to measure carefully the importance of national versus international priorities, the utility of official versus unofficial action, and the dangers of commitments versus the hazards of isolation.

It must always be recalled that Franco-American relations were carried out in a rather abrasive atmosphere of mutual distrust and recrimination. Not long after the French occupation of the Ruhr, Senator Borah denounced French leaders as "enemies of humanity, enemies of peace, and of good order throughout Europe." He went on to depict Poincare's program "as vicious and as untenable as anything which has been announced in international affairs in the last one hundred years." In the same vein, approximately a decade later, Congressman Joe Eagle wrote President Roosevelt, What a spectacle of insincerity, ingratitude, and downright dishonesty the French present by their past and present attitudes. . . . France has shown
utter selfishness of spirit, degeneracy of honor as well as of morals, sophistry in place of logic, egotism in place of straightforward dealing.

These were harsh words. Unquestionably, they were exaggerated expressions of American sentiment. Nevertheless, they accurately illustrate the trend of American feeling toward France between 1921 and 1933.42

This is not to say that France was wholly without American friends. Indeed, Myron Herrick, Ambassador to France from 1921 until his death in 1929, worked tirelessly to improve the French image in the United States as well as the American image in France. In this he had the help and cooperation of many prominent bankers, lawyers, and publishers. Yet, despite momentary successes, such as his brilliant handling of Charles Lindbergh's initial trans-Atlantic flight, Herrick's attempts to re-establish cordial American-French relations failed. Public sentiment in the two nations drifted steadily apart, especially in the last two years of the Hoover administration. For the most part, as the depression worsened and as international tensions mounted, many Americans increasingly believed that the French opposed all compromises with Germany, that the French wished to keep Germany in perpetual economic misery, that the French aspired to

42 Borah to Charles R. Smith, February 2, 1923, Box 227 (Europe), Borah Papers; Eagle to Roosevelt, April 24, 1933, 800.51 W 89 France/940; Crane Brinton, The Americans and the French (Cambridge, Massachusetts, 1968), 61; Elizabeth Brett White, American Opinion of France (New York, 1927), 272-303.
establish financial hegemony in Central Europe, that the French refused to cooperate in the economic restoration of the world, that the French desired to undermine American credit by gold manipulations, and that the French were militaristically oriented and inclined to dominate their neighbors through the force of arms. 43

Myron Herrick had been ambassador to France from 1912 to 1914. After the outbreak of World War I, he prepared plans for saving the Parisian museums, historical buildings, and great works of art. This greatly impressed the French as did his decision to stay in Paris while the French government moved to Bordeaux. He helped establish the American Ambulance Hospital and the American Relief Clearing House. As a result of these efforts, he was enthusiastically received by the French when Harding reappointed him as Ambassador in 1921. See Beckles Willson, America's Ambassadors to France, 1777-1927 (London, 1928), 391 ff; Kathryn Carr, "The Diplomatic Career of Myron T. Herrick" (Unpublished Master's Thesis, The Ohio State University, 1934), 26, 32-33; T. Bentley Mott, Myron T. Herrick (New York, 1929), 258-262. During the 1920's, Herrick worked assiduously to improve French-American relations. He was especially conscious of the influence of the press in molding public opinion. Consequently, he not only wrote and encouraged the printing of articles in the American press explaining the French perspectives on various issues, but more importantly he cultivated the friendship of influential French reporters and editors and secured their support in his campaign to spread mutually beneficial publicity in both countries. He instructed the French on how to generate a good image in the United States and he tried to secure better treatment of American tourists in France. He even persuaded Poincaré to meet occasionally with American reporters so that they might better understand French policies. The extent of Herrick's activities can be easily ascertained by a perusal of his papers. See, for example, the many memos on how to improve the French image in the United States in Box 15 (Folder 3), Herrick Papers. Also see Herrick to Parmely Herrick, March 17, 1922, Box 11, ibid; Message to Herrick from Hotel Proprietors, Restaurant Owners, and Business Men of Paris, Box 11, ibid; Gaston Liebert to Herrick August 31, 1923, Box 14, ibid; Herrick to Hargrove, June 18,
On the other side of the Atlantic, the French could neither forget nor forgive America's rejection of the Treaty of Versailles and America's repudiation of the League of Nations. This left a lasting impression, embittered relations, and undermined mutual trust and confidence. Subsequently, American criticism of post-war French policies toward Germany, coupled with American financial aid to Germany, infuriated and disgusted the French. Franklin-Bouillon, Chairman of the Chamber Commission on Foreign Affairs, articulated prevailing French sentiment when he told an American journalist, Herbert Adams Gibbons, that "Ever since the war the United States, after having maneuvered us into a disastrous treaty, has done nothing at all to help us. All the advice she has given has been against our interests and in favor of Germany." George Leygues, Minister of Marine,

1926, Box 20, ibid; Herrick to Milton Harrison, January 5, 9, 1923, Box 15, ibid; Many letters to Harrison (regarding a recent Herrick article), March 1923, Box 15, ibid; Poincaré to Herrick, March 27, 1923, Box 14, ibid; Louis Loucheur to Herrick, November 4, 1921, Box 10, ibid; Herrick to Marcel Knecht, April 29, 1925, Box 18, ibid; Herrick to Kellogg, June 2, 1926 (regarding Knecht of Le Matin), Box 20, ibid; Herrick to Fullerton, February 11, 1927, Box 21, ibid. For Lindbergh's flight, see Box 21, ibid. For a few indications of the hostile state of American opinion toward France, see Jules Henry (French Charge) to Edouard Hériot, August 15, 1932, in Ministère des Affaires Étrangères, Documents Diplomatiques Française, 1932-1939, Series I, Volume I (Paris, 1964), 183-185. (Hereinafter this source shall be cited as D.D.F., series, volume.) Also see Paul Claudel to Joseph Paul-Boncour, December 31, 1932, D.D.F., I, II, 347-348; Garreau-Dombasle (Commercial Attaché In New York) to Julieu Durand (Minister of Commerce), December 27, 1932, ibid., 317-318.
revealed another characteristic French attitude when he confided to the same journalist that "What we feel about the United States is not indignation, but grief--grief that comes from our bewilderment and inability to comprehend the American attitude."44

The French were confused and exasperated by what seemed to them to be America's callous disregard of French sensibilities and French economic needs. They were offended by the moral garb in which short-sighted, nationalistic, and selfish policies were often presented. They could not understand how the United States could constantly involve itself in European affairs without assuming any responsibility for the course of European events. Yet, the French tried to control their frustration and moderate their anger. They recognized that in the long run American aid and amity were essential to French security. This, however, intensified the frustration of their predicament, a frustration that was poignantly expressed by Premier Edouard Hériot during a confidential luncheon with British and American correspondents in September, 1932. After emotionally portraying the responsibility he had assumed for protecting French security and

44 See Memos of conversations of Mr. Herbert Adams Gibbons at Paris, February 2 and 3, 1927, in Department of the Treasury, Records of the Bureau of Accounts, Box 62, RG 39 (National Archives). (Hereinafter this shall be cited as Bureau of Accounts, Box.) Also see Gibbons' conversation with Briand, February 6, 1927, in ibid; Jules Larouche, Au Quai-d'Orsay avec Briand et Poincaré, 1913-1926 (Paris, 1957), 228; Speech by Masson (of Credit Lyonnais) at the American Club in Paris, January, 1924, Box 17, Folder 2, Herrick Papers; Whitehouse to Secretary, September 30, 1926, 800.51 W 89 France/408.
French lives, Hériot, with tears streaming down his cheek, declared

France is the victim of a conspiracy of slander. We are accused of every crime. No account whatever is taken of our sacrifices. We have cut down our army. It was I who made Locarno. It was I who consented to the sacrifice of France's dues at Lausanne. It was I who evacuated the Rhineland five years before the treaty date. It was I who saved the disarmament conference in July. And yet we are accused of blocking peace. I tell you I am revolted in my sense of justice. I am revolted in my soul. It is abominable.45

Such was the setting in which American policy toward France unfolded in the years 1921 to 1933.

45 See "Excerpts from Confidential Declarations Made at Luncheon," September 28, 1932, in Box 17, Davis Papers. For other characteristic expressions of Hériot's sentiments, see Memo of French-British Meeting at Paris on December 8, 1932, D.D.F., I, II, 200; Walter Edge to Secretary, May 3, 1932, Bureau of Accounts, Box 105. Also see Tardieu, France in Danger, 19-29, 34-35; Jacques Seydoux, "The United States and Europe," in 851.51/1015. Also see A [William Castle], "American Foreign Policy," 16-17. As early as 1923, Castle astutely recognized that the efforts of European leaders to repress their harsh feelings of disillusionment toward the United States only served to intensify their hostility and to further embitter relations between them and the United States.
CHAPTER II

REPARATIONS

The Harding administration quickly came to perceive the reparations issue as the crux of the international economic and financial crisis. In November of 1923, Alan Goldsmith, Chief of the Western European Division of the Department of Commerce, wrote that "Until this matter [reparations] is adjusted on a businesslike basis, no sure reorganization of commerce and industry can take place in Europe." Goldsmith was reflecting a long held conviction of his superior, Herbert Hoover. Within a year after taking office, the Secretary of Commerce had analyzed the extensive data meticulously collected by the Bureau of Foreign and Domestic Commerce. He informed the Chief Executive that "Currencies cannot be stabilized until inflation has stopped and inflation cannot be stopped until government budgets are balanced, and government budgets of Europe cannot be balanced until there is a proper settlement of reparations . . . ." President Warren Harding and Secretary of State Charles Evans Hughes concurred that the dilemma of European economic rehabilitation was rooted in the reparations issue and that the situation was cause for the most serious concern.¹

¹Alan G. Goldsmith, Economic Policies of Western
Government officials and business leaders were aware of the delicate economic and financial relationships existing between the United States and Europe. Their intense interest in the reparations imbroglio stemmed from their apprehension that these relationships might be disrupted by the impact of war indemnities on financial and commercial transactions. Hoover's statement to Harding reflected widespread alarm in the business community over the direct impact of reparations on European currencies and exchange rates and over the indirect effect of reparations on Europe's capacity to import and to export.²

Businessmen and bankers agreed with Hoover that reparations contributed to the fluctuation of European exchange rates and to the depreciation of European currencies. The appreciation of the American dollar in relation to European currencies undermined European purchasing power and increased the difficulty of marketing American products in Europe. In addition, the fluctuation of exchanges made Europeans hesitant to borrow as they were unable to estimate the amount of foreign exchange that would be needed to repay loans.\(^3\) Partly as a result of both the depreciation and fluctuation of their exchanges, European customers, at the end of 1920, substantially reduced agricultural imports, especially cotton, from the United States.\(^4\)

The precipitous decline in American exports in 1920 and 1921 intensified American interest in the problems of

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\(^3\)Special Committee (of the C.C.U.S.), "European Problems," 2; Fred I. Kent, "Factors that Will Help the Exchange Situation," N.F.T.C., Official Report, 1922, 403-411; A. C. Bedford (Chairman, Standard Oil Company) to Broah, December 20, 1921, Box 215 (Europe), William E. Borah Papers (Manuscript Division, Library of Congress). The end of United States government loans in 1920 also affected the Allies' ability to import goods from the United States.

European financial and economic reconstruction. Former Attorney General George Wickersham told the Economic Club of New York in late 1921 that "Gradually we are coming to recognize that our interests are indissolubly united with the interests of Europe, and that until we have a reorganized, a sound, a normal condition of affairs in Europe, ... we shall not have normal healthy times at home." The National Foreign Trade Council (N.F.T.C.) already had concluded that "the present unstable financial condition of a large part of the world, especially of Europe, is the fundamental cause of our own business depression." Since American farmers had been most seriously affected by the decline in European imports, it is not surprising that their spokesmen also vehemently urged the importance of revitalizing European purchasing power. Secretary of State Hughes was simply echoing widespread sentiment when he announced in one of his first speeches in his new office that "The prosperity of the United States largely depends upon the economic settlements which may be made in Europe." 5

5 Introductory remarks by George Wickersham to Frank A. Vanderlip, "The Allied Debt to the United States," Consensus, 7 (February, 1922), 3; "Final Declaration," N.F.T.C., Official Report, 1921, viii. For farm sentiment, see Report of the Executive Secretary (of the American Farm Bureau Federation), The Federation's Third Year (Chicago, 1922), 15-20; James R. Howard, "Europe, the Farmers' Market," Nation's Business, 10 (June 5, 1922), 24-26; J. S. Wannamaker to Harding, December 3, 1921, Box 197, File 227, Folder 1, PCF, Harding Papers; Wannamaker to Hughes, December 5, 1921, 811.51/3050, RG 59. For Hughes' statement, see Merlo Pusey, Charles Evans Hughes (2 vols.; New York, 1951), II, 580.
Immediately after the Versailles Conference, American business groups had believed that the mobilization of loans would be the most effective way of maintaining European purchasing power and of insuring that American exports were not precipitously curtailed. The acceleration of inflationary pressures in Europe, however, quickly convinced businessmen and bankers that the extension of additional credits itself depended upon a constructive and far-sighted settlement of the reparations problem. Thereafter, the attention of Americans interested in European reconstruction was riveted on the question of reparations.

The preoccupation of the American business community with the reparations enigma, however, was not simply a reflection of its concern with Europe as a market for American exports. There also was real apprehension that the precipitous depreciation of the mark might enable Germany to outstrip American exporters in the quest for foreign markets. A special committee of the N.F.T.C. reported in May, 1923, that the effect of the great inflation of the

6 Report of the National Committee (of the C.C.U.S.), "European Finance," p. 20, Box 4(W), Kent Papers; American Economic Association, "Report of the Committee on Foreign Trade," January 9, 1920, in Records of the Bureau of Foreign and Domestic Commerce (B.F.D.C.), Box 721(A), RG 151 (National Archives). (Hereinafter, this source shall be cited as B.F.D.C., box number; RG 151.)

7 See, for example, Eugene Stevens, "The Effect of the Import of Securities," N.F.T.C., Official Report, 1923, 303-309.
mark had been "artificially to stimulate and promote the ability of Germany to undersell in foreign markets the products of other great trading nations." A similar committee of the Chamber of Commerce of the United States had declared in 1921 that "On no country is the present foreign exchange situation reacting more harmfully than the United States, and none is more concerned in efforts to improve it and to deal with the problems involved in the Reparations Commission."8

Government officials in part shared and in part responded to the sentiments and pressures of the business, banking, and agricultural community. Hoover and Hughes were concerned about the ability of German manufacturers to produce cheaply and to undersell American exporters. They wanted to find an effective means of terminating the inflationary fiscal policies that made this possible. The Administration was also sensitive to the demands of the farm bloc. William Castle, Chief of the Western European Division of the Department of State, believed that "The

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8Special Committee (of the N.F.T.C.), "European Conditions," 19, 15 ff.; Special Committee (of the C.C.U.S.), "European Problems," 3. For other references to German competition, see Otto Kahn, Of Many Things (New York, 1926), 333; Frederick Simpich, "Germany's Struggle for Trade," Nation's Business, 10 (March, 1922), 28-29; Chauncey Depew Snow, "Has Germany Come Back," ibid., 10 (April, 1922), 22-23; C. J. Warren, to Herrick, January 27, 1922, Box 12, Myron Herrick Papers (The Western Reserve Historical Society, Cleveland, Ohio).
widespread discontent of the farmers and the growing belief among them that they need a prosperous Europe which can buy American products has been revolutionizing the whole tone in regard to participation in European affairs." These influences, then, compelled the Harding administration to develop a coherent reparations policy that would help stabilize the European market and that would mitigate German competition without sacrificing anything of importance to the American people.

In effect, the Republicans adopted the major elements of the reparations program that the Wilson administration had advocated at the Paris Peace Conference. To the American delegates at Versailles, "The practical problem of what Germany could pay became more important than the theoretical problem of what Germany ought to pay." The American representatives at the Peace Conference who were dealing with the reparations issue were practical businessmen and bankers. They recognized that "the industrial and financial development of the whole world for a long time to come [would] be

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9 Hoover to Harding, January 4, 1922, Box 5, File 3, Folder 2, PCF, Harding Papers; Maurice Léon to Herrick, June 16, 1922, Box 11, Herrick Papers; A [William Castle], "Two Years of American Foreign Policy," Foreign Affairs, 1 (March, 1923), 18. Influential senators also were concerned with the impact of the European crisis on agricultural exports and this no doubt affected the thinking of the Administration. See, for example, Borah to Charles Ertz, January 17, 1923, Box 227 (Foreign Affairs-Reparations), Borah Papers; Commercial and Financial Chronicle, 115 (December 30, 1922), 2843 ff.
largely influenced by the reparations settlement." Their major concern was to arrange a reparations accord that would facilitate the stabilization of economic and financial conditions in Europe and that would minimize the chances of Germany emerging as a great industrial machine intent on gaining world commercial supremacy. Therefore, their objective was to levy a fixed and reasonable indemnity that Germany could pay and that the Allies could afford to receive (without forcing Germany to resort to unfair commercial practices).

Soon after taking office, Secretary of State Hughes and his subordinates in the Department of State gave considerable attention to the reparations issue. They developed a three point program that was very much akin to the policy of the previous Administration. Most important of all, they agreed with Wilson's advisers that the indemnity


11The request by the German government in late April, 1921, that the United States mediate the reparations issue compelled the Harding administration to develop a definite policy. For the German proposal and the American response, see Department of State, Papers Relating to the Foreign Relations of the United States, 1921 (2 vols.; Washington, 1936), II, 43 ff. (Hereinafter this source shall be cited as F.R., year, volume, page.)
should be based on Germany's capacity to pay, that it should be taken out of the hands of the politicians, and that it should be scrutinized as a business proposition. Among Republican policy makers there was general accord that Germany had an obligation to pay the maximum amount commensurate with her ability. Expert economists or businessmen were most qualified to determine this figure. To demand more than Germany could pay, Hughes claimed, would be counter-effective. Such a request would weaken Germany's over-all productive capacity and would undermine her incentive to pay a sum that might otherwise not be objectionable. State Department officials also were concerned that the indemnity be reasonably levied so as not to disrupt American exports to Germany and so as not to exacerbate the growing social turmoil within Germany. Moreover, Roland Boyden, the unofficial American representative on the Reparations Commission, was intent on preventing Germany from passing through bankruptcy and thereby emerging free of all obligations and ready to prosper at the expense of France (and other nations still burdened with war debts). 12

12 Memorandum of Conversation between Viviani, Jusserand, Fletcher, and Hughes, March 30, 1921, Box 174 (France), Charles E. Hughes Papers (Manuscript Division, Library of Congress); Memorandum of Conversation between Hughes, Geddes (British Ambassador), and Jusserand, April 25, 1921, F.R., 1921, II, 49-50; Boyden to Harrison, March 25, 1921, Box 2, Leland Harrison Papers (Manuscript Division, Library of Congress); Harrison to Fletcher, April 20, 1921, Box 9, ibid.; Houghton (Ambassador to Germany) to Hughes, October 23, 1922, F.R., 1922, II, 171-175; Memorandum of
The second major element of American reparations policy was opposition to the application of sanctions. American policy makers believed that force and interference would decrease Germany's capacity to pay and would weaken her resolve to make the necessary sacrifices. In addition, the State Department recognized that the threat of impending sanctions and the use of force undermined general confidence, shattered Germany's credit standing, and thus obstructed her ability to borrow money and to pay reparations.  

These considerations impelled American officials not only to warn the French against the use of sanctions, but also to exert real pressure in behalf of moderation by threatening the withdrawal of the small contingent of American forces still remaining on the Rhine. Key American decision makers felt that the United States had "a great power and leverage on France by being in a position to withdraw at the moment when France carries out her independent action in regard to the Ruhr." Americans were

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13 Boyden to Harrison, March 25, 1921, Box 2, Harrison Papers; Harrison to Fletcher, April 20, 1921, Box 9, ibid.; Boyden to Hughes, October 14, 1922, F.R., 1922, II, 167-168; "The Dawes Plan" [Beerits Memorandum], Box 172, Hughes Papers; Logan to Hughes, February 2, 1923, Box 10, Fletcher Papers.

14 William Phillips (Under Secretary of State) to Fletcher (now Ambassador to Belgium), August 22, 1922, Box 9, Fletcher Papers; also see Harding to Fletcher, August 24, 1922, Box 1, ibid.
aware that troop withdrawal would be interpreted in Europe as an expression of American disaffection with French policy and would serve as a source of encouragement to German intransigence. For this very reason, the French Chargé d'Affaires, Prince de Béarn, had asked Hughes not to withdraw American troops. Cognizant of the French desire to maintain appearances of Allied unity and cohesion, the United States repeatedly tried to use the threat of troop withdrawal as a lever to prevent the application of sanctions.

The third major element of American reparations

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15 Memorandum of interview with the French Chargé, September 1, 1921, Box 174 (France), Hughes Papers; F. R. Coudert to Herrick, July 23, 1921, Box 10, Herrick Papers; Herrick to Allen, April 7, 1922, Box 11, ibid.

16 The Germans, as well as the French, wanted the Americans to remain on the Rhine. Business interests in all nations, including the United States, recognized that the American presence was a stabilizing factor. Yet, within the United States there were many voices calling for American withdrawal. There was real disenchantment with the French over their failure to insure the flow of payments to the United States for army occupation costs from reparation payments. Thus, for fiscal reasons, many persons of influence desired American troops withdrawn. Others feared the possibility that the American presence might lead to American involvement in Europe's political affairs. Despite these pressures, Harding decided to allow a small contingent of troops to remain. Hughes then used the threat of their withdrawal to try to persuade the French not to go into the Ruhr. See, for example, Memorandum of Conversation between Hughes and Jusserand, January 8, 1923, F.R., 1923, II, 47-48; also see relevant correspondence in F.R., 1922, II, 212 ff.; Allen to Herrick, April 16, 1922, Box 11, Herrick Papers; Phillips to Fletcher, May 9, 1922, Box 8, Fletcher Papers; Fletcher to Harding, August 8, 1922, Box 9, ibid.; Special Committee (of the C.C.U.S.), "European Problems," 4.
policy was the decision to treat war debts and reparations as distinct and separate matters. This approach was first assumed by the Wilson administration at the Peace Conference. At Versailles and afterwards, Wilson and his advisers resisted French and British efforts to have the two matters discussed in relation to one another. Subsequently, despite the numerous proposals of powerful interest groups and leading businessmen calling either for the mutual reduction of debts and reparations, or for the substitution of German reparation obligations for the bonded indebtedness of the Allies, the Harding administration decided to adhere to the precedent established by its Democratic predecessor.

This policy did not stem from any naive ignorance about the relationships existing between all financial obligations arising out of the war. Hughes fully appreciated the relevance of recommendations linking the two issues to one another. His subordinates in the Department also considered American inflexibility on the debt issue to be most

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17 Baruch, Reparation and Economic Sections of the Treaty, 71; Lamont, "Reparations," 289. Also see Chapter III, p. 130ff.

18 For the various proposals, see, for example, Paul Warburg to Fletcher, June 13, 1921, 800.51/285; J. W. Harriman to Harding, December 12, 1922, Box 164, File 154, Folder 1, PCF, Harding Papers; S. R. Bertron to Harding, May 26, 1922, Box 88, File 57, Folders 1, 3, ibid.; Clarence J. Owens (President, Southern Commercial Congress) to Hughes, October 31, 1922, 800.51/433; Otto Kahn to Senator Reed Smoot, December, 1922, Commercial and Financial Chronicle, 115 (December 30, 1922), 2843-2844.
unfortunate. Nevertheless, the highest members of the Administration agreed that the real key to resolving the reparations crisis rested in a Franco-German settlement. American action on the debt issue, they contended, was only of incidental importance. The Treasury Department took particular pains to refute allegations that war debts were responsible for European fiscal and currency problems. There can be little doubt, however, that these arguments were influenced greatly by the Administration's knowledge of congressional hostility to the reduction of the debt and to the substitution of reparations for war debts.

The three fold approach to the reparations enigma was designed to secure for the Allies the maximum amount of reparations commensurate with the rehabilitation of the German economy, with the stabilization of German politics, and with the economic imperatives and political possibilities of American life. Government officials and interested

19 Hughes to Louis Marshall, October 22, 1921, 811.51/3023; A. N. Young (Economic Adviser) to Dearing, February 8, 1922, 800.51/280.

private parties in the United States understood, however, that France held the key to the entire reparations dilemma. President Harding summed up widespread sentiment when he wrote Acting Secretary of State William Phillips:

If there is a determination [by France] to consent to the eventual reduction of external obligations of Germany in such measure as may be judged necessary to her restoration, then light is breaking and the situation has some promise of solution.

But many observers also recognized that if France was determined to act unilaterally in her own narrowly conceived self-interest, the United States could do little to stop her.²¹

The rift between French and American leaders stemmed from the fact that the former did not want to discuss the issue of reparations in isolation from the related matters of French security and the French fiscal predicament. French officials, diplomats, and visitors to the United States repeatedly told American policy makers that their financial difficulties and military insecurity accounted for their determination to collect the enormous amount of reparations ($33 billion) decided upon at the London Conference in May, ²¹

²¹For Harding's statement, see Harding to Phillips, Box 164, File 154, Folder 1, PCF, Harding Papers; also see Harvey to Harding, August 28, 1922, Presidential Personal Files (PPF), 60, ibid.; Hughes to Phillips, August 30, 1922, F.R., 1922, II, 163; Hughes to Houghton, October 23, 1922, 800.51/431; Frank Vanderlip, "Genoa, Clinic not Conference," Nation's Business, 10 (June 5, 1922), 20-21; Kahn to Felix Deutsch, October 4, 1923, Box 196, Otto Kahn Papers (Princeton University Library, Princeton, New Jersey).
1921. Accordingly, in July, 1922, Premier Raymond Poincaré wrote Hughes that French finances would be overwhelmed "if we do not in the end obtain the execution of the obligations which were undertaken towards us." A year later French Ambassador Jules Jusserand bluntly told the Secretary of State that the entire reparations issue might have been settled long before if the United States had not reneged on her security commitments to France. 

American officials realized that the reparations policy of France was motivated by French apprehensions over the state of their security and the plight of their finances. They generally agreed that the French were intent on using reparations as a means of destroying Germany's economic strength and of rendering her powerless to undertake a future war of aggression. American Ambassador to Germany Alanson Houghton emphasized to Secretary Hughes that France only used reparations as an excuse. "Her real policy is based rather upon fear, . . . upon fear of what a strong and powerful Germany could and perhaps would do. And if France can prevent it, there will never again be a strong and powerful Germany." Ambassador Henry Fletcher (in

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22 Poincaré to Hughes, July 19, 1922, F.R., 1922, I, 404-405; Memorandum of interview between Jusserand and Hughes, July 12, 1923, Box 174 (France), Hughes Papers; also see Memorandum of interview between Viviani, Jusserand, Hughes, and Fletcher, March 30, 1921, ibid.; Memorandum of interview between Jusserand and Hughes, December 18, 1922, ibid.
Brussels) reaffirmed this opinion. He reported that "the opinion is very widely held in Europe . . . that France cannot be secure or survive unless the Rhineland is taken from Germany, and Germany further maimed and crippled economically and politically." Ambassador George Harvey (in London) perceived matters in much the same way, but, along with Herrick in France and General Allen on the Rhineland High Commission, he believed that security guarantees might go a long way in persuading French officials to pursue a more moderate indemnity policy.23

As everyone was well aware, however, there was absolutely no possibility of the United States assuming the responsibility of guaranteeing French security. As 1922 progressed and the reparations crisis became more ominous, President Harding became wary even about maintaining American troops on the Rhine despite their admittedly stabilizing influence. He wrote Fletcher that "it is very clear that their presence might involve us . . . and . . . we are watching closely and are prepared to withdraw on very short notice the moment the situation grows more tense."24 Not

23 Houghton to Hughes, March 6, 1923, Box 4B, Hughes Papers; Fletcher to Hughes, November 28, 1922, Box 9, Fletcher Papers; Harvey to Harding, August 28, 1922, PPF 60, Harding Papers; Goldsmith, Economic Problems, 26-27; "The Dawes Plan" [Beerits Memorandum], p. 1, Box 172, Hughes Papers.

24 Harding to Fletcher, August 24, 1922, Box 1, Fletcher Papers.
surprisingly, in December of 1922 Hughes carefully disabused the French of any lingering doubts about the intent of the United States to maintain its political aloftness.\textsuperscript{25} Any impulses in the direction of political intervention by the Republican administration encountered the implacable opposition of John T. Adams, Chairman of the Republican National Committee. Adams was exerting his influence to keep the country out of all foreign entanglements.\textsuperscript{26} In such manner did tradition and political expediency combine to deter America's political involvement in European affairs.

There was, however, a more fundamental disparity of assumptions about the nature of security in an industrialized society that prevented French and American statesmen from acting in unison on the issue of reparations. Many French leaders wished to seize the opportunity of German default to permanently weaken their traditional enemy and thus insure their own future security. American policy makers, on the other hand, wanted to regulate reparation payments in a scientific manner that would insure both the financial stability and economic prosperity of Germany as well as the reconstruction of the devastated areas in the rest of Europe. This having been accomplished, they believed, peace would

\textsuperscript{25}Memorandum of conversation between Jusserand and Hughes, December 21, 1922, \textit{F.R.}, 1922, II, 206-207.

\textsuperscript{26}George F. Porter to Fletcher, October 1, 1923, Box 10, Fletcher Papers.
inevitably follow. Hoover, Hughes, and others maintained that French policy would cause economic chaos, social dislocation, and political upheaval in Germany. The result would be a setback to democratic government in Germany, and to the economic rehabilitation of all of Europe. This, they believed, would have ominous implications for France's own security. James Logan, Boyden's very influential assistant at the Reparations Commission, accurately reflected pervasive sentiment when he urgently wrote Hughes in February, 1923, that "We can not emphasize too much or too strongly that any form of the present policy [of military sanctions] ... is disastrous for reparations, for Germany, for France, and for all outside nations, both from the point of view of economics and of peace, which is one of the most important factors in economics." 27

This had been the American attitude since the Peace Conference. At Versailles, American (and British) delegates assumed that a prosperous, republican Germany would be a peaceful one. France had nothing to fear if she cooperated in the restoration of German industry so that the latter nation could resume her role as the leading industrial and commercial state of Europe. 28 In subsequent years, Hoover

27 Logan to Hughes, February 2, 1923, ibid.; Logan to Hughes, January 19, 1923, ibid.
28 Baruch, Reparation and Economic Sections of the Treaty, 50, footnote 1; Lamont, World Frontiers, 125.
concurred that "The French had only one of two courses, to support Democratic government in Germany or to face im placable hate and constant danger." Hughes, too, hoped that France would confront her strategic and financial crises

in such a manner as to afford to France that ultimate and abiding security which will flow from a reasonable and practical solution consistent with the economic recuperation of Europe and the conservation of peace upon which the welfare not only of Europe but of the whole world must depend. 29

In essence, then, American policy makers maintained that the surest guarantee of French security rested in a reasonable and moderate reparations settlement. In much the same way, many American officials contended that France's intransigent stand on reparations only exacerbated her fiscal dilemma. By demanding sums far in excess of Germany's capacity to pay, France stimulated further German delinquency and fiscal irresponsibility. Thus, France indirectly contributed to the prevailing atmosphere of instability and uncertainty that disrupted credit arrangements and disturbed financial markets. This redounded to France's own disadvantage as it undermined the German government's ability to float loans and to secure cash with which it could pay

reparations. Moreover, though Hoover and his assistants acknowledged that the resolution of the reparation question was an essential prerequisite for the implementation of necessary financial reforms in France, they also contended that the French budget could be balanced and the franc stabilized if the French government rigorously cut expenditures and courageously increased taxation.

These attitudes diminished the incentive to use the war debt as a lever to secure French concessions on reparations. In the early 1920's, Hoover did not feel that the war debts were a significant cause of European financial chaos because none of the debtors, except Britain, were making provisions in their budgets for funding their wartime obligations. Consequently, he was inclined to make no greater compromise than to defer interest payments for five years. He also rejected suggestions from Americans as well as innuendoes from the French that the United States accept German reparation bonds in lieu of the Allied obligations. He did not want the United States to become the sole creditor of an intransigent Germany. Hoover worried that political

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30 Logan to Houghton, May 17, 1922, Box 8, Fletcher Papers; Boyden to Herrick, November 21, 1922, Box 11, Herrick Papers; Hughes to Herrick, October 17, 1922, F.R., 1922, II, 168-169.

31 Hoover to Harding, January 4, 1922, Box 5, File 3, Folder 2, PCF, Harding Papers; Klein to Tower, January 4, 1922, B.F.D.C., 600.2 (Genoa Conference), RG 151; Goldsmith, Economic Problems, 1-2.
pressure from German sympathizers in the United States might compel the government to remit the war debts if Germany ever assumed full responsibility for its refunding. The relatively rigid posture of the Secretary of Commerce induced some of his subordinates to view with suspicion those Americans who urged that the United States assume a more flexible and moderate position.\(^{32}\)

In the Department of State, there may have been a greater tendency to perceive the bargaining power of a conciliatory position on the debts. Any disposition, however, to use this as real bait in international negotiations was repressed by fear of congressional opposition. Though Department officials frequently told foreign diplomats that the settlement of reparations and the reduction of armaments would have a salutary impact on American debt policy, they could give no firm commitments. They recognized that Congress was in control of the debt issue and its future course of action was unpredictable. As a result, both President Harding and Secretary Hughes insisted that debts could be discussed only after a reparations settlement.

With the attitude of Congress in mind, Hughes wrote:

\(^{32}\)Klein to Tower, January 4, 1922, B.F.D.C., 600.2 (Genoa Conference), RG 151; Hoover to Harding, January 4, 1922, Box 5, File 3, Folder 2, PCF, Harding Papers; Hoover to Harding, June 9, 1922, Box 88, File 57, Folder 3, ibid.; Goldsmith to Christian Herter (Assistant to Hoover), January 5, 1923, B.F.D.C., 640 (Inter-Allied Debts), RG 151; Commercial and Financial Chronicle, 115 (October 21, 1922), 1780-1781.
It is not because I ignore, but because I keenly realize, the importance of economic rehabilitation in Europe that I am anxious that no steps be taken on the debts which will put this Government in a false position or hopes awakened which cannot be realized.33

Since the United States would not make a contribution to French security through military guarantees and since Congress prevented concessions on the debt that would in part alleviate French financial difficulties, Secretary of State Hughes was confronted with the inordinately difficult task of finding some effective means of implementing policy without engendering implacable French resistance on the one hand or inflexible congressional opposition on the other. From the very onset of the administration, however, Hughes and his advisers were deeply interested in the reparations issue. They insisted upon participating in the discussions and decisions of the European powers regarding any matters affecting American commerce and European reconstruction.34 Their aim was to resurrect the influence of

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33 Hughes to Kent, February 8, 1923, 800.51/457A; Kent to Hoover, December 2, 1932, Box 3 (Japan), Kent Papers; Hughes to Harding, November 8, 1922, Box 45, File 20, Folder 16, PCF, Harding Papers; Harding to Hughes, November 9, 1922, ibid.; Boyden to Hughes, November 9, 1922, Box 9, Fletcher Papers; A [William Castle], "American Foreign Policy," 19 ff.; Hughes to Herrick, October 17, 1922, F.R., 1922, II, 168-169.

34 Hughes to Harvey, May 11, 1921, F.R., 1921, I, 14-15.
the Reparations Commission and to exert American influence within that body. Almost immediately after taking office, Hughes reversed the decision of the previous administration and sent Roland Boyden back to Paris to be the unofficial American representative on the Reparations Commission. His duty was to secure Allied accord on the American reparations program.

Many commentators have contended that the unofficial status of the American representatives seriously weakened the work of the Commission and diminished the extent of American influence. By no means, however, should these

35 This had once been the strategy of the Wilson administration. For the Wilson administration's views on reparations and the use of the Reparations Commission, see F.R., 1920, II, 374-445; F.R., 1921, I, 1-9.

36 Andrew McFadyean, Reparation Reviewed (London, 1930), 33; Carl Bergmann, The History of Reparations (London, 1927), 22-24. American historians have for the most part simply accepted the claims of German and British participants that the United States exerted little influence within the Reparations Commission. See, for example, Dexter Perkins, "The State Department and American Public Opinion," in Felix Gilbert and Gordon A. Craig, The Diplomats, 1919-1939 (Princeton, 1953), 303-304; Royal J. Schmidt, Versailles and the Ruhr: Seedbed of World War II (The Hague, 1968), 232. It is interesting and significant that the French participants believed that the unofficial American representatives had played an active and important role. See, for example, Memorandum of conversation between Louis Barthou and Norman Davis, May 26, 1934, Box 9, Davis Papers; Whitehouse to Secretary, January 31, 1928, 851.51/1307. The British and German criticism stemmed from their desire to obtain American aid in pressuring France to meet their own demands. As we shall see, American sympathy was never really altogether with Britain and Germany because Britain tried to involve the debt issue and because German fiscal policies frightened American trade interests. In effect,
remarks be taken at face value. Boyden, himself, argued that "No one who has had personal experience with the practical possibilities of unofficial representation can quite realize how effective it is practically." Reflecting upon his experience of the previous year, Boyden admitted that he had been "continually surprised to see how much they [the other members] have been influenced by my views after they became satisfied that I was frank and unpartisan." Other members of the State Department also realized that despite his unofficial capacity and non-voting status, Boyden "had great influence on the vote and in the making of decisions."37

During the spring, summer, and autumn of 1921, Boyden and Logan worked as quietly and as inconspicuously as possible to get all parties, especially the French, to agree to the principle of capacity. That they did not experience much success should not be interpreted as evidence of American indifference or of American weakness. During the reparations crisis of April and May 1921, Americans

unofficial American representatives tried to act as mediators and arbitrators between the contending factions despite official American warnings not to get overly involved. See, for example, Logan to Harrison, September 7, 1922, Box 9, Fletcher Papers. Senator Borah recognized that the unofficial American representative participated fully in the decisions of the Commission. See Borah to Beveridge, September 8, 1922, Box 215 (Foreign Debt), Borah Papers.

37 Boyden to Harrison, March 25, 1921, Box 2, Harrison Papers; Harrison to Castle, May 9, 1921, Box 12, ibid.
deliberately stayed aloof from the contending factions. This was a conscious decision based on first-hand knowledge that the French would be extremely critical of outside interference. Louis Loucheur, French Minister of Reconstruction, had told Logan that America's ability to be helpful in the future would be seriously impaired by precipitous action.38

In the months that followed, preparations for the disarmament conference consumed much of the time of State Department officials. Their fear that American entanglement in the indemnity issue might complicate developments at the Washington Conference restrained any inclination to intrude too forcefully in the reparations controversy. Characteristically, Under Secretary of State Fletcher warned Logan in October of 1921 not to be too outspoken in his conviction that the present reparations scheme was entirely unworkable. American policy makers probably realized the inevitability of a clash with France over naval disarmament. As a result, they wished to be as circumspect as possible on the reparations issue until the problems of naval disarmament were solved.39

38 Logan to Hughes, April 19, 1921, Box 9, ibid.; Harrison to Fletcher, April 20, 1921, ibid.; Memorandum, by Harrison, April 21, 1921, ibid.

39 Fletcher to Logan, October 22, 1921, Box 7, ibid.; Herrick to Allen, September 19, 1921, Box 10, Herrick Papers.
By the end of 1921, however, when it was apparent that the Washington Conference would be a success and when it was equally obvious that the Reparations Commission did not retain sufficient independence (from European governments) to cope objectively with the reparations issue, American policy makers began to consider alternate means of effecting an acceptable reparations settlement. Much attention in the United States and elsewhere was focused upon the possibility of holding an international economic conference immediately after the disarmament conference. Hoover and Harding were well aware that British Prime Minister Lloyd George and Loucheur were hoping to bring the United States into far-reaching discussions covering German reparations, Allied war debts, and the economic and financial reconstruction of Central and Eastern Europe, including Russia. In mid-December, upon arriving in London, French Premier Aristide Briand was so exuberant over the possibility of securing American cooperation in European economic affairs that he virtually embraced Ambassador Harvey. The appearance of Allied unity in face of German intransigence meant more to Briand than the humiliating concessions he had just been forced to accept on disarmament matters in Washington.  

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40 Hoover to Harding, December 16, 1921, Box 88, File 57, Folder 2, PCF, Harding Papers; Harvey to Harding, December 19, 1921, PPF 60, ibid.; Harvey to Hughes,
Meanwhile, American officials, all through late December, January, and February, were busy collecting and analyzing data on European economic developments. There were innuendos that European cooperation on disarmament would be reciprocated by a more malleable American position on European economic and financial matters. When the invitation finally came in early January 1922, to participate in a world economic conference at Genoa, the issue already had been discussed in the Cabinet and throughout high administration circles. In the weeks that followed there was additional soul searching. Harding apparently was initially sympathetic about attending. During February, however, he was apparently swayed by domestic and foreign events, and he eventually acceded to the advice of Hughes, Hoover, and Ambassador Child (in Italy) that the United

December 21, 1921, Box 4A, Hughes Papers; Herrick to Jusserand, December 14, 1921, Box 10, Herrick Papers; Candler Cobb (Assistant Commercial Attaché, London) to Klein, December 20, 1921, B.F.D.C., 600.2 (Genoa Conference), RG 151; Louis Loucheur, Carnets Secrets (Brussels, 1962), 185-188. For Briand’s concessions at the disarmament conference, see Chapter IX.

41 O. P. Hopkins (Assistant Director, B.F.D.C.) to Walter S. Tower (Commercial Attaché, London), December 20, 1921, B.F.D.C., 600.2 (Genoa Conference), RG 151; Leland Robinson (Assistant Director, B.F.D.C.) to Tower, January 11, 1922, ibid.; Klein to Huntington (Assistant Commercial Attaché, Paris), January 13, 1922, ibid., Box 600 (Finance and Investment-France), RG 151; Harvey to Harding, December 19, 1921, PPF 60, Harding Papers; Memorandum of interview between Jusserand and Hughes, February 13, 1922, Box 174 (France), Hughes Papers.
States send purely unofficial observers. 42

The picture is not altogether clear, but several factors seem to have influenced this decision. To begin with, there was much apprehension about the attendance of Soviet Russia and the political implications of informal recognition. There was a good deal of suspicion, as well, over British efforts to obtain special concessions from the Soviet government and thus circumvent America's insistence on the open door. In fact, as it became evident that the focus of the Genoa Conference would revolve around the problems of Russian recognition and reconstruction, the American desire to participate dwindled. The fall of Briand and the conspicuous disinterest of his successor, Poincaré, in the Conference also must have convinced American officials that the time was not propitious to intervene actively and to push the American reparations program. Moreover, policy makers feared that Lloyd George might seize the opportunity to raise the issue of war debts and thus embarrass the administration before the Senate just as the latter was considering ratification of the Washington naval accords and just after it had passed very restrictive legislation providing for the refunding of the debts themselves. 43


43 Hughes to Ricci (Italian Ambassador), March 8, 1921, F.R., 1922, I, 392-393; Memorandum of interview
The situation simply did not appear ripe for effective American intervention. As a result, the administration courteously rejected the invitation and turned its attention to still another possible means of resolving the reparations imbroglio according to American principles. Ever since the early autumn of 1921, conversations had been going on in New York and Washington concerning possible means of supporting the rapidly depreciating mark. These talks accelerated during the Washington Disarmament Conference. French experts and financiers exploited the opportunity of their visit to the United States to engage in discussions with German and American experts and bankers on how to solve Europe's financial impasse. There was an increasing realization that a moratorium on reparation payments, an American loan, and an overhauling of German financial operations were essential prerequisites for European economic and political stability.\textsuperscript{44}

The toppling of the Briand government in France by between Jusserand and Hughes, February 13, 1922, Box 174 (France), Hughes Papers; Carl Parrini, Heir to Empire (Pittsburgh, 1969), 152 ff.; note from French Embassy to the United States government, February 19, 1922, in Box 307, File 1275, Folder 1, PCF, Harding Papers; Harding to Harvey, February 18, 1922, and April 6, 1922, PPF 60, \textit{ibid.}; Herrick to Parmely Herrick, April 8, 1922, Box 11, Herrick Papers; Tower to Klein, January 27, 1922, B.F.D.C., 600.2 (Genoa Conference), RG 151. For Senate action on the debt question, see Chapter III, 142 ff.\textsuperscript{44}

\textsuperscript{44}Bergmann, \textit{Reparations}, 104-112.
nationalist-conservative elements seems to have given additional impetus to finding another means of settling the reparations dispute. Poincaré and his Finance Minister DeLasteyrie were preoccupied with France's financial dilemma. They were increasingly intent on balancing the budget and stabilizing the franc by obtaining large sums of cash through the payment of reparations. This could be done only by facilitating German credit arrangements in the United States. As a result, during May 1922, Poincaré made real efforts to moderate his image and to conciliate American policy makers on various issues. Logan reported to the State Department that the French government had employed the services of the Solvay Institute and of other renowned economists to study the economic and financial consequences of the occupation of the Ruhr. He was informed that the experts had emphasized the financial risks of such action and that Poincaré had been deeply impressed. Logan was hopeful that a settlement might soon be forthcoming.45

The optimism of Logan and others during the spring of 1922 was inspired by the Reparation Commission's creation of a special Loan Committee to study the conditions necessary for a successful flotation of a German loan. The

45McFadyean to Kent, February 8, 28, 1922, Box 3(M), Kent Papers; Logan to Harrison, May 19, 1922, Box 8, Fletcher Papers; Logan to Houghton, May 17, 1922, ibid.; Logan to Harrison, May 12, 1922, Box 7, Harrison Papers; Memoranda of interviews between Jusserand and Hughes, May 19 and May 26, 1922, Box 174 (France), Hughes Papers.
proceeds of such a loan were to be used in part to stabilize German finances and in part to pay reparations to France so that the latter could stabilize her own finances. The major impediment to the Committee's success was the stipulation that it not modify the provisions of the Treaty of Versailles or of the schedule of reparation payments agreed upon in May, 1921. The Committee was appointed in early April and included among its distinguished members the American financier, J. P. Morgan. It met in Paris during the last week of May to continue earlier informal deliberations and to make concrete recommendations to the Reparations Commission.46

There can be little doubt that American policy makers had great hopes that the Loan Committee, under the influence of Morgan, would accept American reparations principles and urge a solution based upon German capacity. Logan wrote Hoghton that "in our opinion the appointment of this Committee is a really serious constructive effort to get reparations and all German obligations on a business basis." Logan recognized that the Committee would find

46 Bergmann, Reparations, 124-126, 130 ff.; Logan to Houghton, May 17, 1922, Box 8, Fletcher Papers. During the Genoa Conference, there was a good deal of preliminary talk about floating a German loan on international markets. American bankers would have liked even more attention to have been focused on this matter. See MacLean (Commercial Attaché, Rome) to Klein, April 17, 1922, B.F.D.C., 600.2 (Genoa Conference), RG 151; Vanderlip, "Genoa, Clinic Not Conference," 20-21.
that no loans could be floated as long as the German indemnity remained unchanged. A crisis would then develop over whether the Committee could specify the revisions in Germany's reparations burden that would facilitate the flotation of a German loan. France would initially oppose this transformation in the authority and mandate of the Committee, but Logan hoped that Poincaré would eventually acquiesce to the inevitable. In general, the Americans regarded

the whole project as an opportunity for the world's financial opinion to express itself effectively with very great possibilities of beneficial results. We are sure this purpose is in the minds of all the Government's including the French.47

The unofficial American representatives on the Reparations Commission, Boyden and Logan, were in close contact with Morgan. Morgan himself had been appointed by the Reparations Commission only after the State Department had been consulted. He dominated the Loan Committee and he insisted that the French allow him and his colleagues to recommend changes in the schedule and amount of reparation payments so that they would be in accord with Germany's capacity. Such changes, he claimed, were essential for the rehabilitation of German credit. When the Loan Committee asked the Reparations Commission to expand its authority in this direction, Boyden argued in behalf of the request.

47 Logan to Houghton, May 17, 1922, Box 8, Fletcher Papers.
Only the French representative, Louis Dubois, opposed. Since Morgan had demanded unanimity, Dubois' vote meant the termination of the Committee's work.\footnote{Ibid.; "Report of the Loan Committee to the Reparations Commission," in Box 9, Fletcher Papers; Reparations Commission, "Minutes," No. 294, June 6, 7, 1922, in \textit{ibid.}; Boyden to Herrick, June 3, 1922, Box 11, Herrick Papers.} This brought to a temporary conclusion one method of solving the reparations crisis that was looked upon with particular favor by American policy makers. The other members of the Loan Committee followed Morgan's lead. Together they demanded a comprehensive approach to the issue that included the reform of German finances, the redefinition of the amount of the indemnity, and the cooperation of all nations in the flotation of an international loan. While the Committee pressed for a settlement based upon Germany's economic capacity, Morgan, following State Department policy, prohibited the linking of the war debt and reparation issues. He and other American diplomats insisted that connecting the two items would be counter-effective. Allied war debts, they argued, in no way affected Germany's capacity to pay reparations. Still more importantly, they claimed that any innuendos of debt reduction or cancellation might undermine the success of a loan
flotation in the United States which would depend upon popular subscription.49

Poincaré simply would not consider a revision of the reparations indemnity without commensurate changes in the war debts. He bitterly resented Morgan's tactics and the Loan Committee's attempt to pressure his government to accept changes in the London Schedule of Payments. American diplomats in Paris did not feel that Poincaré himself was inflexible or intransigent. They admired his courage throughout May in resisting nationalist demands for precipitous action. They understood that his refusal to allow the mandate of the Loan Committee to be expanded was an almost inevitable result of domestic political exigencies and his tenuous parliamentary position.50

Despite French objections to handing the matter over to a committee of bankers, or businessmen, or experts to determine the amount Germany could pay, American officials and businessmen throughout the summer of 1922 became increasingly attached to this medium as the only possible means of solving the reparations dilemma according to American requirements. This was especially true since it was more and more evident that both the reform of German finances

49 In addition to citations in the previous note, see Logan to Harrison, June 2, 1922, Box 9, Fletcher Papers.

50 Logan to Harrison, May 26, 1922, Box 8, ibid.; Fletcher to Hughes, June 6, 1922, Box 9, ibid.
and the flotation of an international loan depended upon a moratorium and a revision of German reparations obligations according to her capacity to pay. The only possible means of circumventing public and parliamentary opposition in France to this principle was by establishing an impartial committee of experts that could interpose itself between the French public and the French government. American policy makers recognized the importance of taking the issue out of the hands of politicians who were not only ignorant of economic matters but who were also responsive to the vagaries of public opinion. Influential Americans believed that "Europe [could] only be restored through the working of economic forces . . . ." If such was the case, an impartial committee of enlightened businessmen was obviously more likely than any other body to restore the economic underpinnings of world order.51

In August, Boyden advised Hughes to publicly support the convocation of an impartial tribunal. Hughes, busy with Latin American affairs, shied away from this action during

51 See the undated memoranda (probably August, 1922) by Boyden, Box 2, Harrison Papers; Ida M. Tarbell, Owen D. Young (New York, 1932), 160-161; Copy of letter from Irving T. Bush (President, New York State Chamber of Commerce) to Sir Edward Hulton (British newspaper tycoon), September 25, 1922, in Box 88, File 57, Folder 3, PCF, Harding Papers; Herrick to Thomas Lamont, September 13, 1922, Box 12, Herrick Papers; Memorandum by John F. Coar in Box 12, ibid.; Herrick to Poincaré, November 7, 1922, Box 12, ibid. The quote is from Herrick's letter to Lamont.
the reparations crisis of August, 1922. In the autumn, however, the international situation had become so ominous, the threat of social upheaval in Germany so imminent, and the international economic dislocations so frightening that Hughes instructed Herrick to directly approach Poincaré and to urge upon him the importance of convening a committee of experts. This committee would continue the work begun by the Loan Committee during the preceding June, but would be free from all confining restrictions. The Secretary was reluctant to make the demand publicly because he considered it unwise to appeal to the French people over the head of their government. He also was fearful of a French rejection in light of his own inability to make any concessions on the debt.

Plagued by domestic financial woes, Poincaré was not inflexibly opposed to an American plan that would at least

52 Boyden to Harrison, August 7, 1922, Box 2, Harrison Papers; Phillips to Hughes, August 28, 1922, and Hughes to Phillips, August 30, 1922, F.R., 1922, II, 163.

53"The Dawes Plan" [Beerits Memorandum], 2-3, Box 172, Hughes Papers; Hughes to Herrick, October 17, 1922, F.R., 1922, II, 168-169. For some illustrations of American diplomatic recognition of the seriousness of the European situation in the autumn of 1922, see, for example, Houghton to Hughes, October 23, 1922, F.R., 1922, II, 171-175; Castle to Hughes, October 24, 1922, ibid., 176; Boyden to Hughes, November 9, 1922, ibid., 181; Houghton to Hughes, November 21, 1922, Box 4B, Hughes Papers; Logan to Harrison, September 18, 1922, Box 9, Fletcher Papers; Logan to Hughes, December 1, 1922, ibid.; Herrick to Parmely Herrick, November 24, 1922, Box 11, Herrick Papers.
in part ease the French fiscal situation by earmarking to France on reparations account part of the proceeds of an international loan to Germany. Though he had been largely responsible for disbanding the Loan Committee in June, he and DeLasteyrie had not ruled out the possibility of reconvening it under more favorable circumstances. During the autumn, the precipitous decline in the value of the mark had convinced Louis Barthou, one of Poincaré's key advisers, of the seriousness of the situation and of the absolute necessity of resolving the indemnity crisis and ending the German financial debacle. In mid-November, within the Reparations Commission, Boyden worked diligently to cultivate Barthou's more conciliatory disposition. At the same time, he tried to strengthen Barthou's influence within the French government. Recognizing that French policy was influenced by feelings of military insecurity, Boyden proposed that in return for French acceptance of the principle of capacity, Germany demonstrate her "will for peace" by promising to accept the Treaty of Versailles subject to peaceful revisions.55

54 Logan to Harrison, July 28, 1922, Box 9, Fletcher Papers.

55 Logan to Hughes, October 17, 1922, November 13, 1922, and November 16, 1922, Box 9, Fletcher Papers; Proposed draft of Boyden's letter (on behalf of Reparations Commission) to German government, November 15, 1922, ibid.; Boyden to Herrick, November 21, 1922, Box 11, Herrick Papers.
While American diplomats in Europe were working full time in their efforts to secure a reconvening of an experts or bankers committee, Hughes was exerting similar pressure on French Ambassador Jules Jusserand in Washington. By the third week of November, these informal American efforts seem to have had at least an indirect effect on Poincaré's attitude. On November 17, the French Premier reluctantly agreed to invite Morgan to Paris for personal talks. The powerful New York financier had been in Europe all summer and had been in close communication with American diplomats. He had indicated his willingness to participate again in an impartial committee, but had made it known that it was up to Poincaré to seize the initiative. Upon receiving the invitation, however, Morgan decided to demand that Poincaré accept in advance the general principles laid down by the Loan Committee in June and a moratorium on reparation payments for a substantial period of time.

Poincaré refused to make these concessions as a condition for the financier's visit to Paris. This effectively ended all chances of an early accord based on American principles. State Department officials were disappointed with Morgan's intransigent position. Hughes had

56 Memorandum of conversation between Hughes and Jusserand, November 7, 1922, F.R., 1922, II, 179.
57 Hughes to Herrick, October 9, 1922, ibid., 165; Herrick to Hughes, October 13, 1922, ibid., 165; Logan to Hughes, November 24, 1922, Box 9, Fletcher Papers.
hoped to secure his full cooperation in pushing through the American program, but apparently there had not been sufficient understanding on the tactics to be used. William Castle felt that Morgan was ignorant of Poincaré's difficult parliamentary position and his inability to compromise publicly on the reparations issue. This was the sentiment of many of the most knowledgeable and well informed American diplomats in Europe. They recognized that the French Premier had become the prisoner of his own rhetoric. Boyden wrote Hughes that though Poincaré now could not be persuaded to follow a more moderate course of action, the French leader was aware of the futility of sanctions and dreaded their application. Poincaré, Boyden wrote, could not change. "His only source of strength is the fact that he has never changed. Whenever he falters the vultures [parliamentary opponents] will pick his bones." Fletcher, Logan, and Herrick also reported that the internal political situation compelled Poincaré to move energetically against Germany. 58

Nevertheless, throughout October, November, and

58 Boyden to Hughes, November 22, 28, 1922, Box 9, Fletcher Papers; Fletcher to Hughes, November 28, 1922, ibid.; Logan to Hughes, December 8, 1922, ibid.; Castle to Herrick, November 28, 1922, Box 11, Herrick Papers; Herrick to Hughes, December 22, 1922, Box 11, ibid.; also see W. Morton Fullerton to Herrick, November 18, 1922, November 23, 1922, and other undated letters, Box 11, ibid. Fullerton, a British journalist, was keeping Herrick fully informed on internal political developments in France.
December, American diplomats exhorted Hughes to take some effective action. Boyden insisted that only a public statement by the Secretary of State could stimulate "reasonable" French opinion and thus deter a European catastrophe. Hughes finally bowed to intense pressure from the diplomatic and business community to take a public stand. On December 29, at the convention of the American Historical Association in New Haven, he publicly suggested the creation of a committee of experts to study Germany's capacity to pay reparations. He expressed his confidence that the United States would contribute to a solution along such lines. In fact, this had been American policy for many months. The public affirmation of it came too late and had no impact. Poincaré had decided to occupy the Ruhr.

During the winter of 1922-1923, the Harding administration was criticized bitterly for not having intervened more effectively in the reparations crisis. Both in the Congress and in the press, there were savage attacks on Republican indifference to the impact of the European situation on American trade. There were recurrent proposals that the United States convene an international conference to

59 Boyden to Hughes, October 14, 1922, F.R., 1922, II, 167-168; Houghton to Hughes, October 23, 1922, ibid., 171-175; Castle to Hughes, October 24, 1922, ibid., 176; Boyden to Hughes, November 22, 1922, Box 9, Fletcher Papers.

60 Charles E. Hughes, The Pathway of Peace (New York, 1925), 53-58.
deal with the various elements of the international economic quagmire. Other critics urged that the administration take definite steps to pressure France to revise its militaristic policy. Ambassador Houghton wrote Hughes that:

The plain truth . . . seems to be that, having destroyed any balance of power in Europe and left France for the moment all powerful, we have simply let loose a great elemental force . . . . It can only be dealt with as a force. And unless it is met by armed force in the shape of armies, it must be met by economic force in the shape of threatened ruin. That is the whole story. France must be met by force. One might as well attempt to reason with the law of gravitation.

Along with others, Houghton suggested that the United States exert financial pressure by weakening the franc on the international exchanges.

Harding and Hughes justly resented the accusations being leveled against the administration. They had from the very beginning recognized the seriousness of the reparations problem and had developed a program to deal with it. The difficulty was in the implementation of the program. How

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62 Houghton to Hughes, February 27, 1923, and March 6, 1923, Box 4B, Hughes Papers; memorandum of conversation between Hughes, Wiedfeldt (German Ambassador), and Count Kessler, no date, Box 175 (Germany), ibid.; also see various resolutions introduced in Congress, in Box 60, Records of the Bureau of Accounts, RG 39 (National Archives). Some American financiers had long been considering the use of concerted financial pressure to drive Poincare out of power. See Frederic Cunliffe-Owen to Hughes, January 16, 1922, Box 17, Hughes Papers.
was French intransigence to be overcome without incurring French enmity and without involving the debt issue? Hughes believed he could not force action upon Europe. The Secretary of State wrote Henry Cabot Lodge, Chairman of the Senate Foreign Relations Committee, that:

The most this Government could do was to endeavor to get the question out of politics, as the statesmen could not agree, and in the hands of an advisory body . . . to deal with intricate economic questions, but of course this could not be done without the consent of France and she would not consent.

The Secretary of State was not surprised by this. He realized that "There are deep-seated convictions as to national interests on each side that must be reckoned with. These are too profound to be affected by mere advice or moral influence, and action to be justified must hold a reasonable promise of success." Both he and the President knew that there was little likelihood of success until public opinion in France had changed. 63

More pointedly, Hughes and Harding reproached Congress for its intransigent and inflexible position on the war debts. This, they claimed, circumscribed their ability to exert a salutary influence in European affairs. Harding bluntly wrote Lodge that "If Congress really means to

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63 For the quotations, see Hughes to Lodge, February 1, 1923, Box 31, Hughes Papers; Hughes to Samuel H. Church, July 7, 1923, Box 13, Herrick Papers; also see Hughes to Trumbull White, November 22, 1923, Box 31, Hughes Papers; Hughes to Boyden, November 24, 1922, Box 9, Fletcher Papers; Harding to Harold DeWolfe Fuller, February 2, 1923, Box 271, File 580, Folder 1, PCF, Harding Papers.
facilitate the task of the Government in dealing with the European situation, the first practical step would be to free the hands of the Debt Commission so that helpful negotiations may be undertaken." Harding and Hughes insisted that no international conference could or would be called as long as the administration was unable to discuss the debt question. The Secretary of State claimed that he could not exert meaningful pressure on France or any other nation as long as he had to repress all suggestions regarding possible American participation in the sacrifices necessary for economic readjustment.64

These factors continued to influence Hughes' response to the French occupation of the Ruhr. Though aware of the international economic dislocations caused by the French initiative, Hughes scrupulously avoided giving support to either side. American troops were withdrawn immediately thus indicating American disapproval; but no efforts were made to intervene in any way that might directly offend or embarrass France. Logan constantly reminded Hughes that any attempt by so-called neutrals to intervene constructively would be considered an unfriendly gesture by France.65

64 Harding to Lodge, December 27, 1922, Cong. Rec., 67 Cong., 4 Sess., December 28, 1922, 982; Hughes to Lodge, February 1, 1923, Box 31, Hughes Papers; Hapgood to Borah, February 13, 1923, Box 227 (Foreign Debts), Borah Papers.

Throughout the spring of 1923, American economists and bankers familiar with the international situation concurred that the United States had absolutely no prospect of pressuring France toward an early settlement. Hughes ruled out any use of financial pressure on grounds that there was not sufficiently close contact between the banking community and the government, and that even if there were, the bankers themselves would be divided on whether to cooperate. More importantly, he understood that any such action would incapacitate America's ability to mediate in the future.

One additional factor seems to have influenced Hughes' impartial and cautious reaction. He was extraordinarily sensitive to the divisions within the nation over the Franco-German controversy. Sympathy for France was more widespread than initially anticipated by the administration. Consequently, any inclination to manifest sympathy for Germany's plight was restrained. The Secretary emphasized to the German Ambassador that the fundamental fact in this country at this time with respect to the controversy between France and Germany was that there was a radical difference of opinion, and that the Government was bound to take this into consideration in anything it might

66 Kahn to Schiff, May 1, 1923, Box 211, Kahn Papers; B. W. Jones to Fred Kent, April 7, 1923, Box 2(B), Kent Papers; Jeremiah W. Jenks, "European Problems During the Last Year," N.F.T.C., Official Report, 1923, 37.

67 Memorandum of conversation between Hughes, Wiedfeldt, and Kessler, no date, Box 175 (Germany), Hughes Papers.
do, and certainly it should not make a perfectly futile gesture.

Like many other American officials in the 1920's, Hughes was apprehensive that any American involvement in European politics might infuriate and alienate some ethnic group in the United States. He worried that such national dissension might incapacitate any subtle, but effective, intervention that might otherwise have been possible. 68

By 1923, as a result of domestic considerations, political pressures, and French recalcitrance, Hughes had decided that the only possible means of securing an accord according to American principles was through the creation of an experts committee of businessmen. The Reparations Commission could not effectively handle the matter because it was too subject to the influence of governments. Moreover, Congress viewed the Commission with suspicion and considered it a cauldron of sinister European politics. Consequently, it had forbade official American representation on it. An international conference seemed to have no better prospect

of coping with the reparations quagmire. All governments participating in such a conference would have been sensitive to the political ramifications rather than the economic consequences of their decisions. Besides, foreign governments would have felt compelled to raise the war debt question. They might even have established a common front demanding remission of the war debts. The Harding administration was understandably apprehensive about the possibility of such developments, especially in light of Congress' avowed intent to scrutinize and dominate all debt settlements.

American policy makers realized that these hazards could be avoided by the participation of American businessmen on an impartial commission. Since they would be informally in close contact with the State and Commerce Departments, the businessmen could be relied upon to present the American program for a settlement based upon Germany's capacity to pay. At the same time, they could stifle all proposals involving the debt issue in a reparations settlement. Since any final accord would depend upon the flotation of an international loan in the United States, the American participants would have strong bargaining power, perhaps even more power than official government representatives who would constantly have been embarrassed by the debt issue. Most importantly, the appearance of experts dealing with the problem on a business basis might stimulate
confidence and generate public pressure in France and the United States in support of a reasonable accord. Secretary of State Hughes subsequently admitted that "had we attempted to make America's contribution to the recent plan of adjustment a governmental matter, we should have been involved in a hopeless debate, and, there would have been no adequate action." \(^{69}\)

Therefore, the Secretary of State waited patiently for passions to cool and for France to realize the folly of her deeds. Meanwhile, he did the best he could to protect

\(^{69}\) Hughes, Pathway of Peace, 108, 57-58. Hughes has been criticised for not trying to mold public opinion in support of more constructive American policies. Betty Glad charges that "In avoiding the politically objectionable, he may have left untouched the really significant problems of his time." See Betty Glad, Charles E. Hughes and the Illusions of Innocence (Urbana, Ill., 1966), 152. This is harsh and unfair criticism. Hughes might have been able to intervene more effectively during the autumn of 1922, but he decided not to do so partly out of fear of arousing domestic criticism, partly out of fear of making Poincaré's position even more difficult. As a result of his respect for or apprehension of public opinion, he successfully devised a technique that aided both the French and American governments in circumventing public pressure. This was an ingenious means of tackling the most significant international question of the period. There is no reason to assume, as Glad does, that confronting the American public and the American Congress with outright American intervention would have been any more efficacious. Neither Hughes nor Harding had very great success at persuading the Congress to follow executive initiatives. All one can fairly say is that perhaps a speech along the lines of the New Haven address sometime during the autumn might have mobilized international opinion and have encouraged moderate Frenchmen to speak out in favor of a more conciliatory approach. This might have allowed Poincaré to make concessions that he felt politically unable to concede. Other than this possible mistake with regard to timing, Hughes seems to have used American power in a most astute way.
immediate American trading interests in the Ruhr. More pertinent to long run considerations, however, both Hughes and Hoover encouraged the efforts of American bankers and businessmen to drum up national and international support for an experts committee to deliberate upon and to present solutions to the European economic dilemma, especially to the reparations crisis. Throughout the spring and summer of 1923, American businessmen and bankers, including Fred Kent, John F. Dulles, and Bernard Baruch, were busily travelling from one European capital to another trying to establish a mutually acceptable basis for the initiation of constructive German-French negotiations. In Washington, Hughes also advised foreign diplomats that the United States

70 For references to the actions of American businessmen and bankers, see the exchange of letters in the spring of 1923 between Fred Kent and Seward Prosser in Box 4 (Seward Prosser), Kent Papers; Kent to Lewis Pierson, May 22, 1923, Box 4(P), ibid.; Kent to Houghton, July 19, 1923, Box 2(F), ibid.; also see Loucheur, Carnets Secrets, 130-133, 144; Morris Frommer, "John Foster Dulles: His Thoughts, Attitudes, and Actions Toward Europe, 1919-1933" (unpublished Master's Thesis, The Ohio State University, 1969), 46-49. In Rome on March 23, 1923, Kent presented a plan to the International Chamber of Commerce for the establishment of an international committee of business experts to study and to settle European economic problems. See International Chamber of Commerce, "Proceedings of the Second Congress," Brochure No. 32 (Paris, 1923), 138-145. The plan, which was endorsed by the International Chamber, was also favorably viewed in the American press. See "America's Business Life-line to Europe," Literary Digest, 77 (April 7, 1923), 14. Kent and other businessmen remained in close contact with the State and Commerce Departments. See, for example, Kent to Hoover, September 27, 1923, Box 3 (Japan), Kent Papers; memorandum of conversation between Cartier (Belgian Ambassador) and Hughes, May 3, 1923, F.R., 1923, II, 61-62; Hughes to Kent,
approved of direct talks between Germany and France. While intimating that the United States still desired a settlement along the lines of his New Haven speech, the Secretary of State carefully refrained from offending France and insisted that Germany must pay, that is, up to the very limits of her capacity. 71

In the autumn, a constellation of events occurred that eventually culminated in the appointment by the Reparations Commission of two expert committees to study the appropriate methods of stabilizing the mark, balancing the German budget, and stimulating the flow of capital back to Germany. The end of German passive resistance in the Ruhr and a new initiative by Britain to support Hughes' New Haven proposals induced American policy makers to actively solicit French approval of an impartial tribunal to determine what

October 26, 1923, Box 10 (Bankers), Hughes Papers. In this letter, Hughes again warned Kent not to stimulate any thoughts that debt cancellation might constitute part of a reparations adjustment. At the same time, however, government officials were encouraging prominent bankers to generate support for Hughes' New Haven proposals. The address, for example, of John A. Prescott (President, Investment Bankers Association of America) at the annual convention of his organization, was cleared by the administration and altered to support administration policy. See address of John A. Prescott, October 29, 1923, Bureau of Accounts, Box 85, RG 39.

71 See F.R., 1923, II, 60 ff.; memorandum of conversation between Hughes and Wiedfeldt, June 7, 1923, Box 175 (Germany), Hughes Papers; memorandum of conversation between Hughes and Jusserand, July 12, 1923, Box 174 (France), ibid.
Germany could pay. Throughout October and November, Hughes exerted intense pressure on the French to allow the experts to conduct a comprehensive investigation of Germany's long term capacity unhampered by the restrictions which had doomed the work of the Loan Committee in June, 1922. The Secretary emphasized, however, that the French government was perfectly free to reject the recommendations of the experts if it found them unsatisfactory. In this way, Hughes tried to correct the bad impression that Morgan had left the previous November when he had insisted upon substantive French concessions as a condition for his visit to Paris. Hughes stressed America's interest in a European economic settlement and expressed his belief that the end of passive resistance made the present moment opportune. Pointing to the growing strength of leftist and rightist forces in Germany, Hughes warned Jusserand of the incendiary situation and he inquired, "Of what advantage . . . was the breakup of Germany." The Secretary insisted that it was an illusion to maintain that a divided Germany insured the security of France. Germany, he was certain, would someday be reunited and then France would have neither security nor reparations. If Poincaré obstructed the exhaustive inquiry

72 "Dawes Plan" [Beerits Memorandum], 13 ff., Box 172, *ibid.*

73 *ibid.*, 19-24; F.R., 1923, II, 74 ff.; Logan to Hughes, October 27, 1923; November 1, 1923, Box 10, Fletcher Papers.
that the United States and Britain desired, Hughes threatened to denounce publicly France's intransigence.\textsuperscript{74}

Unquestionably, Poincaré was caught in a quandary. He was under intense pressure from the French right to force German dismemberment and to create an independent Rhenish Republic. To have gone as far as he had in this direction and to stop short of the ultimate goal must have seemed perfectly irrational to many Frenchmen. On the other hand, France was isolated from her former allies and Poincaré was still aware of the dangerous implications of that isolation, especially when France's financial weakness was growing more acute with each passing day. In the face of these pressures, Poincaré deferred action, vacillated, rejected the United States-British initiative, and then finally accepted it.

The major issue in contention was whether the experts would be free to recommend long term changes in the schedule of reparation payments agreed upon in 1921. Poincaré initially claimed he could not allow the experts to make suggestions on the post-1930 period because there would be no objective basis for such estimations. The United States firmly rejected this argument and insisted that the experts have complete flexibility. Though the evidence is not clear,

\textsuperscript{74}Memorandum of conversations between Hughes and Jusserand, November 5, 9, 1923, Box 174 (France), Hughes Papers.
the American position probably was determined by the realization that sufficient confidence for a successful loan might be lacking if there was not a thorough investigation of the long range capacity of the German economy and if there was no prospect of a substantive lightening of Germany's burden of reparations. During the first week of December, however, after repeated assurances that the legality of the Ruhr occupation would not be considered, Poincaré made the necessary concessions. British threats of withdrawing from all inter-Allied commissions, America's refusal to compromise on the principle of capacity, France's financial weakness, the conclusion of special French reparation agreements with German industrialists, and the pressure of his own supporters in the Chamber all seem to have influenced the French Premier's reluctant decision to allow the committees complete freedom to conduct their investigation. 75

The two expert committees worked under the assumption that reparations could be paid only if Germany were granted a temporary moratorium that would enable German

finances to be totally rehabilitated. In order to balance the budget, stabilize the mark, and restore confidence, however, it was also considered imperative to change the onerous reparations burden that had been imposed in 1921.

The reform of German finances and the reduction of the total sum of reparations were essential prerequisites for the flotation of an international loan. This loan, then, would serve to intensify confidence and to contribute further to German financial stability; thus enabling Germany to resume indemnity payments free from the former economic dislocations that she had experienced.

There is no reason to describe the functioning of the two expert committees, except to portray how closely the American experts collaborated with the United States government and how effectively they presented the views of American officials without inspiring the type of domestic political controversy that the Coolidge administration dreaded. The American members of the two committees, Charles Dawes, Owen Young, and Henry Robinson, were appointed by the Reparations Commission only after the State Department had been fully consulted. Before Young and Dawes left for Europe, they were thoroughly briefed by Hughes, Hoover, Boyden, and Dwight Morrow (representing J. P. Morgan and Company). Moreover, Hoover sent along with them several trunks of papers and statistics that might be useful in their work. To interpret this morass of data and to assist
quietly in an advisory capacity, Hoover assigned Alan Goldsmith. The American commercial attaches in Britain, France, and Germany also were instructed to partake in the technical labor of the committees. Though obviously under strict orders to remain as inconspicuous as possible, Hoover's representatives clearly intended to play a major role in the expert negotiations.  

The major American objective was to secure a reparations settlement that would be in accord with Germany's capacity to pay. This, of course, was an unknown figure

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76 Logan served as an important intermediary between the Department of State and the American experts, especially when it came to protecting direct American interests. For example, the United States government wanted to insure that there would be sufficient amounts of reparation payments allocated to cover the costs of American occupation troops on the Rhine and to pay for the mixed claims of American citizens. See, for example, F.R., 1924, II, 1 ff.; Logan to Young, March 21 and 27, 1924, Records of United States Participation in International Conferences, Commissions, and Exposition, Box 1932 (Minutes, Decisions and Various Memos of the Dawes Committees), RG 43 (National Archives); Logan to Hughes, March 28, 1924, ibid. For absolutely essential information on the functioning of the expert committees and on the role of the members of the Commerce Department, see the correspondence between Alan Goldsmith and Christian Herter in Box 4 of the Leonard P. Ayres Papers (Manuscript Division, Library of Congress). These letters confirm much of the data that Royal Schmidt found in Ayres' own diary now located at the Hoover Institution on War, Revolution, and Peace. See Schmidt, Versailles and the Ruhr, 219 ff. Goldsmith was angered and dismayed by Young's refusal to consult with him and the other commercial attaches. He wanted Hoover to know how things had turned out in this regard. See, for example, Goldsmith to Herter, February 4, 1924, Box 4, Ayres Papers; Goldsmith to Richard S. Emmett (Hoover's Private Secretary), March 26, 1924, ibid.; also see Tarbell, Young, 165; F.R., 1923, II, 106 ff.; Charles G. Dawes, A Journal of Reparations (London, 1939), 2-5.
which would depend on many intangibles. In American minds, however, it had to be reasonable enough to enable Germany to resume her central role in the European economy and to revive confidence in German credit; but heavy enough to deter German industry from emerging as the dominant force in world commerce. Thus, the first priority of Young and Dawes was to obtain a balanced budget and a stable mark. This could be done, they believed, by demanding that the German government accept an internal tax policy that would impose a per capita burden as heavy as that which existed anywhere else in Europe. The principle of equal taxation became basic to the American experts. Its purpose was two fold. By helping to restore a stable mark, it would resuscitate German purchasing power and encourage increased commerce with Germany. By preventing German producers and exporters from benefiting from advantageous tax and fiscal policies, it would help to remove their competitive edge in world trade. 77

This type of dual thinking influenced every aspect of the work of the American experts. 78 Thus, they

77 For the crucial importance of the principle of equal taxation, see Goldsmith to Herter, January 20, 1924, January 28, 1924, February 4, 1924, Box 4, Ayres Papers; Dawes, Journal of Reparations, 145-146. For emphasis on balancing the budget and stabilizing the currency, see Rufus C. Dawes, The Dawes Plan in the Making (Indianapolis, 1925), 35, 254, 259; Dawes, Journal of Reparations, 4, 20, 30-31.

78 For example, the American emphasis on establishing a new gold bank, a stable mark tied to gold, and a transfer
immediately assumed an intermediary position between the British and French experts. Like the former, they were preoccupied with the task of re-establishing German productivity. The British and American experts concurred that the return of German productivity and the restoration of German purchasing power depended upon the reunification of German economic life. To accomplish this it was necessary to eliminate the customs barriers and the other impediments that the French had created between the Ruhr and the unoccupied parts of Germany. The termination of French economic intervention in the Ruhr was considered an indispensable prerequisite for the migration of capital to Germany. The return of investment capital would then have a salutary impact on the mark and the entire German economy. 79

On other key matters, however, the American delegates differed with their British colleagues. From the very onset, Dawes and Young placated French apprehensions by deciding to refrain from enumerating an absolute lump sum of

commitee was related to both of these American economic goals, that is, to restoring the European economy and to enhancing America's competitive position in the struggle for world markets. The American commitment to these principles came early in the proceedings. See, for example, Houghton to Hughes, February 19, 1924, Box 31 (Lodge), Hughes Papers; Dawes, Journal of Reparations, 56-57; Stephen V. O. Clarke, Central Bank Cooperation, 1924-1931 (New York, 1967), 60-66. 79Dawes, Journal of Reparations, 30, 99, 117-119, 124-125, 130; Dawes, Dawes Plan, 72, 214, 236; Logan to Hughes, February 22, 1924, Box 11, Fletcher Papers.
reparations. They agreed with the French that Germany's ultimate capacity could not be determined while she was impoverished. Therefore, they decided to levy temporary annuities which could be subsequently changed in light of concrete developments.

More importantly, Young consistently evaluated German capacity at a much higher level than either the British experts or his own American advisers. Along with Ambassador Houghton, Young was sensitive to all the aspects of a settlement that indirectly might aid German industry. He recognized that the inflation had wiped out the internal debt of German manufacturers. Unless the German reparation obligations imposed a burden on German industrialists commensurate with the advantages gained by them through the internal depreciation of the mark, foreign competitors would be in serious trouble. Young's association with General Electric and his awareness of German efficiency and rivalry in the electric industry, impelled him to exaggerate Germany's recuperative powers and to sympathize with France's demand for large sums. In general, Young was a lawyer, a bargainer, a person intent on facilitating a settlement that would initiate a period of international economic stability. As a result, he was sometimes inclined "to feel

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that figures [were] secondary, and that a plan which [would]
tide over the next five or six years [would] bring about
stability, and the future [would] take care of itself."
This manner of approaching the reparations issue, while
designed to win over French support, caused considerable
friction between Young and the British experts and between
Young and his technical advisers.

Both Dawes and Young were conscious that a success­
ful report depended upon gaining the adherence of the French
experts. They understood that the Ruhr occupation had been
the result of both strategic and financial motivations.
They decided that the creation of railway bonds and the
earmarking of special revenues for reparations account were
just means of compensating the French for ending their
economic intervention and for relinquishing the deliveries-
in-kind and the Ruhr revenues in their hands. Recognizing,
however, that it was a much more difficult matter to provide
France with equivalent strategic guarantees, Dawes and Young
agreed not to insist upon the immediate military evacuation
of the area. But they agonized over the problem of insuring

81 Goldsmith to Herter, January 20, 1924, February
24, 1924, March 31, 1924, Box 4, Ayres Papers; Goldsmith to
Emmett, March 26, 1924, ibid.; Houghton to Hughes, February
19, 1924, Box 31 (Lodge), Hughes Papers; Goldsmith and
Herring to Hoover, April 12, 1924, B.F.D.C., 3266 (Incoming
Confidential Cables), RG 151. Dawes also was sensitive to
the great productive potential of German industry. See
Dawes, Journal of Reparations, 139.
that the military intervention did not interfere with German economic unity. Any such infringement would have a disastrous effect on the flow of capital to Germany. Dawes hoped that it would be evident that "the mere creation of this new status quo of economic peace involves a protection for France greater than that which can come from an economic pressure in the Ruhr." Responsive to France's military anxieties, however, Dawes (as powerful Chairman of the First Committee) decided to circumvent the issue of military occupation so long as there was sufficient evidence that it would not impede German economic recovery.82

Thus, by playing an intermediary role between the conflicting European positions, Dawes (the publicity agent), Young (the negotiator), and Robinson (the methodical and analytic banker) were able to secure a unanimous report. Their influence seems to have been decisive both inside and outside the committees. Not only were they able to reconcile the differences between the British and French experts on the two committees, but they were also able to secure the cooperation of German Foreign Minister Gustav Stresemann and to quell the opposition of powerful German industrialists. The British and German attitudes toward the experts'

82 Dawes, Journal of Reparations, 82, 99, 104, 107-119, 123-125, 131-133, 145-149. The quote is on page 116. Also see Dawes, Dawes Plan, 92, 110, 238; Goldsmith to Herter, February 24, 1924, Box 4, Ayres Papers; Logan to Hughes, February 22, 1924, Box 11, Fletcher Papers.
report were to a large extent determined by the recognition of the American role in its formulation and by the realization of the critical importance of maintaining United States involvement in the economic reconstruction of Europe.

Herrick accurately wrote President Coolidge:

Whatever may be done with the Experts' Report, it is universally conceded that our participation even to this limited extent, has made a most profound impression on Europe. . . . The fact that America is the creditor nation and is trusted in all Europe, even where she is despised, is a tremendous factor in our favor and also gives us a potential power to straighten out affairs over here. . . .

This was especially true at a time when the franc was so weak as to stimulate fears of its going the way of the mark. This made the French experts, as well as the Poincaré government, unusually pliable and conciliatory.

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84 During the work of the expert committees, the franc was truly in a precarious state. A one hundred million dollar credit was arranged by the French government with Morgan and Company in March, 1924, to support the franc and to bolster confidence. See Dawes, Journal of Reparations, 160. By no means, however, did this alleviate French
Throughout the investigation, the American experts were careful not to depart from the principle of capacity. Their efforts revealed, however, that though the principle was clear, Germany's actual capacity was not. Yet, this principle had been adopted by the United States because of its probable long range stabilizing impact on European recovery and international trade. By effecting a flexible reparations accord somewhere between the maximum that France demanded (and which might have undermined German and European economic recovery) and the minimum which Britain and Germany desired (and which might have threatened American commerce), the American experts really did bring to fruition a report that accorded with the American concept of German capacity. In addition, they seem to have made perfectly clear that the war debt issue was totally outside their frame of reference. Acrimonious arguments over this matter do not seem to have interfered with their work. Hughes had indicated from the very beginning that he did not want this financial difficulties. See Goldsmith to John K. Towles, May 1, 7, 1924, B.F.D.C., 601.2 (France-Foreign Exchange), RG 151. Many knowledgeable Americans were commenting that the weakness of the franc was influencing Poincaré and making him more conciliatory. See, for example, Goldsmith to Herter, March 9, 1924, Box 4, Ayres Papers; Kellogg to Hughes, March 5, 1924, Box 61, Hughes Papers; Herrick to Hughes, March 20, 1924, Box 16, Herrick Papers; Fletcher to Hughes, February 18, 1924, Box 11, Fletcher Papers.
Thus, the administration had been correct in assuming that private American businessmen could secure a settlement that conformed to American principles, but did not stir up unnecessary controversy in the United States. By no means, however, did the unanimous recommendations of the experts insure approval by the European governments. Even before Young left Europe in late April, he was very apprehensive of French opposition if they were not satisfied with their right to initiate military action in case of a German default. This problem was exacerbated by American bankers who demanded that France be expressly prohibited from any future military undertaking that might menace German capacity and endanger the contemplated loan, especially in cases of innocent default. This raised the entire issue of sanctions, both past and future.

American opposition to the use of sanctions had been

85 Hughes had instructed Logan to inform the Reparations Commission that he opposed the appointment of any Americans who had ever advocated cancellation. See Hughes to Logan, December 13, 1923, 800.51W89/50.


87 Young to Emile Francqui, April 21, 1924, Records of United States Participation in International Conferences, Commissions, and Expositions, Box 1932 (Minutes, Decisions and Various Memos of the Dawes Committee), RG 43; Young to Herrick, May 23, 1924, Box 17, Herrick Papers; J. P. Morgan and Company to Morgan, Grenfell, and Company, July 9, 1924, Box 56 (Dawes Plan), Hughes Papers; Morrow to Hughes, July 12, 1924, ibid.
a basic tenet of the Republican reparations program since March, 1921. Accordingly, during the proceedings of the expert committees, Commerce Department officials warned that the ambiguity of the proposals with regard to rectifying the situation created by the previous use of sanctions might prevent the restoration of confidence and thus inhibit the anticipated economic revival. In order to insure that this did not happen and in order to restrain the future application of sanctions, American officials, diplomats, and bankers actively participated in the inter-governmental negotiations of July and August, 1924. This was the natural culmination of prior American efforts to obtain a reparations settlement based on the principle of capacity and divorced from the debt issue.

Almost immediately after the return of the American experts, the administration enthusiastically endorsed their recommendations and proceeded to follow a course of action aimed at securing full European adhesion to America's reparations policy. First, Hughes suggested the preference of having an American as Agent-General. This was

88 Goldsmith to Ayres, March 3, 1924, Box 4, Ayres Papers; Goldsmith and Herring to Hoover, April 12, 1924, B.F.D.C., 3266 (Incoming Confidential Cables), RG 151.

89 Hughes to Herrick, April 23, 1924, F.R., 1924, II, 14-15; memorandum of interview between Hughes and Wiedfeldt, April 28, 1924, Box 175 (Germany), Hughes Papers; memorandum of interview between Hughes and Jusserand, May 9, 1924, Box 174 (France), ibid.
in accord with the desires of American bankers who wanted
an American in this position in order to strengthen the
security of the forthcoming loan. This would be the case
since the Agent-General was sure to have some power to deter
the use of sanctions.  Then, Hughes made plans to utilize
his own trip to Europe with the American Bar Association as
an opportunity to lobby for a European accord. In addi­
tion, he decided to respond affirmatively to a European
request that American representatives attend the Prime
Minister's Conference in London. While the Secretary was
making these decisions in Washington, Logan and Houghton
were acting as intermediaries in European negotiations be­
tween France and Germany. This extensive American in­
volvement reflected widespread recognition in Europe and in

90 For references to American interest in the posi­
tion of Agent-General, see Basil Miles to Logan, May 17,
1924, Box 17, Herrick Papers; F.R., 1924, II, 135 ff.;

91 Hughes to Kellogg, May 29, 1924, Box 61, Hughes
Papers; Hughes to Herrick, June 4, 1924, Box 59, ibid.;
memorandum of conversation between Wiedfeldt and Hughes,
July 2, 1924, ibid. The Secretary of State desired to meet
European leaders as quietly and as inconspicuously as eti­
quette would permit. This was because he was afraid of
generating too much publicity within the United States in
a presidential election year. He was equally wary of
engendering congressional suspicion, perhaps even con­
gressional supervision.

92 F.R., 1924, II, 20 ff.; Kellogg to Hughes, June
10, 18, 1924, Box 61, Hughes Papers.

93 Dawes, Journal of Reparations, 247-261; Sutton,
Stresemann, I, 347-349.
the United States that the implementation of the Dawes Plan depended upon American capital and that the latter would not be forthcoming unless Americans were satisfied with European arrangements, especially with regard to the use of sanctions.

In order to secure European approval of an amended Dawes Plan, influential Americans converged upon the British capital in mid-summer of 1924. Along with Hughes and the leading members of the American legal profession, there came Mellon, Young, Houghton, Logan, Thomas Lamont (Morgan and Company), Otto Kahn (Kuhn, Loeb), and other leading financiers and businessmen. Of all those Americans attending in a private capacity, Lamont was the most influential and powerful since any international loan depended upon the backing of Morgan and Company. He quickly joined with the British in demanding safeguards to prevent any future French application of sanctions. Together, British and American financial interests compelled the French delegates to accept not only full American participation in future deliberations concerning a default, but also to agree to an exhaustive procedure of impartial arbitration if the question of default should ever arise. No longer would a majority vote of the Reparations Commission be sufficient to initiate sanctions; in fact, no sanctions would even be considered except in cases of flagrant (intentional) default. In much the same way, when the Germans came to the Conference in
August, Lamont supported their demand for an early, if not immediate, evacuation of the Ruhr. This was considered necessary to generate confidence and to insure protection for future investors in German bonds. 94

American government officials acted more discreetly than Lamont, but the total impact was to submit the new French government of the Cartel des Gauches to unbearable pressures. In London, Hughes kept in close touch with the proceedings of the Conference and he impressed upon the French Premier, Édouard Hériton, the importance of immediately implementing the Dawes Plan. Hériton was apprehensive that if he conceded too much, his government would fall. Hughes said France had no alternative. In order to relieve Hériton's anxieties, however, he went to Paris and warned Poincaré that if the Hériton government were toppled on the issue of the Dawes Plan, American interest in European problems would end. Nevertheless, Hériton remained almost

94 For references to the role of American bankers during the London negotiations, see "Minutes of Meetings of First Committee," Inter-Allied Conference, July, 1924, Records of United States Participation in International Conferences, Commissions, and Expositions, Box 1941, RG 43; Sutton, Stresemann, I, 358-361; Clarke, Central Bank Cooperation, 52 ff.; "The 'Money Devil' Mixes in the Reparations Row," Literary Digest, 82 (August 9, 1924), 5-7; Jacques Seydoux, De Versailles au Plan Young (Paris, 1932), 312; Kahn to Schiff, July 16, 1924, August 21, 1924, Box 237, Kahn Papers. Kahn felt Lamont had exerted unnecessary pressure on Hériton. Also see Kellogg to Lamont, September 24, 1924, Box 61, Hughes Papers; D'Abernon, Ambassador of Peace, III, 88-89.
hysterically afraid of Poincaré and of Poincaré's supporters in the press. Even moderate Frenchmen were calling for reciprocal concessions from their former Allies on debts and security, especially in return for France's withdrawal from the Ruhr. In this incendiary atmosphere, Kellogg and Logan diligently mediated the differences between the contending factions at the London Conference. They finally secured Hérriot's assent to an immediate evacuation of Dortmund and to a complete evacuation of the entire Ruhr within one year. In this manner, American financiers combined their efforts with American officials to circumscribe the use of future sanctions and to alleviate the impact of former sanctions.

By mid-summer, American interest in a European settlement had become so intense that President Coolidge was devising solutions to break any deadlocks that might arise in the European negotiations. If the Prime Ministers could not agree on a possible method of declaring Germany

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95 For Hughes' role, see "Dawes Plan" [Beerits Memorandum], 27, Box 172, Hughes Papers; "The European Trip of 1924" [Beerits Memorandum], 5, 14, 36, 40-42, Box 173, ibid.; D'Abernon, Ambassador of Peace, III, 83-85. For references to the pressure exerted upon Hérriot and to the instrumental role of Kellogg and Logan, see Sutton, Stresemann, I, 390-405; Cravath to Kahn, no date (late July or August, 1924), Box 220, Kahn Papers; Kellogg to Hughes, August 18, 1924, Box 48, Hughes Papers; Kellogg to Hughes, October 15, 1924, Box 61, ibid.; General Electric Company, Addresses of Young, 138-141; Loucheur, Carnets Secrèts, 152-154; "America's Part in the Peace of London," Literary Digest, 82 (August 30, 1924), 5-8.
in default, Coolidge was ready to suggest that the Chief Justice of the United States arbitrate the matter in future contingencies. Under Secretary of State Joseph Grew correctly noted that "... our policy is less and less of isolation and we are going as far as we can in every manner without entering into European entanglements."96

The successful intervention of Logan and Kellogg in the London negotiations proscribed the need for a new American initiative. Nevertheless, American bankers and diplomats worked arduously throughout September and early October to secure parliamentary ratification of the Dawes Plan and the London agreements both in France and in Germany and to insure the success of the international loan.97

Coolidge aptly explained the reasons for this extraordinary American involvement. He told American journalists the probable effects of a European accord on reparations

would be exceedingly good on American business conditions. ... It would stimulate business, ... not export business, but a general feeling that at last we are reaching a stage where we can see stable conditions in Europe, and that would mean a stabilizing of conditions here, and a minimizing of present uncertainty, so that people feel they could go ahead with their business enterprises.98

96Grew, Turbulent Era, I, 627-630.
97Kellogg to Hughes, October 1, 1924, Box 61, Hughes Papers; Lamont to Hughes, October 23, 1924, Box 62, ibid.; Sutton, Stresemann, I, 471; Clarke, Central Bank Cooperation, 67 ff.; Felix Hirsch, "Stresemann, Ballin, und die Vereinigten Staaten," Vierteljahrshefte Fur Zeitgeschichte, 3 (January, 1955), 30-31.
98Howard Quint and Robert Ferrell, The Talkative President (Amherst, Massachusetts, 1964), 186.
The accord reached at the London Conference set the stage for an amazingly successful loan flotation in American and European financial markets. As a result of the rehabilitation of German finances and the temporary resolution of the indemnity question, an element of stability was finally introduced into European affairs. Throughout the years of the difficult and acrimonious negotiations, American policy makers had called for a reparations settlement based upon Germany's capacity to pay. Such an accord, they believed, would contribute to the economic reconstruction of all of Europe, to the restoration of European purchasing power, and to the stabilization of international trade conditions. In addition, American officials had insisted on divorcing the issues of debts and reparations and on downgrading the efficacy of sanctions. They consistently had maintained that a solution along these lines would enhance both the security and economic well-being of all the powers and would at the same time enable the United States to participate financially in a constructive manner.

At first, this American program encountered the inflexible opposition of the French. Rather than dissipate American influence through the unbridled use of financial power, Hughes patiently waited for France to see the failure of Poincaré's policies. Meanwhile, American policy makers formulated the tactic of establishing so-called expert
committees to solve the indemnity program. They then methodically cultivated support for this idea both at home and abroad. American officials perceptively realized that such committees might arrive at difficult economic decisions at least partly insulated from public and parliamentary pressures. Within these committees, American influence could be exerted effectively without engendering too much domestic political controversy.

In these calculations, Republican policy makers could not have been more astute. The American experts deftly pushed through American principles. Their efforts were then reinforced by the official and unofficial participation of American diplomats and businessmen in the London Conference. In the end, American financial strength and tactical shrewdness compelled a more conciliatory French government of the Cartel des Gauches to accept all aspects of the American reparations program. Thus, the first step toward European economic stability had been taken. Attention could then be turned to the debt problem.
CHAPTER III

WAR DEBTS

The settlement of the reparations controversy and the implementation of the Dawes Plan were giant steps toward the stabilization of European economic and financial life. American policy makers eagerly awaited the salutary impact of these developments upon the American economy. With evident satisfaction, Treasury spokesmen declared:

The effect of a more prosperous Europe means the broadening of our markets and opportunities and a quickening of our economic development. The situation in America looks more favorable for sound and orderly economic development than at any time since the war.¹

For several years, well informed individuals in government and in business had realized that the resumption of a flourishing international commerce depended upon the stabilization of exchange rates,² and that the latter depended upon the settlement of the reparation and war debt

¹U.S., Treasury Department, Annual Report of the Secretary of the Treasury, 1923-1924 (Washington, 1925), 4. (Hereinafter this source shall be cited as Treasury, Annual Report, date, page.)

²For a more elaborate discussion of this point, see Chapter V, pp. 286-291.
Controversies. Consequently, with the indemnity issue resolved, the time seemed propitious for enumerating the terms under which the former Allies would repay the money they had borrowed during the Great War. Since the British war debt had been funded in early 1923, the French debt was now considered the most important. State Department officials hoped that a French-American debt accord would set a pattern for other debtors to emulate. With French reparation receipts clearly defined for the next few years, it was felt that France now would be able to enter into specific undertakings with regard to the $4 billion debt she had incurred during the war.

Ever since the Armistice, fiscal, political, and

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3 See, for example, "Report of the Loan Committee to the Reparations Commission," June, 1922, in Box 9, Henry Fletcher Papers (Manuscript Division, Library of Congress). The relationships between debts, exchange rates, and trade will be discussed more thoroughly in the following pages.

4 A. N. Young (Economic Adviser) to Hughes, September 20, 1924, General Records of the Department of State, File No. 800.51W89 France/91, RG 59 (National Archives). (Hereinafter a decimal number standing alone will indicate RG 59 in State Department files, National Archives.) Also see "The French Debt Next," Literary Digest, 82 (September 27, 1924), 14. Pre-Armistice loans to France equalled $1,970,000,000. Post-Armistice loans equalled $963,174,898. In addition, the French had borrowed $407,341,145 to buy surplus American war stocks. As of June 15, 1925, the total principal was $3,340,516,043. But accrued and yet unpaid interest amounted to $684,483,956. Consequently, the entire French debt to the United States government equalled $4,025,000,000. See House, Committee on Ways and Means, French and Yugoslavian Debt Settlements (Washington, 1926), 8.
commercial factors had impelled American policy makers to pressure European governments to sign debt agreements. After the United States became an active belligerent in the World War, the American government borrowed from the American people under the provisions of the Liberty and Victory bond acts and then advanced approximately ten billion dollars to the Allies. Interest, maturity, and other conditions of the loans to the Allies were similar to the terms on which the American government had borrowed from the American people. In return for the sums advanced to the Allies, the United States government received demand obligations which were to be refunded into long-term obligations at the conclusion of hostilities. The United States Treasury hoped to repay American bondholders with the revenues received from the Allied debtors. If the latter failed to pay or to convert their demand obligations into long-term bonds, the American government was faced with the prospect of securing the necessary funds to retire the outstanding Liberty bonds through heavier taxation in the United States. Thus, debt settlements and debt payments were desired by American officials in order to lighten the tax burden in this nation.  

5 For the amounts and types of foreign indebtedness to the United States government, see Treasury, Annual Report, 1926-1927, 579. For the provisions of the Liberty and Victory Loan acts relating to the conversion and refunding of the demand obligations of the Allies, see Congressional Record, 67 Cong., 1 Sess., June 24, 1921, 3021-3023.
For this reason, the controversy over the war debts can be understood only in the context of the American government's over-all financial position at the end of the war. Taxes and revenues had been raised substantially during the conflict. Nevertheless, the government had had to resort to borrowing on an enormous scale and the public debt had increased from about one billion dollars in 1914 to approximately twenty-five billion dollars in 1919. Therefore, post-war administrations were confronted with the dilemma of converting the short-term floating debt and of reducing the entire public debt while decreasing internal taxation. In his last annual address to Congress, President Woodrow Wilson stressed the dangers inherent in the large floating debt and emphasized the importance of pursuing sound fiscal policies. The Republican administrations of the 1920's were even more concerned with fiscal matters. Presidents Warren Harding and Calvin Coolidge considered the reduction of government expenditures and the lightening of tax burdens to be among the most immediate aims of their administrations. The accomplishment of these goals, together with the orderly liquidation of the public debt, were believed to be indispensable prerequisites for

6 For a discussion of American taxation during the war, see Ernest Ludlow Bogart, War Costs and Their Financing (New York, 1921), 264-296. For statistical data on the growth of the national debt, see William F. Willoughby, Financial Condition and Operation of the National Government (Washington, 1931), 216-219.
investment confidence and economic progress.\(^7\)

If American officials believed there were sound economic and fiscal reasons for demanding the refunding and payment of the Allied debts, they were even more convinced of the political wisdom of assuming such a position and of opposing cancellation. After the increments in taxation during the war, there was a widespread sentiment throughout the nation for commensurate reductions once the conflict was over. As post-war disillusionment set in, politicians were more and more reluctant to ask their constituents to be generous and to assume the financial burden of the war. Even businessmen who need not have been especially responsive to political trends believed that it was politically impossible to ask American taxpayers to bear a greater share of the war costs than their foreign counterparts.\(^8\)


\(^8\)For some indications of public sentiment with regard to payment of the war debts in the early 1920's, see the many letters to Senator William Borah in Boxes 204 and 215 (Foreign Debts), William E. Borah Papers (Manuscript Division, Library of Congress); also the many letters to Senator Boies Penrose, in Records of the United States Senate, 67th Cong., 1st Sess., "Allied Debts," RG 46 (National Archives). The clear anti-cancellationist sentiment of the American people at the grass roots restrained some business leaders from going as far as they might
Commercial considerations played an equally decisive role in motivating American policy makers to seek refunding accords. On this point both Secretary of the Treasury Andrew Mellon and President Coolidge were quite explicit. Mellon told the House Ways and Means Committee that the settlements are made in the real interests of those American producers who must have a foreign market able to pay. The American producer needs these debt settlements. The entire foreign debt is not worth as much to the American people in dollars and cents as a prosperous Europe as a customer.

Coolidge also understood that an important result of the debt settlements would be "the stabilization of foreign currency, making exchange assist rather than embarrass our trade." 9

Recognizing that the stabilization of European currencies was the key to the revitalization of European purchasing power, American officials also perceived that stabilization itself was dependent upon the consummation of debt settlements. This was because stable currencies resulted in part from balanced budgets and budgets were likely otherwise have gone in calling for American generosity. See, for example, Otto Kahn, Reflections of a Financier (London, 1921), 428-435; Kahn to Reed Smoot, in Commercial and Financial Chronicle, 115 (December 30, 1922), 2843-2844; Julius H. Barnes, "The Treatment of the Allied Debts," ibid., 115 (October 28, 1922), 1883-1884; "Bankers Not Urging Cancellation of the Allied Debts," Bankers Magazine, 104 (April, 1922), 631-632.

9 For Mellon's statement, see Treasury, Annual Report, 1925-1926, 213; for Coolidge's statement, see message by Coolidge to Congress, December 8, 1925, F.R., 1925, I, xvii.
to be balanced only if expenditures could be clearly predicted. In other words, American officials felt that the debtor governments could balance their budgets and stabilize their currencies only if they knew how much would be falling due annually on account of the inter-Allied debts. The uncertainty of this figure, even more than the actual financial burden involved in debt payments, was thought to be a major cause of Europe's financial chaos. Characteristically, Mellon maintained that only after France funded her debt to Britain and to the United States would she be able to balance her budget, check inflation, stabilize her currency, and put her finances on a sound basis.

Though both fiscal and commercial factors impelled American policy makers to settle the controversial issue of debt repayments, these forces pushed in opposite directions when it came to the actual terms of agreement. Fiscal considerations and grass roots political pressures pushed in the direction of an inflexibly harsh debt policy. On the other hand, the imperatives of international finance and the demands of American exporters called for a more lenient and

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generous policy, but not one necessarily aimed at cancellation. After all, there were many exporters who worried that cancellation might enhance Britain's competitive position in world trade as a result of the tax breaks British industry would derive therefrom. Consequently, it became the task of American policy makers to balance the conflicting political and economic pressures bearing on the debt issue as well as to reconcile the divergent fiscal and commercial imperatives.

This was by no means an easy thing to do, since Congress had clear cut authority over the issue of debt funding and was not eager to relinquish its control to the executive branch. As a result, the war debt issue was quickly immersed in partisan politics and became interwoven with a whole matrix of other domestic issues. The Harding and Coolidge administrations wanted to keep the issue out of politics and to treat it on a "business" basis as they had done with the reparations question. But it was much more difficult to avoid the political overtones of the debt issue since on this matter the American government had not only to become involved in negotiations with European governments but also had to make concessions of its own. It was not simply a matter of asking other nations to make

11See, for example, F. H. Rawson (President, Union Trust Company) to Herrick, December 17, 1921, Box 12, Myron Herrick Papers (The Western Reserve Historical Society, Cleveland, Ohio).
the necessary compromises and of relying upon the American business community to make the necessary American contribution. In late 1924, however, the application of the principle of capacity to the debt question through the deliberations of a bi-partisan War Debt Commission was an attempt to duplicate the successful work of the expert committees on reparations.

Since the termination of hostilities in November, 1918, American and French policy makers had been unable to agree on appropriate terms for refunding the debt. For the most part, the issue had not been pressed, and during the reparations crisis of 1922-1924, it had been almost altogether subordinated and left in abeyance. Nevertheless, the same internal and external pressures bearing on the question had been in existence since the Armistice. Consequently, American efforts to solve the problem in 1925-1926 can only be understood in the context of the former abortive attempts to mold an agreement acceptable to both nations.

During the winter of 1918-1919, French officials in Paris, in Washington, and in New York indicated that they wanted all financial questions, including the war debts, to be considered simultaneously at the Peace Conference. Their aim was to obtain an eventual cancellation, redistribution, or consolidation of the American loans. Members of the French Ministry of Finance were in a real state of mental despair over the plight of French finances and the likelihood
of a runaway inflation. Yet, they were reluctant to state their desires too vociferously because they still needed additional American credits to cope with the enormous financial and economic problems of reconstruction. If necessary, however, they intended to repay American loans with German reparations. Edouard de Billy, French Deputy High Commissioner in the United States, wrote Secretary of the Treasury Carter Glass in January, 1919, that what was needed was

a general and simultaneous settlement, in which, at the same time, would be taken into consideration the respective positions of each of the interested governments toward the others, and the reaction which the peace conditions might have on the financial possibilities of these governments.  

The American response to these French feelers was swift and categorical. Glass declared that the Treasury would "not assent to any discussion at the Peace Conference, or elsewhere, of any plan or arrangement for the release, consolidation, or reapportionment of the obligations of foreign governments held by the United States." He wrote de Billy that the matter of war debts should be discussed in Washington directly between creditor and debtor. Not

12 De Billy to Glass, January 15, 1919, in Treasury, Annual Report, 1925-1926, 63-64; also see speech by Louis Loucheur, February 16, 1925, in Bureau of Accounts, Box 60, RG 39; statement by Norman Davis, in House, Committee on Ways and Means, Executive Session (February 13, 1920), Foreign Loans, 7-8, in ibid., Box 218; Theodore Dawson Wyly, "Foreign Relations of the United States with France from 1919-1929" (unpublished doctoral dissertation, Fletcher School of Law and Diplomacy, 1964), 179.
very long thereafter, Assistant Secretary of the Treasury Norman Davis warned French Finance Minister L.-L. Klotz that any further French efforts to discuss cancellation would be answered with an abrupt termination of all American loans.13

The French backed down and ended their direct efforts to link debts and reparations and to secure cancellation. Instead they encouraged the British to raise these questions with the Americans while they focused full attention on extracting as much as they could from Germany in the form of reparations. Indeed, from this point on, the French seem to have decided that their first priority was to obtain large reparations and not to dissipate their energies in endless debates with the Americans on the war debts. Therefore, they were inclined to justify their reparations policy on the basis of American debt policy and to press actively for American debt concessions only when on the defensive with regard to their own indemnity policy. Throughout 1920, for example, the French responded to American insistence that reparations be reduced with intimations that if this occurred French obligations to the United States would also...

13 Rixey Smith and Norman Beasley, Carter Glass (New York, 1939), 175; Glass to de Billy, January 29, 1919, in Treasury; Annual Report, 1925-1926, 64-65; Rathbone to de Billy, March 8, 1919, in ibid., 65; Davis to Rathbone, March 10, 1919, 851.51/124.
have to be moderated.\textsuperscript{14} Unquestionably, they hoped that such tactics would dampen America's enthusiasm to intervene in the reparations issue.

While the French began to shy away from direct requests for cancellation, the British were not quite so accommodating. In April, 1919, British Prime Minister Lloyd George proposed a plan formulated by John Maynard Keynes which provided, in part, for the payment of Allied debts with German reparation bonds guaranteed by the Allies themselves. Subsequently, Lloyd George personally asked Norman Davis for an all around cancellation. On other occasions, the British, French, and Italian representatives at the Peace Conference requested cancellation of all interest payments on the American loans. Realizing the impossibility of this demand but still stressing their desperate financial

\textsuperscript{14}After March, 1919, the British, and not the French, were most insistent on either linking debts and reparations or cancelling all inter-governmental indebtedness. See Treasury, Annual Report, 1925-1926, 65 ff. The French aim was to defer debt discussions with the United States until the reparations issue was settled. Meanwhile, they exerted pressure on the British to seek debt cancellation from the United States. French Finance Minister L.-L. Klotz admitted this was his strategy. See Hugh Wallace to Bainbridge Colby, February 10, 1921, 800.51/221; also see, statement by Secretary of the Treasury David Houston, in Senate, Committee on Foreign Relations, Executive Session (February 12, 1921), Credits to Foreign Governments, 74, in Bureau of Accounts, Box 218, RG 39. For French warnings to the United States on the possible impact of American reparations policy on debt payments, see ibid., 32-33.
situation and their need for food and raw materials, they then asked for the cancellation of interest payments for three years. 15

In response to these initiatives, the Wilson administration formulated a debt program that influenced all subsequent American policy. While absolutely refusing to cancel the war debts and while insisting upon the formal separation of the debt and reparation issues, Wilson and his advisers agreed to defer European interest payments on the debt for two to three years. In return for this concession, they asked that the debtor nations immediately agree to convert their demand obligations into long term bonds. They also tried to make the interest postponement contingent upon universal acceptance of the open door policy, that is, the end of all discriminatory trade practices. In reality, however, the Wilson administration was not insistent on securing a quid pro quo for this concession. Moreover, despite its awareness of congressional opposition to the extension of further credits, the Treasury advanced an additional $1,100,000,000 to France during the spring of 1919. 16

15 The correspondence between Lloyd George and Wilson with regard to Keynes' plan is in Jbid., 34-38. For other British and European efforts to secure American concessions, see statement by Davis, in House, Ways and Means, Executive Session (February 13, 1920), Foreign Loans, 12-15.

16 For the enumeration of American policy with regard to cancellation and to the separation of war debts and reparations, see Treasury, Annual Report, 1925-1926, 67 ff. For the American decision to defer interest payments, see
This particular combination of rigidity and flexibility was the outcome of difficult and often heated deliberations between legislative and executive leaders in which fiscal and commercial factors were carefully considered and balanced against one another. State and Treasury Department officials tended to be more conciliatory. They were better informed of the desperate financial straights of the European governments, more concerned with and responsible for the reconstruction of the international economy, and more aware of the threat to American exports if European conditions should further deteriorate. As a result, they pressed reluctant congressional committees to defer interest payments. Secretary of the Treasury Carter Glass argued that American insistence on immediate payments would retard European recovery, destroy European purchasing power, and undermine Europe's capacity to make future payments. By pointing to the recent unpegging of European exchanges and to the precipitous depreciation of European currencies, he tried to demonstrate the debtors' inability to pay and he warned of disastrous repercussions if America

statement by Davis, in House, Ways and Means, Executive Session (February 13, 1920), Foreign Loans, 16, 26-27; Senate, Committee on Finance, Refunding of Obligations of Foreign Governments (Washington, 1921), 95-99; Wyly, "Foreign Relations of the United States with France," 182-186. For the extension of additional American loans to France totaling over one billion dollars, see Treasury, Annual Report, 1925-1926, 66; Rathbone to Davis, April 22, 1919, 851.51/128b; Davis to Rathbone, April 25, 1919, 851.51/129.
was intransigent. 17

For not dissimilar reasons, policy makers in the executive branch also were more prone to admit the connection that existed between debts and reparations and to exploit it for America's benefit. In January, 1919, Glass wrote de Billy that he recognized that debt payments would depend upon financial recoveries from the enemy. More than a year later, Davis also told the French that "It is of course realized that the ability to pay these war debts in full will in some cases depend upon the economic recovery of the debtor nation, and that the amount received by way of reparations will be one of the elements in such recovery." Davis was not adverse to accepting German reparation bonds, with Allied guarantees, in payment of the debt if the Allies themselves would agree to setting Germany's reparation payments at a reasonable level. He maintained that in this way the war debts could be used as a "fine

17 Glass to Joseph Fördney, December 18, 1919, in Senate, Finance, Refunding of Obligations, 95-97; House, Ways and Means, Executive Session (February 13, 1920), Foreign Loans, 16-17. For the differing orientation and perspective of the legislative and executive branches, see, for example, Senate, Committee on the Judiciary, Repeal of Wartime Legislation (unpublished hearings, February 5, 7, 1921), in Bureau of Accounts, Box 218, RG 39; House, Ways and Means, Executive Session (February 13, 1920), Foreign Loans; Senate, Foreign Relations, Executive Session (February 12, 1921), Credits to Foreign Governments. The hostility that permeates all these hearings is undoubtedly partly political in nature. Yet, despite personal and institutional struggles, substantive policy differences are also apparent.
international political asset."  

The disposition of the executive branch to be flexible and to react sensitively to Europe's plight met the determined opposition of Congress. Even the request to defer interest payments was not well received. Members of the President's own party, such as Claude Kitchin and John Garner, were hostile to any action that might benefit Europeans at the expense of Americans. Garner, for example, told Davis that the American people could not be taxed in order to provide subsidies for European debtors. Treasury officials were being frank when they told French representatives that "Public opinion and opinion in Congress were opposed to laying further burdens on our people in connection with European matters."  

The President and the Secretary of the Treasury were responding in large part to congressional and public pressure when they decided to reject cancellation and to dissociate debts from reparations. Fully conscious of grass roots sentiment and no doubt worried about the immense

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19 House, Ways and Means, Executive Session (February 13, 1920), Foreign Loans, 31-35, 39-40, 43, 28; for quotation, see memorandum of conversation between N. Kelley (United States Treasury) and de Sieyes (French Finance Ministry), December 15, 1920, Bureau of Accounts, Box 49, RG 39.
public debt, the new Treasury Secretary David Houston wrote Austin Chamberlain that "A general cancellation . . . would . . . throw upon the people of this country the exclusive burden of meeting the interest and of ultimately extinguishing the principle of our loans to the allied governments." He insisted that the problems of Europe were indigenous to Europe and that debt cancellation was not a solution. Instead he recommended that European governments increase taxes, reduce expenditures (especially on arms), balance their budgets, stabilize their currencies, restore private initiative, liberalize trade restrictions, and settle the reparations imbroglio.

While making these recommendations, the Treasury continued to urge both France and Britain to convert the demand obligations into long term bonds. Assistant Secretary of the Treasury Albert Rathbone visited Paris in the autumn of 1919 to conduct appropriate negotiations. The French, however, responded negatively and Rathbone left Paris with little to show for his efforts. Thereafter, the French persuaded the British to carry on debt negotiations parallel with, but not prior to, negotiations on reparations. As a result, a common policy was established between America's two major debtors not to finalize any debt accord

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between themselves or with the United States until the reparations question was settled. 21

During these early post-war years, French policy was aimed at linking debts and reparations and at securing equivalent reductions of the debt in return for any concessions on reparations. French officials and emissaries, however, tried not to offend American leaders by overtly stating their intentions. In fact, in March of 1921, former French Premier René Viviani and French Ambassador Jules Jusserand emphasized to Secretary of State Charles E. Hughes and to Under Secretary of State Henry Fletcher that they were not going to ask for any remission of the debt. They must have recognized that raising this issue would accomplish nothing. It might even have undermined their more important efforts to gain American sympathy for French policies on reparations, on security, and on economic reconstruction. 22

Upon assuming office, the Harding administration was caught in an extremely unenviable crossfire between an intransigent Congress and a recalcitrant Europe. Top policy

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21 David F. Houston, Eight Years with Wilson's Cabinet (New York, 1926), 121-122.

22 Memorandum of conversation between Viviani, Jusserand, Hughes, and Fletcher, March 30, 1921, Box 174 (France), Charles E. Hughes Papers (Manuscript Division, Library of Congress); George Harvey to Harding, no date, Presidential Personal Files (PFF) 60, Warren Harding Papers (The Ohio Historical Society, Columbus, Ohio).
makers realized, however, that debt refunding was "one of the outstanding needs of the present economic situation" and that definite settlements were a prerequisite for normal economic growth. Treasury officials, in particular, recognized that unsettled foreign debts caused uncertainty and anxiety in international financial and commercial centers. They maintained that until the "financial position [of debtor nations] is made clear, their ability to place loans will be affected, their industrial recovery will be retarded, and our own prosperity will suffer." Fully understanding "that the business of the United States depends in part upon the business activity of other nations," they recommended that the country face the debt problem "in a broad and far-sighted way."\(^{23}\)

Consequently, after a minimal amount of consultation with State Department officials, the Treasury decided to ask Congress for virtually unlimited authority to "determine the form and terms of the settlements and of the refunding obligations, the rate or rates of interest, the maturity dates, and the right to extend the time for the payment of interest on the indebtedness to be refunded." The proposed legislation was also designed to allow the Secretary of the Treasury to substitute the obligations of one nation for

\(^{23}\) Treasury, Annual Report, 1920-1921, 42-43. Also see Harding's address to the Senate, July 12, 1921, in "Soldiers' Adjusted Compensation Bill," Senate Document No. 48, 67 Cong., 1 Sess., 3-8.
those of another. Mellon felt this new legislation providing him with such extensive discretionary powers was necessary in order for the United States to deal fairly with the debtors while protecting its own interests. He wanted to devise a comprehensive plan that would take account of the financial plight of the debtors and thus mitigate the impact of debt settlements on exchange rates and on American exports.  

This is not to say that Mellon was considering cancellation or even partial cancellation. He was too preoccupied with the revision and reduction of domestic taxation to be inclined to be overly generous to the former Allies, even if American trade interests were partly at stake. Both he and Harding believed the recession of 1920-1921 was the result of high taxation. Consequently, they were reluctant to condone any action that might further exacerbate the fiscal plight of the nation. In July of 1921, the President declared that "it is unthinking to expect a business revival and the resumption of the normal ways of peace while maintaining the excessive taxes of war." Such sentiments did not dispose him to relieve foreign

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24 The appropriate correspondence and legislative proposal may be found in Senate, Finance, Refunding of Obligations, 3-5, 57-58; also see House, Ways and Means, Refunding Foreign Obligations, 15-16; Harrison to Fletcher, June 20, 1921, Box 2, Leland Harrison Papers (Manuscript Division, Library of Congress).
nations at the expense of American taxpayers.

Mellon's request for broad authority, in effect, revealed the absence of any definite plan for carrying out refunding. His real desire was to negotiate unhampered by legislative restrictions. He wrote Boies Penrose, Chairman of the Senate Committee on Finance, that "The representatives of this Government should have equally as broad powers as the representatives of any other country . . . ."\(^26\) His testimony before the Senate Finance Committee and the House Committee on Ways and Means was often contradictory and reflected his own ambivalence. No doubt he wanted to reconcile the conflicting demands of trade and fiscal policy while remaining politically discreet.\(^27\)

Congress, however, refused to abdicate control over debt refunding. By providing for the creation of a five man commission under the chairmanship of the Secretary of

\(^{25}\)Address of the President to the Senate, July 12, 1921, "Soldiers' Adjusted Compensation Bill," 4; William Larimer Mellon, Judge Mellon's Sons (privately printed, 1948), 409-410.

\(^{26}\)Mellon to Penrose, July 26, 1921, Senate, Finance, Refunding of Obligations, 179-180. State Department officials also wanted to be able to conduct debt negotiations with as much flexibility as possible. This would enable American negotiators to demand a wide diversity of quid pro quos in return for American concessions on the debt. See, for example, Harrison to Fletcher, June 20, 1921, Box 2, Harrison Papers; memorandum by W. W. Cumberland (Office of the Foreign Trade Adviser), June 24, 1921, 811.51/05.

\(^{27}\)Senate, Finance, Refunding of Obligations, 4-5, 17, 29-30, 56-63, 79-86; House, Ways and Means, Refunding Foreign Obligations, 9-16.
the Treasury, and by circumscribing the field of negotiation, the legislative branch of the government effectively tied the hands of the executive. In October, 1921, the House prohibited the exchange of bonds of any foreign government for those of another and forbade the cancellation of any part of the war debts. In late January and early February of 1922, the Senate went even further and stipulated that the debts be repaid within twenty-five years and that the rate of interest not be less than 4.25 per cent. The more stringent Senate version became law. Indeed, Senate Republicans had to close ranks to ensure that the freedom of the Commission to defer interest payments was not also proscribed. This determination of Congress to restrict the flexibility of the executive and to demand full payment was the result of a wide diversity of motivations. Congressmen and senators were influenced by their interpretation of the Constitution, by their distrust of the executive branch of the government, by their political affiliation, and by their local constituencies.

In the Congress, both Republicans and Democrats desired to maintain legislative control over debt refunding. They insisted that no Congress should abdicate its constitutional privilege to control governmental financial affairs.

28 The final bill approved by Congress can be conveniently located in Harold G. Moulton and Leo Pasvolsky, *World War Debt Settlements* (New York, 1929), 221-223.
They claimed that debt refunding was an integral part of the Congress' responsibility to tax and to appropriate. 29 Therefore, most Democrats insisted that the Treasury negotiate settlements under existing legislation and then submit them to Congress for approval. 30 They could never muster sufficient Republican support to pass such a measure, but they were able to join with Republican dissidents to circumscribe executive action with regard to interest and maturity.

This movement to restrict the authority of the Treasury was not only the result of constitutional scruples. In large part it was the consequence of many legislators' distrust of the motives and actions of the executive branch. Much of this stemmed from events occurring during the Wilson administration. Members of Congress recalled with considerable resentment that their wishes had been repeatedly and purposely ignored by Wilson's Treasury Department. 31 Mellon rekindled this distrust and further exacerbated legislative-

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29 See, for example, "Refunding of Obligations of Foreign Governments," Senate Report No. 264, 67 Cong., 1 Sess., Part II, 4-5; Cong. Record, 67 Cong., 1 Sess., October 21, 1921, 6615-6618.


31 For congressional displeasure with the Wilson administration over the Treasury's actions with regard to the war loans to the Allies, see, for example, Senate, Committee on the Judiciary, "Loans to Foreign Governments," Senate Document No. 86, 67 Cong., 2 Sess. (Washington, 1921), 5-10.
executive relations when he supported the former administration's decision to defer interest payments for two to three years and when he appealed for even broader authority. An aroused Congress then forced the Harding administration to accept the creation of the World War Foreign Debt Commission to negotiate debt settlements.

Restricting the authority of the Treasury and the entire executive branch as a matter both of principle and of pique was only a prelude to examining the explicit terms of the refunding legislation. From the outset, Congress made clear its intention to forbid exchanging the obligations of one country for those of another. Congressmen and senators were shocked by the thought of exchanging valuable British or French obligations for those of Germany which were considered to be practically worthless. Members of both parties on the Senate Finance Committee and the House Ways and Means Committee expressed apprehension that the United States would get saddled with the worst securities and that England would emerge free of her debt to the United States. Consequently, they objected vociferously to any transaction involving the substitution of the debts of one nation for those of another.  

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The passion with which the principle of "substitution" was opposed was a clear illustration of the congressional desire to prevent any action that might incur a heavier burden of taxation upon the American people. In fact, the tax issue immediately became one of the crucial themes of the entire debate. The Democrats, in an intensely partisan spirit, made every effort to use the debate on debt refunding to demonstrate their concern for the American taxpayer. They insisted that Republican leniency on the debt issue was a clear illustration of that party's callousness to the fiscal predicament of the American people. To Democrats, like Senator Kenneth McKellar of Tennessee, the issue was perfectly clear:

We are taxing the American people as they have never been taxed before in the history of the Republic. The burdens of taxation are greater today than ever in its history. If we collect the interest upon these loans, we will of necessity reduce the taxation upon our own people by one-seventh. 34

The public's preoccupation with taxation made Republican lawmakers very sensitive to the impact of such Democratic rhetoric.

In a similar manner, the Democrats exploited the debt issue to demonstrate their support for American

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34 Cong. Record, 67 Cong., 1 Sess., October 27, 1921, 6858. For other references to the tax issue, see ibid., 3025, 3751, 6618 (June 24, July 14, and October 21, 1921); Cong. Record, 67 Cong., 2 Sess., January 24, 26, 1922, 1631-1632, 1771-1772; Senate Report No. 264, Part II, 5-6.
veterans, who were trying to obtain passage of a bonus law. On several occasions, Democrats tacked on to bills amendments that earmarked war debt interest payments and part of the principal for a veterans' bonus. Democrats decried American charity toward Europe while domestic needs were disregarded. They argued that it was now time for the former Allies to show their gratitude to American veterans by providing them with a bonus. In a typically partisan spirit, Senator James Heflin (Democrat, Alabama) inquired of the Republican opposition, "How do you expect the American people to believe that you are the friend of the American soldier?"

Opponents of the administration found many other ways to use Mellon's debt proposal to attack the administration for its indifference to the pressing ills of American society and for its subservience to big business and Wall Street. Several senators charged that the administration's bill was designed to serve the interests of bankers at the expense of the American farmer and the American soldier. Senator James Reed (Democrat, Missouri) declared that the original legislative request was "the

35 For Heflin's statement, see Cong. Record, 67 Cong., 1 Sess., November 7, 1921, 7477. For some of the many references to the bonus issue and to the partisan nature of the debate, see ibid., 3754-3755, 7400 ff., 7475-7477 (July 14, November 5 and 7, 1921); Cong. Record, 67 Cong., 2 Sess., January 23, 24, 31, 1922, 1579-1580, 1627-1628, 1638 ff., 1967-1975.
most impudent proposal ever put before a legislative body."

In general, the critics claimed that full interest on the
debt had to begin immediately in order to provide credits
for the farmers, bonuses for the soldier, and tax relief
for the public at large.

These expressions were not merely reflections of
negative partisanship. If they were the large Republican
majorities in both houses of Congress would have insured
swift passage of the administration's bill. In reality,
legislators were responding to widespread public pressure
for tax relief, for agricultural credits, for veterans'
compensation, and for unemployment relief. Some were reacting
to pressure exerted by pro-Irish elements in the United
States. These wanted a tough refunding law in order to
insure that the United States gave Britain no financial
concessions that might inadvertently enable her to crush
the Irish independence movement. By compelling European
debtors to repay the debt in full, congressmen gave the
appearance of responding to the needs and demands of their

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36 For statements by Reed and others, see Cong. Record, 67 Cong., 2 Sess., January 27, 30, 31, 1922, 1812, 1882, 1888, 1906, 1967-1971. The opponents of the administration also claimed to be protecting the interests of the general public against Republican high tariff advocates who were said to be prepared to countenance cancellation in order to make the creation of high tariff barriers economically justifiable. See, for example, the statement of Congressmen Collier (Democrat, Mississippi) and Oldfield (Democrat, Arkansas) in Cong. Record, 67 Cong., 1 Sess., October 21, 1921, 6601, 6605-6607.
Thus, the factors most decisively influencing the passage of debt legislation in Congress in 1921 and 1922 were fiscal questions, electoral considerations, intra-governmental rivalries, and partisan politics. During the course of the debate, Congress showed relatively little sensitivity to the needs of American foreign trade or to the imperatives of European economic reconstruction. Several senators did acknowledge, however, that if the administration required additional flexibility with regard to the war debts in order to exert a salutary influence in Europe, the President should demonstrate such a need and Congress would then respond constructively. Meanwhile they could not

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37 See the many letters from constituents and varied pressure groups to Senator Boies Penrose, in Records of the United States Senate, 67 Cong., 1 Sess., "Allied Debts," RG 46; also various letters to Borah in Boxes 204 and 215 (Foreign Debts), Borah Papers.

38 Only occasionally did Republicans justify their desire to be lenient on the basis of the needs of American commerce. See, for example, Cong. Record, 67 Cong., 1 Sess., June 24, 1921, 3022-3023; Commercial and Financial Chronicle, 113 (July 2, 1921), 18.

39 See, for example, Cong. Record, 67 Cong., 2 Sess., January 30, 31, 1922, 1886, 1955-1959, 1966, 1967. This was closely linked to the Democrats' contention that the Treasury should negotiate under existing legislation and then, if necessary, come to Congress for approval. See Senate Report No. 264, Part II, 2-4; House Report No. 421, Part II, 8-10. Several prominent Republican senators also supported this procedure. See the vote on the Johnson amendment to this effect in the Cong. Record, 67 Cong., 2 Sess., January 30, 1922, 1896. Administration supporters insisted new legislation was necessary in order to enable
be indifferent to the more pressing issues of taxation, deflation, and unemployment; issues they did not specifically attribute to the current decline in foreign trade or to the turmoil in Europe.

The Harding administration was not indifferent to the changes Congress was making in the proposed legislation. Mellon persisted in his efforts to obtain broad authority. Considerable pressure was exerted upon Republican members of the Senate Finance Committee and of the House Ways and Means Committee to report out bills acceptable to the administration. Mellon wanted to remove the issue from partisan politics and to treat it on a strictly economic basis reflecting his own evaluation of the debtors' capacity to pay and his own estimation of America's fiscal needs. Yet, by initially soliciting wide discretionary powers, he had antagonized Congress. As a result, the debt issue became embroiled in a whole matrix of internal political, economic, and institutional struggles. Mellon's mistake was in soliciting open-ended powers without provisions for reporting back to Congress. If he needed flexibility, as he did, he

the Treasury to extend interest payments on the loan and to refund back interest. See Cong. Record, 67 Cong., 1 Sess., June 24, 1921, 3022-3023; Cong. Record, 67 Cong., 2 Sess., January 23, 1922, 1575.

should have requested authority to conclude accords subject to congressional ratification.\footnote{Such a procedure would not have assured enlightened results. Indeed the Senate in particular may have proven to be totally short-sighted and uncooperative. But the administration's request for open-ended authority was neither politic nor institutionally wise.}

Despite vigorous efforts, the administration was unable to impose its will upon the 67th Congress. Effective Republican leadership, especially in the Senate, had broken down.\footnote{Mark Sullivan aptly described the situation in a letter to George Harvey. See Sullivan to Harvey, September 24, 1921, PPF 60, Harding Papers. Moreover, at the end of 1921, the deaths of Senators Philander Knox and Boies Penrose further undermined party discipline in the Senate. See, for example, Coolidge, \textit{Autobiography}, 167-168.}

Eventually, therefore, Mellon and Harding counselled the House Ways and Means Committee to accept the Senate amendments despite their confining restrictions. Rather than risk an open struggle and endless delay, the administration was satisfied to have emerged solely with the power to defer interest payments.\footnote{Frank W. Mondell (Majority Floor Leader) to Harding, February 3, 1922, Box 88, File 57, Folder 3, PCF, Harding Papers; \textit{Cong. Record}, 67 Cong., 2 Sess, February 3, 1922, 2131-2133.}

Having recently warned against passage of a popular bonus bill on fiscal grounds, Harding, for political reasons, probably felt he could not then go ahead and insist upon generous treatment of European debtors.\footnote{Address of the President to the Senate, July 12, 1921, "Soldiers' Adjusted Compensation Bill"; also see Robert Murray's comments on Harding's relations with Congress.
Officials in the State Department (as well as in the Treasury) were disappointed with the legislation enacted. Nevertheless, upon instructions from the World War Foreign Debt Commission, they asked foreign governments to send delegations to the United States to enter into debt negotiations. In May, 1922, the French responded affirmatively and agreed to send Jean Parmentier, Director of the General Movement of Funds of the Ministry of Finance, to the United States. This decision coincided with Premier Raymond Poincaré's other efforts to conciliate the United States while the Loan Committee (of the Reparations Commission) was preparing to meet in Paris. It was an important decision for France and for the United States as it effectively terminated the united front action that had been agreed upon by France and Britain in the spring of 1920 and that probably had been reconfirmed by Lloyd George and Louis Loucheur at Chequers in December of 1921.

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A. N. Young to Dearing, February 8, 1922, 800.51/280; Hughes to Louis Marshall, October 22, 1921, 811.51/3023.

Hughes to Herrick, April 21, 1922, F.R., 1922, I, 399; Herrick to Hughes, May 17, 1922, Bureau of Accounts, Box 60, RG 39. For information on the Loan Committee, see Chapter II, pp. 81 ff. For references to the Lloyd George-Louis Loucheur talks at Chequers, see Logan to Harrison, August 11, 1922, Box 9, Fletcher Papers; Louis Loucheur, Carnets Secrets (Brussels, 1962), 185-188. Loucheur himself does not mention a specific Anglo-French accord, but key European diplomats believed one had been made.
Though Poincaré concurred with the French press' criticism of the terms of the refunding legislation, he obviously felt that in order to win American sympathy for his stand on reparations he had to make a constructive gesture on the debt. Even after he dashed the work of the Loan Committee, he did not reverse his decision to send Parmentier. At approximately the same time, the French Premier rebuked other Frenchmen who had called for cancellation of the debt. Then, in an action typical of his predecessors, Poincaré wrote Hughes that France needed reparations to pay her debt; but he did not seek cancellation of the debt, only a postponement. As in the past, France was responding to American pressure on the reparations issue with renewed efforts to link the debt and reparation questions, but not with official attempts at repudiation. 47

During his visit to the United States in July and August of 1922, Parmentier stressed many of the same points

47 For Poincaré's letter, see Poincaré to Hughes, July 19, 1922, F.R., 1922, I, 404-405. Poincaré rebuffed Loucheur for advocating repudiation. See Herrick to Hughes, December 5, 1924, Box 16, Herrick Papers. Yet Poincaré had no intention of meeting the terms Congress laid down for refunding the debt. See his instructions to Parmentier in Harold G. Moulton and Leo Pasvolsky, War Debts and World Prosperity (New York, 1932), 83. Nevertheless, Poincaré still wanted to create a positive impression in the United States and was anxious to send Parmentier. See Harrison to Wadsworth, June 3, 1922, Bureau of Accounts, Box 60, RG 39; also see Boyden to Herrick, June 3, 1922, Box 11, Herrick Papers. For the reaction of the French press to the refunding legislation, see "The Shylock Strain in Uncle Sam," Literary Digest, 72 (February 18, 1922), 22.
that Poincaré had outlined to Hughes. He categorically asserted France's intent to honor her signature. But he had nothing to say in a substantive way when it came to discussing possible terms for repayment. In fact, Parmentier hoped the entire matter could be deferred until the financial situation of France was clarified, especially with regard to the payment of German reparations. He explained to Assistant Secretary of the Treasury Eliot Wadsworth that France's financial predicament precluded any payment of interest for several years. Parmentier maintained that actual repayments "would fatally result in imperilling the economic life of the country. Such payments would . . . bring about the depreciation of the franc, which . . . would mean a financial and economic catastrophe." Consequently, he inquired whether the United States would alter the terms of the existing notes so that the principal could be deferred for twenty-five years and interest for a certain number of years as well.\(^4\)\(^8\)

Nothing of immediate importance was accomplished by Parmentier's mission. Yet, to judge it a failure is a mistake. Poincaré had stated in May that the purpose of Parmentier's visit was to furnish information concerning

France's ability to pay the debt. This goal was fulfilled. There is no indication that American policy makers expected very much more to be accomplished. Though Treasury and State Department officials expressed their desire for an early settlement, they do not seem to have been especially upset by Parmentier's tactics. Hughes was impressed with French financial troubles and went out of his way to express sympathy and a desire to be helpful (within the confines of congressional legislation). American officials probably were gratified that France had abandoned her former efforts to establish a united front of debtors and had shown no desire to support the Balfour principles.

49 Poincaré to Herrick, May 16, 1922, Bureau of Accounts, Box 60, RG 39.

50 For the reaction of Hughes and others, see Hughes to Poincaré, August 23, 1922, F.R., 1922, I, 412-413; memorandum of conversation between Hughes and Count de Chambrun (French Chargé), August 12, 1922, Box 174, Hughes Papers; Gilbert to Mellon, July 22, 1922, Bureau of Accounts, Box 60, RG 39; Mellon to Fletcher, September 7, 1922, Box 9, Fletcher Papers.

51 The Balfour Note of August 1, 1922, indicated Britain's willingness to support an all around cancellation of inter-governmental debts growing out of the war. But if the United States insisted on payments, Britain would be obliged to collect equivalent amounts from her own debtors. Both France and the United States reacted bitterly to this policy. For some interesting comments on the French reaction, see Andrew McFadyean, Reparation Reviewed (London, 1930), 40-45. My interpretation of the results of the Parmentier visit differs from the one offered by Benjamin D. Rhodes, "Reassessing 'Uncle Shylock': The United States and the French War Debt, 1917-1929," The Journal of American History, 55 (March, 1969), 792-793. Rhodes overstates France's intransigence. The French were willing to discuss
Apparently, American policy makers decided to refrain from exerting further pressure on France with regard to the debts until the reparations imbroglio was resolved. This was in accord with the priority they attached to the indemnity issue. But they demonstrated no inclination to violate the congressional mandate to dissociate debts and reparations and to collect in full within twenty-five years at 4 1/4 per cent. The administration's reluctance to assume a strong position and to battle Congress on this issue generated an increasing amount of criticism in American business and banking circles. Many of the nation's economic leaders and business organizations recognized that constructive action on the war debts was an essential prerequisite for stabilizing Europe and for reconstructing America's best market. As a result, they proposed, with the debt issue, but were unwilling to accept American terms and were adverse to agreeing to any terms prior to the settlement of other questions.

increasing frequency and urgency, that the United States defer interest payments or cancel part of the debt.  

These recommendations indicated widespread apprehension over the dual impact of debts on foreign exchanges and on American exports. Numerous economists and business leaders realized that "Everything . . . that makes an unusually great demand for credits to send to America tends to raise the exchange and to decrease our foreign trade." Consequently, debt payments had to be regulated and moderated in order to increase American exports and to mitigate commercial competition, dumping, and unemployment.


53 Initial sentiment in favor of postponing interest payments may be found in American Economic Association, "Report of the Committee on Foreign Trade," January 9, 1920, Records of the B.F.D.C., Box 721(A), RG 151 (National Archives); "Platform for American Industry, in N.A.M., Proceedings, 1920, 224-228, 237; "Adjusting the Debt of the Allies to the United States," Commercial and Financial Chronicle, 113 (July 9, 1921), 120-121. Also see many of the references in footnotes 55 and 56.

54 Delafield, "War Debts," 34.

55 See, for example, Frank A. Vanderlip, "The Allied Debt to the United States," Consensus, 7 (February, 1922), 3-39; J. S. Wannamaker (President, American Cotton Association) to Harding, December 5, 1921, Box 88, File 57, Folder 2, PCF, Harding Papers; Wannamaker to Hughes, December 5, 1921, 811.51/3050; statement of John H. Clark (former Justice of the Supreme Court), reprinted in "Views on Cancellation," 79-80.
In return for the proposed postponement or partial cancellation of the debt, American proponents of these measures expected that the European debtor nations would agree to undertake action to reduce reparation payments, to balance their budgets, to stabilize their currencies, to liberalize their trade restrictions, and to limit their expenditures on armaments. Fred Kent, Vice-President of Bankers Trust Company, became the leading advocate of such a settlement. He believed that "If a portion of the Allied debts [could] be cancelled in exchange for agreements which will promptly place European countries on a sound financial basis, the restoration of the buying power of Europe [would] be greatly accelerated, and the total national income of America [would] be increased." To drum up domestic support for the plan, Kent discussed the proposal with other prominent bankers, farm leaders, and government officials who were worried about the destruction of European purchasing power.


57 Address by Kent to the Rome Meeting of the International Chamber of Commerce on March 23, 1923, in International Chamber of Commerce, "Proceedings of the Second
There were numerous other proposals on how to treat the Allied debt to the United States. Many individuals and economic groups sought the convocation of an international conference to consider a comprehensive settlement of debts and reparations. Others urged a prolonged postponement or moratorium on the payment of both debts and reparations as the necessary prerequisite for the restoration of European stability. Prominent bankers, including J. W. Harriman and S. R. Bertron, pressed the administration to accept German reparation bonds in lieu of the Allied debts. The A.B.A. and N.A.M. strongly advised that the War Debt Commission be allowed greater flexibility in the negotiation

Congress, "Brochure No. 32 (Paris, 1923), 138-145, esp. 142. Also see Kent, "Factors that will Help the Exchange Situation," N.F.T.C., Official Report, 1922, 409-411; "Our Finance and Europe's," Nation's Business, 10 (June 5, 1922), 35-36; Kent to Hughes, January 24, February 9, 1923, Box 3(J), Kent Papers; Kent to Hughes, February 20, 1923, Box 3 (Japan), ibid.; Kent to Hoover, December 2, 1932, ibid.

Resolution of the Board of Directors of the Chamber of Commerce of the United States, September 29, 1922, in 800.51/428; The National Economic League, Consensus, 8 (April, 1923), 57; statements of Fahey and George Wickersham in "The Balance Sheet of Europe," 18-30.


Harriman to Harding, December 12, 1922, Box 164, File 154, Folder 1, PCF, Harding Papers; Bertron to Harding, December 6, 1922, Box 88, File 57, Folder 3, ibid.
Thus, the recognition of the crucial intermediary role of debts in either facilitating or obstructing European reconstruction and American prosperity led to a rash of recommendations (from the business community) counselling postponement, partial cancellation, and flexibility. These suggestions were reinforced by warnings from American diplomats of impending chaos in Europe if the United States government ignored the importance of the debt issue. In September, James Logan, assistant unofficial American delegate to the Reparations Commission, wrote Hughes that European governments were continuing to maintain the illusion that the panacea to all Europe's troubles depended on an adjustment of their debts to America. Shortly thereafter, Alanson Houghton, American Ambassador to Germany, implored the Secretary of State to speak to Harding about cancelling the debt on the condition that European


62 American business and banking leaders did not, however, advocate total cancellation. This was because of their preoccupation with high domestic taxation, their concern with reparations, their fear of British commercial competition, and their apprehension of a hostile public reaction. See, for example, "Adjusting the Debt of the Allies," 121; "Final Declaration," in N.F.T.C., Official Report, 1921, x; "What About that $10,000,000,000?" Literary Digest, 70 (August 13, 1921), 11-12; F. H. Rawson (President, Union Trust Company) to Herrick, December 17, 1921, Box 12, Herrick Papers.
governments give concrete assurances to disarm and to maintain peace with one another for fifty years. Houghton insisted he was not indulging in mere rhetoric when he claimed that European civilization was at stake. William Castle, Chief of the Division of Western European Affairs in the State Department, confirmed Houghton's observations.\textsuperscript{63}

In the autumn of 1922, however, the Harding administration felt compelled to ignore these warnings and to dismiss the advice emanating from business and diplomatic circles. After much soul-searching, it refused to countenance any reduction of the debt and objected to proposals calling for the acceptance of German reparation bonds in lieu of the Allied obligations.\textsuperscript{64} Congressional restrictions,

\textsuperscript{63}Logan to Hughes, September 22, 1922, Box 9, Fletcher Papers; Houghton to Hughes, October 23, 1922, F.R., 1922, II, 171-175; Castle to Hughes, October 24, 1922, \textit{ibid.}, 176.

\textsuperscript{64}See, for example, Hughes to Herrick, October 17, 1922, \textit{ibid.}, 169; Hughes to Houghton, October 23, 1922, 800.51/431. In June and December, 1922, the administration gave serious consideration to a proposal submitted by S. R. Bertron. Bertron recommended, among other things, that the United States accept German bonds in payment of the Allied debts--bonds that would be guaranteed by the Allies to the extent of their own individual indebtedness. This plan was finally rejected on the grounds that it was politically inexpedient and objectionable to Congress. Moreover, State Department officials believed that it ignored the European sources of the reparations imbroglio and especially France's desire to weaken Germany. Hoover feared the possible ramifications of the United States becoming, in essence, Germany's sole creditor. This, he worried, might unnecessarily entangle the United States in European political affairs and might also stimulate pro-German groups at home to demand the remission of the debt. See Bertron to Harding, May 26, 1922, Box 88, File 57, Folder 3, PCF, Harding.
fiscal demands, and political expedients impelled government officials to move cautiously. Elections were forthcoming in November and American debt policy was carefully formulated with this in mind, especially in light of prevailing circumstances: a bonus bill had been vetoed by the President in September; taxes were still considered onerously high; and credit remained tight in various parts of the nation. In addition, Republican leaders were reluctant to accept any policy that might indirectly contribute to the availability of funds for European rearmament. As a result of these considerations, Harding authorized Hoover to deliver an address in mid-October strongly opposing cancellation.65

The President, however, was neither indifferent to business pressures nor ignorant of America's interest in stabilizing Europe's financial and economic affairs. Therefore, no action was taken to pressure France to refund the debts until the reparations controversy was settled.

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65 For references to the fiscal and credit factors, see the interesting exchange of letters between Harding and Fred Starek, November 2, 1922, Box 88, File 57, Folder 3, PCF, Harding Papers. For the link between debts and armaments, see, for example, the statement by Theodore E. Burton (Member, World War Foreign Debt Commission), reprinted in "Views on Cancellation," 80-81. Hoover's speech is reprinted in Commercial and Financial Chronicle, 115 (October 21, 1922), 1781.
Instead, the administration focused its full attention on promoting a reparations accord that would be based upon an expert committee's evaluation of Germany's capacity. This decision demonstrated the administration's interest in securing a European settlement that would stabilize affairs in the Old World without obliging the American people to make any sacrifices of their own. After this approach was rejected by France and after the elections were over, Harding and Hughes fully recognized that if they were going to exert a salutary influence in European affairs, the United States would have to become more compromising on the debt question.

Rather than wait for a new congressional mandate, however, the War Debt Commission negotiated a debt settlement with Britain that disregarded the restrictions enumerated by Congress. This accord provided for the repayment of the debt over 62 years with interest increasing from 3 to 3 1/2 per cent. In an address before Congress

66 Harding to Starek, November 2, 1922, Box 88, File 57, Folder 3, PCF, Harding Papers. American policy makers must have realized that there was simply no point in pressuring France to pay the debt while they were exerting pressure to get France to accept a reduction of reparations.

67 Harding to Lodge, December 27, 1922, Cong. Record, 67 Cong., 4 Sess., December 28, 1922, 982; Hughes to Lodge, February 1, 1923, Box 4B, Hughes Papers.

68 The members of the War Debt Commission were appointed by Harding on February 21, 1922. In addition to Mellon, Harding selected Hughes and Hoover from his Cabinet and Reed Smoot and Theodore Burton from the Senate and
on February 7, 1923, Harding requested approval of the settlement. He stressed the crucial importance of the accord as a reconfirmation of the integrity of agreements and the sanctity of contracts. He also claimed that the settlement was an essential prerequisite for the restoration of the world's financial and economic stability. For not very dissimilar reasons, the British also decided to sign an accord that they considered unjustifiably harsh and fiscally unwise. 69

The very favorable response to this debt settlement in both houses of Congress and in the press indicated that the administration had struck a popular compromise

House respectively. The text of the United States-British agreement may be found in Moulton and Pasvolsky, Debt Settlements, 225-241.

69 Harding's speech may be found in World War Foreign Debt Commission, Combined Annual Reports, 96-100. For information on Britain's motivations for signing the accord, see Walter Tower (Commercial Attaché, London) to Julius Klein, January 30, 1923, Records of the B.F.D.C., Box 640 (Inter-Allied Debts), RG 151; also see Herrick to Hughes, February 28, 1923, Box 14, Herrick Papers. The French were angered by the British debt settlement. They recognized that the harsh terms set an unfortunate precedent. See André Tardieu, France in Danger (London, 1935), 26; Jules Laroche, Au Quai D'Orsay avec Briand et Poincaré, 1912-1926 (Paris, 1957), 170-171.

between the imperatives of fiscal and commercial policy. It had temporarily reconciled the conflicting demands of world stability and domestic politics. Businessmen and politicians alike supported the accord because they believed it would facilitate American exports, without unduly burdening the American people with additional taxes. It was frequently emphasized that the reduction of interest to between 3 and 3 1/2 per cent reflected the anticipated normal level of interest rates over a long period of time. Critics therefore had difficulty in claiming that cancellation had been countenanced and the well-being of the American taxpayer jeopardized. Moreover, the importance of eliminating one major element of uncertainty was widely appreciated in the chaotic international atmosphere engendered by the French occupation of the Ruhr.\footnote{"The First Step Toward World Solvency," 9-12; Senate, Committee on Finance, Refunding of Obligations of Foreign Governments (Washington, 1923), 11-19; House, Committee on Ways and Means, Refunding Foreign Obligations--British Debt (Washington, 1923), 1-2; J. E. Edgerton (President, N.A.M.) to Harding, February 3, 1923, Box 88, File 57, Folder 3, PCF, Harding Papers; Robert W. Bingham (Chairman, National Council of Farmers' Cooperative Marketing Associations) to Harding, February 5, 1923, Box 198, File 227, Folder 3, \textit{ibid.}; Winston, \textit{American War Debt Policy}, 11.}

Though gratified by the signing of an agreement with America's largest debtor, the administration continued its policy of deferring negotiations with France until the reparations question was clarified. Throughout 1923, Hughes
warned private intermediaries between France and Germany to refrain from suggesting that the United States might reduce the debt as part of an over-all financial settlement. Despite congressional ratification of the British debt accord, the Secretary of State remained apprehensive over the possible legislative reaction to any connection of the debt and reparation issues. Consequently, he urged the European powers to resolve the reparations dispute independently of the war debt question, and only intimated that constructive action on the former would be reciprocated by American generosity on the latter.  

In late 1923, when France agreed to participate in the work of the expert committees, American policy makers became even more circumspect about discussing the debt question. To have insisted upon settling the debt on American terms while delicate negotiations on reparations were under way would have antagonized French officials who were likely to be more determined than ever to demand quid pro quo for French concessions on the indemnity issue.

72 Hughes to Kent, February 8, 1923, 800.51/457A; Hughes to Kent, October 26, 1923, Box 10 (Bankers), Hughes Papers; Hughes to Fletcher, August 17, 1923, F. R. , 1923, II, 66-68; Hughes to Chilton (British Charge), October 15, 1923, ibid., 70-73.  

73 In the fall of 1923, for example, Fletcher reported that Poincaré was again committed to making French concessions on reparations contingent upon reciprocal American concessions on war debts. See Fletcher to Hughes, October 27, 1923, November 5, 1923, Box 10, Fletcher Papers.
If this had happened, the long sustained effort of American officials to scale down German reparations without regard to the debt question might have failed once again. American diplomats were well aware that in any event France would neither be able nor willing to make debt payments until she received reparations and until she benefited from the economic rehabilitation of all of Europe which a sound reparations accord itself would make possible. These considerations influenced Coolidge's decision to tell the press in March, 1924, that the United States had no immediate intent to press for refunding agreements.\(^{74}\)

The successful reparation negotiations in London during the summer of 1924, however, transformed the situation with regard to the war debts. There was a general feeling among American policy makers that the reparations settlement had prepared the way for substantive talks with France on debt refunding. Previous delays had been the result of the widespread economic dislocations throughout Europe and of the precarious financial position of the French government itself. Policy makers believed that France's fiscal position and future capacity to pay debts

\(^{74}\)For information related to America's decision to temporarily forego action on the debts, see Logan to Hughes, March 2, 1923, 851.51/385; A. N. Young to Harrison, December 17, 1923, 800.51W89/60; Logan to Hughes, February 28, 1924, Box 11, Fletcher Papers; statement by Coolidge, March 14, 1924, in Quint and Ferrell, \textit{Talkative President}, 182-184.
had been considerably clarified by the reparations accord; further delays in debt negotiations might only discourage French efforts to undertake necessary financial reforms. In light of these feelings, the real task confronting American officials was to decide upon what basis negotiations should proceed.75

The same general factors that had influenced the American negotiating position since 1919 still applied. Fiscal demands, popular pressure, and legislative restrictions called for a rigid American bargaining posture; commercial imperatives, international financial considerations, and foreign outcries demanded American flexibility and generosity. But the importance of each of these factors had been modified by intervening events. Congressional ratification of the British debt settlement had demonstrated that the legislature would acquiesce to certain deviations from the original enactment. The passage of the bonus bill, the reduction of taxes, the appearance of budgetary surpluses, and the decrease in the long term public debt also had altered the situation and had inspired hopes among American policy makers that Congress would be more flexible than heretofore. In fact, since Congress had expanded the membership of the Debt Commission to include Democrats as

75A. N. Young to Hughes, September 20, 1924, 800.51W89 France/91; Herrick to Hughes, November 21, 1924, Box 75, Hughes Papers.
well as Republicans, the Commission itself now had a more bi-partisan character. This meant that it could apply the principle of capacity as the rationale for debt revisions with less fear of generating domestic political controversy and with more likelihood that its actions would be examined on non-partisan grounds.

Thus, in preparing for negotiations with France in the autumn of 1924, American policy makers decided to adopt the principle of capacity as the criterion for adjusting the debt obligations of its former Allies. This decision was motivated by the realization that an accord with France along the same lines as the one with Britain was out of the question. The French would never accept it. Moreover, it was considered short-sighted to force France to make large payments to the United States before the French budget was balanced and the currency stabilized. Arthur Young, economic adviser to the State Department, argued that "the United States would [be making] no sacrifice in accepting a basis less favorable than the British basis." He continued, "It cannot be in the interest of this country to make an agreement which would clearly be too onerous to France to carry out . . . . A too harsh settlement is not worth the risk

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76In February, 1923, the Debt Commission had been expanded to include three Democrats. These were Congressman Charles R. Crisp, former Congressman Richard Olney, and former Chairman of the United States Shipping Board Edward W. Hurley.
As a result of these considerations, the War Debt Commission decided to use the criterion of capacity as a means of settling the debt with France. On December 1, 1924, Mellon told French Ambassador Jules Jusserand that interest rates would be adjusted to fit the special economic circumstances of France. In all other respects, the terms of the British accord were to be controlling. For example, the entire principal would have to be repaid, payments on principal would have to begin immediately, and all obligations would mature in 62 years.  

77 For Young's statement, see Young to Hughes, September 20, 1924, 800.51W89 France/91. Though Treasury officials subsequently stated that all debt settlements had been based on the debtor's capacity, this criterion was first used only in 1925. There is no emphasis on this principle in the Treasury's Annual Report for 1923. See Treasury, Annual Report, 1923, 14-15. Contrast this with the Annual Report for 1925. See Treasury, Annual Report, 1924-1925, 53. Frank Kellogg (Ambassador to England and soon to be Secretary of State) felt the French should settle on the same terms as the English. See Kellogg to Hughes, December 5, 1924, Box 61, Hughes Papers. But the Treasury Department was setting policy and recognized that there were crucial differences between France and England. Unlike England in 1922-1923, France, in the mid-1920's, did not have a balanced budget. This meant that France had no net income available for debt payments. Thus, France's peculiar circumstances had to be taken into consideration. See the discussion of this point in Harold G. Moulton and Cleona Lewis, The French Debt Problem (New York, 1925), 273-284.

78 W.W.F.D.C., Minutes, 60-61; memorandum handed by Mellon to Jusserand (French Ambassador), December 1, 1924, Bureau of Accounts, Box 60, RG 39.
the actual capacity of a debtor to pay was to be determined objectively after accounting for each nation's legitimate desire "to preserve and improve its economic position, to bring its budget into balance, to place its currency and finances on a sound basis, and to maintain and, if possible, to improve the standard of living of its citizens." In practice, however, Mellon subsequently admitted that "The capacity of a nation to pay over a long period of time is not subject to mathematical determination. It is and must be largely a matter of opinion . . . ." This suggests that the Debt Commission's decision to ask France to enter into negotiations on the basis of capacity was inspired by the belief that this principle afforded sufficient flexibility to arrive at an agreement mutually satisfactory to France and to Congress.

In the latter part of 1924, there was, in fact, a real prospect that France would partake in serious negotiations. Upon returning to Paris in late November, after his annual vacation in the United States, American Ambassador Myron Herrick discovered that Premier Édouard Hérriot was planning to send his finance minister, Étienne Clémentel,  


80 The manipulation of interest rates seemed to provide great room for maneuver. For example, the difference between a 3 and a 5 per cent rate could amount to over $4 billion during a 62-year period. See W.W.F.D.C., Combined Annual Report, 329.
to the United States to discuss the debt question. Herrick, fearing that precipitous action might be counter-effective, persuaded Hérriot to postpone Clémentel's visit. Instead the American Ambassador and the French Premier agreed to begin informal talks in the French capital. Herrick reported that "The financial situation dominates their policy and they are becoming more and more aware of the dangers of unsettled debts which limit their freedom of action by enabling other powers to apply pressure." There was, he believed, a real desire "to do everything that will be agreeable to the United States." Hérriot, he maintained, was extremely anxious for a debt settlement. This would contribute to French financial stability and thus enable him to consolidate his very tenuous political position by winning over some center and perhaps even conservative sentiment. 81

Despite its self-proclaimed good intentions, the Hérriot government never came up with an offer that the United States found acceptable, even as a basis for negotiations. In fact, as a result of diplomatic indiscretions, false press rumors, and unreasonable proposals, these initial pourparlers ended in a furor of mutual recrimination and ill will. The French plan that generated so much

81 Herrick to Hughes, November 21, 1924, Box 16, Herrick Papers; Herrick to Hughes, December 12, 1924, ibid.; Herrick to Coolidge, December 12, 1924, Box 16, ibid.
abrasive rhetoric in the United States included proposals for a ten year moratorium on all payments, interest rates never to exceed .5 per cent, and an amortization period of ninety years. The moratorium was to be followed by relatively small annuities until the Dawes Plan was fully implemented and France's external commercial debt largely extinguished. All payments were to be made contingent upon Germany's continued fulfillment of her own obligations to France. In addition, France requested that the United States either reduce the interest or the principal on the $400 million that had been loaned for the purchase of surplus American war stocks. Initial reports that Clementel had called for an outright cancellation of the debt predisposed Americans to overlook the substantive aspects of the offer and to reject it out of hand. The American position, however, actually remained as uncompromising as the French. With Congress still in ultimate control of the issue, Hughes sorrowfully acknowledged the State Department's inability to modify the American bargaining stand beyond certain adjustments in interest rates.82

The French government was bewildered by the unfavorable American response. Clémentel insisted that France had no desire to repudiate her signature. But he and Hérrriot stressed that the unproductive nature of the loans, the

82F.R., 1925, I, 133-146; Herrick to Kellogg, March 19, 1925, Box 18, Herrick Papers.
sacrifices endured by France during the war, and the unparalleled financial problems encountered by France in the post-war period justified their request for American generosity.\(^83\) The Herriot government was truly enveloped in a political and financial dilemma that did not escape the attention of, but made little impression upon, American policy makers. In desperate need of American capital to balance the budget and to prevent the destruction of the currency, Herriot was inclined to bow to American desires and to make the necessary concessions. This partly accounts for his conciliatory stand on the debt in November and early December, a time when the French government was consummating a $100 million loan with Morgan and Company.\(^84\) By obtaining this money, however, the government found itself temporarily relieved of its most immediate financial problems.

\(^83\) Herrick to Hughes, December 31, 1924, F.R., 1925, I, 137-139; Lacour-Gayet to Wadsworth, January 12, 1925, Bureau of Accounts, Box 60, RG 39; Herriot's speech in the Chamber of Deputies on January 29, 1925, in ibid.; Herrick to Coolidge, January 16, 1925, Box 18, Herrick Papers.

\(^84\) For references to the French political and financial crises, and to Herriot's good intentions, see Herrick to Hughes, January 23, 1925, F.R., 1925, I, 144-145; Herrick to Hughes, January 2, 16, 1925, Box 18, Herrick Papers; Herrick to Hughes, January 30, 1925, 851.51/533. There were also some indications that France was ready to treat American imports more favorably if the United States offered a quid pro quo on the debts. See memorandum, February 6, 1925, 611.5131/491. For more information on the Morgan loan of December, 1924, see Chapter IV.
But nothing had been done to solve its long-term financial woes nor to consolidate its immediate political position. Consequently, having acknowledged the validity of the debt, Hérrriot was forced to backtrack when it came to considering specific commitments on interest and principal. With the Cartel des Gauches in an incipient state of dissolution, Hérrriot briefly looked to the center for some support that might enable him to make greater concessions. But he found little sympathy among conservative elements of the press nor much enthusiasm among conservative groups in the Chamber. His ability to negotiate with some leeway was further undermined by a widely acclaimed speech by Louis Marin in the Chamber on January 21, 1925. In a long and emotional tirade, the conservative Deputy castigated American debt policy on moral grounds and called for an equal sharing of the burdens of the war. Though Hérrriot would have liked to carry on constructive talks, political and financial circumstances precluded him from offering anything appealing to the United States. As a result,

**85** By mid-February, Clémentel was seeking another long-term loan in the United States. See Herrick to Hughes, February 20, 1925, Bureau of Accounts, Box 60, RG 39. While financial problems remained chronic, the press remained critical of any concessions on the debt. For some information on the tone of the French press, see 800.51W89 France/61, 66, 79, 85. The French felt that financial difficulties within France justified their position on the debt. See, for example, memorandum of the conversation between Mellon and Daeschner (French Ambassador), February 28, 1925, Bureau of Accounts, Box 60, RG 39. Marin's complete speech on January 21, 1925, may be found in *ibid.*; also see citations in footnote 84.
nothing at all developed from these first efforts to settle the debt according to the principle of capacity.

The failure of the French to come forward with more realistic proposals caused widespread consternation in American governmental circles. Top policy makers decided to use financial power to push France toward a more conciliatory position. After extensive consideration, State, Commerce, and Treasury Department officials agreed to counsel bankers to refrain from issuing loans to private as well as public organizations in recalcitrant debtor nations. Assistant Secretary of State Leland Harrison considered this to be "the only effective weapon that we have vis-a-vis our debtors." 86

As far as France was concerned, however, there could hardly have been a more forceful, yet non-violent means, of exerting pressure. At the time, there was a tremendous dearth of badly needed capital inside France. Moreover, the London market was closed to French securities while Britain was struggling to return to the gold standard. Treasury and Commerce Department officials were aware of these developments and there can be little doubt that the American loan embargo was inaugurated at a time when it was likely to have a maximum impact on French policy. American

86 Harrison to Kellogg, April 10, 1925, 800.51/507-1/2; also see Hoover to Hughes, November 20, 1924, 851.51/499 (filed as 800.51/499); memorandum of conversation between Harrison and Hoover, November 20, 1924, 851.51/506.
policy makers believed that any French government would need American capital to halt the spiralling inflation, to convert the floating debt, and to stabilize the franc. Therefore, in April, 1925, with great expectations, the United States government began a determined campaign to stop all French credit arrangements in this nation until a debt accord was signed.

Even before the Hériot government fell in early April, Clémentel had demonstrated a renewed disposition to settle the debt. He told Herrick that he would not insist upon linking debts and reparations. Nor would he demand a ten year moratorium on all payments. Herrick and State Department officials were impressed with these new proposals. Consequently, when the new Painlevé-Caillaux-Briand government displayed a similar desire to enter into serious negotiations, the American Ambassador was instructed to take up the issue. Secretary of State Frank Kellogg emphasized, however, that on most matters the British accord was still

For the closing of the British capital market, see Winston to Mellon, April 21, 1925, 800.51W89 France/109; Chester Lloyd Jones, the commercial attaché in Paris, was sending in detailed reports on the deterioration of French financial conditions. See, for example, Jones to Grosvenor M. Jones (Chief, Finance and Investment Division, B.F.D.C.), April 4, 1925, B.F.D.C., Box 600, RG 151; also see Herrick to Hughes, February 20, 1925, 851.51/546. For the Treasury's official statement on the loan embargo, see W.W.F.D.C., Combined Annual Reports, 39. For the actual implementation of the embargo, see, for example, memoranda by Harrison, April 1, 1925, June 7, 9, 10, 11, 16, 1925, Box 46, Harrison Papers; memorandum by Young, May 28, 1925, 800.51W89 France/123.
controlling, that payments on principal had to begin at once, and that the sole area for discussion was in the adjustment of interest rates. In other words, the Americans were still offering the same terms that Mellon had communicated to Jusserand in December, 1924.

The French did not know how to respond. Herrick indicated that they truly wanted a settlement, but that they were vacillating because of the political and financial turmoil in France and because of their inability to grasp fully the American position. In particular, Briand and Caillaux wanted more information on American attitudes toward a possible moratorium, toward the length of the amortization period, and toward the level of interest rates. Caillaux was quite apprehensive about agreeing to terms France subsequently would be unable to fulfill. Yet, he felt constrained to go as far as he could to meet American demands. His financial policy was aimed at balancing the budget by cutting government expenditures, at funding the enormous short-term internal floating debt by using a long-term reconversion loan, and at stabilizing the franc by securing foreign credits. In order to accomplish this program and to insure the success of his own political comeback, he had to negotiate debt agreements with the

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88 F.R., 1925, I, 150-154; Herrick to Kellogg, March 19, 1925, Box 18, Herrick Papers; Herrick to Coolidge, March 20, April 3, 17, 1925, Box 18, ibid.; Harrison to Kellogg, April 3, 1925, Box 46, Harrison Papers.
United States and Britain. Both he and Briand realized
"that the credit they so much need from the United States
will not be opened until this vexatious [debt] question is
settled."  

American policy makers had wanted Herrick to obtain
France's commitment to an agreement patterned on the British
debt settlement. Only the interest rates were to be changed
in accordance with the peculiar economic circumstances
existing in France. They hoped that Caillaux himself would
then lead a French mission to the United States to negotiate
the readjustment of interest payments and to sign the accord.
Caillaux was believed to be well qualified to present a
forceful case for France based upon economic data that would
impress Congress and thus enable the War Debt Commission to
be more flexible.  

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89 For quotation, see Herrick to Kellogg, July 3,
1925, Box 18, Herrick Papers; also see Herrick to Kellogg,
June 9, 1925, Box 18, ibid.; Herrick to Kellogg, June 16,
1925, ibid.; Herrick to Kellogg, June 18, 1925, F.R., 1925,
I, 156; Herrick to Kellogg, June 19, 1925, 800.51W89 France/
146; Winston to Mellon, May 1, 1925, Bureau of Accounts,
Box 60, RG 39; F. A. Sterling (Counsellor of London Embassy)
to Kellogg, August 28, 1925, ibid.; Houghton to Kellogg,
September 4, 1925, ibid.; Percy Peixotto to Kahn, May 30,
1925, Box 260, Otto Kahn Papers (Princeton University Li-
brary, Princeton, New Jersey). For some secondary accounts
of Caillaux's financial program, see Moulton and Lewis,
French Debt Problem, 449-453; Robert Murray Haig, The Public
Finances of Post-War France (New York, 1929), 114-122;

90 Memorandum by Winston, Bureau of Accounts, Box 60,
RG 39.
However, upon learning from Herrick that debt talks were likely to be postponed indefinitely unless the United States clarified and relaxed its position, Mellon made certain alterations in American policy that paved the way for Caillaux's visit in September. On July 2, he told the French Ambassador, Émile Daeschner, that the amortization period should be no longer than eighty years, that initial interest payments might be deferred until later years if circumstances warranted it, that a moratorium on payments of principal in the early years might be left open for discussion, and that the probability of reparation receipts would be given consideration in determining France's overall capacity. This broadening of the American negotiating posture once again revealed the Treasury's desire to be as lenient as Congress was likely to permit on the debt issue in order to achieve the more important goal of stabilizing financial conditions throughout Europe. It was no accident that Mellon warned Daeschner that the French had to take seriously their obligation to prove their incapacity in such a way as to influence Congress which had the final authority to approve or disapprove any accord.

91Herrick to Kellogg, June 9, 1925, Box 18, Herrick Papers; memorandum of conversation between Mellon, Winston, and Daeschner, July 2, 1925, Bureau of Accounts, Box 60, RG 39; Winston to Kellogg, July 7, 1925, Box 17, Harrison Papers. The loosening of the American position was apparently a result of increasing apprehension over the seriousness of French financial difficulties. See, for example,
The French Ambassador apparently was much impressed by this interview with Mellon and reported to his government that the War Debt Commission was now well disposed toward a settlement. Yet, before leading a delegation to the United States, Caillaux decided to go to London to settle France's debt to Britain. He believed the English would be more responsive to French needs. He hoped an accord with England would serve as a favorable frame of reference for his subsequent talks with the American War Debt Commission.92

In London, Caillaux pleaded for a generous settlement. He argued that such an accord would not only benefit France but would also redound to the economic advantage of England and the entire world. Specifically, he asked that French payments be very small during the first few years of the accord in order to facilitate his task of rehabilitating French finances. He also desired French payments to Britain to be made contingent upon the receipt of reparation payments from Germany. This became known as the safeguard clause. Like the British, Caillaux felt certain that Germany would only be able to pay approximately fifty per cent of the Dawes annuities. Therefore, he hoped that the total

Jones to Klein, April 28, 1925, B.F.D.C., Box 600, RG 151. French financial problems were considered a hazard to the stabilization of currencies throughout Europe. See L. V. Chandler, *Benjamin Strong, Central Banker* (Washington, D.C., 1958), 360.

92 Houghton to Kellogg, September 4, 1925, Bureau of Accounts, Box 60, RG 39.
amount of French obligations to England and the United States would not exceed fifty per cent of the scheduled reparation payments. Despite these requests for leniency, influential Americans in London, including the Ambassador, Alonson Houghton, and the Governor of the Federal Reserve Bank of New York, Benjamin Strong, reported to Washington that the French Finance Minister was earnestly seeking an accord. Caillaux, they emphasized, was prepared to go as far as he could on the debt in order to obtain American capital. 93

At first, however, Caillaux's negotiations in London fostered an unfortunate impression in the United States. Many Americans believed that the French were trying to obtain a settlement in London that they could use as a wedge to extract more favorable terms in Washington. Consequently, when Caillaux and his delegation of eight members of parliament arrived in the United States in late September, their first task was to reassure the War Debt Commission that French payments to England would not exceed those to the United States. 94 Having accomplished this, negotiations

93 Strong to Winston, August 19, 24, 1925, September 21, 1925, Bureau of Accounts, Box 220, RG 39; Sterling to Kellogg, August 28, 1925, Box 60, ibid.; Houghton to Kellogg, September 4, 5, 1925, ibid.; Houghton to Kellogg, August 26, 1925, 800.51W89 France/159.

94 The Paris Embassy warned that Caillaux might be seeking an accord in London that could be used as a club against the United States. See Whitehouse to Kellogg, July 31, 1925, 800.51W89/155. Strong denied this was true, but
proceeded in a hurried, but constructive and business-like fashion. The two sides agreed on incorporating the war stocks debt into the political debt, on accepting an amortization period of sixty-two to sixty-eight years, on providing for two permissible postponements of payments during the first five years of the accord (and three thereafter), and on specifying the range of annuities during the early years of the settlement. The fact that the French and Americans were able to agree on these points, points

the impression lingered until the French delegation arrived and negotiations were underway. Actually, American policy makers knew that the terms of the proposed British-French settlement were not nearly so favorable as seemed on the surface. Therefore, there was mutual accord on the wisdom of disregarding France's contemplated agreement with England. See Strong to Winston, September 1, 1925, Bureau of Accounts, Box 220, RG 39; W.W.F.D.C., Minutes, 97-99; Stéphane Lauzanne, "How French Debt Mission Failed," The Christian Science Monitor, February 8, 1926, in Bureau of Accounts, Box 61, RG 39. Lauzanne was one of the renowned French journalists who accompanied the Caillaux Mission to the United States. Well-known as a friend of the United States, he had excellent contacts with leading American officials. During the negotiations in Washington, he sometimes served as an interpreter during informal discussions. After the negotiations failed, he wrote a series of articles for The Christian Science Monitor. Hereinafter, they shall be cited as Lauzanne, "French Debt Mission," date.

95 W.W.F.D.C., Minutes, 90-108; Lauzanne, "French Debt Mission," February 8, 9, 1925. For the French, the incorporation of the war stocks debt into the political debt was a sine qua non for a successful accord. Otherwise, the $400 million principal would fall due in 1929. The French had always recognized the validity of this commercial debt and had been paying annual interest installments on it. See Robert Lacour-Gayet, "Le Problème de la Dette Française Envers Les États-Unis Après La Première Guerre Mondiale," Revue D'Histoire Diplomatique, 75 (January-March, 1961), 17.
that previously had been disputed and contested, demonstrated that both parties were negotiating in earnest.

Two very difficult problems, however, did develop. The first revolved around the level of annuities after the first ten or twelve years. In fact, this represented a more basic disagreement on the total amount to be repaid. Caillaux initially offered $25,000,000 a year for the first five years, $30,000,000 annually for the next five years, $60,000,000 annually for the subsequent ten years, and $90,000,000 annually for the remaining forty-two years. Several days later, on September 30, in his final proposal, he substantially increased his original offer to $40,000,000 annually for the first five years, $60,000,000 annually for the next seven years, and $100,000,000 annually for the last fifty-six years. Whereas total French payments would have amounted to $4,655,000,000 as a result of the first French proposal, the revised offer contemplated a total transfer of $6,220,000,000. This was a realistic, even courageous proposition. Herrick wired the State Department, "For Heaven's sake, accept as soon as possible the French offer, for they have offered more than they can pay." The War Debt Commission, however, felt compelled to reject it because it would have meant a long term interest rate of less than one per cent, a return believed unacceptable to Congress and to American taxpayers. 96

96 W.W.F.D.C., Minutes, 93, 105, 107-108; Herrick
The other serious impediment to successful negotiations was the French demand for a safeguard clause. Americans were naturally reluctant to make debt payments contingent upon reparation payments. They believed that reparation transfers constituted only one element of France's capacity. Consequently, they felt that indemnity payments could cease without necessarily affecting France's real ability to pay the United States. Moreover, American policy makers did not wish to become the de facto creditor of last resort against Germany. They realized that national tradition and geographic position would make it extraordinarily difficult for the United States to enforce German payments. In addition, there was a good deal of apprehension that a safeguard clause might generate disharmony between the United States government and the American financial community if Germany ever faced a serious shortage of foreign exchange. In that contingency, private American investors in German bonds and securities would insist that Germany use all her available resources to service her private and commercial debt. On the other hand, the American government (theoretically representing the American taxpayer) would want Germany to continue her reparation transfers so
that America's debtors would continue to meet their war debt obligations. It was natural for a Republican administration with close ties to Wall Street and big business to want to prevent this type of conflict from ever arising.\textsuperscript{97}

What is surprising, then, is the extent to which American negotiators attempted to accommodate French demands on this point. Hoover orally acknowledged that the American attitude on debt payments would be affected by any German default on reparations. But he was unwilling to put this in writing. He was inclined, however, to give very serious attention to a general safeguard clause that provided for a re-evaluation of French obligations in light of any unforeseen changes that might affect her capacity. Caillaux responded favorably to this, but was convinced by other members of the French delegation to demand an additional phrase indicating that in re-examining the French capacity "all of its essential elements" would be taken into consideration. This was an indirect effort to imply a closer link between debts and reparations. On the surface, even this presented no problems to the members of the War Debt Commission. But they soon realized that France still would narrowly interpret the clause to mean that if the Dawes annuities were reduced, French payments to the United States

also would be reduced. Consequently, the American negotiators finally decided to oppose any safeguard clause.\footnote{Winston, "American War Debt Policy," 19-20; Lauzanne, "French Debt Mission," February 8, 1926; also see the several memoranda on possible safeguard clauses, September 29, 30, 1925, Bureau of Accounts, Box 61, RG 39; unsigned proposal, September 30, 1925, 800.51W89 France/198.}

As a result of the unresolved differences over the total amount of repayments and the safeguard clause, the War Debt Commission rejected the final Caillaux offer on October 1. The Americans then proposed a provisional accord calling for five annual payments of $40,000,000. After five years the entire issue would again be reviewed.\footnote{W.W.F.D.C., Minutes, 107-108; memorandum by Winston, February 15, 1926, Bureau of Accounts, Box 61, RG 39.} Mellon, however, recognized that there was little likelihood of an affirmative French response to this offer. He therefore invited Caillaux to meet privately with him and Under Secretary Winston to discuss alternate terms. Very much desirous of a final settlement, Mellon tried to get the French Finance Minister to raise the amount of the annuities that France would pay in the latter years of the accord. If France would agree to this, Mellon was ready to reduce the amount of the early annuities.\footnote{Mellon to Henry Bérenger (French Ambassador), April 17, 1926, Bureau of Accounts, Box 61, RG 39.} Though these changes would have meant a larger total amount of payments, they
also would have relieved the financial problems that France was expected to face in the next few years.

Caillaux, however, refused to alter the French position. He was in a tremendous hurry to return to France in order to participate in the annual congress of the Radical-Socialist Party. He hoped to consolidate his own political position and to head off a parliamentary combination that was forming against him. Caillaux had no desire to belabor the debt question when there seemed to be little chance of obtaining an accord that would be acceptable to the French public. He knew that his own delegation already felt he had gone too far. He also knew that the French press was demanding a safeguard clause. As it turned out, French public opinion vigorously supported Caillaux's decision not to make any further concessions. There was a pervasive feeling that he had made "an extraordinary effort probably beyond French means to carry [it] out."¹⁰¹

Within the American War Debt Commission, there seems to have been a good deal of division on the nature of

¹⁰¹The quote is from Whitehouse to Kellogg, October 16, 1925, 800.51W89 France/231. For those factors influencing Caillaux, see Lauzanne, "French Debt Mission," February 9, 1926; Houghton to Kellogg, October 8, 1925, 800.51W89 France/211; Binion, Defeated Leaders, 100-104. For information on the French reaction to the failure of the Caillaux Mission, see the daily summaries of the French press in the State Department files, 800.51W89 France/193-196, 205, 221, 226; also see Herrick to Coolidge, October 27, 1925, Box 18, Herrick Papers; "French Bitterness Over the Debt Proposal," Literary Digest, 87 (October 17, 1925), 20-21.
the terms of a satisfactory accord. Hoover and Mellon very much wanted a settlement that would facilitate the stabilization of the franc and that would react favorably upon the international economy. These factors impelled them to be conciliatory toward Caillaux. Consequently, the Secretary of Commerce showed unusual flexibility on the safeguard clause while the Secretary of the Treasury manifested a real desire to compromise on the level of annuities. But there were other influences pushing in the opposite direction. Hoover, for example, suspected Caillaux's motives and distrusted the French. Moreover, he wanted to preserve the war debts as a lever to secure future reductions in French military expenditures. He believed that the eventual disarmament of Europe would enable the United States government to cut its own defense expenditures and to save American taxpayers hundreds of millions of dollars each year. As a

102 The Treasury was in very close contact with Benjamin Strong who was visiting Europe in August and September, 1925. The Governor of the Federal Reserve Bank of New York kept urging that the United States be flexible and generous in the forthcoming negotiations with France. See Strong to Winston, September 11, 1925, September 21, 1925, Bureau of Accounts, Box 220, RG 39. For Hoover's long-standing desire to solve the debt question in such a way as to promote world economic stability, see, for example, Hoover to Mellon, January 6, 1923, Commerce-1-I/370 (Foreign Debts), Herbert Hoover Papers (Herbert Hoover Presidential Library, West Branch, Iowa); memorandum by Hoover, February 4, 1923, Commerce Mss., Personal-Hughes, ibid. I am indebted to Robert Van Meter, jr., for sharing with me these and numerous other documents from the Hoover Library.
result, he was inclined to favor a temporary settlement at the expiration of which he would try to exact arms concessions in return for a reduction of the debt. Reed Smoot, powerful Chairman of the Senate Finance Committee and a real force within the Commission itself, apparently shared Hoover's concern for the fiscal well-being of the nation and also was sensitive to the political overtones of the debt issue.

Therefore, though the War Debt Commission compiled an enormous amount of statistical information on the French economy and on French finances, its final decision was determined by domestic political and fiscal considerations rather than by an objective analysis of France's capacity to pay. Not surprisingly, the Commission justified its rejection of Caillaux's final offer by referring to the needs of American taxpayers. The Commission shared the administration's trepidations that Congress might react negatively to another settlement providing for a substantial reduction of debt payments. The first such agreement

103 Memoranda by Hoover, September 23, 24, 29, 30, 1925, Commerce-1-J/20 (French Debt), Hoover Papers.

104 For the influence and attitude of Smoot, see Lauzanne, "French Debt Mission," February 6, 1926; Pertinax (André Géraud), "Ce Que Fut La Conférence de Washington," October 12, 1925, L'Echo de Paris, in 800.51W89 France/236; editorial, New York Times, October 2, 1925, in Box 18, Herrick Papers; Milton Reed Merrill, "Reed Smoot, Apostle in Politics" (unpublished doctoral dissertation, Columbia, 1950), 344 ff.
(signed with Belgium in August, 1925) had not been ratified by the legislative branch at the time of Caillaux's visit. Meanwhile, renewed demands for tax cuts had emerged. Further complicating matters was Senator William E. Borah's denunciation of the accord with Belgium and his assertion that the French debt should be settled on the same terms as the British debt. The Idaho Senator reflected a widespread feeling among Americans that France was less deserving of generous treatment than any other debtor. French colonial wars in Syria and Morocco, her earlier intervention in the Ruhr, and her reputed delinquency in imposing necessary taxes had created a bad impression in the United States. All these factors very definitely influenced the outcome of the Caillaux negotiations.

This is not to say that the Commission lacked an economic rationale for its action. Indeed, there was a pervasive feeling that the French economy was fundamentally sound and that all French problems stemmed from the egregious

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For the demand for further tax cuts, see "Shall We, or Our Children, Pay for the War," Literary Digest, 87 (October 24, 1925), 9-10. The Belgium settlement envisioned a reduction of the debt by well over 50 per cent. See Moulton and Pasvolsky, War Debts and World Prosperity, 101. For Borah's views, see Commercial and Financial Chronicle, 121 (September 19, 1925), 1413-1414; also see the many letters written by Borah in Boxes 251 (Haiti) and 264 (Foreign Debts), Borah Papers. There were numerous anti-French resolutions introduced in Congress in 1923 and 1924. These may be found in Bureau of Accounts, Box 60, RG 39. Also see Henry Bérenger, La Question des Dettes (Paris, 1933), 81-82.
mismanagement of French finances. Therefore, there was some justification for maintaining that France would be able to pay over $100,000,000 annually once her budgetary and currency difficulties had been solved. But the evidence seems to suggest that the Commission was concerned mostly with settling upon a basis that the American public would find acceptable. Pressure still was being exerted by both the proponents of cancellation and non-cancellation. The task of the War Debt Commission was to find a compromise between these two extremes, a compromise that would be not only politically discreet but that also would balance wisely the conflicting fiscal and commercial imperatives. Caillaux's offer, though forthright and courageous from the French perspective, in the view of the War Debt Commission did not constitute a suitable basis for such a compromise.

Though the Caillaux mission failed to produce results commensurate with the energies expended by both

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107 See many letters to Winston and Mellon, Box 47, ibid.; many letters to Borah in Box 251 (Haiti) and 264 (Foreign Debts), Borah Papers; John J. Blaine (Governor of Wisconsin) to Coolidge, September 24, 1925, 800.51W89 France/192.
sides, it did set a framework for further discussions. The French were unwilling to accept a temporary accord. A provisional settlement imposed an unknown burden on the credit of France, created further uncertainty, and inhibited the rehabilitation of French finances. As a result of these considerations, the French government instructed the French Financial Attaché, Robert Lacour-Gayet, to carry on secret negotiations in Washington. At first, these talks proved unrewarding. But, by January, progress had been made and Briand decided to send Henry Bérenger as a special envoy to discuss a final settlement. After several months of painstaking negotiations, an agreement was signed on April 29, 1926. In this accord, there was no safeguard clause; the war stocks debt was incorporated into the political debt; the first annuities were set at $30,000,000; and the total sum to be repaid over sixty-two years amounted to $6,847,674,104.

France made the key concessions. Bérenger signed without the highly valued safeguard clause. In addition,

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108 W.W.F.D.C., Minutes, 240; memorandum by Winston, April 20, 1926, Bureau of Accounts, Box 61, RG 39; Herrick to Kellogg, October 29, 1925, Box 18, Herrick Papers.

109 Lacour-Gayet, "Problème de la Dette Française," 19; W.W.F.D.C., Minutes, 187-188, 190; Bérenger, Question des Dettes, 19-87. Bérenger had long been an articulate advocate of an accord with the United States.

110 The final agreement may be conveniently located in Moulton and Pasvolsky, World War Debt Settlements, 363-374.
the French agreed to a schedule of payments that was somewhat greater than Caillaux had considered possible of fulfillment. But the French seemed to have little alternative. Unparalleled political instability and financial disorder placed the French in a weak bargaining position. The continued weakening of the franc generated great alarm and anxiety. From September, 1925, to April, 1926, the franc declined from 21.2 to 30.15 to the dollar. This fostered a renewed appreciation of the relationships between French monetary stability, a balanced budget, and a debt settlement. As a result, Premier Briand and his Finance Minister, Raoul Peret, took a bold step and instructed Bérenger to sign the accord even without the safeguard clause.

In exchange for these long awaited French concessions, the War Debt Commission agreed to set the first five annuities between thirty and forty million dollars, thus

111 See, for example, Herrick to Coolidge, December 5, 1925, Box 18, Herrick Papers; Herrick to Coolidge, January 5, 1926, March 8, 1926, Box 19, ibid.; memorandum by Winston, April 20, 1926, Bureau of Accounts, Box 61, RG 39; W.W.F.D.C., Minutes, 241-242; Haig, Finances of Post-War France, 449.

112 W.W.F.D.C., Minutes, 242; Bérenger, Question des Dettes, 32-37. The French Ambassador made a purely unilateral declaration of the traditional French position linking debts and reparations. He perfunctorily requested that the same rules be applied to international contracts as were traditionally applied to commercial agreements when for some unanticipated reason a debtor found itself without the capacity to meet its obligations.
slightly easing France's immediate burden. The Commission's decision to sign an accord with France that reduced interest payments to an average of 1.6 per cent reflected its new feeling of flexibility after Congress had just ratified the Belgium and Italian accords. These settlements reduced the obligations of those European nations by even more appreciable amounts than the French debt was to be reduced. It is revealing that the Debt Commission postponed the signing of the agreement with France until Congress approved the much more generous accord with Italy.  

All during the course of the Mellon-Bérenger negotiations, the Treasury remained extremely sensitive to the desires and prejudices of Congress. Fearing a congressional veto, Under Secretary Winston encouraged Lacour-Gayet to consult American experts on how to present the French case most effectively. For the same reason, Mellon accepted Senator Smoot's more demanding proposal for setting the amount of the first five annuities. Similarly, in his testimony before the House Ways and Means Committee, the Secretary of the Treasury did not forget the anti-French bias of many congressmen. He made a special point of

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113 Bérenger was aware of the relationship between the Italian and French accords. See Bérenger, *Question des Dettes*, 34.

114 Winston to Lacour-Gayet, February 10, 1926, Bureau of Accounts, Box 220, RG 39; W.W.F.D.C., Minutes, 244-245.
emphasizing that according to various economic indices the French debt settlement was substantially more onerous than the British, Belgian, or Italian agreements. In this and other ways, the administration endeavored to use a plethora of statistical data to elicit congressional support and to demonstrate the fairness of the settlement to both French and American citizens.\textsuperscript{115} Mellon, however, made the great mistake of not pressuring the Senate to act immediately. Thus, he allowed the propitious moment for legislative ratification in both nations to escape.\textsuperscript{116}

Nevertheless, Coolidge's decision to approve an accord with France that contemplated a reduction of over fifty per cent of the debt reflected a real American desire to contribute constructively to the rehabilitation of the world economy. The President was aware that lenient debt settlements would facilitate the stabilization of international finances and thus redound to the benefit of American commerce.\textsuperscript{117} Leading members of his administration had long recognized the connection between war debts, financial stability, and international trade. But the

\textsuperscript{115}See, for example, House, Ways and Means, French and Yugoslavian Debt Settlements, 6, 9-11, 29-30, 35-36; Senate, Committee on Finance, French Debt Settlement (Washington, 1926), 12, 19-24.

\textsuperscript{116}Senate, Finance, French Debt Settlement, 1-2.

\textsuperscript{117}Address by Coolidge to Congress, December 8, 1925, F.R., 1925, I, xvii-xviii; Quint and Ferrell, Talkative President, 193-194.
President had had to wait for domestic political and economic circumstances to change in such a way as to enable him to call for a substantial remission of the war debts. By the mid-1920's, real progress in the retirement of the national debt and in the reduction of taxation permitted him to conclude accords that previously had seemed to be politically inexpedient and fiscally irresponsible.\footnote{118} In the interim, business prosperity had immunized many groups from the tax impact of war debt reduction. And congressional suspicion of executive authority had been partly placated by the preservation of the legislature's ultimate power to veto all refunding accords. As a result, the administration and the War Debt Commission could focus greater attention upon the exigencies of European financial stability and expanded American exports without confronting implacable congressional opposition.

Thus, after the signing of the Mellon-Bérenger accord, Coolidge could feel a real sense of accomplishment. He believed a respectable compromise had been achieved between fiscal and commercial imperatives and between internal and external pressures. He told the press that American debt policy would "result in large payments into our Treasury . . . [and] in the stabilization and

\footnote{118}For statistics on tax revenues and the national debt, see Willoughby, Financial Condition and Operation of the National Government, 86-87, 218-219.
rehabilitation of financial conditions of the interested countries abroad. While our settlements have been liberal," he continued, "I think they have on the whole been just, the best that could be arrived at with the information and the prospects that we have at hand." 119

From the French perspective, however, the settlements seemed far less satisfactory. On the threshold of national bankruptcy and financial anarchy and in seemingly desperate need of foreign capital, the Briand ministry felt compelled to sign an accord that was bound to generate intense controversy within France. Bérenger had realized for some time that France would have to give up the safeguard clause in order to win access to American capital markets. But not all Frenchmen, indeed probably only a minority, were willing to support the ratification of an accord that appeared morally reprehensible and financially unwise. As a result, successive French governments postponed its submission to the Chamber.

This decision angered American policy makers and convinced them of the need to maintain the loan embargo and to perpetuate American financial pressure. Thus, the conclusion of the debt accord failed to bring harmony to American-French relations. In fact, it aroused another acrimonious debate within both nations over the wisdom and

119 Quint and Ferrell, Talkative President, 195.
morality of cancellation. Even more significantly, the existence of the unratified debt settlement generated a new controversy both within the United States and between the United States and France over the utility and legitimacy of the government's regulation of private capital movements to secure foreign policy objectives.
CHAPTER IV

LOANS

During May and June of 1926, American policy makers waited anxiously for the French to ratify the Mellon-Bérenger debt agreement. Their hopes for an early and final resolution of the debt controversy faded, however, as political instability and financial chaos in France persisted. The ironic aspect of the situation was that many Frenchmen believed American policies to be at least partly responsible for the financial crisis which they often cited as the cause of their own opposition to the debt settlement. American Ambassador Myron Herrick explained that French Premier Aristide Briand himself was upset with the American decision to perpetuate the dollar embargo and to deny France loans and credits which she desperately needed to combat speculation in the franc. French officials had assumed that American financial markets would be opened as soon as an accord was signed. Their expectations unrealized, the French felt tricked. Moreover, as the franc continued to depreciate, as prices kept increasing, and as uncertainty grew about the ability of the French government to redeem the immense short-term floating debt, the United States served as a convenient
scapegoat for France's financial debacle.¹ Chances for a quick ratification of the accord suffered accordingly.

American officials were aware of French hostility toward the use of financial power to force through a debt settlement. By early July, they were equally well informed about the intentions of the new French Finance Minister, Joseph Caillaux, to bring about the stabilization of the franc and to secure the ratification of the debt settlement as part of an overall program aimed at the rehabilitation of French finances. Of course, the outcome of this program would depend upon the availability of American credits.²

With these facts in mind, the most prominent members of President Calvin Coolidge's cabinet, including Secretary of Commerce Herbert Hoover, Secretary of the Treasury Andrew Mellon, and Secretary of State Frank Kellogg, met to discuss the appropriateness of maintaining the embargo on loans to

¹Herrick to Kellogg, May 21, 1926 and June 8, 1926, General Records of the Department of State, File No. 800.51 W89 France/312, 319, RG 59 (National Archives). (Hereinafter, a decimal number standing alone will indicate Record Group 59, in State Department files, National Archives.) Also see Herrick to Kellogg, June 11, 1926, Records of the Bureau of Accounts, Box 62, RG 39 (National Archives); Lester Maynard (Consul, Le Havre) to Kellogg, June 11, 1926, ibid.

²See, for example, Benjamin Strong (Governor, Federal Reserve Bank of New York) and Garard Winston to Mellon, May 20, 1926, Bureau of Accounts, Box 220 (unmarked folder), RG 39; Strong to George L. Harrison (Deputy Governor, Federal Reserve Bank of New York), July 2, 1926, ibid.; Harrison to Strong, July 3, 1926, ibid.
France. They understood, as we shall see, that their decision had implications not only for the settlement of the war debt question, but even more importantly for the stability of all European currencies and for the economic rehabilitation of all Europe.

Their decision to continue the government's informal loan ban until the debt accord was ratified became the most notorious example of the use of official influence to guide private capital in support of American foreign policy objectives. It was reached with some misgivings and with a good deal of uncertainty as to its practicality and effectiveness. The embargo lasted until January, 1928 and generated a good deal of discussion, much of it critical, about the government's role in mobilizing, guiding, and safeguarding private investments. As such, it stimulated a reexamination of the entire complex web of interrelationships between loans, trade, American foreign policy, and the government's regulatory powers.

Immediately after World War I, American banking, business, and farm leaders recognized that the United States had become a great creditor nation. In what now appears as

3Leland Harrison to Kellogg, July 12, 1926, Box 47, Leland Harrison Papers (Manuscript Division, Library of Congress).

a virtual cliche, George Roberts of the National City Bank of New York told the Investment Bankers Association of America in 1918 that "Our new position as a creditor nation will compel us to be a lending nation." During the years that followed, this truism was stated and restated many times. Consequently, in 1927, Thomas Lamont (of J.P. Morgan and Company), found it almost superfluous to remind the members of the United States Chamber of Commerce "... how America's credit position [had] changed in the last decade".5

American business leaders in the 1920's understood that foreign loans were absolutely indispensable for the development of American foreign trade, for the stabilization

of European currencies, and for the economic reconstruction of devastated Europe. They realized, of course, that these objectives were themselves interrelated. The economic reconstruction and financial rehabilitation of Europe would contribute to the expansion of American commerce. In fact, the crucial link between the restoration of Europe and the flourishing of American trade was the appreciation and eventual stabilization of European exchange rates. It was widely acknowledged that without the extension of American credits to bolster European exchanges, Europe would be unable to import critical raw materials and the United States would be unable to market its overflowing surpluses, especially of agricultural goods.  

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The more prominent members of the American business and banking community also realized that American capital had an equally vital role to play in the settlement of the reparations imbroglio. They knew that reparation payments, other than deliveries in kind, could be made possible in the immediate future only by the sale of German bonds in the United States. In 1920, Under Secretary of State Norman Davis told the House Ways and Means Committee that he had advised the Allies until he was "blue in the face" to fix German reparations within Germany's capacity. This would enable Germany to issue bonds and the Allies to use them as a basis for credit "... and thereby crawl out on Germany's back." Several years later, in a variation on this approach, American business leaders hoped to utilize American capital to commercialize German reparation obligations and to end the network of political debts that had grown out of the war and that had caused so much economic and political instability since the war. In 1928, Owen Young, the American businessman and chairman of the committee to arrange a final reparations settlement, explained that his aim was to bring about an arrangement to sell to private investors the obligations of debtor countries sufficient to discharge all political treasuries from inter-country debts. I say that because I regard it as the first and
obvious step toward a separation of politics from economics. It would remove the overhanging threat which now exists, not only to economic development, but to peace.7

Thus, during the 1920's there was much understanding of the diverse ways that American capital could be used to facilitate the financial, economic, and political stabilization of Europe. Naturally, such goals were sought because of their anticipated salutary impact on the economy of the United States. The Committee on Foreign Trade of the American Economic Association aptly stated, "But for purely selfish reasons we must lend." In reality, however, there was a well-balanced blending of altruism and self-interest in the drive to find new means of mobilizing capital for European usage. This dual purpose of foreign loans was well expressed by Herbert Hoover. In 1926, he told the Export Manufacturers Club that "The making of loans to foreign countries for reproductive purposes not only increases our direct exports but builds up the prosperity of foreign countries and is an economic blessing to both sides of the

There can be little doubt that foreign nations also believed they would benefit from American loans. This is well illustrated by the fervor of French pleas for the extension of American credits and long-term loans in the immediate post-war years. French government representatives and business officials implored American bankers and government officials to be generous and imaginative in finding new ways to funnel dollars to France. These dollars were desperately needed for the acquisition of raw materials and for the refurbishing of depleted equipment. In October 1919, Baron du Maurais, Vice-Chairman of the French Economic Association, "Report of the Committee on Foreign Trade"; Herbert Hoover, The Future of Our Foreign Trade (Washington 1926), 13.


9 For discussions between French and American business and government representatives on how best to channel loans and credits to France, see Snow (Commercial Attaché, Paris) to P.B. Kennedy (Director, B.F.D.C.), September 20, 1919, in B.F.D.C., Box 640 (Foreign Loans-France), RG 151; Huntington (Commercial Attaché, Paris) to R.S. MacElwee (Director, B.F.D.C.), October 14, 1920, ibid., Box 600 (Finance and Investment-France), RG 151; Harjes (Morgan, Harjes, and Company), to Jay and Lamont (J.P. Morgan and Company), February 1, 1920, Bureau of Accounts, Box 49, RG 39; Leffingwell to Rathbone, December 10, 1919, Davis to Leffingwell, December 10, 1919, Eugene Meyer (War Finance Corporation) to William Heaton (Chairman, Listing Committee, New York Stock Exchange), March 31, 1920, Meyer to Leffingwell, March 31, 1920, ibid.
Mission, explained to the International Trade Conference in Atlantic City that:

France may require the cooperation of the United States to secure through credits, the means of paying for merchandise (raw materials and manufactured articles) which she could obtain in return for her exports under normal conditions.

Conditions, he emphasized, were far from normal. The shortage of raw materials, a natural corollary of the war, had grown more acute as a result of the poor crops of 1919. Meanwhile, the unpegging of exchange rates and the appreciation of the dollar were threatening to make the cost of materials delivered to France almost prohibitive. Even when the immediate problems of reconversion had been dealt with, the French continued to need American loans to stabilize the franc. In particular, French leaders, throughout the mid-1920's, considered the idea of commercializing German reparation bonds in the United States under such conditions as would contribute to the stabilization of French finances. Thus, in many diverse ways, French financial needs and American commercial imperatives could have been reconciled in the interest of both nations and for the good of Europe as a whole.

In the initial post-war years the real problem afflicting both nations was the failure of American policy

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makers and banking officials to find adequate means of mobilizing and furnishing capital to France and to Europe. In autumn of 1918, André Tardieu, French High Commissioner in the United States, spoke to Treasury officials about the need to provide for the continued extension of dollars after peace was established. Secretary of the Treasury William McAdoo was sympathetic to French pleas for credits for reconstruction. He, along with other members of Wilson's cabinet, understood that one of the greatest obstacles to American foreign trade was the shortage of foreign credits. Consequently, he told Tardieu that the administration would try to obtain congressional authorization for the extension of an additional 1.5 billion dollars in credits for reconstruction purposes. He warned, however, that Congress was not likely to acquiesce to the Treasury's request.

As it turned out, Congress did not grant the broad authority the Treasury solicited. As part of the Fifth Liberty Loan bill, it stipulated that future loans of 1.5 billion dollars to Europe be limited to financing American grain exports and to selling American commodities and equipment already in Europe. Congress was reluctant to

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12Tardieu to Leffingwell, November 4, 1918, McAdoo to Tardieu, November 7, 1918, in Senate, Committee on the Judiciary, Loans to Foreign Governments, Senate Document No. 86 (Washington, 1921), 277-279; William C. Redfield (Secretary of Commerce), to P.F. Groome, April 10, 1919, B.F.D.C., Box 610.1 (American Banks Giving Special Attention to Foreign Trade), RG 151; Abrahams, "American Bankers," 573.
face the fiscal implications of additional loans and also was afraid of stimulating foreign competition through the provision of new credits to the Allies.\textsuperscript{13} Political realities and ideological considerations probably accounted for the administration's acquiescence to the congressional mandate. But there are also indications of some apprehension that further government loans might generate domestic inflation.\textsuperscript{14} To the extent that this was true, a stable internal price structure took precedence over the creation of new export outlets.

In any event, during the remaining years of the Wilson administration, despite repeated French pleas for additional credits, the United States government steadfastly refused to engage in foreign loan operations.\textsuperscript{15}

\textsuperscript{13} Parrini, \textit{Heir to Empire}, 48; Theodore Dawson Wyly, "Foreign Relations of the United States with France from 1919 to 1929," (Ph.D. Dissertation, Fletcher School of Law and Diplomacy, 1964), 164; also see Lamont to Harjes, February 2, 1920, Bureau of Accounts, Box 49, RG 39.

\textsuperscript{14} In November, 1919, the National Committee of the C.C.U.S. asserted that "The most immediate and important problem for this country is how to extend further credit to foreign nations without bringing about inflation at home." See report of the National Committee, "European Finance," 20; also see "Committee on Banking and Currency Report," in N.A.M., \textit{Proceedings}, 1920, 8.

\textsuperscript{15} The Wilson administration, however, did agree to the postponement of war debt interest payments for two to three years and to the granting of loans for specific purposes (such as the purchase of surplus American war stocks) in 1919. See Chapter III, pp. 134 ff.
Both of McAdoo's successors in the Treasury Department, Carter Glass and David Houston, believed that the dollar needs of France and of Europe could be supplied through private channels. Glass maintained that the government's role should be limited to the encouragement of private enterprise to meet the credit shortage of Europe, a shortage that he insisted had been much exaggerated. Houston generally agreed with Glass. Moreover, he insisted that private American capital would be forthcoming and European exchanges would be stabilized "... if Europe will stop fighting, disarm as largely as possible, cut down expenditures, stop the printing presses, and abate foolish trade restrictions."\(^{16}\)

The Treasury's decisions to curtail government loans and to reject proposals for government export guarantees were based upon the assumption that private bankers could and would provide the necessary capital for European reconstruction. Treasury officials also maintained that the termination of government loans would have the additional asset of compelling European nations to confront realistically the inevitable financial crises of the post-war world.\(^{17}\)

\(^{16}\) For the quotation, see David F. Houston, Eight Years With Wilson's Cabinet (New York, 1926), 62-63, 114-115; also see Hixey Smith and Norman Beasley, Carter Glass (New York, 1939), 169-170, 185-189; Abrahams, "American Bankers," 572-583; Wyly, "Foreign Relations of the United States with France," 165-172.

\(^{17}\) Rathbone to Secretary of State, October 23, 1919, Bureau of Accounts, Box 49, RG 39.
Events soon demonstrated that both of these assumptions were ill founded. Financial chaos and fiscal delinquency accelerated rather than abated throughout Europe. And the private sector, at least in the immediate post-war years, totally failed to accommodate the long-term credit needs of the European nations. Even the passage of the Edge Amendment to the Federal Reserve Act in 1920 did not reverse the imbalance between the short and long-term credits available for European usage. This legislation, which was designed to permit and to encourage financial combinations for the "systematic permanent investment of our surplus production in reproductive works abroad," never accomplished the task for which it was intended.\(^\text{18}\)

There were many factors that retarded the flow of long-term American capital to Europe in the years immediately following the Armistice. To begin with, the investing public was unfamiliar with foreign securities. Therefore, individual investors had to be educated about the possibilities of European issues. But these securities, which were subject to a high rate of surtaxes, did not seem particularly attractive so long as there were a large number of familiar

\(^{18}\) Parrini, Heir to Empire, 73-100. The quote is from Herbert Hoover, "Momentous Conference," Journal of the American Bankers Association, 13 (January, 1921), 462.
tax exempt municipal, state, and federal bonds on the market. Moreover, fears of inflation, the restrictive monetary policies of the Federal Reserve Board in 1919 and 1920, and the internal, especially agricultural, clamor for cheap credit complicated the problems of mobilizing capital for foreign use. Furthermore, unsettled conditions in the Old World, especially the undefined reparations sum, made investors reluctant to invest in Europe until the government had defined a clear cut policy aimed at protecting future investments.\(^\text{19}\)

For all these reasons, long-term private American capital stayed at home during 1918, 1919, and most of 1920. Meanwhile Europe, and especially France, grew increasingly disillusioned with America's failure to supply desperately needed dollars. The American Commercial Attaché in Paris reported that the French simply could not understand why the United States refused to provide the necessary financial assistance. What France needed, of course, was long-term loans. Theodore Laurent, the French industrialist, told W. S. Kies, Chairman of the First

Federal Foreign Banking Association, that the exchanges were so heavily against France that she needed credits for ten to fifteen years. This would afford time both for industrial recovery and for a great improvement in the value of the franc. The anticipated appreciation of the franc eventually would enable the French to repay the loans on terms advantageous to France. In order to attract American capital and to allay the fears of American investors, French bankers and manufacturers (within specific industries) were preparing to unite for the purpose of issuing securities guaranteed by each of their members. To further entice American loans, the French heeded the advice of American bankers that they repress their anxieties about the future and demonstrate a real commitment to meet the fiscal and economic problems of reconstruction.²⁰

These efforts, however, were none too successful and during 1919 and most of 1920 French loans performed dismally in American financial markets. The situation showed signs of changing in September 1920 when bankers successfully floated a long-term (twenty-five years), very high interest (6 per cent) French government loan. In fact, this offering set the precedent for several successful

²⁰D. H. Hart to Leffingwell, January 9, 1920, Bureau of Accounts, Box 49, RG 39; Snow to Kennedy, September 20, 1919, B.F.D.C., Box 640 (Foreign Loans-France), RG 151; Huntington to MacElwee, October 14, 1920, ibid., Box 600 (Finance and Investment-France), RG 151.
French government, municipal, and government-guaranteed flotations in 1921 and 1922. Though much of the capital was used by the French for refunding purposes and though the French demand for additional dollars remained insatiable, these loans did contribute to the temporary rise in the franc in 1921 and early 1922.21

As might have been anticipated, the migration of American capital to Europe and to France was interrupted in late 1922 and 1923 by the reparations crisis and by the occupation of the Ruhr. Nevertheless, by this time, it had become evident that American capital would be available in large quantities for European financial stabilization and economic reconstruction once the reparations question was solved, fiscal orthodoxy was restored, and inter-governmental political relations were normalized.22 In fact, in

21 For information on French loans and the New York market, see Lamont to Leffingwell, November 18, 1919, Bureau of Accounts, Box 49, RG 39; Baron Jacques de Neuflize (French financier) to Kahn, November 9, 1919, Box 115, Otto Kahn Papers (Princeton University Library, Princeton, New Jersey); De Neuflize to M. Reboul (Director of Finances, City of Paris), November 18, 1919, ibid; Kahn to H.C. Cutting, November 25, 1919, Box 114, ibid.; "Bankers Prepare for a Big Year in Foreign Financing," The Annalist, 17 (January 17, 1921), 107-108. From January 1921 to April 1922, France floated bonds totalling $199 million in the United States. During this time period Canada was the only nation to receive more capital through the flotation of bonds. See Strong to Hughes, April 14, 1922, 800.51/312.

22 In December, 1921 and January 1922, bankers were already hotly competing with one another for foreign government loans. This was especially true with regard to an offering contemplated by the Department of the Seine. This
so far as American capital would constitute an essential element in any comprehensive settlement aimed at these objectives, the outflow of American dollars would not only result from but would also contribute to European economic and political stabilization.

The increased availability of funds for European use in the mid and late 1920's was the result of numerous internal developments earlier in the decade. The tremendous influx of gold into the United States inspired fears of inflation unless it was sterilized or constructively utilized for the expansion of American commerce and for the strengthening of European currencies. Easier credit policies and relatively low interest rates in the United States also encouraged the movement of dollars abroad. In addition, the increasing ability of corporations to generate their own working capital released huge amounts of dollars for overseas investment purposes. As a result of all these factors, by the middle 1920's prominent financiers were

banker competition was a foretaste of things to come in the late 1920's. See Huntington to Klein, December 23, 1921, B.F.D.C., Box 640 (Foreign Loans-France), RG 151; unsigned memorandum (probably A. N. Young to Fletcher), January 4, 1922, 851.51/236; Sir William Wiseman to Kahn, March 4, 1922, Box 190, Kahn Papers.

warning one another against unwise and unproductive loans, ruinous competition, and foolish policies.²⁴

In March of 1921, at a critical juncture in the evolution of the United States into a creditor nation, the Harding administration came to power. By then, there was widespread understanding in business circles of the ramifications of the transformation in America's financial status. By then, too, there had been considerable discussion of the complex interrelationships between reparations, European currency inflation, American trade, foreign loans, and the recent downswing in the American economy. As a result, the new cabinet had to decide upon a series of extraordinarily difficult questions relating to the appropriate role of the government in influencing the direction and the amount of capital outflows. For almost a decade, successive Republican administrations agonized over these problems. Their decisions had great significance for France, for Germany, for European stability, for the American economy, and for world peace.

Members of the Harding administration agreed that the United States government itself should no longer extend credits for European reconstruction. Hoover felt very

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strongly about this. He insisted that government loans would be based upon political criteria rather than economic facts, that they would be too subject to demands from ethnic groups in the United States, that they would lead to undesirable international political entanglements, and that they might cause a shortage of capital for internal economic needs. Instead of the government involving itself directly in foreign loan operations, Hughes, Mellon, Hoover, and Harding decided that the government should establish a policy of consulting with private bankers about prospective loans and of supervising indirectly the export of private American capital. This decision was taken in the spring of 1921 and was communicated to leading American bankers in early June.

The first serious dispute within the administration over this policy revolved around the means and methods of its implementation rather than the objectives for which it was to be used. The bankers had indicated their willingness

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26 Young to Fred Dearing, February 1, 1922, in Department of State, Papers Relating to the Foreign Relations of the United States, 1922 (2 vols.; Washington, 1939), I, 556-557. (Hereinafter, this source shall be cited as F.R., year, volume, page.) Also see, Harding to J. P. Morgan, June 10, 1921, Harding to Mortimer Schiff, June 10, 1921, and Harding to Hughes, June 10, 1921, Box 88, File 57, Folder 2, Presidential Case File (PCF), Warren Harding Papers (The Ohio Historical Society, Columbus, Ohio).
to cooperate with and to inform the government about contemplated foreign loans. But by the autumn of 1921, the administration still had not decided what information was desired, what use was to be made of the information, what type of control, if any, was to be exerted, and what branch of the government was to be involved. Not surprisingly, this ambiguity and uncertainty dampened the bankers' enthusiasm to consult—an enthusiasm that already had been dulled by a feeling that the government could provide few important services and by fears that it might even release confidential information to favored competitors. The dilemma confounding administration officials was how to insure the provision of full information and how to bring about thorough consultation without incurring too much responsibility for the security and quality of the loans themselves.

State Department officials wanted to issue a public statement indicating their desire to be fully informed in writing about all contemplated loans. Such an announcement, they felt, would create sufficient informal pressure to insure the cooperation of bankers, some of whom had become increasingly delinquent and forgetful of their commitment to consult. Hoover, however, repeatedly opposed the

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27 W. W. Cumberland (Office of the Foreign Trade Adviser) to Dearing, September 6, 1921, 811.51/1281; Cumberland to Dearing, October 12, 1921, 811.51/2981.

28 Cumberland to Dearing, October 12, 1921, 811.51/2981; Hughes to Hoover, December 7, 1921, Hughes to Mellon, December 7, 1921, 811.51/3042a.
making of a public announcement. He wanted the collaboration between bankers and government officials to be as informal as possible. He maintained that the government could accomplish the objective of coordinating private investments with over-all American economic policy through direct, intimate, and systematic contacts with individual bankers and banking committees. Hoover claimed that a public statement of the State Department's intention would inadvertently encourage ignorant investors to believe that the United States government had assumed a measure of responsibility for the loans.²⁹

This clash between the State and Commerce Departments over the procedures of implementing policy was brought to a climax during the winter of 1922. In late January, Kuhn, Loeb and Company negotiated a loan with the Department of the Seine without first securing the government's consent. In fact, the State Department had been informed on the phone of the contemplated loan. Subsequently, there was an informal meeting between Fred Dearing of the State Department and Lewis Strauss of Kuhn-Loeb. Dearing orally indicated certain objections, but these were not immediately communicated to Strauss' superiors in New York. In the interim, because no objection had been formally expressed,

²⁹Hoover to Hughes, December 13, 1921, 811.51/3043; Hoover to Hughes, December 30, 1921, 811.51/3106; I.B.A., Proceedings, 1922, 173.
Kuhn, Loeb went ahead, closed the deal, and publicly issued the prospectus. Hughes was furious. He wrote Otto Kahn, one of the firm's two prominent partners, that henceforth Kuhn-Loeb would be acting on its own and that the State Department felt no responsibility to provide future assistance. The Secretary of State insisted that the firm should have known not to act without specific authorization.\(^{30}\)

Though Hughes' position was not altogether well-founded,\(^{31}\) the importance of the incident rested in the fact that it convinced State Department officials of the absolute necessity to systematize the procedures of consultation. By publicly stating its desire to be informed, the Department hoped to be able to review each foreign loan and to indicate explicitly whether there were any reasons of public policy for objection. By specifically denying any intent to judge the loans as business propositions, the Department intended to dispel all notions that it was assuming any responsibility in case of default. In this clash between the State and Commerce Departments, the former won out. A public statement of the Department's policy was

\(^{30}\)Young to Dearing, January 3, 1922, 851.51/233; Dearing to Hughes, January 21, 1922, 851.51/234; Hughes to Kuhn, Loeb, January 21, 1922, January 22, 1922, 851.51/225, 223.

\(^{31}\)For Kuhn, Loeb's position, see Paul Cravath to Hughes, January 22, 1922, 851.51/224; Kuhn, Loeb to Hughes, January 23, 1922, 851.51/225.
released on March 3, 1922.\textsuperscript{32}

Though this dispute was ostensibly over the tactics of policy implementation, it had far-reaching implications that subsequently affected the entire direction of the government's loan policy. One of the key factors that initially had persuaded both Hoover and Hughes of the importance of consultation between bankers and government officials was the fear that unregulated loans might eventually entangle the United States in international political affairs. Policy makers knew that they would be expected to protect American foreign investments. By securing information in advance, they hoped to prevent loans that were obviously unpromising or embarrassing and that would redound to the detriment of American foreign policy. By reviewing loan transactions and by setting certain standards, Hoover hoped to mitigate the chances of default and of United States government intervention.\textsuperscript{33}

The dilemma, once again, was how to enforce the government's standards without incurring too much governmental

\textsuperscript{32}Hughes to Hoover, December 24, 1921, 811.51/3044; Dearing to Hughes, January 23, 1922, 800.51/306; Dearing to Young, January 28, 1922, 811.51/3106; Young to Dearing, February 1, 1922, F.R., 1922, I, 556-557. The press release of March 3, 1922, is in \textit{ibid.}, 557-558.

\textsuperscript{33}Dearing to Welles and Carrel, November 18, 1921, 811.51/2981; Cumberland to Dearing, October 12, 1921, \textit{ibid.}; Hughes to Hoover, Hughes to Mellon, December 7, 1921, 811.51/3042a; Hoover, \textit{Memoirs}, II, 86-87.
responsibility for the security of approved loans. The problem with formal review, as instituted by the State Department, was that it implied some degree of government responsibility to protect those loans that were not disapproved. Ironically, then, a policy originally designed to prevent future government entanglements could have ended up having the exact opposite effect. It was for this reason that Benjamin Strong, Governor of the Federal Reserve Bank of New York, opposed virtually all attempts by the government to pass upon private loans. It was for this reason that the State Department wanted to indicate clearly that it examined loans only according to criteria of public policy and not according to criteria of sound business practices. And it was also for this reason that Hoover opposed any formal policy of governmental review. But Hoover's alternative policy of self-regulation straddled the crucial issue of how to enforce government standards when and if the bankers refused to cooperate.

34 Strong wrote Hughes that he especially opposed Hoover's contention that the government should restrain bad loans. Strong argued that "once regulation, supervision, or control is attempted, there is no limit to which it may develop and no limit to the responsibility which our Government may ultimately be called upon to assume. It may indeed lead to responsibilities which would involve us in those very disputes and dissensions which I am so eager that this nation should always successfully escape." See Strong to Hughes, June 9, 1922, 800.51/506. Mellon approved of this position. See Mellon to Hughes, July 8, 1922, 800.51/425.
In reality, Hoover wanted the best of two possible worlds. He desired information in order to channel American capital into productive and constructive outlets. Loans that did not meet his criteria of utility were to be frowned upon. But at the same time, he wished to avoid incurring governmental responsibility for those loans that were not disapproved. The State Department, as the 1920's progressed, increasingly felt that it was impossible to accomplish both of these objectives. Disapproval of certain loans was inevitably interpreted as approval of others. If the latter then turned out to be bad, the government might become hopelessly entangled. Thus, as time went on, the State Department preferred to have somewhat less control over the migration of capital exports than to risk the hazards of future entanglements--political as well as economic--in cases of default. On the other hand, Hoover's unchanging commitment to direct the outflow of American capital was unique, not because he was the only cabinet official to recognize the ramifications of unproductive loans, but because he was the only one to believe that the economic benefits of loan regulation might outweigh the diplomatic liabilities. In the long run, his policy of friendly persuasion failed to insure an effective and farsighted loan policy. In addition, it embroiled the

35See, for example, J. T. Marriner to Castle, June 21, 1927, 800.51/566.
nation more than ever before in the war debt-reparation controversy.\textsuperscript{36}

In 1921 and 1922, however, the policy of banker-government consultation and cooperation was inaugurated with great expectations that American capital would be utilized effectively and rationed intelligently for the reconstruction of European economies, for the rehabilitation of European finances, and for the sustained prosperity of the American nation. Initially, the latter motive was of primary importance. In fact, the original impetus for the policy of consultation stemmed from the administration's desire to tie foreign loans to the export of American goods. In the spring of 1921, the cabinet decided to discourage all loans the proceeds of which were not to be spent in the United States. When the bankers frowned upon this stipulation, the administration decided to retreat somewhat from its initial position.\textsuperscript{37} In 1922, the State Department adopted the policy of encouraging bankers to take "every possible measure" to insure the expenditure within the United States of whatever portion of the loan was not

\textsuperscript{36} This will be discussed in greater detail in the pages that follow. For an example of the differing course of the loan policies of the State and Commerce Departments in the middle and late 1920's, see Commercial and Financial Chronicle, 124 (May 7, 1927), 2687-2688.

\textsuperscript{37} Eliot Wadsworth (Assistant Secretary of the Treasury) to Dearing, September 24, 1921, 811.51/3016.
directly spent in the borrowing nation. This policy was followed with regard to several loans to French railroads in the spring of 1922. In subsequent years, however, this policy was further relaxed. Hoover himself realized that "It is undoubtedly bad economics to attach compulsory purchase of American goods as a condition of loans in our markets, as the shipment of goods ultimately follows in any event." Therefore, by the mid-1920's, government officials requested bankers only to insure that American exporters and industrialists have equal opportunity to bid for contracts stemming from the proceeds of American loans. In this respect, American policy grew more far-sighted and less nationalistic as the decade progressed.

Having instituted the policy of loan consultation in order to prevent foreign entanglements and to stimulate exports, Hoover and Mellon quickly perceived that it could be used for many other purposes. In July, 1921, for example, they both advised that a proposed ten million dollar loan to the City of Soissons (in France) be postponed.

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39 For the quotation, see Hoover to Hughes, April 29, 1922, 800.51/316. In his Memoirs, Hoover published this letter, but omitted several significant passages. Also see Hoover to Kellogg, May 17, 1926, 800.51/538; Young to Harrison, July 17, 1926, 800.51/557; Julius Klein, "Foreign Loans and National Prosperity," American Federationist, 35 (September, 1928), 1056.
until credit conditions within the United States had eased, especially in rural areas. Though admitting that the loan was for reproductive purposes, they felt it best to encourage capital to remain temporarily at home in order to relieve distress and to save the bankers from vituperative attacks. This illustrates a widespread recognition of the possible harmful impact of high interest foreign loans, especially foreign government or government-guaranteed loans, on the domestic economy. Subsequently, however, the Republican administrations tended to refrain from this type of direct intervention to direct credit to needy domestic borrowers.

This decision was related to the increasing proclivity of American policy makers to regulate American capital resources in a more farsighted way to benefit both Europe and the United States. Beginning in the autumn of 1921, State and Commerce Department officials focused considerable attention on the importance of utilizing American loans for productive purposes and of insuring that American capital not be dissipated. Hoover was in the vanguard of this movement, but by no means was he alone. State Department officials agreed wholeheartedly with Hoover's desire to disapprove of the Seine loan in early 1922. The

40 Hoover to Department of State, July 14, 1921, B.F.D.C., Box 640 (Foreign Loans-France), RG 151.

41 See, for example, Hoover to Hughes, April 29, 1922, 800.51/316; Cumberland to Dearing, May 31, 1921, 811.51/3104.
Secretary of Commerce maintained that as long as the French government engaged in large military expenditures, its political sub-divisions were not good risks. More to the point, he argued that American investors should be discouraged from buying the bonds of a nation whose government was heading toward a financial debacle and whose foreign policies were contributing to European chaos and ruin. Within the State Department, Arthur Young and Fred Dearing supported Hoover's position and advised the Secretary of State to counsel bankers against extending loans to France. Hughes adhered to this recommendation, but for reasons already indicated, Kuhn, Loeb went ahead with the loan.\footnote{42}

To insure that such blundering would not reoccur, the State Department publicly announced its intent to respond formally and in writing to all loan proposals of which it was informed. Since bankers were not anxious to provoke the government's animosity, especially since in cases of default they were dependent on the government's good will, it is safe to assume that all proposed loan flotations subsequently were cleared with the government.\footnote{43}

\footnote{42}{Dearing to Fletcher and Hughes, December 30, 1921, 851.51/233; Dearing to Hughes, January 21, 1922, 851.51/234; Hoover to Harding, December 31, 1921, Harding to Hughes, January 12, 1922, Box 88, File 57, Folder 3, PCF, Harding Papers; Young to Dearing, February 1, 1922, F.R., 1922, I, 556-557.}

\footnote{43}{Hughes decided that if the bankers disregarded the State Department's request to be informed of all loan...}
Treasury, Commerce, and State Department officials usually examined the terms and purposes of the loans and then decided whether to approve or disapprove. In the spring of 1922, several American loans to French railroads were carefully scrutinized and approved by the government. Top policy makers apparently felt that they should not antagonize French Premier Raymond Poincaré while he was trying to reassure the United States that his government intended to cut military expenditures and to support America's right to receive its fair share of reparation payments.\(^4^4\)

For the remainder of 1922 and 1923, the reparations crisis and Ruhr occupation caused sufficient distress and turmoil to quell the banking community's predisposition to send additional funds either to France or Germany. Consequently, the government had no need to declare itself on any specific loan offerings to these countries. But as a result of the Seine loan experience, the instability of Europe, and the surplus of American capital, the future trend of American policy seemed rather clear. In a letter to Hughes, Hoover expressed his feelings about the aims

\(^{4^4}\)Klein to Huntington, January 13, 1922, Huntington to Klein, February 10, 1922, B.F.D.C., Box 600 (Finance and Investment-France), RG 151; Wyly, "Foreign Relations of the United States with France," 255.
and motivations of American financial policy. He wrote:

We are morally and selfishly interested in the economic and political recovery of all the world. America is practically the final reservoir of international capital. Unless this capital is to be employed for reproductive purposes there is little hope of economic recovery. The expenditure of American capital, whether represented by goods or gold in the maintenance of unbalanced budgets or the support of armies, is destructive use of capital. . . . It makes no contribution to the increase of economic stability and in fact contributes directly toward the continuation of instability . . . .

The most pertinent fact with regard to Europe today is that the whole political and economic life is enveloped in an atmosphere of war and not of peace. Restrictions on loans made from the United States to reproductive purposes will at least give the tendency to render impossible that form of statesmanship which would maintain such an atmosphere.45

In April of 1922, this statement typified high level administration thinking about the use of loans to bring about economic and political stability in Europe. Even Benjamin Strong, one of the staunchest opponents of government regulation of capital outflows, sympathized with Hoover's desire to discourage loans for military expenditures. At this juncture, Strong was willing to tolerate, if absolutely necessary, an embargo on loans to those foreign governments which were undermining political, economic, or social stability anywhere in the world. Speaking more positively, Harding told Congress in December of 1922 that the appropriate use of American financial power "was to help

45Hoover, Memoirs, II, 87.
rehabilitate currency systems and facilitate all commerce . . . ."\(^{46}\)

American financiers, in the early 1920's, were not unwilling to cooperate with the administration in its efforts to bring economic, financial, and political stability to Europe. The most conspicuous example of this coordination of public and private policy was evidenced during the preparations for the flotation of the Dawes Loan to Germany during the summer and autumn of 1924.\(^{47}\) By no means, however, was this the only illustration of the financial community's inclination to cooperate with official policy. In fact, in January of 1922, Kuhn, Loeb had justified its loan to the Department of the Seine on grounds that the proceeds were to be used for constructive purposes and not to meet a budgetary deficit. This supposedly was in accord with the administration's policy.\(^{48}\) Conscious of the American government's desire for the return of fiscal orthodoxy in Europe, J. P. Morgan and Company, throughout 1924, kept the State Department closely informed on the

\(^{46}\) Strong to Hughes, June 9, 1922, 800.51/506. For Harding's address to Congress on December 22, 1922, see F.R., 1922, I, xiv-xv. Strong, however, would have preferred to use war debts, not loans, as a lever to secure European adhesion to American principles of stability.

\(^{47}\) See Feis, Diplomacy of the Dollar, 40-43; also see Chapter II, pp. 116 ff.

\(^{48}\) Kuhn, Loeb, and Company to Hughes, January 23, 1922, 851.51/225.
extension of a one hundred million dollar credit to the French government. The administration fully sympathized with Morgan's insistence that the French government raise taxes, balance the budget, and refrain from additional loans (except for the refunding of the floating debt).  

Yet, policy makers continued to worry about the deplorable state of French finances. They remained uncertain whether American loans to France were having a salutary impact on French fiscal, military, and foreign policies. Consequently, when Morgan and Company reported in early November that the French desired to float a one hundred million dollar loan in the American market, there was a thorough reappraisal of the probable effect of this loan on long-run American diplomatic goals. Morgan and Company's assurances that the proceeds would be used to stabilize the over-all French fiscal situation were not sufficient to convince American officials of the utility of the loan. Even French promises that the budget would be balanced were inconsequential in determining the administration's final decision. Hughes decided to oppose the loan unless France gave a written promise of her intent to support the American position at the forthcoming Finance Ministers' Conference.

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49 J. P. Morgan and Company to Hughes, March 21, 1924, 851.51/444; Herman Harjes to J. P. Morgan and Company, June 2, 1924, Box 62 (Lamont), Charles E. Hughes Papers (Manuscript Division, Library of Congress); J. P. Morgan and Company to Hughes, September 9, 1924, 851.51/485; also see Herrick to Hughes, March 20, 1924, 462.00R294/339.
in Paris. This Conference was being convened to discuss the allocation of the Dawes annuities. And American policy makers were determined to receive a percentage of German reparation payments in order to cover the costs of having maintained troops on the Rhine and to pay for assorted war claims damages of private American citizens. The Hérriot-Clémentel ministry, believing that the success of a new internal loan was dependent upon the consummation of this external loan, acquiesced to American demands. They explicitly recognized America's right to partake in the Dawes annuities.

Even this concession, however, did not satisfy all American policy makers. Hoover wrote to Hughes that he was troubled by the proposed loan to France. Though he was pleased to learn of France's commitment to support the American position at the forthcoming international conference, he was convinced that the loan was largely unsound from an economic point of view. He indicated to Assistant Secretary of State Leland Harrison that "the financing operations of these Governments [France, Italy, Belgium] were merely covert schemes of finding money for unproductive expenditures, largely for military purposes, and even in the

50 J. P. Morgan and Company to Hughes, November 12, 1924, 851.51/495; Hughes to Logan, November 11, 1924, 462.00R296/694a; Logan to Hughes, November 19, 1924, 851.51/500. For information on the Finance Ministers Conference, see F.R., 1925, II, 133-165.
present case . . . much of the money would be used for just those unproductive purposes." The Secretary of Commerce maintained that the time was ripe to formulate a coherent loan policy toward those countries which had failed to refund their war debts to the United States. Hoover insisted that loans to America's former Allies for reproductive purposes were justified after debt accords were negotiated.

But loans of the character of this one which are for purposes of covering governments' deficits in places where no effort is being made to settle with us, are only a contribution to the maintenance of military establishments and are the negation of economic reconstruction. They are not reproductive therefore they do not increase the security of our nationals.

Despite these misgivings, Hoover decided not to object to the Morgan loan because he understood the importance of France's concession with regard to the distribution of the Dawes annuities.51

President Coolidge agreed with his cabinet officers' decision to allow Morgan and Company to go ahead with the loan.52 But Hoover's analysis foreshadowed the administration's decision in early 1925 to close the American financial market to recalcitrant debtor nations. Ever since 1921, some policy makers had urged official action to

51 Memorandum of conversation between Harrison and Hoover, November 20, 1924, 851.51/506; Hoover to Hughes, November 20, 1924, 851.51/499 (in Box 800.51/499).
52 Memorandum by Grew, November 20, 1924, 851.51/507.
prevent the Allied debtors from engaging in financial operations and from entering into contractual arrangements that might prejudice the claims of the American Treasury. They had maintained that "The mounting indebtedness of Europe, especially to the United States, makes more necessary than ever before the careful scrutiny of proposed loan transactions." But for several years this consideration had played an insignificant role in influencing the course of the government's loan policy. In 1925, however, the administration decided that the time was propitious for using American financial power as a weapon to secure debt settlements. 53

The imposition of the informal, but temporarily effective, loan embargo was related to numerous foreign policy objectives of the Coolidge administration. There were some policy makers who perceived its purpose primarily in terms of the short-run national self-interest. In other words, they viewed it as an effective means of securing the money that was owed to the United States on account of war debts. 54 Other policy makers, however, both inside and outside the government, supported the use of financial

53 Memorandum by Cumberland, September 27, 1921, 811.51/2981; Young to Dearing, February 1, 1922, 811.51/3108. For a discussion of some of the reasons for the imposition of a loan embargo in 1925, see Chapter III, pp. 175-177.

54 See, for example, Harrison to Kellogg, April 10, 1925, 800.51/507-1/2.
pressure for more farsighted reasons. They, too, agreed that the loan embargo would serve as an effective lever to obtain debt accords. But they maintained that the consummation of debt agreements was important because such settlements would contribute significantly to the rehabilitation of European finances, to the stabilization of European currencies, and to the expansion of world-wide commerce. Hoover was considering these factors, at least in part, when he expressed his misgivings about the Morgan loan to France in November, 1924. In April, 1925, Secretary of State Frank Kellogg was even more explicit in voicing the Department's objection to a proposed loan to the City of Paris. He told Mortimer Schiff (of Kuhn, Loeb, and Company) that he wanted France to formulate and to implement a comprehensive program aimed at rehabilitating French finances. He disapproved of temporary expedients. He insisted that "it would not be to the best interests of France to proceed on this basis, and that it would be to the advantage of all concerned if the French Government could be led to face the situation, balance their budget, reduce their expenditures, and effectively collect their taxes."

Those policy makers who tended to take a broader perspective and who perceived the long-term consequences of a French-American debt settlement usually contended that it

55 Memorandum by Harrison, April 1, 1925, Box 46, Harrison Papers.
was necessary in order to clarify the extent of France's external obligations. By so doing it would facilitate the task of budget balancing. If this were accomplished, the rehabilitation of French credit and the stabilization of the franc were likely to follow. Consequently, a debt accord could become the key to the complete overhauling of French finances and to the return of fiscal stability.56

In addition, many bankers, businessmen, and government officials saw a direct relationship between a French-American debt settlement and a return to economic normalcy throughout Europe. They assumed that such an accord would have a salutary impact on numerous European currencies which were closely tied to the franc. Moreover, the end of the chronic financial instability in France was expected to have a positive effect on the German economy which had been deleteriously affected by the currency inflation in France.57 The end result of all of this would be a great boost to international commerce and to American business.


57"General Conditions Abroad," The Guaranty Survey, 6 (May, 1926), 9; "General Conditions Abroad," ibid., 6 (July, 1926), 11; Chandler, Benjamin Strong, 360.
E. J. Gittins, President of the National Association of Farm Equipment Manufacturers, ably explained to Senator Borah that:

Unsettled international debts mean unsettled international business, done in constant fear of loss instead of hope of reasonable profit. Until or unless a country's debt is adopted [sic], its internal financial condition is inevitably disturbed, and this disturbance is strongly reflected in an instability of exchange which makes its foreign trade relations difficult and dangerous.

In other words, if debts could be settled and currencies stabilized, both debtor and creditor would benefit. 58

Thus, the American government's embargo on loans to France, though ostensibly aimed at securing a debt accord, had been inspired by a wide diversity of motivations. It was designed and implemented both to protect the short-run national interest and to enhance the long-run interests of the entire world economic community, of which the United States was a leading member. By late 1925, then, the Harding administration's policy to consult with bankers and to review prospective loans, initially instituted to prevent foreign entanglements and to foster the growth of American trade, had evolved into a diplomatic weapon of considerable magnitude and of far-reaching implications. The criteria

58Gittins to Borah, March 17, 1926, Box 264 (Foreign Debts), William E. Borah Papers (Manuscript Division, Library of Congress). Also see memorandum by Winston, April 20, 1926, Bureau of Accounts, Box 61, RG 39; Herrick to Coolidge, January 5, 1926, Box 19, Myron Herrick Papers (The Western Reserve Historical Society, Cleveland, Ohio).
of public policy which were to serve as grounds for governmental review had never been carefully defined. They had been left purposely vague so that the government's regulatory powers could be used to meet changing times and circumstances. Under such conditions, the temptation was to expand the government's informal powers, especially so long as the dangers of so doing seemed minimal. The application of financial pressure to secure France's support of the American position at the Finance Ministers' Conference and the use of similar pressure to get the recalcitrant debtors (Belgium, Italy, and France) to sign debt settlements greatly impressed American policy makers with the effectiveness of financial diplomacy.  

Therefore, there was a strong inclination in 1925 and 1926 to expand the government's informal regulation of private loans to secure strongly held foreign policy goals. In March, 1925, President Coolidge told the press that his administration favored loans that were to be used for the

59 Arthur Young maintained that "The instance of the Morgan loan to France might in itself justify the course which the Department had been following." See memorandum by Young, April 2, 1925, 800.51/509½; also see Harrison to Kellogg, April 10, 1925, 800.51/507½.

60 It was during 1925 that the Commerce Department began developing plans to use loans as a means of combating foreign raw material monopolies. See Brandes, *Hoover and Economic Diplomacy*, 63-147.
rehabilitation of Europe and for the stabilization of currencies. On the other hand, it opposed loans that were earmarked for military purposes or that contributed to the maintenance of large stockades of armaments. This was an ambitious, but purposely vague formula. And ambiguity could generate problems, especially when the result was to create great uncertainty about the government's responsibility to protect loans that were not subject to objection. This is what happened with the huge amount of German loans floated in the United States in the middle and late 1920's. And the course of the government's policy with regard to these loans had great significance for the future of American-French relations.

American policy makers quickly came to understand the dangers of the unrestricted flow of loans into Germany. Before the end of 1924, Commerce and State Department officials already were worrying about the probable long range impact of German loans on the functioning of the Dawes Plan and on American relations with France and Germany. Grosvenor M. Jones, Chief of the Finance and Investment Division of the Department of Commerce, warned in November, 1924, that Germany soon would have great difficulty in generating sufficient foreign exchange to meet the debt service on private loans and to make reparation payments.

61 Memorandum of the President's Press Conference, March 31, 1925, Box 17, Harrison Papers.
Secretary of State Hughes also was aware of the transfer complications that were likely to arise as a result of Germany's borrowing in the American market.\(^{62}\)

These growing fears changed to sinister suspicions when German industries continued to borrow substantial amounts at very high interest rates. Jones and others wondered whether German industrialists "... might be acting in some concerted manner to make the operation of the Dawes Plan a little more difficult a few years hence."

Charles Herring, the American Commercial Attaché in Berlin, maintained that there was no German plot to entangle the United States in the future squabble over the feasibility of carrying out the Dawes Plan. But such reassurances did not alleviate widespread apprehensions that the United States would become inextricably immersed in the German-French reparations imbroglio as a result of Germany's predictable shortage of foreign exchange. Jones realized that

In such a contingency the German Government would doubtless press for a revision of the Dawes Plan and a scaling down of reparations. More haggling. More taking of sanctions. More conferences. Meanwhile American holders of these industrial securities would set up an awful yell and bring pressure to bear on the State Department.

They would demand official intervention to insure that service on private loans took precedence over the payment

\(^{62}\) Jones to Stokes, November 21, 1924, B.F.D.C., Box 640 (Foreign Loans-Germany), RG 151; Hughes to Hoover, November 30, 1924, ibid.
The result would be intense friction with France.

Naturally, American officials desired to prevent such circumstances from materializing. The logical course of action, then, was to discourage loans that were unproductive in nature. Such a policy would have a threefold purpose. First, it would mitigate the chances of the United States becoming embroiled in Europe's political disputes, especially those regarding reparations and the French occupation of the Rhineland. Second, it would insure a more rational allocation of American capital resources for the systematic economic reconstruction and political stabilization of Europe. Third, it would prevent any situation from developing whereby the United States government would be called upon to cancel or reduce war reparations.  

63 Jones to Herring, February 20, 1925, ibid.; Herring to Jones, March 25, 1925, ibid. Herring’s report on foreign loans to Germany was circulated through the higher echelons of the American government. In it, he depicted the inevitable conflict that would arise in three or four years between German reparation payments and German loan service. Hoover, Eliot Wadsworth, and Floyd Blair were all very impressed with the significance of Herring’s analysis. They decided, however, not to publish it for fear of its impact on existing loan values. See Herring to Hoover, January 3, 1925, Hoover to Wadsworth, February 4, 1925, Wadsworth to Hoover, February 14, 1925, Bureau of Accounts, Box 85, RG 39.

64 The Treasury generally defined a productive loan as one in which "... the debtor out of the use of the money borrowed can repay the principal, the interest, and make a profit for itself." See United States Treasury, Annual Report of the Secretary of the Treasury, 1925-1926 (Washington, 1927), 5.
debts in order to protect the interests of bankers or private American investors.

Throughout 1925, American policy makers expended considerable time and energy on modifying the prevailing loan policy to make it more functional with regard to these three objectives. The existing policy of governmental review had been formulated to enable the government to intervene and to block loans when clear reasons of public policy were involved. Though precise guidelines had not been laid down, there never had been any thought of objecting to loans simply because they appeared to be bad business risks. The government always had been careful to warn that its decision to offer "no objection" to a particular loan did not mean approval of the loan as a business proposition. State Department officials, of course, were aware that their policy was not ideal and that offering "no objection" did imply an "iota" of responsibility. They had recognized that it was particularly embarrassing to approve loans that presented no grounds for objection according to criteria of public policy, but that were obviously poor business investments.65

Until the middle of 1925, policy makers simply reconciled themselves to these problems. They believed

65 Memorandum, by Young, April 2, 1925, 800.51/509½; Harrison to Kellogg, April 10, 1925, 800.51/507½; Memorandum by Olds, October 12, 1925, 800.51/561.
that the advantages of review and of regulation simply outweighed the disadvantages. But the flood of German loans in the American market, especially those of German municipalities, in 1925, intensified and magnified the liabilities of the existing policy. At first, there was an effort to informally warn bankers of the dangers of unproductive loans to Germany and of the transfer complications that were likely to arise therefrom. When these warnings went unheeded, policy makers in the Commerce, Treasury and State Departments became alarmed.

They considered three possible courses of action, none of which was totally satisfactory. The first alternative was to reduce the degree of existing governmental involvement. Assistant Secretary of State Robert Olds suggested that the government stop commenting "no objection" on each loan that did not conflict with the public interest. He claimed this would exonerate the government from any responsibility, no matter how minimal, to protect such loans in case of default. If Olds' proposal had been adopted, however, it also would have meant that the government would have had less direct control over the outflow of capital and that it would have been abdicating its responsibility

66 Memorandum, by Olds, October 12, 1925, 800.51/561; Schurman to Kellogg, F.R., 1925, II, 175; Gilbert to Gates McGarrah, October 9, 1925, Bureau of Accounts, Box 85, RG 39; Jones to Herring, February 2, 1925, B.F.D.C., Box 640 (Foreign Loans-Germany), RG 151; Jones to Herring, August 31, 1925, ibid.

67 Memorandum, by Olds, October 12, 1925, 800.51/561.
to warn American investors of possible complications. In the atmosphere of 1925, when loan control was proving so successful elsewhere, there was little incentive to move in this direction. On the other extreme, the suggestion that the State Department establish an agency to pass upon the business merits of all loans was also not given serious consideration. Assistant Secretary of State Harrison maintained that it would have imposed too much responsibility on the government for the security of approved loans. This could have led to endless entanglements. 68

Besides, government officials were puzzled on how to discern the differences between good and bad loans. They did not want to be forced into a situation of having to discriminate against an entire class of loans. Mellon, for example, opposed the banning of all German municipal loans, not because of ideological reasons concerning the nature of the free enterprise system, but because he feared that such a policy would hurt all German loans and would deprive American investors of some of the very best foreign offerings. 69

As a result of all these considerations, the administration chose to adopt a third policy. After much

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68 Adolphe Rafter to Kellogg, October 20, 1925, 800.51/520; Harrison to Rafter, October 29, 1925, ibid.

discussion between State, Commerce, and Treasury officials, Kellogg, Hoover, and Mellon decided to respond to bankers' requests to float German loans with a warning that though the government did not oppose the loan, it hoped that sufficient consideration would be given to certain ramifications of the loan. The government suggested that bankers consider whether the loan was productive, whether it was likely to contribute to an increase in German exports, whether action by the Agent-General might interfere with the service of the loan, whether it might be affected by certain provisions of the Treaty of Versailles, and whether it was approved by the German Advisory Board (Beratungstelle). The aim of this policy was to place full responsibility on the bankers to insure that the loans were sound and that there would be sufficient foreign exchange for interest payments. If in the future Germany could not obtain enough foreign exchange to pay reparations and to service the loans, the administration hoped it would not be beholden to the bankers to protect their claims.  

In addition, such warnings, if

70 Winston to Kellogg, August 26, 1925, ibid.; Winston to Harrison, November 18, 1925, ibid.; Kellogg to Speyer and Company, October 9, 1925, ibid.; Harrison to Hambleton and Company, October [November?] 20, 1925, ibid.; Kellogg to Schurman, October 17, 1925, F.R., 1925, II, 177-178; Kellogg to Harris, Forbes, and Company, November 21, 1925, ibid., 186-187. Many influential policy makers, including Mellon, Strong, and Gilbert, wanted the German government to assume full responsibility for insuring the
listened to by bankers, might lead to a more rational allocation of American capital.

This policy, instituted with the best of intentions, produced numerous ironies that first perplexed and then frightened American officials. To begin with, American bankers often disregarded the government's warnings and floated hundreds of millions of dollars worth of German loans in the American market. The result was that huge sums of American dollars flowed into Germany where they had a harmful impact. Meanwhile, France was denied American capital, even though she needed it to restore her currency and to reform her finances. Thus, a policy designed to facilitate the economic rehabilitation and financial stabilization of Europe wound up having the exact opposite effect. Such a paradox did not escape the attention of Under-Secretary of State Olds. In January, 1928, he commented:

productive nature of the loans. This would have removed a real burden from the shoulders of American officials. But for numerous political reasons the Beratungsstelle was unable to function effectively in this capacity. See, for example, Harrison to Young, November 3, 1925, Box 46, Harrison Papers; memorandum by Harrison, January 6, 1926, ibid.; memorandum by Mellon, November 3, 1925, Bureau of Accounts, Box 85, RG 39; Strong to Winston, November 19, 1925, ibid.; Gilbert to Kellogg, March 5, 1926, ibid.; Gilbert to Strong, April 19, 1926, ibid.; Schurman to Kellogg, February 12, 1926, F.R., 1926, II, 202.

Jones to Herring, December 4, 1925, B.F.D.C., Box 640 (Foreign Loans-Germany), RG 151. Jones stated that the bankers had been warned about the dangers, but because of easy money conditions had not heeded the administration's advice.
There is an inherent inconsistency in demanding payment \( \) on the basis of capacity to pay, and the same time pursuing a loan policy which all bankers and economists assert is calculated in the long run to diminish capacity to pay. We are pursuing substantially the contrary course in the case of Germany.\(^72\)

A second irony was that the American loan policy, originally designed to preclude diplomatic entanglements, was obviously heading in the opposite direction by 1927. As American capital continued to migrate to Germany, there was growing uncertainty whether German reparation payments would take priority over private interest payments or vice versa. This became increasingly important as skepticism intensified whether Germany would have the means to meet its public and private obligations.\(^73\) In January 1927, rumors that the British and French might ask the Agent-General to impose restrictions on the acquisition of foreign exchange by certain German borrowers caused real apprehension in American policy making circles. Such action especially would have affected American loans to German municipalities, cities, and states.\(^74\) There was a pervasive feeling in the

\(^72\)Memorandum, by Olds, January 4, 1928, 851.51/1298.

\(^73\)For the expression of fears over Germany's future foreign exchange problems, see L.D. Domeratzky to Jones, December 10, 1925, B.F.D.C., Box 602.1 (Foreign Credits-Germany), RG 151; Domeratzky to Jones, December 20, 1925, ibid.; Schurman to Kellogg, Bureau of Accounts, March 31, 1926, Box 85, RG 39; Ogden Mills (Under Secretary of the Treasury) to Kellogg, July 15, 1927, ibid. For the question of priority, see F.R. 1925, II, 182, 185; Memorandum, by Hoover, November 6, 1925, Bureau of Accounts, Box 85, RG 39; Schurman to Kellogg, November 13, 1925, ibid.

\(^74\)Harrison to Kellogg, January 28, 1927, 800.51/558.
United States and abroad that the American government, as a result of its failure to object to these loans, would have to protect American bondholders in such a contingency. It was just this situation that American policy makers had hoped to avoid.

A third irony was that the government's loan policy, initially aimed at separating the question of war debts from those of private loans and reparations, was having the opposite effect. German Foreign Minister Gustav Stresemann told the American Minister in Norway that he believed a final settlement of the inter-governmental debt controversy would have to include provisions for the cancellation of Allied war debts and for the commercialization of German reparation bonds in the United States. Grosvenor Jones reported to Hoover in November, 1927, that there was a widely held belief that the United States government eventually would have come to the aid of American investors in German securities. This would be done by exerting pressure on those governments receiving reparations to allow private loan service to take precedence over indemnity payments. In return, it was said that the United States government would agree to certain concessions.

75 See, for example, Jones to Hoover, November 5, 1927, B.F.D.C., Box 640 (Foreign Loans-Germany), RG 151; J. T. Marriner to Castle, June 21, 1927, 800.51/566.
on war debts. Such rumors could only have undermined policy makers' confidence in the efficacy and direction of American loan policy.

The final irony, and perhaps the most important, was that the embargo on loans to France presented an additional barrier to the rapprochement of France and Germany at a crucial moment in European history. In September, 1926, Stresemann and Briand met at Thoiry to discuss an arrangement that would have facilitated the financial rehabilitation of France in return for the gradual evacuation of the Rhineland, the return of the Saar to Germany, and the abandonment of the Inter-Allied Commission of military control. If France would have granted these political concessions, Stresemann was willing to request the passage of German legislation that would have facilitated the sale of German reparation railroad bonds in the United States, the proceeds of which would have gone to the reparation creditors. In addition, Germany would have contributed to the restoration of French finances by repurchasing the Saar coal mines for 300,000,000 gold marks. This money would then have been used by the French government to bring about the stabilization of the franc.

76 For Stresemann's feelings, see Castle to Assistant Secretary of the Treasury, July 25, 1927, Bureau of Accounts, Box 85, RG 39; Jones to Hoover, November 5, 1927, B.F.D.C., Box 640 (Foreign Loans-Germany), RG 151.

77 Gilbert to Morrow and Leffingwell, September 24, 1926, Bureau of Accounts, Box 85 (German Railway Securities), RG 39; Eric Sutton (ed.), Gustav Stresemann: His Diaries,
Parker Gilbert, the influential American Agent-General for reparations, was hopeful "... that something big and useful" might emerge from Thoiry. Gilbert envisioned an accord that would have linked a partial mobilization of German reparation bonds to the stabilization of the franc and to the ratification of the French-American debt settlement. He wrote to Dwight Morrow (of J.P. Morgan and Company) "... that the conversations offer a great opportunity for a constructive programme, and that the prospects of getting effective results will depend, first, on the attitude in France, and, second, on the attitude of the United States Government and of the American bankers." So much was at stake, he claimed, with regard to the political pacification and financial stabilization of western Europe, that it was imperative to examine carefully all the possibilities. He suggested that though the mobilization of German bonds in the United States would, in effect, constitute a loan to France, it might be wise to condone such an indirect loan in order to supply the "sugar coating" for subsequent French ratification and stabilization.  

78 Harrison to Mellon, October 6, 1926, Bureau of Accounts, Box 85 (German Railway Securities), RG 39; Gilbert to Morrow and Leffingwell, October 8, 1926, Box 220 (unmarked folder), ibid.
French officials, including French Premier Raymond Poincaré, were not opposed, in principle, to the outlines of the Thoiry discussions. Poincaré understood that the flotation of German reparation bonds in the United States would have facilitated the task of stabilizing the franc. Moreover, the sale of German bonds, 55 per cent of the proceeds of which would have gone to France, would have enabled the French government and the Bank of France to carry out their stabilization program without having to appeal directly to the United States for loans and credits. This was important to the French, and especially to Poincaré, who increasingly feared foreign financial domination as a result of France's accruing external indebtedness. As far as the concessions to Germany were concerned, the French Premier mostly was determined that the evacuation of the Rhineland should proceed gradually and in unison with the total commercialization of German reparation bonds. Poincaré's conciliatory approach

79 For Poincaré's attitude, see Gilbert to Morrow and Leffingwell, October 8, 1926, Box 220 (unmarked folder), ibid; Memorandum of Conversation between Arthur Young and Leon Fraser (Legal Adviser to the Agent-General), November 11, 1926, 462.00 R 2962/68; Whitehouse to Kellogg, October 7, 1926, F.R., 1926, II, 107; Whitehouse to Kellogg, October 14, 1926, 800.51 W89 France/416; Emile Moreau, Souvenirs d'un Gouverneur de la Banque de France (Paris, 1954), 11, 142. General reaction in France to the Thoiry talks was mixed. See, for example, Whitehouse to Kellogg, September 22, 1926 and October 21, 1926, Bureau of Accounts, Box 85 (German Railway Securities), RG 39, Chester Lloyd Jones to Klein, November 10, 1926, B.F.D.C., Box 443.3.
on this essential point was probably related to the realization that if all German reparation bonds were held by private investors, any future German effort to revise the Dawes Plan would be less likely to achieve success. Thus, a primary diplomatic goal of France would have been achieved. There are indications that even after the de facto stabilization of the franc in December, 1926, influential French leaders continued to maintain an interest in commercializing German reparation bonds as part of a larger settlement.

Consequently, the American government's refusal to sanction the flow of dollars to France until the French ratified the debt settlement became one of the major impediments to the implementation of the Thoiry proposals. Arthur Young, Economic Adviser to the State Department, cogently stated that . . .

(Southern Europe-France), RG 151; Damon C. Woods (Consul, Paris), "French Opinion in Commercial Circles Regarding Ratification," in Box 19, Herrick Papers. The point to be emphasized is that the French government was not determined to oppose an accord along the lines of Thoiry. American policy makers knew French opinion was malleable. Substantive negotiations could have been pursued if American officials so desired.

80 See the translation of pertinent parts of a lead article in Le Temps, January 4, 1926, entitled "The Washington Conversations," in Bureau of Accounts, Box 61, RG 39.

81 See, for example, Memorandum of Conversation between Herbert Adams Gibbons and Jacques Clémentel (Financial Expert in the Ministry of Public Works), February 1, 1927, Box 62, ibid.; Whitehouse to Kellogg, July 1, 1927, ibid.; Memorandum of Conversation between Paul Claudel (French Ambassador) and Castle, December 10, 1927, ibid.
The first necessary step . . . to creating the proper atmosphere for the fulfillment of the Thoiry proposals is the settlement by France of the debt owned to the United States. As long as this obligation is unsettled, it is unlikely that the psychology of the situation will be such as to permit the marketing of any considerable amount of these bonds.

Treasury Under Secretary Winston also indicated that, despite the importance of the Thoiry talks, "... like everything else it seems to be tied up with the French debt settlement." French officials were aware of the United States government's predisposition to insist upon ratification as a precondition for opening the American market for German reparation bonds. This quelled their enthusiasm, especially Poincaré's, to press vigorously for an agreement with Germany along the lines of the Thoiry conversations. The American attitude also served as a convenient rationalization for some of the British and German opposition to such an accord. As a result, at

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82 Young to Kellogg, October 11, 1926, 462.00 R 2962/661; Winston to Morrow, September 27, 1926, Bureau of Accounts, Box 85 (German Railway Securities), RG 39. Some observers felt the American market, regardless of the government's official attitude, was not then ready to absorb a large issue of German reparation bonds. See, for example, Ministère des Affaires Etrangères, Documents Diplomatiques Belges, 1920-1940, II (3 vols.; Brussels, 1964), 537-539; Antonia Valentin-Lucaire, Stresemann (New York, 1931), 251-252; Herrick to Castle, March 8, 1927, Box 21, Herrick Papers.

83 For French intentions to raise the issue formally with American officials, see Morgan, Harjes and Company to Morrow (relayed to Mellon), October 6, 1926, Bureau of Accounts, Box 220 (unmarked folder), RG 39; Memorandum of Conversation between Castle and Fraser, November 11, 1926, Box 85 (German Railway Securities), ibid. For indications
a critical juncture in German-French relations, the loan-debt policy of the United States played an important part in retarding both Europe's political pacification and France's financial stabilization.84

In the late 1920's, American policy makers increasingly realized that their well intended efforts to regulate American capital outflows in a constructive and farsighted manner were poorly conceived. Not only were these attempts failing to stabilize economic and political

of French sensitivity to the American position about Thoiry, see Moreau, Souvenirs, 82, 109-114, 124, 141-142; Harrison to Mellon, October 29, 1926, 462.00 R 2962/58a.

84 This is not to say that there were not other factors responsible for the failure of the Thoiry talks. Key British policy makers, some German leaders (for example, Hjalmar Schacht and Julius Curtis), and many prominent British and American bankers opposed an agreement along the lines of the Thoiry talks. They feared that a partial mobilization of the reparation bonds might consolidate the German position within the Dawes Plan. Since they believed the Dawes Plan and the existing debt accords to be unworkable, they wanted to prevent any development that might prevent a further readjustment of the entire debt-reparation imbroglio. See, for example, Gilbert to Morrow, October 8, 1926, Bureau of Accounts, Box 220 (unmarked folder), RG 39; Harrison to Mellon, October 13, 1926 (paraphrase of cable from the American Chargé in Berlin), Box 85 (German Railway Securities), ibid. For other reasons accounting for the British opposition, see Harrison to Mellon, October 29, 1926, 462.00 R 2962/58a. But notice the way Schacht maintained that the real obstacle to the implementation of the Thoiry proposals was the impasse over the debt settlement between France and the United States. See Moreau, Souvenirs, 121.
conditions in Europe, but they were also producing undesirable side effects. Therefore, American officials began making conscious efforts to adjust American loan and debt policies to meet changing circumstances abroad. They hoped that the unexpected problems generated by the government's increased regulation of loans still could be rectified before the nation was hopelessly entangled in European controversies. They believed this might be accomplished if American capital outflows moved in more natural directions, for example, to France rather than to Germany, and if the bankers, and not the government, assumed total responsibility in case of future default.

In order to accomplish these objectives, government officials, especially in late 1927 and early 1928, became much more circumspect about regulating the European investment practices of American bankers. In fact, the growing financial strength of France accelerated this development and hastened the reversal of the loan policies of the United States government. Thus, the final irony: the government's regulation of foreign loan issues, expanded and broadened in the early 1920's in order to help bring about European stability and to forestall diplomatic entanglements, was curtailed in the late 1920's in order to accomplish the same elusive objectives. The entire experience demonstrates the difficulties encountered by American policy makers in devising foreign policies aimed
at stabilizing Europe and at insuring America's political independence at the same time. No course of action that the government could have pursued with regard to regulating the flotation of foreign loans in the American market offered the possibility of securing diplomatic goals without engendering diplomatic complications as well.

This became quite clear during the summer of 1926. By the time Coolidge's cabinet met in July to discuss the question of maintaining the embargo on loans to France, policy makers had recognized that the real interest of America rested in the stabilization of Europe and that debt settlements constituted an integral part of the stabilization process. The dilemma facing American officials was how to mold a loan policy that would bring pressure on the French to ratify the Mellon-Berenger accord but that would not disrupt French attempts to stabilize the franc. This was a very difficult task since the stabilization of the franc itself seemingly depended on the availability of American credits. If the latter were


86 It was widely believed that the French, regardless of the success of internal reforms, would need American credits to consummate their stabilization program. See, for example, Gilbert and Charles S. Dewey (Assistant Secretary of the Treasury) to Mellon, July 13, 1926, F.R., 1926, II, 97-98; Winston to Coolidge, August 3, 1926, Bureau of Accounts, Box 62, RG 39; Chandler, Benjamin Strong, 361.
forbidden in order to maintain pressure on the French to ratify the debt accord, there appeared to be little prospect of any stabilization program being effective. Thus, the great enigma was how to bring about the achievement of one of these objectives through the use of financial pressure without endangering the success of the other goal.

Confronted by this predicament, the Coolidge administration tried to pursue a middle course. In July, it decided to continue the embargo in order to pressure France to ratify the debt settlement. But in order to make the debt accord more attractive and in order to prevent the issue of ratification from becoming the key roadblock to stabilization, American officials made some very significant gestures. To begin with, the Treasury Department reversed its position and responded favorably to a French request that the United States give assurances that it would not exert its rights under Article 7 of the debt agreement. This provision gave the United States Treasury the right to commercialize French war debt obligations on the open

87 The State Department appears to have been most anxious to secure this objective, even if at the expense of European stabilization. See, for example, Harrison to Kellogg, July 12, 1926, Box 47, Harrison Papers. Kellogg, Grew, and Harrison were all unsympathetic to European pleas for leniency on the debt question. See Kellogg to Hughes, January 3, 1925, Box 75, Hughes Papers; Joseph Grew, Turbulent Era, I (2 vols.; Boston, 1952), 682-683. The Treasury and Commerce Departments appear to have approached matters from a broader perspective. Coolidge tended to side with the State Department. As shall be shown, however, the trend of American foreign policy was to try to pursue both approaches at the same time.
market. Many French leaders, especially Poincaré, considered this Article a legitimate reason for opposing ratification. They feared that it might enable Germany to acquire French bonds and thus gain some financial leverage over France. In order to alleviate these apprehensions, Mellon wrote a conciliatory letter to the French Financial Attaché. In it, he theoretically reserved all American rights under the accord. But then he proceeded to reassure the French "... that America would never use what rights it has under Article 7 to embarrass France. All our traditions would oppose any such course of action."  

Since it was common knowledge that French objections to the debt settlement were based largely on the absence of a safeguard clause, Treasury officials also tried to remove this source of friction. In late July, Parker Gilbert and Ben Strong visited Mellon who was vaca-

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88 Memorandum, by Winston, July 3, 1926, Bureau of Accounts, Box 62, RG 39; Harrison to Mellon, July 13, 1926, ibid.; Winston to Philippe Bunau-Varilla, July 7, 1926, ibid.; Mellon to Lacour-Gayet, July 14, 1926, Box 63, ibid.; Gilbert and Dewey to Mellon, July 13, 1926, F.R., 1926, II, 97-99. Unfortunately, however, few people in the United States or France were aware of the Treasury's efforts to relieve French apprehensions over Article 7. See, for example, Herrick to Kellogg, July 30, 1926, August 6, 1926, November 5, 1926, Bureau of Accounts, Box 62, RG 39; Blair to Winston, October 25, 1926, ibid.; Herrick to Coolidge, July 30, 1926, Box 19, Herrick Papers.
tioning in Dinard, France. At this meeting, they decided to consider the possibility of acquiescing to a safeguard clause in the text of the agreement that might be approved by the French Parliament.89 Only a few days later, on August 9, Acting Secretary of the Treasury Winston informed President Coolidge that some loosening of the American position on the safeguard principle might encourage Poincaré to call for the French Chamber's ratification of the debt settlement. Winston explained to the President that the French had been told innumerable times that there was a safeguard clause inherent in every contract. Consequently, the French knew that if they found themselves unable to pay, the United States would agree to a reexamination of the accord. But Winston now suggested that a more formal statement of the American position be made publicly. Coolidge did not respond enthusiastically to this recommendation. After warning Winston not to act without specific authorization, the President advised him to speak to Kellogg about the matter.90 Before a final decision was made, however, Poincaré, for internal political reasons, decided not to ask the Chamber to ratify

89Moreau, Souvenirs, 57-58, 62.

90Winston to Coolidge, August 9, 1926, Coolidge to Winston, August 11, 1926, Winston to Coolidge, August 12, 1926, Bureau of Accounts, Box 62, RG 39.
the debt accord.

In addition to his efforts to alleviate French anxieties on the safeguard and commercialization clauses, Mellon never foreclosed the possibility of opening American capital markets to French financing, prior to French ratification of the debt accord, if the American loans and credits were to be earmarked specifically for stabilization purposes. Thus, it remained uncertain whether American financial assistance would be forthcoming if French financial authorities agreed to the numerous other conditions that Ben Strong laid down as preconditions for Federal Reserve aid to France. In early July, Treasury Under Secretary Winston told George Harrison, Deputy Governor of the New York Federal Reserve Bank, that Mellon insisted only that French debt ratification constitute part of an over-all stabilization plan. In other words, ratification need not precede substantive talks aimed at stabilization. On July 25, however, Strong spoke to Mellon

91 In the mid 1920's, as Governor of the Federal Reserve Bank of New York, Ben Strong negotiated agreements with central bankers of several European countries whereby American credits were made available as part of an over-all program aimed at stabilizing the currency in each of these nations. In return for these credits, Strong insisted that the stabilization programs conform to certain standards. During the summer of 1926, Strong was in very close contact with officials of the Bank of France. In the course of these conversations, the French were carefully told what measures, in addition to action on the debt, they were expected to take. See Chandler, *Ben Strong*, 366-370; Moreau, *Souvenirs*, 101-103.
himself at Dinard. He came away believing that the Secretary of the Treasury demanded the settlement of the debt issue as a prerequisite for the opening of American credits. Subsequently, in March, 1927, Mellon wrote Herrick that this had not been the case. He went on to say that if France needed a loan to stabilize the franc, the French government should not hesitate to make such a request. He believed it would receive favorable consideration in administration circles.\footnote{Harrison to Strong, July 3, 1926, Bureau of Accounts, Box 220 (unmarked folder), RG 39; Chandler, Ben Strong, 366-367; Mellon to Herrick, March 17, 1927, Box 22, Herrick Papers.} 

In these various ways, American policy makers, especially in the Treasury Department, tried to prevent their debt-loan policy from interfering with their other goal of bringing about France's financial stabilization. There were, of course, other things that the Coolidge administration could have done to facilitate French stabilization but chose not to do. These examples, however, further serve to illustrate the myriad internal pressures and external considerations that affected decision making and that circumscribed consistent policy making on both debts and loans.

Shortly after the signing of the Mellon-Bérerenger debt accord, American officials were informed that the
French were not happy with the settlement. French misgivings about the specific terms of the accord were intensified by fears that even if they ratified the settlement, the United States Senate might reject it just as it had repudiated the Treaty of Versailles. As a result, Ambassador Herrick advised Kellogg and Mellon that quick ratification by Congress might aid Briand in securing the French Chamber's ratification. The administration, however, made little effort to exert pressure on the Senate to take immediate action. In fact, Mellon and Senator Reed Smoot counselled the Senate Finance Committee to wait for prior French ratification. The American Congress, of course, was far from ebullient about their terms of the debt settlement, but the absence of strong presidential leadership in this situation seems to have been critical. Fearing a clash with the Senate, the administration delayed pushing the question until the French acted. The result

93 For French attitudes on the debt settlement, and the outlook for French ratification, see F.R., 1926, II, 92ff; Herrick to Kellogg, May 6, 1926, June 18, 1926, Box 20, Herrick Papers; Herrick to Kellogg, May 17, 1926, May 21, 1926, June 8, 1926, 800.51 W 89 France/304, 312, 319; Kellogg to Mellon (from Herrick), May 7, 1926, Bureau of Accounts, Box 61, RG 39; Lacour-Gayet to Winston, June 15, 1926, ibid.

94 The House of Representatives did approve the Mellon Berenger accord on June 12, 1926. But the administration made no effort to secure the Senate's ratification. For references to the administration's attitude on this point, see Mellon to Kellogg, May 11, 1926, June 7, 1926, Bureau of Accounts, Box 61, RG 39; Note, by Blair
was that neither nation formally ratified the accord in June, 1926. Thereafter, the loan embargo was maintained and French financial conditions continued to deteriorate until Poincaré came to power in late July, 1926.

The failure of the United States government to move on all fronts to appease French sensibilities and to solicit French ratification also was evidenced by the American refusal to alter the amount of the annuities that France had to pay. A concession here might have made an excellent impression upon the French. Yet, despite much pressure in 1926 and 1927 from reputable sources in the United States and France, American policy makers decided not to revise French obligations downward. In justifying this position, Mellon argued that the United States already had acted fairly. He explained that virtually the entire pre-Armistice debt had been cancelled. He believed that American taxpayers and their representatives in Congress would not tolerate further reductions. Moreover, Mellon claimed that according to existing agreements France

(on Herrick's despatch of May 20, 1926), May 26, 1926, ibid.; Statements by Mellon and Smoot, in Senate, Finance, French Debt Settlement, 2, 5-6; Castle to Herrick, June 8, 1926, Box 19, Herrick Papers. The administration may have decided not to press the Senate to move quickly because it might have felt that the existing French government was not serious about carrying through a comprehensive stabilization program. See Winston to Mellon, May 14, 1926 and Strong and Winston to Mellon, May 20, 1926, Bureau of Accounts, Box 220 (unmarked folder), RG 39.
would never have to pay more in debts than she received in reparations. Consequently, there was good reason to believe that the burden on America's former ally would not be too onerous. 95

The intransigent American position on this issue, however, did not mean that the administration was ignorant of or indifferent to the international economic and financial problems likely to arise from the existing inter-governmental financial obligations. Mellon took pains to convince his anti-cancellationist critics that there were good economic reasons for the substantial concessions already granted by the United States. He told the Union League Club in Philadelphia that . . .

I should rather have solvent customers in the future which permit me to run a profitable business than to insist upon terms of debt settlement which will again force my customers into bankruptcy. . . . The farmer or the laboring man would rather have a market for our surplus in Europe than save a dollar of Federal taxes. 96

Even more significantly, in March, 1927, he explained to John Grier Hibben, President of Princeton University, that reopening settlements was a step backward. It would create political confusion, cause economic uncertainty, and deter world economic progress. Stability, the Secretary

95 For Mellon's statements, see World War Foreign Debt Commission (W.W.F.D.C.), Combined Annual Reports of the World War Foreign Debt Commission With Additional Information Regarding Foreign Debts Due the United States (Washington, 1927), 302-311. Hoover also argued that the debt annuities were not too burdensome. See Hoover to Kellogg, July 28, 1926, 800.51 W 89/199.

96 W.W.F.D.C., Combined Annual Reports, 301-302.
of the Treasury emphasized, was the key to economic progress. The debt settlements had brought an element of stability. Though uncertain whether these accords would be viable in the long run, spokesmen for the Treasury Department insisted that "The principal fact is that settlements have been made and a fair trial can be had, not on theory but in practice. The debtor nations know what should be provided in their budgets and uncertainty is eliminated." 98

So throughout 1926 and 1927, while stability supposedly was being preserved by not reopening the debt question, instability and ill will were being engendered by a financial policy that prohibited loans to France but condoned loans to Germany. This was not the intention of policy makers, but this was the result nevertheless. Intermittent reports that Poincaré was about to ask for ratification of the debt settlement in order to secure credits to bring about the de jure stabilization of the franc 99 probably influenced American officials to retain

97 Ibid., 306ff.
98 Ibid., 59-60.
99 See, for example, Kellogg to Coolidge, August 26, 800.51 W 89 France/392; Herrick to Coolidge, January 25, 1927, Box 21, Herrick Papers.

In early August, 1926, Poincaré apparently reversed his former position and decided not to oppose debt ratification. Thereafter, his personal inclination seems to have
been in favor of ratification as a means of hastening and consummating the stabilization process, partly through the acquisition of American credits. Public and parliamen-
tary opposition to the accord, however, deterred Poincaré from actively soliciting the Chamber's ratification. His own government was divided on the issue and he feared the dissolution of the shaky consensus he had painstakingly established if he made ratification a ques-
tion of confidence. This situation continued well into 1927. Poincaré's decision in March, 1927 to make pro-
visional and voluntary debt payments to the United States, without the Chamber's prior ratification of the debt accord, revealed his belief that he could not then secure legisla-
tive approval. Consequently, he hoped to make temporary payments until the United States agreed to renegotiate the matter. For the evolution of Poincaré's attitude toward the debt settlement, see, for example, Harrison to Mellon, June 24, 1926, Bureau of Accounts, Box 61, RG 39; Herrick to Kellogg, August 4, 7, 1926, January 18, 1927, March 8,
15, 1927, Box 62, ibid.; Whitehouse to Kellogg, August 13, 1926, October 29, 1926, ibid.; Damon C. Woods (Consul General, Paris), to Kellogg, December 24, 1926, ibid.; Memorandum of Conversation between Gibbons and Poincaré, February 2, 1927, ibid.; Poincaré's speech to the Chamber on June 9, 1927, in 851.51/1129; Jones to Klein, July 24, 1926, August 4, 1926, B.F.D.Ô., Box 443.3 (Southern Europe-France), RG 151; Jones to Klein, July 31, 1926, Box 600 (Finance and Investment-France), ibid.; Herrick to Coolidge, August 10, 1926, Box 19, Herrick Papers. For divisions within the French government over the debt settlement, see William Phillips to Kellogg, September 17, 1926, Bureau of Accounts, Box 62, RG 39; Warrington Dawson to Castle, November 10, 1926, ibid.; Fullerton to Herrick, November 3, 1926, Box 19, Herrick Papers. For reports on general French sentiment, much of it hostile, toward ratification, see Herrick to Kellogg, July 12, 16, 1926,
November 19, 1926, Box 20, Herrick Papers; Herrick to Coolidge, July 21, 1926, Box 19, ibid.; Dawson to Castle, September 22, 1926, Bureau of Accounts, Box 62, RG 39; Whitehouse to Kellogg, October 7, 22, 1926, ibid.; Herrick to Kellogg, December 21, 1926, ibid.; Whitehouse to Kellogg, October 14, 1926, 800.51 W 89 France/416.
the embargo as an inducement for the French to move in this direction. At the same time, the very fact that the French Premier was able to effect a de facto stabilization in December, 1926, without obtaining American financial aid, seems to have temporarily quelled the criticism of those who opposed the government's embargo on grounds that it obstructed Europe's financial stabilization.

But the course of events throughout 1927—the complete financial rehabilitation of France and the resumed flow of unproductive loans and credits to Germany—led to renewed and very vigorous criticism of the administration's loan policy. The success of Poincaré's financial and fiscal reforms convinced many influential American bankers that the ban on loans to France was misguided. They maintained that the embargo was having no positive effect. Private American credits were being extended to the French in disregard of official policy. In addition, the French were securing all the capital they needed in Holland, Sweden, and Switzerland. Meanwhile, American trade was being injured by the tendency of French industries to buy goods in those countries from which they were borrowing. As a result, both American commercial and financial interests were suffering while the embargo was having no noticeable impact on France's inclination to ratify the debt settlement. If anything, the embargo was delaying ratification since many Frenchmen were incensed
by the blatant application of financial pressure. In a letter to Secretary of State Kellogg, Fred Kent (of Bankers Trust Company) summed up the reasons for much of this criticism. He wrote:

... it is not clear how it is now possible for the United States to obtain any benefit whatsoever from the embargo, either political, commercial, or otherwise. Yet there is not the slightest doubt that it is working real hardship to American financial and industrial interests, that it is reducing profits to American institutions upon which State and Federal taxation is based and further that it is acting as a very positive trade barrier and handicap to American foreign trade in many particulars.100

Government officials were sensitive to this criticism. They, too, increasingly were aware of the economic and political problems caused by the embargo on loans to France. Consequently, in March, 1927, when the French government began making debt payments prior to the Chamber's ratification of the debt agreement, there was a thorough reexamination of American policy.101

100 Kent to Kellogg, March 4, 1927, 851.51/1034; also see P. F. Fatzger (National City Bank) to Charles Mitchell (National City Bank), February 3, 1927, 851.51/989; Statement of the Commerce and Marine Commission of the American Bankers Association, May 4, 1927, in Bureau of Accounts, Box 47, RG 39; Kent to Mills, June 13, 1927, ibid.; Morrow to Coolidge, June 21, 1927, 851.51/1129; Sullivan and Cromwell to Kellogg, December 20, 1927, 851.51/1257; Lamont to Kellogg, December 29, 1927, 851.51/1263; "The State Department and Foreign Loans," The Index (New York Trust Company), February, 1928, 6-7.

101 Policy makers, no doubt, also were affected by the many inquiries of American bankers into possible changes in the government's attitude toward French financing in the United States. Between late December, 1927 and early March, 1928, at least fifteen such requests were made by leading American banking firms, including Dillon,
The evidence is not altogether clear but there seems to have been a great deal of division within the administration on whether to continue the embargo. Some members of the State Department, but not Kellogg, wanted to terminate the existing policy. Mellon appears to have agreed with them. On the other hand, Commerce Department officials seemingly were inclined to maintain some financial pressure in order to secure French tariff concessions. Coolidge apparently made the final decision to maintain the embargo.\(^{102}\)

Despite this decision, the trend of American thinking was to curtail the use of governmental powers to direct the flow of loans away from France and, however unintentionally, into Germany. The international financial dislocations engendered by those policies were not being offset by any commensurate political advantages at home or abroad. Therefore, in late summer and early autumn of 1927, Hoover, Mellon, and Kellogg agreed that France should

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Read, Lehman Bros., National City, Guranty Trust, Bankers Trust, and Aldred and Company. These can be found in 851.51/1030's and 1040's.

\(^{102}\)For references to this reappraisal of policy and to the sentiments of key policy makers, see Young to Harrison, March 22, 1927, 851.51/1033; Memorandum, by Harrison, March 17, 1927, ibid.; Young to Kellogg, March 21, 1927, 800.51/560; H.C. to Gilbert, August 25, 1927, 851.51/1200; Mills to Kent, June 29, 1927, Bureau of Accounts, Box 47, RG 39; Wyly, "Foreign Relations of the United States with France," 288. For some indications that the Commerce Department was willing to use financial pressure to secure tariff concessions at this time, see the cable by Klein to the Commercial Attaché, Paris, in B.F.D.C., Box 3266 (Confidential Cables-Outgoing), RG 151.
be allowed to carry on refunding operations in the United States. In early 1928, the administration took an even larger step in the direction of relinquishing its control over private capital outflows. The State Department informed interested bankers that it no longer objected to the flotation of French industrial loans in the United States. In effect, this meant the end of the embargo. At the very same time, the State and Commerce Departments took action to protect the United States government from the recriminations of bankers and investors in case of possible foreign, especially German, defaults on American

103 Memorandum, by Dewey, August 23, 1927, Bureau of Accounts, Box 47, RG 39; Memorandum of Conversation, between Young and Dewey, August 23, 1927, 851.51/1198; Kellogg to Coolidge, August 24, 1927, 851.51/1193; Kellogg to Claudel, October 10, 1927, 851.51/1189. Hoover felt that the bond market of New York might be injured if refinancing was not allowed. The American decision to allow refunding operations in New York was also probably related to French tariff concessions at that time. See Chapter V, p. 325 ff.

104 State Department to interested banking firms, January 13, 1928, 851.51/1282. By early 1929, the Department was no longer objecting even to loans to French municipalities. See Castle to John Nickerson and Company, March 30, 1929, B.F.D.C., Box 640 (Foreign Loans-France), RG 151. No doubt, the realization that the United States could use the war stocks debt (falling due in August, 1929) as a lever to elicit French ratification encouraged policy makers to relinquish control over the loans. See, for example, Memorandum of Conversation between Claudel and Castle, December 10, 1927, Bureau of Accounts, Box 62, RG 39.
loans.\textsuperscript{105}

The broad-based retreat of the administration in 1928 from its former efforts to regulate loans to achieve foreign policy goals was a response to varied stimuli. Increasing congressional criticism played an important role. In late 1927 and early 1928, Senator Carter Glass (Democrat, Virginia) vehemently denounced the State Department's policy of reviewing all loans. He insisted that the executive branch had no authority to engage in such actions. He warned that present policies would draw the United States government into sanctions and would impose moral obligations that would be misleading and injurious. Other congressmen and senators had long expressed similar reservations about the course of the government's policy.\textsuperscript{106}

The multiplication of bankers' grievances and complaints also must have had an important impact on government officials. The financial community not only had been upset over the maintenance of the embargo on French financing in the United States. For many years bankers had been equally disturbed and agitated by the inchoate position of the government on whether or not to permit loans to Germany.

\textsuperscript{105}Brandes, Hoover and Economic Diplomacy, 188.

\textsuperscript{106}Carter Glass, "Government Supervision of Foreign Loans," Proceedings of the Academy of Political Science, 12 (January, 1928), 45-51; also see Young to Kellogg, March 11, 1925, 800.5/503. Resolutions had been introduced into the 69th Congress calling for the end of government supervision of foreign loans. See, for example, Cong. Record, 69 Cong., 2 Sess., 975-976 (January 3, 1927).
Jerome Greene (of Lee, Higginson, and Company) had complained bitterly that the State Department's ambiguous warnings, without formal objection, had created great uncertainty in financial circles about the government's real desires. Ben Strong and John Foster Dulles also had attacked the interference of the State Department in investment banking activities. They had argued that it might set a dangerous precedent and might eventually imperil the whole complex chain of international financial transactions. In addition to these complaints, many other bankers were known to feel that the State Department incurred a certain responsibility to protect all the loans it reviewed and approved. This attitude struck an especially sensitive chord in administration circles.

Political and financial pressures, however, were not the only factors accounting for the reversal of the administration's loan policy in 1927 and 1928. For various reasons, the re-emergence of France as a great financial power was in itself sufficient cause for a reappraisal of official policies. The financial rehabilitation of France

107 Greene to Harrison, March 5, 1926, 800.51/562; Strong to Mellon, September 21, 1925, Bureau of Accounts, Box 220 (Winston-Strong Correspondence), RG 39; Strong to Winston, November 19, 1925, ibid., Box 85, RG 39; John F. Dulles, "Our Foreign Loan Policy," Foreign Affairs, 5 (October, 1926), 44-46.

108 Marriner to Castle, June 21, 1927, 800.51/566; "Should the United States Supervise Foreign Loans," Commerce and Finance 16 (October 19, 1927), 2158.
demonstrated that there were real limitations to the effectiveness of American financial pressure. France endured the loan embargo, prospered, and obstinately refused to ratify the debt settlement. Moreover, the flow of private American credits into a financially rejuvenated France, in disregard of the government's mandate, also revealed that government officials had a very limited capacity to enforce their policy if financiers were intent on contravening the official mandate. In addition, France's financial regeneration meant that in the future the French were not likely to succumb to American pressure and to accept American principles as they had during the Dawes Plan negotiations in 1924 and the Mellon-Berenger negotiations in 1926. This made American officials all the more apprehensive about getting embroiled in an international dispute over the question of priority between private loans and reparations. And in late 1927 such entanglements seemed more likely than ever before as Parker Gilbert, the Agent-General for reparations, began making arrangements for a final settlement of the indemnity question.

American policy makers could not help but be deeply affected by these internal and external developments. Fears of ominous diplomatic complications simply

109 See, for example, Memorandum of Conversation between Young and Grosvenor Jones, March 23, 1927, 851.51/1062; "The State Department and Foreign Loans," 6-7.
became another "... of several reasons for a termination of the special and what we have always considered temporary relationship which we have had to loans since 1922."\(^{110}\)

Officials in the State and Commerce Departments such as Arthur Young and Julius Klein increasingly were aware not only of the difficulties of effectively directing the flow of capital but also of the problems of distinguishing productive from unproductive loans. The existence of huge amounts of surplus capital in the hands of increasingly uncooperative bankers intent on securing large profits made the task of responsible officials such as Young and Klein more and more complicated as the 1920's progressed. As a result, in 1928, the administration eventually decided to relax its supervision and to curtail, as far as possible, its regulation of private loans.\(^{111}\)

\(^{110}\)Harrison to Kellogg, January 28, 1928, 800.51/558.

\(^{111}\)A.N. Young, "The Loan Policy of the Department of State," Far Eastern Review, 24 (March, 1928), 102; Klein, "Foreign Loans and National Prosperity," 1057; also see the testimony of Joseph Cotton (Under Secretary of State) in House, Committee on Banking and Currency, German Reparation Bonds (Washington, 1930), 70-71. In his Memoirs, Hoover implies that he alone understood the importance of insuring that loans were productive in nature. He claims that it was against his wishes that the original standards were relaxed. See Hoover, Memoirs, II, 88-91. In reality, however, Hoover never developed precise criteria for differentiating sound from unsound loans. Nor did he ever explain how the government could effectively control capital outflows, if the bankers refused to cooperate, without assuming responsibilities and risking involvements that he, too, wished to avoid.
In a very real sense, the withdrawal of the government came too late. Though the loan regulations had been designed to link European economic reconstruction and international political stability to American self-interest, they wound up causing economic dislocations, French recriminations, and domestic controversies. The loans and the loan policy complicated subsequent American relations, private and governmental, with Europe. Loans to Germany did give the United States a direct stake in Germany's economic well-being and therefore in a readjustment and downward revision of Germany's reparation obligations. As a result of this investment stake in Germany, neither United States government officials nor private American citizens could subsequently appear as disinterested outsiders or objective arbitrators of what previously had been considered largely European questions. The French could not help but feel that the American attitude on reparations was a direct result of America's economic invested in a prosperous Germany. This increased France's determination to refrain from making concessions on reparations unless linked to reciprocal American concessions on debts. And France had achieved the financial power to remain intransigent if she so desired.

As a result of their policies in the 1920's, Republican officials were destined to be enveloped in a real quandary. Critics charged that in their attempt to direct
capital outflows, policy makers had incurred a certain responsibility to protect bankers and investors in case of default. If a Republican administration ever afforded such protection at the expense of the war debts, it was sure to be accused of having sacrificed the interests of the people in order to protect the plutocrats who had squandered the nation's wealth. The Republicans might respond that they always had pursued the noble objective of tying the national self-interest to the well-being of the international economic community. But in times of stress, their claims were likely to sound hollow. Indeed, tremendous problems were on the horizon as the Young Plan negotiations began and as American and French negotiators tried to iron out their commercial differences.

112 In addition to previous references addressed to this point, see Statement, by Louis McFadden (Chairman of the House Banking and Currency Committee), in House, Banking and Currency, German Reparation Bonds, 5.
During 1927, at the same time that American loan policy was being reappraised and revised, the United States became involved in a serious commercial controversy with France. The French government condemned the economic barbarism of American protectionism and export expansionism and championed the principle of commercial reciprocity. The American government denied charges that the United States was pursuing a policy of neo-mercantilism and proclaimed a commitment to the principle of commercial equality. Policy makers in both countries recognized that the dispute had far-reaching consequences for the stability of the entire international economy as well as ramifications for the immediate economic self-interest of their respective nations. While they prepared for a possible tariff war, the rest of Europe looked on from the sidelines, mostly applauding French efforts to break down American tariff barriers.¹

¹For comments referring to the European reaction to the French-American trade controversy, see John Calvin Brown to William Castle, September 30, 1927, General Records of the Department of State, File No. 611.5131/602, RG 59 (National Archives); Sheldon Whitehouse (Chargé, Paris) to Kellogg, September 30, 1927, ibid., 611.5131/602; D. C. Poole (Chargé, Berlin) to Kellogg, November 17, 1927, ibid.
This controversy, though temporarily resolved in the autumn of 1927, was not permanently settled until 1936. But by the end of the Republican ascendancy, the means of resolving the quarrel had been delineated and some progress had been made. An analysis of the interaction between American and French commercial practices reveals a great deal about the strengths and weaknesses of American trade policy during the 1920's and early 1930's and provides a framework for evaluating the extent to which the United States contributed to the international economic disequilibrium of the 1930's. Before examining the development and evolution of the Franco-American dispute, however, it will be useful to discuss the aims and to demarcate the dimensions of American commercial policy.

The goal of American commercial policy after the First World War was to enlarge American exports within a healthy and flourishing international economy without opening the American market to too much foreign competition. Thus,


there were three components to American trade policy: the expansion of exports, the maintenance of international economic and financial stability, and the defense of the domestic market. Each of these was designed to meet the needs of one or more economic interest groups within the United States. Export oriented businessmen, for example, especially large industrialists, clamored for new outlets overseas. International bankers, exporters, and big businessmen desired international stability in order to carry on their world-wide financial and commercial transactions. Small and medium-sized manufacturers and farmers wanted increased protection in order to restrict foreign competition and to monopolize the internal market.

Naturally, a trade policy aimed at accomplishing such diverse objectives was bound to contain contradictions. Commerce Department officials, international bankers, and many prominent businessmen were aware of these inconsistencies. In order to reconcile the diverse elements of American commercial policy, they focused considerable attention on capital outflows, visible and invisible imports (for example, tourist expenditures and immigrant remittances), and the flexible-scientific provisions of the tariff. Their aim was to link American economic self-interest to the well-being of the international economy.

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3See pp. 291-305, infra.
They recognized the mutuality of interests of all nations in a growing world economy and they emphasized that foreign trade should be conducted on a cooperative and mutually beneficial basis. Secretary of Commerce Herbert Hoover told the Export Managers Club in 1926 that "It is a misfortune that the terminology of trade has been so infected by military terms. . . . In larger vision our export trade does not grow by supplanting the other fellow but from the increased consuming power of the world." ⁴

Since many American bankers and exporters maintained that the growth of American foreign trade depended upon the smooth functioning of the entire international economic system and upon the well-being of all its individual parts, they welcomed the restoration of European productive power. Some business leaders noted that the reconstruction of Europe might enable American and European capital to

cooperate in the stimulation of world demand for the products of industrialized nations. Others stressed that a restored Europe meant a rejuvenated market not only for American goods but also for the goods of some of the best customers of the United States in other parts of the world. Robert Lamont, Hoover's successor in the Commerce Department, told the National Foreign Trade Council (N.F.T.C.) in May, 1929, that:

The restored ability of Europe to produce and export has been a major factor in building up our exports both to Europe itself and to other parts of the world, which in turn have found their buying power increased by the ability to sell more foodstuffs and raw materials to European countries. It is to our interest that Europe should expand still further in its export of manufactured goods. The prosperity of our farmers is much affected by the prosperity of European factories . . . .

In order to fulfill their goal of expanding American exports within a well balanced and healthy international economic system, American policy makers resorted to various tactics. Among the most important of these was the use of unconditional most-favored-nation clauses in commercial

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treaties. The intent of such clauses was to foster the principle of equal treatment and to foreclose the possibility of American goods being shut out of certain markets or being discriminated against in others. Until the 1920's, the United States had adhered to the conditional interpretation of the most-favored-nation principle. In practice, this meant that a concession granted country A in exchange for a reciprocal concession was not extended to country B unless B made a concession equivalent to the one granted by A. The difficulty, of course, was in determining what constituted an equivalent concession. Therefore, the result of the use of the conditional interpretation was chronic haggling over the importance of specific concessions and the gradual erection of discriminatory tariff barriers. 6 American officials wished to avoid both of these possibilities.

This was especially true in the immediate aftermath of World War I when many business leaders and government officials became fearful that European nations might use the conditional interpretation as a weapon to strike down American tariffs and/or to discriminate against American

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6 For information on the problems generated by the conditional interpretation of the most-favored-nation principle, see William Smith Culbertson, International Economic Policies (New York, 1925), 60-101; Culbertson to Hughes, December 14, 1922, Department of State, Papers Relating to the Foreign Relations of the United States, 1923 (2 vols.; Washington, 1938), I, 121-122. (Hereinafter, this source shall be cited as F.R., year, volume, page.)
goods. The possibility of such actions was particularly disturbing because America's interest in foreign markets and foreign sources of raw materials had grown rapidly since the outbreak of European hostilities in 1914. William S. Culbertson, Vice-Chairman of the United States Tariff Commission, was not alone in arguing that "Our selfish national interest indicates this [December, 1922] as the time when we should adopt an active policy to safeguard our interests [abroad] . . . ." Culbertson maintained that in order for American entrepreneurs to expand their export opportunities, the United States had to adopt the unconditional interpretation of the most-favored-nation principle. This, he proclaimed, was the natural corollary of the open door policy in the Far East and was especially imperative if American producers were to be assured equality of treatment in the great markets of the industrialized powers. Implicit in Culbertson's recommendation was the assumption, shared by other government officials, that given the ability to compete on equal terms, American producers would "run a winning race every time."  

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8 The quote is from William R. Castle, "The Department of State and American Enterprise Abroad," in N.F.T.C., Official Report, 1928, 190; also see "The Commercial Treaty with Germany" [Beerits Memorandum], 9, in Box 172, Charles Evans Hughes Papers (Manuscript Division, Library of Congress).
Culbertson's persuasive arguments among executive officials and congressional leaders were reinforced by the growing sentiment within the business community for the unconditional interpretation. As a result, the Fordney-McCumber tariff bill of 1922 acknowledged the principle of equal treatment and no discrimination. Section 317 provided for retaliatory measures if the Tariff Commission found evidence of discriminatory acts by other nations. The unconditional most-favored-nation principle served as the basis for the commercial treaty with Germany in 1924-1925. This treaty, in turn, became the model for all other treaty negotiations during the Coolidge and Hoover administrations.9

It is important to add, however, that the unconditional clause also was believed to be in the interest of the entire world community. Secretary of State Charles E. Hughes maintained that it would enhance America's own well-being while contributing to the peace of the world. Culbertson also insisted that commercial treaties based on the unconditional most-favored-nation principle would contribute both to stability and peace. Stability would be promoted because producers in various nations would know that for a certain period of time they would be competing on equal terms in specific market areas. Peaceful relationships between

9 Parrini, Heir to Empire, 212-239; F.R., 1923, I, 121 ff.; "Commercial Treaty with Germany" [Beerits Memorandum], 2, 9-10; also see Kellogg to Herrick, June 10, 1927, F.P., 1927, II. 537-632.
nations would be encouraged by the elimination of the acrimonious bickering that often accompanied bilateral trade relationships based on reciprocity. In a spurt of exaggerated rhetoric, Culbertson declared:

> When all nations shall have followed the unconditional most-favored-nation practice, equality of treatment will be guaranteed generally and tendencies will be set in motion contributing to commercial stability, simplicity, and uniformity of tariff rates, mutual confidence, and international good will.¹⁰

Government officials and business leaders also maintained that exchange stability was an indispensable prerequisite for the expansion of American commerce and for the development of a peaceful and viable international economic system. Herbert Hoover and Ambassador Hugh Gibson considered unstable currencies to be virtually the worst of all barriers to international trade. Fluctuating exchanges and depreciating currencies created uncertainty, upset America's export trade, and enhanced the competitive ability of foreign products in the American market. With their

¹⁰Culbertson, *International Economic Policies*, 101, 87-88, 98-99; "Commercial Treaty with Germany" [Beerits Memorandum], 5. The international economic conference held in Geneva in 1927 endorsed the unconditional most-favored-nation (equality of treatment) principle. See Henry M. Robinson, "Some Lessons from the Economic Conference," *Foreign Affairs*, 6 (October, 1927), 19. This suggests that America's commitment to the principle was not simply a result of policy makers' concern with the narrow self-interest of the nation. Other nations also believed that the principle of equal treatment was most easily reconcilable with the objectives of world peace and international economic stability.
currencies at a discount in the early post-war years, foreign nations could not afford to purchase American products. In turn, American producers, exporters, and bankers were reluctant to enter into contractual arrangements to market their goods or to extend credits when they were unsure of the future value of the currencies in which they were dealing. Benjamin Strong, Governor of the Federal Reserve Bank of New York, expressed the feelings of many of his contemporaries when he wrote Secretary of the Treasury Andrew Mellon:

There is no one thing which is so disturbing to the world's commerce and so dangerously lowers living standards as such condition of financial monetary disorder . . . as now exists in some parts of Europe. . . .

Having enumerated the problem of exchange instability as one of the great impediments to the restoration of world trade, American policy makers and financial leaders expended considerable energy on devising means and laying plans for the return of European nations to the gold standard. Though Hoover had hoped to facilitate this work in the early 1920's, little could be accomplished until some progress was made on the war debt and reparation questions. By 1924 and 1925, however, sufficient headway had been made on these and other matters to enable American officials to focus a good deal of their attention on the practical problems of European stabilization. A Senate study of these matters in 1925 concluded that for most nations a return to pre-war currency values was unwise and that stabilization at the current depreciated levels was in the interest of the international economy. The United States was advised to help Europe through the difficult period of transition and readjustment. 12

The Federal Reserve Bank of New York, under the able leadership of Governor Strong, assumed the task of aiding and guiding European nations through the conversion process. Federal Reserve credits and private American loans were made available to the central banks of European nations (Britain, Belgium, Italy, Rumania, Poland) that were willing to undertake the measures that Strong and other central bankers insisted upon. Meanwhile, monetary policy in the United States was formulated (through the variation of discount rates and the operations of the Open Market Investment Committee) to facilitate and to preserve the functioning of the gold standard. The problems encountered, both political and economic, were formidable. Tensions between national and international priorities increased as the 1920's progressed. This caused ever greater consternation, indecision, and conflict (especially between officials in the Federal Reserve Bank of New York and those governing the Federal Reserve System in Washington). But throughout the period 1924-1932 Republican officials and American financiers tried to reconcile the needs of the domestic economy with those of the international economy. There persisted a large consensus on the utility of preserving the gold standard as the fulcrum of international economic activity. 13

13This paragraph is based mainly on the following works: Chandler, Ben Strong, 247 ff.; Stephen V. O. Clarke, Central Bank Cooperation, 1924-1931 (New York, 1967); Richard H. Meyer, Bankers' Diplomacy (New York, 1970);
Republican leaders considered their commitment to the international gold standard a vital, enlightened, and integral part of their entire foreign economic and commercial policy. Though this policy for the most part was implemented through the Federal Reserve System, it received the constant support and direct encouragement of cabinet officials. By delegating the task of restoring the gold standard to central bankers, government officials (here and abroad) hoped to remove this goal from political considerations. Nevertheless, the Coolidge administration always was anxious to take credit for a policy that had widespread approval and that seemed to be ushering in a period of unparalleled prosperity. By restoring financial stability abroad, policy makers hoped to stimulate total world production and consumption and thereby expand American commerce. In January, 1928, Secretary of the Treasury Mellon explained that:


14 Chandler, Ben Strong, 249 ff.
15 Meyer, Bankers' Diplomacy, 8.
The nations of the world must be reestablished on a sound financial basis if our surplus products are to find an export market. Only in this way can business compute in advance the price which it must pay for raw materials and figure more accurately on the price which can be secured for finished products. If this can be done business can operate on a larger scale and increase its foreign purchases, which means a greater demand for our surplus products and an expansion in business here and in other countries as well. . . .

In addition to their commitment to commercial equality and exchange stability, American policy makers in the 1920's focused their attention on the problem of providing dollar exchange to foreign customers in amounts sufficient to sustain American exports without disrupting international economic and financial stability. In order to cope with the liquidity problem, Commerce Department officials, international bankers, and export-oriented businessmen began analyzing the workings of the international economy and studying the flow of international payments. In particular, they wondered whether the United

States as a creditor nation could or should retain its long held position as a net exporter of goods. In order to answer this problem, there was much probing into the nature and importance of the invisible items in international transactions as well as into the nature and importance of the triangular trade of the United States.  

17Any analysis of the economic policy of the United States in this period must depend at least in part upon the comprehensive and invaluable statistical collections of the Department of Commerce. These provide a comprehensive picture of the nation's financial and commercial relations with the rest of the world. In particular, in the 1920's, Commerce officials began analysing the international balance of payments of the United States. The intent was to provide new insight into the meaning and importance of invisible items in the nation's foreign economic relations. Hoover maintained that "A full comprehension of the invisible items and their approximate value is not only of profound importance in assessing our international balance sheet, but no sound conclusion can be made concerning the effect of foreign trade movements upon our credit structure or upon the ability of foreign countries to purchase our commodities or to pay their debts, or upon exchange rates, or upon the movement of gold, or the ultimate trend of price levels... without some comprehensive balance sheet including the invisible items." See Hoover's foreward to "The Balance of International Payments of the United States in 1922," Trade Information Bulletin, No. 144 (Washington, 1923), 2. As the years progressed, these studies became increasingly comprehensive and sophisticated. See the annual reports put out by the Bureau of Foreign and Domestic Commerce entitled "The Balance of International Payments of the United States in 1923 [1924, 1925, ...]." Trade Information Bulletin, Nos. 215, 340, 399, 503, 552, 625, 698, 761, 803, 814, 819 (Washington, annually, 1923-1933). [Hereinafter, they shall be cited as "Balance of Payments," year, T.I.B., number, page]. One must also refer to the statistical presentations and discussions of American foreign trade in Department of Commerce, Commerce Yearbook (Washington, annually, 1921-1933). After 1927, this source appeared in two volumes, but the summary discussion of
In the early 1920's some Commerce Department officials and large exporters maintained that the United States would have to become a net importer of goods and services. They claimed that such a change was the natural and unavoidable corollary of becoming a creditor nation. By the middle of the decade, when the anticipated transformation in the nation's merchandise balance had not occurred, Hoover and other observers explained the phenomenon in terms of capital exports and invisible imports. In other words, dollar outflows, as a result of American investments in foreign loans and securities, tourist expenditures, and immigrant remittances, had become so large as to make possible the continued excess of exports over imports. Though some Americans and many European argued that the very favorable merchandise balance of the United States with the Old World eventually might cause serious economic dislocations, these warnings were discounted by American officials. Hoover, for example, insisted that European nations could go on indefinitely obtaining dollars

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in sufficient amounts to service their public and private debts and to pay for their merchandise deficits with the United States. These dollars could be secured through additional loans and through expected increases in American tourist expenditures. Speaking theoretically, American officials also claimed that European nations might accumulate dollar exchange by expanding their exports to those raw material producing nations in Latin American and Asia with whom the United States had an unfavorable trade balance. Moreover, Ray Hall, the Assistant Chief of the Finance and Investment Division of the Bureau of Foreign and Domestic Commerce, pointed out that European investors already were receiving, though indirectly, enormous sums of dollars as a result of their ownership of the raw materials in many "underdeveloped" nations. According to this line of reasoning, then, the triangular nature of the nation's trade relations (net exports to Europe and net imports from many of the economically backward areas) would help provide the necessary equilibrium for a steadily growing international economy and for the steadily growing value of American exports.

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20 For a discussion of the triangular trade of the United States, and of the importance of the "invisible" items in maintaining an acceptable equilibrium, see Herbert Hoover, "A Year of Cooperation," Nation's Business, 10 (June 5, 1922), 13; Hoover to Kellogg, July 28, 1926, 800.51 W 89/199; Ogden Mills (Under Secretary of the Treasury) to J.H. Nakdimen, July 6, 1927, Bureau of Accounts, Box 47,
This, of course, was not the case since total American exports continued to exceed total imports. As a result, many business leaders and government officials emphasized the necessity of maintaining a steady flow of dollars abroad through loans, credits, or direct investments. The abrupt fluctuation in capital outflows from year to year was recognized as a real danger to both the international economic equilibrium and to American commercial interests. Likewise, the halt to American capital


outflows in 1929 immediately was perceived as a contributing factor to the international economic downturn. Though both the Commerce Department and the N.F.T.C. articulated a real desire to revitalize and to stabilize dollar exports after the stock market crash, this was easier said than done. Nevertheless, there was a pervasive recognition of the relationships between American loans, American exports, and international economic stability. The task of government officials and bankers was to systematize foreign lending (long and short run) in such a way as to insure the productive use of American capital. If this goal was accomplished, there would be a sufficient supply of dollars to sustain foreign imports of American goods. In addition, American exports would benefit from the over-all growth in total world producing and consuming power.

Though invisible imports and capital outflows often were cited as the most likely means of effecting an equilibrium in the balance of payments of the United States, the problems involved in accomplishing this task are the central focus of chapter four.

See, for example, Eugene P. Thomas, "Foreign Trade Outlook," 12-13.


23 The problems involved in accomplishing this task are the central focus of chapter four.

24 See, for example, Eugene P. Thomas, "Foreign Trade Outlook," 12-13.
there was also much recognition of the need to increase merchandise imports. Many bankers, businessmen, economists, and politicians continually reminded their listeners and readers that a creditor nation could not go on exporting without increasing its imports at the same time. The Democratic leader in the Senate, Oscar Underwood, was not alone in noting that:

Time has taught us that a creditor nation cannot exclude from its borders the merchandise of other countries without destroying the foreign market for the product of its own people's labor.25

In fact, American exporters were usually the most far­sighted and the most concerned about maintaining a healthy demand in the United States for foreign goods as an integral part of a well balanced and thriving international economy.

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economy. For example, in the keynote address at the Foreign Trade Financing Conference in Chicago in December 1920, John McHugh, Chairman of the Commerce and Marine Committee of the American Bankers Association, outlined the type of debenture bank that would facilitate American exports most effectively. But then he went on to emphasize that the United States would have to become a net importer. Likewise, Hoover's Commerce Department, well known for its concern with American exports, also considered (in 1923) "The closer balance between exports and imports . . . an unquestionably healthy condition." 

This talk about imports was not mere rhetoric. Despite the high tariff barriers, American imports in the 1920's did increase (on a proportionate basis) even more rapidly than American exports. In terms of quantity, rather than value, the percentage rise was even more noticeable, especially in the latter part of the 1920's. Throughout the decade, imports were a significantly larger percentage of exports than they had been in the pre-World War I period. So impressive was the increase in imports that some economists and policy makers began to

26 "Mr. McHugh's Address," Journal of the American Bankers Association, 13 (January, 1921), 481; also see, for example, N.F.T.C., American Trade Balance, 39-40.

27 Commerce, Yearbook, 1923, 448.

believe that the nation's economic growth and improving standard of living would suffice to insure a constant increase in imports, regardless of tariff rates. For example, G.B. Roobach, Professor of Foreign Trade at Harvard University, maintained that the raw material needs of American industries and the demand of American consumers for luxury items would provide a sufficiently large market to offset the customs barriers, thereby insuring a viable equilibrium. In 1926, Hoover declared that

... our experience surely indicates that in considering the broad future of our trade we can dismiss the fear that our increased tariff would so diminish our total imports as to destroy the ability of other nations to buy from us.29

Even after the stock market crash and the onset of the depression, Commerce officials continued to employ arguments of this nature in refuting allegations that the United States government had unwisely retarded foreign exports into this country.30

Government officials, bankers, and exporters hoped that by adopting the unconditional most-favored-nation


30 See, for example, Julius Klein, "Are We Losing Out in Foreign Trade," in N.F.T.C., Official Report, 1931, 296-97.
clause, by fostering exchange stability, and by coping with the liquidity crisis they would be able to foster America's export trade without disrupting the world economy. This, however, was only one aspect of the nation's over-all commercial policy. American economic foreign policy in the 1920's cannot be portrayed accurately without also referring to the pervasive streak of protectionism that dominated the Republican Party and that became an increasingly conspicuous characteristic of the Democratic Party as well. To a very large extent, congressional debates in the 1920's centered on the problem of how to apply the protective principle rather than on how to expand American exports within a stable international setting. In fact, there was no fundamental rift between Democrats and Republicans on the necessity of preserving the American market for American producers. Within the legislative branch there seems to have been a consensus that the way to effect national prosperity was by facilitating individual prosperity. And the way to accomplish this was by guaranteeing each producer a share of the domestic market. 31

Important business organizations and their allies in the Department of Commerce also maintained a commitment to the principle and the reality of protectionism. Although businessmen and manufacturers often acknowledged the critical importance of increasing imports, they were usually quick to add that these imports should be specialty goods or raw materials that were non-competitive with domestically produced goods. Whether they really believed that such items could ever be imported in sufficient amounts to maintain a viable international economic equilibrium (given the creditor status of the nation) is open to question. But in the 1920's most businessmen do not seem to have been willing to sacrifice any part of the internal market in order to win new export outlets. Indeed the National Association of Manufacturers and the Commerce Department noted with satisfaction that the dependence of the United States on export markets had not grown since the turn of the century. The internal market remained the nexus of American economic activity to be

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33N.A.M., Proceedings, 1927, 82; Commerce, Yearbook, 1924, 460, 514-516; ibid., 1928, 92 ff.; ibid., 1930, 88 ff.; ibid., 1931, 87 ff. However, the Commerce Department did stress that the ratio of exports to domestic production of finished manufactures had been increasing. See, for example, ibid., 90.
cultivated and protected from foreign interlopers. The N.F.T.C. might insist, with some degree of truth, that the importance of the nation's foreign trade was far greater than the mere proportion which it bore to the nation's total commerce or to the total gross national product, but this did not mean that American policy makers or business leaders believed the viability of the American economy was dependent upon America's export trade. A more accurate estimate of the relationship between the American and the international economy was presented by Charles E. Mitchell, President of the National City Bank of New York, in January, 1922:

To a greater extent than any country on the face of the globe we are self-contained, and it is possible for us to enjoy a substantial modicum of prosperity without access to foreign markets. Full prosperity in this country can never be attained until foreign markets are again available to our products, and nothing will bring about that return of balanced foreign trade except the gradual working out of economic laws, which means T-I-M-E.\(^{35}\)

This balanced view of the relationship between exports and prosperity led many businessmen to champion the idea of a scientific-flexible tariff as the best mechanism for reconciling the three components of American commercial policy: the defense of the domestic market, the expansion of exports, and the maintenance of international equilibrium. In 1929, in order to curb the gross inequities of legislative

\(^{34}\)See, for example, "Final Declaration," in N.F.T.C., Official Report, 1922, vii.

tariff-making and in order to introduce an element of rationality and economic statesmanship into the process, President Hoover insisted that the Chief Executive be given the power to change rates up to 50 per cent upon the recommendation of the Tariff Commission. Rates were to be adjusted either upward or downward if the Commission found that they did not equalize the costs of production between foreign and domestic producers. The idea of a flexible tariff, of course, had been discussed for many years and had received the verbal, though not actual, support of President Warren Harding. But in 1929 and 1930 Hoover fought for it with a zeal and determination that foreshadowed a real commitment to its practical use if circumstances afforded him the opportunity to do so. In this he had the support of numerous business leaders and business organizations who wanted to take the tariff out of politics and to use it as an instrument to reconcile national and international economic imperatives.

While Hoover won this battle with Congress in 1930

and obtained the flexible powers he desired, the Hawley-Smoot tariff incorporated little else that gave evidence of America's concern for the well-being of the international economy. By the end of the debate, there was not even a pretense about the scientific character of the rates, which were raised well beyond what Hoover and other business leaders considered desirable. Rather than veto the legislation and allow for further uncertainty and interminable debate, Hoover acquiesced to the congressional mandate. It is difficult to envision what might have been a better alternative given the bipartisan protectionist flavor of Congress and the business community's demand for stability and certainty. Hoover was caught in a dilemma from which there was no easy escape. No doubt he hoped to use the flexible provisions as a means of rectifying the worst abuses of the Hawley-Smoot tariff, but the continued economic downturn and the departure of many countries from the gold standard in 1931 severely restricted his ability to maneuver. In this respect, many Democrats only exacerbated his predicament by focusing their criticism on the flexible provisions and denouncing their use as an unwarranted, perhaps even unconstitutional, use of executive powers.

Despite the best intentions of the most enlightened policy makers in the executive branch and despite the warnings of some of the nation's most perspicacious businessmen and economists, American tariff barriers remained irreconcilable with the American goal of expanding exports within a stable international setting. One can only speculate whether a more "scientific" application of the protectionist principle would have been a significant improvement. But the really critical task is to enumerate the factors that influenced congressional tariff-making and that gave rise to a rate structure that subsequently became renowned for its dislocating effects on the world economy. In part, the play of politics, the expediency of congressional logrolling, and the influence of economic interest groups offers an explanation of the phenomenon. Sound protection became "that which raised the prices of things produced by one's constituents, and unsound protection that which raised the prices of things produced by someone else's constituents." Senator Underwood acknowledged that many of his colleagues

40 Throughout the 1920's, some prominent businessmen and former government officials were severely critical of the nation's tariff policies. These included Norman Davis, Owen Young, and Russell Leffingwell. See Davis to Hull, January 8, 1925, February 24, 1926, Box 27, Norman Davis Papers (Manuscript Division, Library of Congress); Leffingwell to S. Parker Gilbert, July 14, 1921, General Records of the Department of the Treasury, Individual Case File 6, RG 56 (National Archives). As is well known, over 1,000 economists and many of the nation's leading bankers urged Hoover to veto the Hawley Smoot tariff. See Hoover, Memoirs, II, 296; Warren, Hoover, 91.

were hesitant to accommodate themselves to new economic realities because of the partisan nature of the entire issue.\textsuperscript{42} In addition, many congressmen, especially from the south and west, were responding to the pressures of the three major national farm organizations. In the 1920's, these groups became increasingly less preoccupied with the foreign market and much more concerned with cultivating and protecting the domestic market.\textsuperscript{43}

Moreover, during the decade following World War I, the proportion of total farm production going abroad dropped more rapidly than the rise in the proportion of total non-foodstuff manufactures going abroad.\textsuperscript{44} As a result, in this period of rapid economic transformation, agricultural interests as a whole may have lost interest in the foreign market more quickly than manufacturing interests as a whole gained interest. Because of the nature of the political process and the American representative system (over-representation of rural and small town interests), the full significance of this was more likely to be reflected in legislative bodies than in the executive branch or the big


\textsuperscript{44}See the narrative and statistical charts and tables in Department of Commerce, "Foreign Trade of the United States in the Calendar Year 1929," \textit{T.I.B.}, No. 624, 7-12.
business community (where the future course of American industrial development was perceived more clearly).

Finally, the economic atmosphere of the 1920's helped condition congressmen's reactions to the tariff issue. In 1921 and 1922, a severe recession caused much economic hardship. At the same time, European nations were experiencing widespread monetary disorder. Many Americans feared that cheap foreign goods, especially German goods, would flood the American market and further disrupt American industry. Other nations already had combatted foreign depreciation by raising tariff barriers. In addition, other nations already had demonstrated their intent to increase their self-sufficiency as a precaution against the dislocations of future wars. It would have been surprising for the United States not to have followed suit. The rate increases in the Hawley-Smoot tariff of 1929-1930, especially

45 Bureau of Foreign and Domestic Commerce, Foreign Tariff Legislation (Washington, 1921), 5-7; United States Tariff Commission, Depreciated Exchange and International Trade (Washington, 1922), 8; John H. Williams, "German Trade and the Reparation Payments," Journal of the American Bankers Association, 14 (March, 1922), 605-610; Norman H. Davis, "Trade Barriers and Custom Duties," Proceedings of the Academy of Political Science, 12 (January, 1928), 71; Frank William Taussig, The Tariff History of the United States (New York, 1967), 449. There was some expectation in Congress and in the administration that when European currencies were stabilized, American tariff rates would be lowered through the use of the flexible provisions. Wallace McClure and William Culbertson, two key government specialists working on tariff issues, felt the rates were too high and had to be lowered. See Parrini, Heir to Empire, 245; Percy Wells Bidwell, "The New American Tariff: Europe's Answer," Foreign Affairs, 9 (October, 1930), 15-16.
those on industrial goods, are harder to explain. Though they came after many other countries already had hiked their own rates, they were even more directly the result of a massive logrolling session in Congress over which Hoover had lost control.46

The harmful effects of the American tariff structure were condemned abroad, especially in Europe. Europeans wondered how they were going to obtain the necessary dollar exchange to pay for their merchandise deficits and to service their public and private debt obligations to the United States. For this, European nations required export outlets, either in the United States itself or in foreign nations with whom the United States had an unfavorable balance of trade. But prospects in the latter were disappearing on account of the systematic American campaign to expand exports while opportunities in the former remained limited as a result of the high tariff duties on the bulk of Europe's manufactured goods. This created a real dilemma which did not go unnoticed by European and American experts. Walter Layton, the British economist and banker, refuted the American thesis that international trade could be balanced through the triangular route. He explained:

> It is not the case that America has sold to Europe, that Europe has sold to the rest of the world, and

46Taussig, Tariff History, 489-501.
the rest of the world has sold to America, for what has happened is that American trade with the rest of the world, in both directions, has increased, and increased enormously. America has not left room for the triangular trade of Europe but has naturally endeavored with considerable success to fill these markets herself.

Frank Taussig, the American economist and former Chairman of the Tariff Commission, concurred with this interpretation and warned that "We cannot prevent European goods from coming to us direct, then substitute our own goods for theirs in the countries whence we do admit imports . . . ." 47

These inconsistencies in American commercial policy were denounced especially by the French. In fact, France became the greatest overt antagonist of American trade policy in the post-World War I period. The French government exposed the contradictions in American commercial policy, attacked American high tariff barriers, and questioned the sincerity and the meaning of the American commitment to commercial equality. French officials challenged American policy makers to use the flexible provisions of the Fordney-McCumber and Hawley-Smoot acts in a constructive manner. The French pleaded for increased access to the American market and emphasized that such access was essential if debt payments were to be continued without undermining the entire

fabric of international payments. More significantly, the French followed up their verbal attacks and oral warnings with concrete measures of retaliation to force changes in United States policy.

In the immediate aftermath of World War I, France adopted a commercial policy based upon the principles of reciprocity and protection. In practice, this policy meant colonial preferences, continuous bargaining for commercial favors, frequent upward changes in tariff schedules, and discrimination against goods from high tariff nations. This approach, especially with regard to reciprocity, was a reversal of France's pre-war commercial policies. For the most part, until World War I, France had adhered to the unconditional most-favored-nation principle. In other words, the minimum rates of the French two-column tariff usually were generalized and extended to most of those nations with whom France had commercial treaties. In 1919, however, the French Chamber suspended this practice and put all French treaties on a reciprocal (conditional) basis. Thereafter, favors granted (that is, the minimum rates) to one nation were to be extended to other countries only if the latter were willing to make equivalent concessions. This change to reciprocity foreshadowed an era of constant bargaining. In order to prepare for the prolonged negotiations and in order to put the French negotiators in a more flexible position, the Chamber also decided that tariff duties could be set
between the maximum and minimum rates. In addition, both minimum and maximum rates were raised by specific coefficients; the general tariff duties being approximately 300 per cent higher than the corresponding minimum ones. In the years that followed, the tariff rates constantly were adjusted upward.\textsuperscript{48}

The increases in French tariffs and the adoption of the reciprocity formula were related to numerous developments of the war and post-war years. Chester Lloyd Jones, the well-informed American Commercial Attaché in Paris, explained the transformation of French commercial practices in terms of the economic and financial impact of the war. The reacquisition of Alsace-Lorraine, the development of new chemical, metallurgical, and machine tool industries, the transition from creditor to debtor status, and the experience of rapid inflation had contributed to a general French demand for increased protection. French producers desired both greater protection in the home market and a tariff regime capable of extracting concessions in foreign markets.\textsuperscript{49}

\begin{footnotesize}
\footnote{\textsuperscript{49}Chester Lloyd Jones, "The French Tariff Proposal," in 651.003/271; also see testimony by Chester L. Jones in Senate, Committee on Finance, French Debt Settlement (Washington, 1926), 39-40; E.F.D.C., \textit{Foreign Tariff Legislation}, 5, 9.}
\end{footnotesize}
There was much dissatisfaction inside France over the fact that French exports generally encountered higher duties than did foreign goods entering France. This upset French businessmen and government officials who were unimpressed by explanations that the discrepancy occurred because of the nature of French exports; they were largely specialty goods and luxury items.\(^5^0\) The reciprocity formula was designed, therefore, to redress this grievance by providing French negotiators with additional flexibility and bargaining power.

Within the new French system of increasing protectionism and reciprocity, American exports did not fare badly. By 1924, American exports to France were over 100 per cent greater than they had been in the 1910-1914 period. (Imports from France had only increased 13.5 per cent.)\(^5^1\)

Though French tariffs constantly were being hiked, the increases were not commensurate with the increases in the internal French price structure.\(^5^2\) Moreover, American goods subject to the maximum duties were excluded from the increases in these rates decided upon in March, 1921. They

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\(^5^1\) Commerce, Yearbook, 1924, 496.

continued to enter France according to the 1910 schedule. In addition, many key American export items, especially raw materials, continued to enjoy the most-favored-nation treatment (minimum schedule) they had been accorded before the war. Although there were some regulatory measures that were repugnant to American exporters, these were of little importance in relation to the total amount of French-American trade.

Nevertheless, American policy makers became extremely agitated over the French treatment of American goods. It was not the level of French customs duties which upset United States officials, but the sustained practice of discrimination. In the pre-war years, although all American goods had not been granted minimum rates, American officials could not complain too bitterly because of their own commitment to the conditional interpretation of the most-favored-nation principle. But in the 1920's, French discrimination became important both in principle and in practice. As Commerce and State Department officials began to champion the unconditional most-favored-nation clause, they perceived


54 See, for example, Domeratzky to James M. Mead (Congressman, New York), March 6, 1923, Hoover to Hughes, August 11, 1923, B.F.D.C., Box 47.0 (Import Restrictions-France), RG 151.
the two-column tariff as the antithesis of what they meant by equality of treatment. They insisted there was no reason why the products of other nations should receive more favorable treatment in the French market than did American goods. After all, the goods of all nations received equal treatment in the American market. Therefore, Secretary of State Hughes emphasized that the United States would not be satisfied by anything but the total end of all discriminatory practices. American policy makers recognized the importance of winning a diplomatic victory on this point. Had the French accepted the principle of equality of treatment (as conceived in the unconditional most-favored-nation clause), the chances of its universal acceptance would have been greatly improved.\(^{55}\)

In a more immediately practical spirit, American policy makers were troubled by the impact of French tariffs on the manufactured exports of the United States. Since the end of the war, American industrialists and exporters had been complaining that they were at a serious disadvantage in the French market compared to their British competitors because they were not receiving equal treatment. In November, 1922, Wesley Frost, the American Consul in Marseille,

\(^{55}\) Memorandum on French Tariff Discrimination, June, 1926, 611.5131/543; memoranda addressed to A. N. Young, September, 1925-April, 1926, 611.5131/504-508; Hughes to Herrick, January 7, 1925, 611.5131/483.
warned that sales of American manufactured products were going to be especially hard hit by France's new protective tariff rates on industrial goods. The fact that manufactured exports to France constituted only a small percentage of total American exports to France particularly disturbed American officials. A study conducted by the Tariff Commission and Commerce Department explained that this discrimination was much more significant than in the pre-war era:

Manufactured exports are playing a greater role in our export trade than ever before, and it is against these manufactured products that France is levying discriminating duties. Recent trade figures show our commerce with France is being forced back to a pre-war basis which means large exports only of cotton, copper, and mineral oils. Trade of this character, based on exports of raw materials, which are needed more and more by our own rapidly expanding industries, is contrary to the general trend of our industrial and commercial life.\footnote{Memorandum on French Tariff Discrimination, June, 1926, 611.5131/543; also see Wesley Frost to Hughes, November 15, 1922, 611.5131/451. For complaints of American businessmen, see, for example, American Manufacturers Export Association to Department of State, August 23, 1920, 611.5131/440; Laurence and Company to Department of State, June 11, 1921, 611.5131/441.}

Commerce Department officials were not only preoccupied with the principle of commercial equality and the expansion of manufactured exports. They were equally apprehensive about the prospect of frequent French tariff changes. Such fears were revived by a bill introduced into the French Chamber in early 1924 which would have enabled
the executive to prohibit the importation of goods not considered essential to the national welfare. While Henry Chalmers, Chief of the Division of Foreign Tariffs of the Bureau of Foreign and Domestic Commerce, realized that this was an emergency measure arising from the depreciation of the franc, he was worried that it might become a permanent feature of French commercial policy. He was even more fearful that the legislation might be broadened to provide the French government with its former authority to change rates. He noted that "This might make a revival of the old conditions when tariff changes were made piecemeal and without warning." 57

Consequently, in order to put United States-French trade relations on a more stable basis, in order to promote American exports, and in order to disseminate the unconditional most-favored-nation principle, American policy makers in late 1924 decided to ask France to enter into negotiations aimed at a comprehensive treaty of commerce. 58 The goal was to secure a treaty that incorporated the major elements of the recently concluded German-American commercial agreement. But the dominant concern was to obtain an accord that assured all American producers equality of treatment

57 Chalmers to Chester Lloyd Jones, March 10, 1924, B.F.D.C., Box 47.0 (Import Restrictions-France), RG 151; also see Stuart, "Tariff Making in France," 105-106.

58 Hughes to American Embassy, Paris, December 6, 1924, 611.5131/469.
in the French market.

American policy makers seem to have assumed that once given most-favored-nation status, trade relations would be stabilized and exports would multiply. Thus, they showed no disposition whatsoever to compromise on the equality issue. Despite indications that the French were in a conciliatory mood with respect to commercial matters, United States government officials maintained an intransigent position on the principle of strict commercial equality. Rumors that the French were ready to exchange concessions on commercial questions for American concessions on the war debts elicited a negative response in Washington. Similarly, French assurances that under pending tariff revisions American exports would retain their same relative position in the French market had little positive effect on United States policy makers. In fact, throughout 1925 and 1926, American officials in the State and Commerce Departments prepared for a possible tariff war with France. Some of them advocated the use of Section 317 of the Fordney-McCumber tariff act as a means of penalizing French goods in the American market. Others preferred to exploit France's need for American loans as a means of securing commercial concessions. 59

59 Ibid.; Herrick to Hughes, January 2, 1925, 611.5131/479; memorandum, February 6, 1925, 611.5131/491; Herrick to Hughes, March 26, 1925; L. Jones to Hallett Johnson, March 21, 1925). 611.5131/53; Grew to Herrick,
Despite the growing determination of American policy makers to conclude an unconditional most-favored-nation treaty with France, nothing could be done until the French decided upon the future course of their own commercial policy and adjusted their tariff schedules accordingly. All through 1925, 1926, and most of 1927, the French were busy reappraising the direction of their commercial practices. The financial turmoil and political instability tremendously complicated and prolonged this task. But action could not be deferred indefinitely because the Treaty of Versailles provisions governing trade relations between France and Germany had expired in 1925 and the subsequent provisional agreements between the two nations were scheduled to terminate on June 30, 1927. It was generally recognized that France's decision on how to treat German goods would have far-reaching consequences for all of France's trading partners. The French, in anticipation of some very difficult and prolonged bargaining with Germany and in order to compensate for the depreciation of the franc, raised many of their tariffs by 30 per cent in the spring of 1926. 60

June 25, 1926, 611.5131/507a; memorandum, Conference on Commercial Relations with France, May 14, 1926, 611.5131/542; Office of Economic Adviser [McClure?] to Harrison, June 14, 1926, 611.5131/544; memorandum by Office of Economic Adviser, June 29, 1926, 611.5131/545.

60Stuart, "Tariff Making in France," 103-105; Herrick to Secretary, January 9, 1925, January 15, 1925, February 2, 1925, March 3, 1925, March 2, 1926, March 18, 1926, 611.5131/481, 484, 495, 651.003/240, 251, 254;
But at the same time that the customs duties were being increased, France did move hesitantly toward the acceptance of de facto most-favored-nation treaties based on reciprocal concessions. In part, this was the result of the relentless German pressure for most-favored-nation treatment in the French market. In part, the breakdown of France's network of bilateral accords based on strict reciprocity influenced some French policy makers to call for a change in policy. Bilateral agreements based on reciprocal quid pro quo had necessitated continuous bargaining, had left a legacy of ill will, and had not contributed to stable and secure trade relationships. Consequently, with the increase in currency stability throughout Europe in the mid-1920's and with the hope of securing more stable trade relationships, the French once again decided to generalize their concessions and to return to a modified unconditional most-favored-nation basis.

Whitehouse to Secretary, April 6, 1926, 651.003/255; Cameron to Secretary, April 8, 1926, 651.003/257; Herrick to Kellogg, December 3, 1926 (Jones to Herrick, November 29, 1926), 611.5131/511.

Herrick to Kellogg, March 26, 1925 (Jones to Johnson, March 21, 1925), 611.5131/500; Herrick to Kellogg, July 13, 1926 (memorandum by Jones), 611.5131/509; translation of article in Le Temps, March 30, 1927, in 611.5131/518; translation of excerpts from articles in Les Echos (one of most important French commercial journals), March 20, 1925, in 651.003/244; Fay, "Commercial Policy in Post-War Europe," 442; Taussig, "Tariff Controversy with France," 182-183.
As a result, in August, 1927, France finally did conclude a *de facto* most-favored-nation treaty with Germany. Shortly, thereafter, the French government issued a decree raising the tariff rates on some 1,700 items. This was necessary in order to provide French producers with additional protection now that German goods were allowed to enter the French market according to the minimum schedule. Even more significantly, at least for the United States, the maximum rates were established at an average of 400 per cent of the minimum duties. This put a premium on securing most-favored-nation treatment. Then, in an accompanying move that stunned American officials, France withdrew the privileged status that many American goods had enjoyed since 1921 when they had been excluded from subsequent increases in the maximum rates. In other words, many American products, especially manufactured goods, which had been benefiting from an intermediate position between the maximum and minimum schedules were again to be subject to maximum duties. These rates, however, were now more onerous than ever before. What made matters even worse was the fact that German goods, heretofore not admitted on favorable terms, were now to be accorded much more favorable treatment than corresponding American products.  

62"Effect of New French Duties on American Trade," by Chalmers, 611.5131/679; Whitehouse to Kellogg, September 2, 1927, 651.003/300; Whitehouse to Kellogg, September 2,
then, the French-German commercial treaty and the concomitant changes in tariff rates meant a substantive increase in the degree of French discrimination against American goods. Apparently, French officials in the Commerce and Finance Ministries, long grieved over the trade (high tariff) and financial (loan embargo) policies of the United States, had decided to take advantage of the opportunity created by the new commercial treaty with Germany and by the restoration of French financial stability to retaliate against the United States. 63

American policy makers had been aware of the proposed increases in the French tariff structure. But they had not anticipated any deterioration in the relative position of American goods in the French market. Therefore, they misjudged the French attitude and overplayed their strong

1927, F.R., 1927, II; 669; Whitehouse to Kellogg [encloses French Aide-Mémoire], September 15, 1927, ibid., 673-676; Gordon to Kellogg, September 7, 1927, 651.003/302; Enslow, "Franco-American Tariff Problem," 212 ff. Since 1921, many American goods, theoretically subject to the maximum schedule, had had a privileged status in the French market as a result of the fact that they had not been subject to the periodic increases in these rates. Since no treaty existed giving these goods any favored position, France could have continued taxing them at the maximum rates as they had been taxed in the pre-war years. Of course, this does not apply to those American goods (mostly raw materials) guaranteed most-favored-nation treatment before the war.

63 Whitehouse reported that the Commerce and Finance Ministries pushed through the anti-American measures when the Foreign Office was preoccupied with other matters. See Whitehouse to Kellogg, September 30, 1927, 611.5131/593.
bargaining position. They disregarded the advice of American emissaries in Paris that the United States accept a *de facto* most-favored-nation treaty instead of a *de jure* most-favored-nation accord. In addition, Secretary of State Frank Kellogg rejected the possibility of lowering American tariff duties on French goods through the use of the flexible provisions of Section 315 of the Fordney-McCumber act. Furthermore, Julius Klein, Director of the Bureau of Foreign and Domestic Commerce, overruled several of his subordinates, and indirectly threatened the application of increased financial pressure if France went ahead and raised her rates on American manufactured exports. By these actions, the United States clearly demonstrated its desire to increase exports without making commensurate concessions in its protective armor.

The French, therefore, had good reason to be upset with American commercial practices. French exports to the United States were subject to considerably higher custom duties than were American exports to France. In addition, the average American tariffs on imports from France were higher than the average American duties on imports from all

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64 Whitehouse to Kellogg, April 14, 1927, F.R., II, 1927, 635-636; Kellogg to Herrick, March 26, 1927, *ibid.*, 632-633; Matthews (Assistant Director, B.F.D.C.) to Chalmers, Grosvenor Jones, and Dometzky, March 26, 1927, B.F.D.C., Box 3266 (Confidential Cables-Outgoing Paris), RG 151; Klein to C. L. Jones, March 29, 1927, *ibid.*
other nations. Moreover, the Prohibition regulations and the virtual exclusion of French wines further exacerbated the whole climate of French-American commercial relations. Given these facts, the validity of which were not disputed by American officials, the French maintained that their goods experienced as much discrimination in the American market as did United States goods in the French market. They believed that the American policy of heavily taxing luxury imports constituted a real element of de facto discrimination against France. But even more significantly, on numerous occasions the French disputed the entire notion that the single column high tariff system of the United States constituted equality of treatment. Such equality, they claimed, was equality before a closed door. It had no significance in practice except in so far as it precluded imports into the United States. By so doing, it undermined the ability of America's debtors to make payments and contributed to world economic instability. French feelings

65 In 1926, the average rate of duty on imports from France was 46.6%, while it was only 39.3% on imports from all other countries. See Thomas O. Marvin (Chairman, United States Tariff Commission) to Kellogg, October 7, 1927, 611.5131/610. In 1924, French goods dutiable in the United States paid average ad valorem rates of 46.9% while American goods dutiable in France paid an average ad valorem rate of 13.9%. See the note attached to the "Memorandum on French Tariff Discrimination," June, 1926, 611.5131/543. For French feelings about the meaning of these statistics and the extent of American discrimination, see, for example, Adee to Davis, March 10, 1920, Bureau of Accounts, Box 49, RG 39; Claudel to Castle, September 28, 1927, 611.5131/600.
about American tariff policies were best depicted by Frank Taussig in an article in *Foreign Affairs*. According to Taussig, the French felt that

> while we offer everybody the same treatment, we merely offer the same bad treatment all around. Our rates are so high, our policy of protection is so intolerant, so all-embracing, so inclined to extension to every blessed article . . . that our most-favored-nation policy amounts to universal ill treatment.66

In justifying their new actions against American exports, the French maintained that the United States had never reciprocated the special treatment accorded many American goods since 1921. For several years, these had been exempt from increases in the maximum duties and thus had been enjoying an intermediate status between the maximum and minimum schedules. The French, however, were no longer willing to grant favors without compensation. They explained that the Germans had paid dearly for their *de facto* most-favored-nation position. The Americans could secure an equal footing in the French market provided they were willing to make equivalent concessions. The Foreign Office clearly stated that it could not accept the unconditional

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66 Taussig, "Tariff Controversy with France," 185; also see Whitehouse to Kellogg [encloses French *Aide-Mémoire*], October 1, 1927, 611.5131/594, 596; memorandum of conversation between Daniel Serrys (Director of Commercial Accords, French Ministry of Commerce) and C. L. Jones, March 22, 1927, 611.5131/516; Whitehouse to Secretary, October 6; 1927, 611.5131/607; "Le futur tarif douanier americain," *Le Temps*, September 21, 1922, in 851.51/343; translation of article in *Le Temps*, March 30, 1927, in 611.5131/518.
most-favored-nation principle as the exclusive basis for a comprehensive treaty. True equality, the French insisted, could not be achieved unless the unconditional most-favored-nation principle was reconciled with or linked to the principle of reciprocity.  

Rather than become immersed in a protracted controversy over irreconcilable principles, however, the French decided to concentrate on short-term expedients that might facilitate a temporary commercial rapprochement. This, they hoped, might pave the way to a more permanent trade détente. Therefore, the French promptly expressed their willingness to remove the new discriminations against American goods and to restore the status quo ante provided the United States acceded to certain French demands. First, the Foreign Office requested that the Tariff Commission proceed under Section 315 to investigate French complaints that American tariff rates exceeded the differences in the costs-of-production between the two nations. Second, the French requested a reexamination of American administrative measures and sanitary regulations that interfered with the importation of several French agricultural and pharmaceutical products into the United States. Third, the French requested

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67 Whitehouse to Kellogg [encloses French Aide-Mémoire], September 15, 1927, F.R., 1927, II, 673-675; memorandum of conversation between Paul Claudel (French Ambassador) and Kellogg, September 17, 1927, ibid., 672-673; Whitehouse to Kellogg [encloses French Aide-Mémoire], October 15, 1927, ibid., 693-695.
that American customs officials be prohibited from conducting investigations in French territory that involved the examination of the books and records of French businessmen and manufacturers. 68 These customs agents had been sent abroad to determine the "foreign value" and the "export value" of goods imported into the United States. These values, according to the Tariff Act of 1922, were to constitute the basis for the imposition of ad valorem rates. French manufacturers, however, deeply resented the methods of procedure and the nature of the inquiries of these agents. 69

Thus, the French government was presenting a temporary settlement (or modus-vivendi, as it was called) that had many positive attributes to attract the goodwill of American policy makers. In effect, the French terms (that is, the restoration of the status quo ante) meant that the over-all American position in the French market would have been better than it had been before the controversy.

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68 Whitehouse to Kellogg [encloses French Aide-Mémoire], September 30, 1927, October 1, 1927, 611.5131/594, 596; Whitehouse to Kellogg [encloses French Aide-Mémoire], October 15, 1927, F.R., 1927, II, 693-695; Claudel to Kellogg, May 14, 1928, 611.5131/736.

69 For a description of the functions of these customs officials, see F.R., 1925, I, 212 ff. For long-standing French complaints, see, for example, memorandum of interview between Hughes and Jusserand, July 9, 1921, Box 174, Hughes Papers; Frost to Hughes, November 15, 1922, 611.5131/451; Jusserand to Hughes, May 26, 1924, F.R., 1924, I, 232; Herrick to Kellogg (enclosure from Chester L. Jones), April 2, 1925, F.R., 1925, I, 223-226; C. L. Jones to Chalmers, February 7, 1925, 611.5131/496.
began. This was because the recent increases in the minimum rates usually narrowed and sometimes even eliminated the gap between the intermediate status previously accorded some American goods and the most-favored-nation status accorded the products of America's chief competitors in the French market. Equally significant was the fact that France was not asking the United States to make any immediate tangible concessions. Naturally, the French hoped that the studies requested would lead to reductions in American tariff duties and to substantive changes in American regulatory practices. Both of these would redound to the benefit of French exporters. But nothing concrete was being demanded from the United States which involved any immediate sacrifice.

In reality, the French were offering American policy makers the opportunity to harmonize their dual efforts to systematically expand exports and to scientifically protect the domestic market. This could be done either through the use of the flexible tariff provisions or through the revision of administrative procedures. The conciliatory approach of the French government must have been related to the

70 The French stressed these positive aspects of their proposals in two Aide-Mémoires. See Whitehouse to Kellogg, October 15, 1927, November 2, 1927, F.R., 1927, II, 693-695, 698-699. Several American commentators noted that the United States emerged from the dispute the clear victor in terms of immediate adjustments. See, for example, Enslow, "Franco-American Tariff Problem," 218-219.
concurrent easing of the United States financial embargo, to the difficulties encountered in the negotiations over the Briand security pact proposals, and to the realization that American policy makers were not prepared to compromise or abandon their commitment to the unconditional most-favored-nation principle. In general, French officials wanted to find a practical means of enabling the United States to make some concessions in return for which the French were ready to grant de facto equality of treatment.

The American government, however, showed relatively little disposition to be conciliatory. Naturally American policy makers, partly responding to complaints from the business community, were upset over France's arbitrary and unilateral attempt to impose new impediments in the way of American goods entering France. Therefore, in retaliation they implemented Section 317 of the Fordney-McCumber act. This subjected French exports to the United States to additional tariff duties over and above what France's foreign competitors had to pay in the American market. This practical measure was accompanied by some heated rhetoric about the iniquities of French trade practices and the righteousness of American commercial policy. France was accused of being the only nation in the world which persisted in discriminating against American trade. American policy makers insisted that they requested no special favors—only equality of treatment. Until this principle was recognized
there could be little confidence in the stability of trade relations. At the same time, the State Department rejected French charges that French goods were discriminated against in the American market. French products received exactly the same treatment as did all other foreign imports. The fact that American tariffs were higher than French tariffs was dismissed as irrelevant. The crucial point, according to American spokesmen, was that the United States tariff was not a bargaining one. All nations confronted the same obstacles and competed on equal terms. Moreover, American officials claimed that American tariffs were based on differences in costs-of-production, a principle which France herself had recognized as valid.\footnote{For the American position, see memoranda of conversations between Claudel and Kellogg, September 14, 19, 1927, F.R., 1927, II, 672-673, 677-678; Department of State to French Embassy, September 19, 1927, \textit{ibid.}, 678-681. During the conversations between Claudel and Castle, the latter threatened the use of Sec. 317. Shortly thereafter countervailing duties were imposed. Thomas O. Marvin (Chairman of the Tariff Commission) prepared the data for the implementation of Sec. 317. See Marvin to Kellogg, September 23, 1927, 611.5131/582. For the complaints of American businessmen, see, for example, William Pratt (President, Goodell-Pratt Company) to State Department, September 23, 1927, 611.5131/573; Senator Frank Willis to Kellogg, September 21, 1927, 611.5131/577. There were numerous other complaints from the producers of textile machinery, carpenter tools, steam and hydraulic pressures, etc.}

Even when France demonstrated a willingness to compromise and to pragmatically negotiate an interim settlement, the United States manifested little inclination to be
especially cooperative. Assistant Secretary of State William Castle told Ambassador Paul Claudel that it was impossible for the United States to negotiate a treaty containing reciprocal tariff concessions. Castle explained that duties on French goods could not be revised downward because this necessitated congressional action. The State Department did not reject French requests for a reappraisal of American sanitary restrictions and customs administration procedures. Nor did it reject the French demand for new cost-of-production investigations aimed at determining the fairness of American duties on French goods. But the United States did maintain that negotiations for a comprehensive unconditional most-favored-nation treaty should proceed regardless of the outcome of these studies. In the meantime, American officials requested that all American goods be subject to the minimum schedule. When the French objected to this, the United States agreed to the restoration of the status quo ante. Once again, however, American officials implied that the French should not expect significant changes in the treatment of French products to result from the agreed-upon investigations. The Tariff Commission in conducting the tariff studies was not going to rely exclusively on the data presented by the aggrieved French parties. Nor was it prepared to investigate all French complaints. Nor would the costs-of-production in France be the controlling factor influencing tariff revisions except in
those cases where France was the principal exporting nation.\footnote{Memorandum of conversation between Castle and Claudel, September 19, 1927, \textit{F.R.}, 1927, II, 677; Kellogg to Whitehouse [encloses American \textit{Aide-Mémoire}], October 8, 1927, \textit{ibid.}, 691-693; Kellogg to Whitehouse [encloses American \textit{Aide-Mémoire}], October 22, 1927, \textit{ibid.}, 696-698; United States Tariff Commission to Kellogg, November 2, 1927, 611.5131/675.}

The immediate outcome of the controversy was that France restored the \textit{status quo ante} and the United States withdrew the countervailing duties it had imposed under Section 317.\footnote{Whitehouse to Kellogg [encloses French \textit{Aide-Mémoire}], November 2, 1927, \textit{F.R.}, 1927, II, 698-699; Kellogg to Whitehouse [encloses American \textit{Aide-Mémoire}], November 7, 1927, \textit{ibid.}, 700-701.} As already indicated, this \textit{modus vivendi} was favorable to the United States since the relative position of many American goods in the French market was improved. The evidence indicates that American policy makers believed the results of the dispute to be satisfactory. Though the French had not agreed to the unconditional most-favored-nation principle without reciprocal American concessions, they had succumbed to American pressure, had restored the \textit{status quo ante}, and had granted American goods better treatment than ever before. Consequently, American officials decided to defer negotiations for an indefinite period of time. For the short-term, the tangible benefits accorded to American exports, especially manufactured exports (most raw material exports had enjoyed minimum rates since 1910),
seemed to be more significant than the controversy over the principle of equality of treatment.\(^7_4\)

Efforts to negotiate a comprehensive treaty were not again resumed until 1932. In the interim, France waited for alterations in American commercial policies that might justify the granting of de facto most-favored-nation treatment. American actions, however, caused disappointment, frustration, consternation, and finally retaliation. Few substantive changes were made in American sanitary restrictions and customs regulations. The Agriculture and Treasury Departments proved to be totally recalcitrant and indifferent to French demands on these matters. Though the United States also complained about French administrative restrictions on American exports, the American Commercial Attaché in Paris admitted that "our Department of Agriculture has undoubtedly given much more cause for complaint than the French Government has done." The cost-of-production studies undertaken by the Tariff Commission also brought no substantive improvement in the treatment of French goods. In fact, in April, 1930, Secretary of State Henry Stimson informed Walter Edge, the new American Ambassador to France,

\(^7_4\) For the attitudes of American officials about the outcome of the controversy with France, see "Commercial Treaty Negotiations with France," by A. N. Young, March 26, 1928, 611.5131/735; H. C. MacLean (Commercial Attaché, Paris), to Chalmers, September 4, 1928, 611.5131/754.
that preliminary investigations revealed that rates of duty on certain French goods actually might have to be increased.\textsuperscript{75}

As for the customs officials, they were removed from France in 1923. Ironically, however, this caused no improvement in French-American relations. Having withdrawn these agents, the Treasury Department, as mandated by the legislation of 1922, began appraising French imports according to "United States value." This value almost always was higher than the formerly used "foreign value" or "export value." Thus, the withdrawal of customs officials led to an increase in customs duties. To redress this anomaly, negotiations were carried on throughout 1928 and 1929. Eventually, the French decided to readmit American agents provided they be chosen with the greatest care and that they prove to be cooperative and responsive to French sensibilities. In addition, the Hoover administration agreed

\textsuperscript{75}For French feelings about American actions under the \textit{modus-vivendi} of November, 1927, see MacLean to Chalmers, September 4, 1928, 611.5131/754; Chalmers to A. N. Young, November 7, 1928 (encloses letter from MacLean to Chalmers, October 25, 1928), 611.5131/755; memorandum, "French Tariff Situation," October 9, 1928, 611.5131/748; Norman Armour (Chargé, Paris) to Kellogg, September 20, 1928, 611.5131/745. For American complaints about French sanitary restrictions and administrative regulations, see Marvin to Kellogg, October 5, 1928, 611.5131/746; Chalmers to A. N. Young, October 8, 1928, 611.5131/754. For the results of the Agriculture Department's and the Tariff Commission's studies, see, for example, Kellogg to Claudel, July 20, 1928, 611.5131/740; Stimson to Edge, April 11, 1930, 611.5131/789.
to ask Congress to make changes in the tariff act that would alleviate the very harsh penalties inflicted on those foreign exporters and producers who refused to cooperate with American customs agents. 76

Though disillusioned with the half-hearted efforts of American officials to meet their demands on sanitary restrictions, customs regulations, tariff valuations, and cost-of-production investigations, the French were not outraged until the passage of the Hawley-Smoot act in 1930. In France, this new tariff legislation "was compared to a declaration of war, an economic blockade." 77 While the prolonged debate over tariff revision was underway in the United States, the French government warned of the economic hardships and financial dislocations that were likely to result from the increases in American tariff rates. Upward revisions, the French claimed, would cause additional disparities in the balance of merchandise trade between the United States and France, would exacerbate the general

76 See F.R., 1929, II, 992-1002; also see MacLean to Chalmers, September 4, 1928, 611.5131/754; Armour to Kellogg, September 20, 1928, 611.5131/745; J. Reuben Clark (Acting Secretary of State) to American Embassy, Paris, October 16, 1928, 611.5131/748a; Mellon to Kellogg, May 19, 1929, 611.5131/771; memorandum of conversation between Castle and Jules Henry (French Chargé), July 11, 1929, 611.5131/775; Stimson to Armour, July 17, 1929, 611.5131/771; Armour to Stimson, July 27, 1929, 611.5131/779; Ogden Mills, "Administering the Tariff Law," Congressional Digest, 8 (June-July, 1929), 167-168.

problems involved in war debt and reparation payments, and would upset the tenuous international economic equilibrium. Minister of Commerce Etienne Flandin insisted that France would not acquiesce to the protectionist movement in the United States. He stated unequivocally that any increase in American customs barriers would be fully reciprocated. Indeed, soon after the revision of American duties, France did retaliate. During 1930, 1931, and 1932, not only were French customs duties increased, but quotas and other quantitative restrictions also were imposed.

The Coolidge and Hoover administrations' refusal to respond constructively to the long-term French demands for some concessions in the American market is not easy to understand. Rigid protectionism interfered with the expansion of American exports and undermined international economic stability; two important goals of American policy makers. Commerce and State Department officials realized that the Agriculture and Treasury Departments' determination not to ease administrative and regulatory restrictions on French imports redounded to the detriment of American exports. French officials became less and less receptive

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78 Armour to Stimson, November 27, 1929, 611.5131/785; United States Tariff Commission, "Tariff and Trade Relations between the United States and France," May 17, 1930, 611.5131/793.

to American demands for more equal treatment as they realized that the United States was unwilling to exchange favors of any kind and that the studies of the Tariff Commission offered no effective means of redressing grievances. If the United States had been willing to reciprocate concessions, even of an administrative or regulatory nature, American exports would have benefited and may have received de facto most-favored-nation treatment.  

The reluctance or the inability of Republican policy makers, at least until 1932, to find some means of making these concessions indicates that the protectionist lobby was more influential and effective than the export expansionist-open door lobby. Given the strength of this protectionist sentiment in Congress, in some executive departments, and in independent agencies (for example, the Tariff Commission), the course of American-French commercial relations in the years 1927-1930 demonstrated that the flexible provisions of the tariff acts offered little possibility of serving as a successful mechanism for reconciling conflicting tendencies in American commercial policies. This became increasingly clear to American policy makers.

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80 MacLean to Chalmers, September 4, 1928, 611.5131/754; memorandum, "French Tariff Situation," October 9, 1928, 611.5131/748; Armour to Kellogg, September 20, 1928, 611.5131/745; memorandum by Paul T. Culbertson, October 7, 1931, 033.5111 Laval/98 2/8; Edge to Stimson, October 10, 1931, 611.5131/801.
during 1932 when they tried once again to negotiate a comprehensive commercial treaty with the French.

But it also was evident to Republican officials that their commercial policies were not nearly so harmful as claimed by their adversaries at home and abroad. President Hoover and his former associates in the Commerce Department resented French charges that their policies were responsible for the subsequent decline in world trade or for the multiplication of international financial problems. They emphasized that though France had a large merchandise deficit with the United States, she still had a favorable balance of payments because of the tremendous expenditures of American tourists in France. By the late 1920's, this amount was seven times the current French war debt annuity and over two times the maximum annuity of $125,000,000. To American officials, this confirmed the fact that high tariffs and debt payments need not be insuperable hurdles to international economic stability. 81

Moreover, policy makers often argued that the high tariffs of the United States did not rule out mutually advantageous trade relationships. Large individual

purchasing power in the United States, it was claimed, made American customs duties less restrictive than more moderate rates in other nations where the standard of living was not commensurate with that in the United States. This was said to be especially true with regard to luxury goods imported from France. A study by the Tariff Commission noted that:

The very fact that imports [of these luxuries] continue to come in over a relatively high tariff is evidence that the importers find it worthwhile paying a correspondingly higher duty for admission to the more valuable market.

Such conclusions were reinforced by other findings which revealed that French exports to the United States subject to relatively low tariffs had decreased while those subject to higher duties frequently had increased.\(^{82}\) Well known economists lent a degree of credence to these claims. Both Percy Bidwell and Frank Taussig, while disapproving of the new tariff legislation, noted that the increases in the Smoot-Hawley rates were not likely to have a substantive effect on American imports of European commodities. Most of these were specialty items or luxury goods. Such products had "a way of persisting in the face of duties very high."\(^{83}\)

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Furthermore, the Tariff Commission emphasized that the average ad valorem duty on French imports was being increased only from 32.02 per cent to 35.37 per cent. 84

Along with this line of defense, Republican officials claimed that the Hawley-Smoot act could not be held responsible for the escalating commercial warfare of other nations. Forty-four major tariff revisions had occurred before the passage of the new American legislation. France, as well as other major nations, repeatedly had raised tariff rates all through the 1920's. Protectionism was by no means peculiar to the United States in the post-war world. 85

In retrospect, it is also questionable whether French quotas and other commercial restrictions were primarily a response to increases in American tariff rates. 86 Though the French did retaliate almost immediately by raising their import duties on automobiles, automobile parts, and lard, these increases were not nearly so large nor so important as had been feared by American diplomats.

84 United States Tariff Commission, "Tariff and Trade Relations between the United States and France," May 17, 1930, 611.5131/793.


86 It has often been claimed that the Hawley-Smoot tariff set off a chain reaction of retaliatory measures, including the French quota system. See, for example, L. Ethan Ellis, Republican Foreign Policy (New Jersey, 1968), 21-22.
Likewise, though the French claimed they were no longer bound to abide by the *modus vivendi* accord of 1927, for almost a year and a half they demonstrated little inclination to mount a systematic attack against American commerce. In fact, in the autumn of 1931, one well-informed State Department official commented that French resentment toward American tariffs seemed to have somewhat abated. In general, until late 1931 or early 1932, American policy makers do not appear to have been very much concerned with the extent of French reprisals.

Of course, the introduction of quotas in 1931, first on agricultural goods and then on manufactured items, did generate anxiety in the United States. But not until very late 1931 and early 1932 did American diplomats in France express great alarm or irritation over the impact of quotas on American exports. Even then, they did not consider the

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87 Memorandum by Culbertson, October 7, 1931, 033.5111 Laval/98 2/8; also see Edge to Stimson, October 10, 1931, 611.5131/801; Edge to Stimson, January 19, 1932, F.R., 1932, II, 196; Edge to Stimson, March 15, 1932, 611.5131/805. American officials, however, were irritated by the refusal of the French government in October, 1930, to grant certain concessions with regard to the taxation of American interests in France until the United States reduced its tariffs on French goods. But even on this issue, during August, 1931, the French grew somewhat more conciliatory. See F.R., 1930, III, 45 ff.; F.R., 1932, II, 262 ff.

88 One can obtain an excellent impression of the growing American frustration with the French quota system during the first half of 1932 by reading the appropriate volume in the *F.R.* series. See *F.R.*, 1932, II, 195 ff.
quotas a response to American tariff legislation. In truth, these quotas were related much more closely to the abandonment of the gold standard by many countries, to the depreciation and instability of foreign currencies, and to the decline in world wholesale prices for agricultural goods and raw materials. For all these reasons, the French government felt it increasingly necessary to protect domestic producers and to insulate the domestic price structure from low-priced foreign imports. In addition, the French government was forced to resort to quotas because many of France's tariff rates were bound by her de facto most-favored-nation treaties of the late 1920's and could not be raised unilaterally.

To say all this is not to claim that the Hawley-Smoot tariff had no important impact on world trade or international financial equilibrium. It is simply an attempt to put it in proper perspective. The American high tariff legislation of the post-World War I period did not cause the financial havoc inside France in the early 1920's; nor did it too greatly strain France's balance of payments with the United States in the late 1920's and early 1930's. Furthermore, there was no direct cause and effect relationship

89For the factors contributing to the development of the French quota system, see Haight, French Commercial Policies, 165-170; De Wilde, "French Financial Policy," 241; Chalmers to Frank Taussig, November 22, 1933, B.F.D.C., Box 47.0 (Import Restrictions-France), RG 151; Rollin (French Minister of Commerce) to Edge, March 15, 1932, F.R., 1932, II, 205.
between the Hawley-Smoot tariff act and the imposition of
the French quota system. When linked to the financial
turmoil in Germany and to the abandonment of the gold
standard by Britain, however, American protectionist legis­
lation did exacerbate latent weaknesses in the French economy
and did contribute to a climate that was hostile to inter­
national economic cooperation and business confidence.\footnote{90}

In this respect, it is significant that during 1932
the Hoover administration did try to find some means of

\footnote{90}{It must be admitted that an analysis of French-
American economic relations somewhat distorts the impact
of American protectionism. Since France was much more
self-contained and much less dependent on exports than
other industrialized and "developed" nations, France natur­
ally suffered less from high tariffs than did Britain or
Germany. Similarly, American tourist expenditures in France
greatly compensated for the French merchandise deficit.
This was much less true for other European nations. Finally,
the depreciation of the franc in the early 1920's and the
undervaluation of the franc after 1928 enabled French com­
merce with the rest of the world to grow regardless of
United States tariff policy. Nevertheless, the more harsh
critic of American tariff policy might claim that high
American tariffs did lead to economic chaos in France, but
indirectly. He could argue that American trade policy
caused commercial problems and ultimately financial dis­
aster in Germany and Britain. These developments, in turn,
caused economic hardship in France. This led to the
imposition of quotas which further complicated the problems
of world economic revival. There is a good deal of truth
to this, but one must also keep in mind that French finan­
cial and reparation policies did as much (or more) to upset
world economic equilibrium as did American tariff (or debt)
policies. The point is to try to maintain a balanced view
of the diverse factors that contributed to the inter­
national economic downturn and to refrain from singling
out any one factor as the key to the whole complex dilemma.}
relieving commercial tensions with France and of estab-
lishing French-American trade relations on a more stable
and amicable basis. This was no easy task given the pro-
tectionist sentiment in Congress, the Commerce and State
Departments' continued insistence on the unconditional most-
favored-nation principle, the growing French penchant for
quotas, and the long-standing French demand for reciprocity.
The impetus for finding a way out of this imbroglio seems
to have originated with the French decisions in late 1931
to expand their quota system and to subject American goods
to new discriminations. American diplomats in France
gradually realized that as a result of these actions, the
1927 modus vivendi accord was about to break down and that
a new comprehensive treaty was imperative if economic rela-
tions between the two nations were not to deteriorate
further. Walter Edge, the American Ambassador, both by
background and inclination, was inclined to see commercial
relations as the key to an over-all French-American under-
standing. Therefore, he was well attuned to the changes
taking place in French commercial policy. He also was
intent on preventing any irreparable harm being done to
American commercial interests. 91

was a growing recognition of the need for a new treaty to
replace the modus vivendi. See, for example, memorandum by
Culbertson, October 7, 1931, 033.5111 Laval 98/ 2/8; Edge
The immediate roadblock to a comprehensive treaty was the clash between the French principle of reciprocity and the American principle of equality. Edge explained to Stimson in October, 1931:

France regards the extension of most-favored-nation treatment as a concession to be met by a corresponding concession of some kind and it is held that the American tariff is so much higher than the French that the giving of most-favored-nation treatment by the United States does not offer advantages corresponding to those afforded by its grant by France.

On the other hand, however, the United States did not regard the granting of the French minimum schedule as any concession whatsoever. The Tariff Commission claimed that the French minimum schedule was comparable to the single column autonomous tariff of the United States. Both were designed to equalize differences in domestic and foreign costs-of-production. Since France had come generally to grant the minimum rates, the United States considered the application of the maximum rates as a retaliatory measure. The problem facing American and French policy makers was how to reconcile these conflicting points of view.

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92 Edge to Stimson, October 10, 1931, 611.5131/801; United States Tariff Commission, "Tariff and Trade Relations between the United States and France," May 17, 1930, 611.5131/793; also see Stimson to Edge, May 27, 1932, F.R., 1932, II, 230-231.
Americans had learned from experience that the French could not easily be pressured into abandoning their position. In November, 1931, Williamson Howell, the American Charge in Paris, informed Stimson that France would accept the most-favored-nation clause only if forced to do so by a tariff war or if compensated by corresponding advantages.\footnote{Howell to Stimson, November 10, 1931, 611.5131/802.} During the next several months, however, despite considerable pressure to pursue a more belligerent course, the administration refrained from applying punitive measures and eventually adopted a policy of conciliation and compromise. While threatening the invocation of retaliatory provisions under Section 338, American officials in Washington and Paris initiated a search for areas where concessions could be made to the French.\footnote{The appropriate volume in the F.R. series highlights the administration's threats to initiate retaliatory measures if France did not meet American demands, especially with regard to quotas. See F.R., 1932, II, 197-198, 211-226. But at the same time, there was considerable talk about possible quid pro quos to be offered France in exchange for most-favored-nation treatment and the end of all discriminatory practices. See Edge to Stimson, October 10, 1931, 611.5131/801; Howell to Stimson, November 10, 1931, 611.5131/802; Edge to Stimson, May 31, 1932, 611.5131/809; Stimson to Edge, June 27, 1932, 611.5131/813A; Edge to Stimson, July 7, 1932, 611.5131/814; also see memorandum by Castle, May 6, 1932, F.R., 1932, II, 227-228.} 

This task was infinitely complicated by concurrent developments in French commercial practices. Throughout the
spring of 1932, the French were extending their quota system. This caused untold consternation in American business circles. Commerce and State Department officials frequently were exasperated and often were infuriated by the arbitrary methods employed by the French in imposing quantitative restrictions on the import of American goods. Though the French, bowing to American pressure, agreed late in May to stop discriminating against most American products in the assignment of quota allotments and though these goods thereafter were guaranteed the same relative share of the French market as they had enjoyed during a base period, American officials remained agitated and upset. They disliked the entire nature of a quota system which in their eyes amounted to a partial embargo. As such, it was a blow to their whole concept of open and competitive trade.

Furthermore, at the same time that the controversy over quotas was complicating French-American trade relations, the French also were reverting back to their initial post-war

95See F.R., 1932, II, 195-234; also see Chalmers to Taussig, November 22, 1933, B.F.D.C., Box 47.0 (Import Restrictions-France), RG 151; F. W. Allport (Commercial Attaché, Paris), "Economic and Trade Notes," Number 531, January 27, 1932, ibid.; Allport to Frederick Feiker (Director, B.F.D.C.), February 5, 1932, ibid.; Klein to Allport, March 4, 1932, ibid.; Chalmers to Allport, March 5, 1932, June 18, 1932, ibid. Some government officials never felt satisfied with the temporary quota accord signed on May 31. See, for example, Matthews to Daniel Reagan (Assistant Commercial Attaché, Paris), June 24, 1932, ibid. Other policy makers, for example, Herbert Feis, considered it an American victory. See memorandum of conference at American Embassy, Paris, August 29, 1934, 611.5131/995.
policy of preferring strictly reciprocal treaties to the de facto most-favored-nation treaties they had concluded since the 1927 accord with Germany. This did not mean that France was implacably opposed to a de facto most-favored-nation treaty. But it did mean that France would be dissatisfied with anything less than "a noticeable improvement in favor of its principal exports, both from a customs viewpoint and from an administrative viewpoint."^96

As a result of these complicating factors, there was an informal discussion of the whole problem of French-American trade relations at a cabinet meeting on August 30, 1932. Under Secretary of State Castle presented the State Department's position. He maintained that there was little hope that Edge's negotiations in Paris, formally begun on August 22, would prove successful. He felt that the French were not serious, that they were demanding too many concessions, and that the Hoover administration did not have the flexibility to meet these demands. Castle suggested that the negotiations be kept alive, but that the United States downplay their importance. The other members of the cabinet concurred.97 This decision not to push forward

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^96 See copy of note handed to Edge by Hérriot, August 20, 1932, 611.5131/839; also see Edge to Stimson, August 29, 1932, September 2, 1932, F.R., 1932, II, 244-245.

97 Castle to Moffat, August 30, 1932, 611.5131/843; Castle to Edge, August 31, 1932, F.R., 1932, II, 247-248.
with the talks was not surprising given the recent climate of French-American relations created by the dispute over the implementation of the Hoover moratorium, the acrimony over disarmament, and the expected furor over a possible French default on war debt payments.

Ambassador Edge, however, reacted with bitterness and anger to the cabinet's decision. He contended that the French government was bargaining seriously and that there was a real possibility that the negotiations would prove fruitful. He referred to the quota and double taxation negotiations as proof that the French were acting in good faith and not just temporizing or bluffing. Edge maintained that a comprehensive treaty affording American exporters a real improvement, if not complete most-favored-nation status, in the French market could be concluded if the United States came up with some meaningful quid pro quos. The Ambassador did not hide the intensity of his frustration with his superior's decision to downplay the negotiations. He cabled:

It is not particularly complementary to be told that we are being deceived [by the French] and that Washington three thousand miles away knows more about that phase than we do.\(^98\)

The Department apologized to Edge for any unintended insults. Assistant Secretary of State James Rogers explained that the administration's hands were tied. No

\(^{98}\) Edge to Stimson, September 1, 1932, 611.5131/842.
substantive *quid pro quos* could be found to enable Edge to bargain meaningfully with the French. Significant concessions required the cooperation of Congress and this was considered unlikely. Consequently, Edge would have to rely upon the well worn theme that the United States already conceded all nations equality of treatment. This was all the United States seemed able to offer in exchange for France's minimum tariff schedule.99

In mid-September, however, the French government surprised American policy makers by presenting counter-proposals (to the American draft treaty of August 8) that were considered extremely conciliatory. Edge insisted that they constituted the basis for an agreement that would provide the United States with virtual *de facto* most-favored-nation treatment. Though a *de jure* accord was out of the question, the Ambassador believed that American exporters would benefit significantly by the French offer and that it would be a "serious mistake" to reject it. 100

Stimson seems to have agreed with Edge's appraisal of the situation. 101 At the end of September, the State Department began pushing for the conclusion of a comprehensive treaty. Hoping that a favorable trade agreement

99Rogers to Edge, September 3, 1932, ibid.

100Edge to Stimson, September 16, 1932, 611.5131/853.

101Stimson to Edge, September 19, 1932, 611.5131/854.
might benefit American business and thereby influence the outcome of the forthcoming elections in some small way, the Hoover administration became much more inclined to be conciliatory. The Treasury Department, for example, was prepared to reverse its former policy and to allow samples of French dresses to enter the United States free of duty. Regulatory concessions of this sort meant a great deal to the French. But by mid-October, it was still uncertain whether administrative and regulatory concessions alone would influence the French to meet the American demand for at least *de facto* most-favored-nation treatment. Thus, everything depended on whether France was willing to accord the minimum schedule to the bulk of American exports.

The French government of the Cartel des Gauches under the leadership of Edouard Héritot wanted to be accommodating. But Héritot was in deep political trouble and his own ability to maneuver was circumscribed by concurrent developments on the disarmament and war debt issues. Héritot himself was struggling valiantly to meet American

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102 For the State Department's changed attitude toward France, see Stimson to J. Theodore Marriner (Chargé, Paris), September 30, 1932, 611.5131/869; Stimson to Marriner, October 1, 1932, 611.5131/875A; Rogers to Marriner, October 6, 1932, 611.5131/880.

103 For references to the importance of the list of goods to be entitled to most-favored-nation treatment, see Stimson to Marriner, October 1, 1932, 611.5131/875A; Edge to Stimson, September 21, 1932, 611.5131/859; Marriner to Stimson, October 19, 1932, 611.5131/888.
demands on these other matters. Such efforts did not receive universal support within the Cartel and they were bitterly attacked by the conservative opposition. Thus, the Radical-Socialist Premier found it increasingly difficult to make concessions on commercial questions without substantive *quid pro quos* from the United States either on tariffs or debts. This became especially true as French manufacturers mounted a systematic campaign in the press and in political circles to forestall the extension of most-favored-nation status to American goods. Such a concession, they maintained, should be granted only if the United States lowered its tariff "which at the present time is not protective but prohibitive."  

What finally determined the response of the Hérrriot government, however, was the predictability (and then the reality) of a Democratic victory in the American presidential

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104 For Herriot's desire to be friendly, see, for example, Edge to Stimson, July 28, 1932, *F.R.*, 1932, II, 239. For Herriot's efforts to conciliate the United States on the debt and disarmament issues, see Chapters VII, VIII, and IX, *infra.*

105 Translation of a communication addressed to Mr. Elbel, Director of Commercial Accords of the Ministry of Commerce, by the Committee of Economic Protection, published throughout the French press on September 5, 6, 1932, in 611.5131/850. For other references to the pressures being exerted on Hérrriot, see Edge to Stimson, August 31, 1932, 611.5131/845; Marriner to Stimson, October 1, 1932, *F.R.*, 1932, II, 251; Marriner to Stimson, October 5, 1932, 611.5131/877; memorandum of conversation between Winslow and Garreau-Dombasle (French Commercial Attaché), October 25, 1932, 611.5131/943.
elections. The Democrats had made known their predisposition to treat the French more favorably than the Republicans. As a result, the French generally believed that a Democratic administration would respond more generously to their commercial needs than the existing administration. This explains why the French delayed the presentation of the list of American goods to be accorded the minimum schedule. Then when the list was finally presented in late October, it was considered much too limited.

Nevertheless, after the Republicans' electoral defeat, both Stimson and Hoover initially were inclined to carry the negotiations to a conclusion on the basis of the French counter-proposals of September and the October list of goods. Such an accord would have provided 96 per cent of all American exports to France in 1931 with most-favored-nation treatment. Hopes for a final resolution of the decade-long controversy were stymied, however, by the fall

106 For the relationship between the electoral campaign and the trade negotiations, see Marriner to Stimson, October 11, 1932, F.R., 1932, II, 252-253; Marriner to Stimson, October 16, 1932, 611.5131/888; Marriner to Stimson, October 18, 1932, 611.5131/891; Marriner to Stimson, November 26, 1932, 611.5131/916; Edge to Stimson, January 7, 1933, 611.5131/935; Edge, Journal, 222-223.

107 Stimson to Marriner, October 19, 1932, 611.5131/888; Stimson to Marriner, October 31, 1932, F.R., 1932, II, 253-254.

108 Edge to Stimson, December 10, 1932, 611.5131/922; Stimson to Edge, December 9, 1932, ibid.
of the Hérriot ministry and by the French default on war
debt payments. 109

The failure of these commercial negotiations during
the last months of the Hoover administration highlighted
the tension that existed between the three goals of American
commercial policy: expanding exports, protecting the
domestic market, and promoting international economic sta-
bility. Exports could not be expanded indefinitely without
making some real modifications in the protectionist system.
Nor could international economic stability be maintained,
once tourist expenditures declined and overseas investments
stopped, while the United States restricted imports and
encouraged exports. The French had demonstrated that they
would no longer acquiesce to their chronic merchandise
deficit with the United States unless they had a means of
redressing it through improved access to the American market.
The precipitous downturn in American tourist expenditures
during 1931 and 1932 had made it evident that this was not
a source if income on which a nation could depend to balance
its international accounts.

By the end of 1932, therefore, some members of the
Hoover administration had come to realize the necessity of
modifying both the goals and the tactics of American

109 Edge to Stimson, January 7, 1933, 611.5131/935;
Stimson to Edge, January 16, 1933, ibid.;
Edge to Stimson, December 15, 1932, 611.5131/929.
commercial policy. The experience with France had illustrated that neither concessions of an administrative or regulatory nature nor the working of the flexible tariff provisions were adequate either to maintain a healthy American export trade or to sustain a viable world economy. If world economic equilibrium was to be restored, something had to be done to break the impasse between American protectionism and export expansionism. In October, 1932, the Treaty Division of the Department of State proposed that the principle of reciprocity be combined with the unconditional most-favored-nation principle.\footnote{Treaty Division, "Reciprocity and the Most-Favored-Nation Clause," 550.S1/231-1/2.} This tactic would provide the necessary flexibility for successful commercial negotiations and stable trade relationships. Though commercial treaties based on reciprocity would necessitate some modification of the American high tariff system, this was a small price to pay for the return of international economic stability and for the restoration of export markets abroad. Thus, by the end of the Republican ascendancy, the stage was set for a new commercial policy based on reciprocity, equality, stability (of currencies), and moderate protection. This was the course ultimately and belatedly adopted by the Roosevelt administration in the mid-1930's.
Hoover, of course, never went far enough down this road. Though the new tactics of American trade policy were formulated during his administration, he himself never mounted a sustained attack on high tariffs. An advocate of "scientific" protection, he did not become an exponent of reciprocity. Fearful of congressional opposition and internal dissent, he refused to have tariff levels discussed during the preparations for the London Economic Conference. For all this, he has been criticized. But this criticism should be tempered by a systematic analysis of Hoover's other efforts to bring economic and political stability to a troubled Europe. Hoover and his advisers chose to focus their attention on the reduction of reparation obligations, on the readjustment of debt settlements, on the preservation of the gold standard, and on the limitation of armaments.
THE STRUGGLE FOR STABILITY:
AMERICAN POLICY TOWARD FRANCE, 1921-1933

Volume II

DISSERTATION

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the Degree Doctor of Philosophy in the Graduate
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By
Melvyn Paul Leffler, B.S.

The Ohio State University
1972

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CHAPTER VI

FROM THE YOUNG PLAN TO A NEW IMPASSE

In late 1927 and early 1928, as American officials were busy reappraising their loan and tariff policies toward France and toward Europe, Parker Gilbert, the Agent-General for reparations, recommended that the time was ripe for a final reparations settlement. In a carefully worded memorandum to the Reparations Commission, Gilbert argued that the undefined reparations sum retarded German reconstruction and contributed to German budgetary delinquencies. He maintained that fixing the amount of the total indemnity and eliminating the existing machinery for transfer protection would increase Germany's incentive to meet her obligations and would provide an inducement to German leaders to undertake necessary fiscal reforms. The Agent-General feared that Germany's growing indebtedness to private creditors might deter the commercialization of German reparation bonds in the world's financial centers. Consequently, in order to facilitate the task of mobilizing and marketing the reparation bonds, Gilbert suggested that the former unrealistic sum of 132 billion marks, imposed
upon Germany in 1921, be revised downward and that there be a prompt determination of a more reasonable figure that was in accord with Germany's capacity to pay.\textsuperscript{1} 

Influential American bankers and businessmen shared Gilbert's desire to effect a final settlement of the reparations controversy. They worried about the impact of unsettled inter-governmental debts on the stability of currencies, on the expansion of commerce, and on the safety of private loans.\textsuperscript{2} Though concrete evidence is still lacking, there can be little doubt that at least some of them were consulted by Gilbert before he began his campaign to secure the cooperation of the various governments.\textsuperscript{3} In fact, it appears that Gilbert, Owen Young, and prominent

\textsuperscript{1}Memorandum, for the Reparations Commission, by the Agent-General, February 24, 1928, Records of the Bureau of Accounts, Box 85, RG 39 (National Archives). 

\textsuperscript{2}For example, at their annual convention in 1928, the investment bankers of America declared that "Until they [war debts and reparations] are settled, and settled generously, and with due regard for the welfare of the creditor nations, they will continue to be a menace to the economic structure of the world." See Investment Bankers Association of America, Proceedings of the Seventeenth Annual Convention (Chicago, 1928), 40. 

\textsuperscript{3}Gilbert was in constant communication with J.P. Morgan and Company and through Morgan with the United States Treasury. In the Records of the Bureau of Accounts there are many letters from Gilbert to Pierre Jay, Thomas Lamont, Dwight Morrow, and Russell Leffingwell (all associated with Morgan and Company). Usually, Gilbert requested that these letters be forwarded to the Treasury or State Departments. The nature of these letters and cables leaves little doubt that Gilbert would not have called for a reappraisal of Germany's capacity without the full approval of the leading members of the American financial community.
American financiers and industrialists were in the forefront of the movement to revise the Dawes Plan. By fixing the total reparations indemnity, by placing full responsibility upon Germany to fulfill her financial obligations, and by commercializing as many reparation bonds as the world's financial centers could absorb, leading bankers and businessmen hoped to foster political as well as financial stability. In 1926, Young had explained to Secretary of Commerce Herbert Hoover:

When we transfer whatever is to be paid on these debts from government treasuries to private investors, we shall begin to see economic safety and political tranquility in the world. So long as the debts are held in government treasuries and regarded as political debts as distinguished from sacred commitments to individuals, we shall have every legislative body in the world making every kind of effort to gain some slight advantage for their own country to the injury of the general economic recovery of the world. . . . The gears of politics and economics do not mesh well together. The threat of [sic] the economic world is the great mass of indebtedness which is now held and controlled by purely political agencies.4

Republican officials sympathized with these attempts to settle the reparations controversy. Former Under Secre-

4Young to Hoover, January 5, 1926, Container No. 1-I/550, Herbert Hoover Papers (Herbert Hoover Library, West Branch, Iowa). (I am indebted to Robert Van Meter, Jr. for showing me this and several other documents from the Hoover Library.) Young's letter is worth quoting because he was one of the candidates considered most desirable by the Coolidge administration for appointment to the experts committee. See memorandum by J. R. C., December 22, 1928, General Records of the Department of State, File No. 462.00R296/2582, RG 59 (National Archives).
tary of the Treasury Garrard Winston told a group of economists in early 1928 that the American government approved of the orderly distribution of German reparation bonds in the United States. If this occurred, the whole problem of the German indemnity would be removed from the international political arena and put on a business basis. More concretely, in the autumn of 1928, Secretary of the Treasury Andrew Mellon promised that neither he, the Secretary of State, or the President would say anything that might undermine the Agent-General's efforts to arrange a final settlement. Furthermore, in late October, Secretary of State Frank Kellogg informed Gilbert that the American government would allow private American citizens to be members of the experts committee which would determine Germany's capacity to pay.

(Hereinafter, a decimal number standing alone will indicate Record Group 59, in State Department Files, National Archives).

5Garrard Winston, "American War Debt Policy," 27-28, in Bureau of Accounts, Box 220, RG 39. This was in accord with the general belief that once Germany's reparation obligations were incorporated into negotiable securities and transferred to private individuals there would be no further talk of revision or cancellation since such talk would endanger Germany's entire credit structure. See, for example, Memorandum, for the Reparations Commission, by the Agent-General, February 24, 1928, ibid., Box 85.

6Mellon to Gilbert, October 10, 1928, ibid., Box 78.

7Kellogg to Gilbert, October 31, 1928, Department of State, Papers Relating to the Foreign Relations of the United States, 1928, II (3 vols.: Washington, 1943), 873-874; also see ibid., 874-880. (Hereafter, this source shall be cited as F.R., year, volume, page.)
By these actions the Coolidge administration indicated that it was prepared to allow prominent American businessmen and bankers (as in 1923-1924) to push through a reparations settlement that was in accord with the imperatives of European and world economic stability. If such an accord could be achieved, the American government was willing to permit German reparation bonds to be marketed through private banking channels in the United States. In this way, the United States would make its traditional financial contribution to Europe's economic reconstruction and political well-being.

While American officials wished to help Gilbert and the bankers in their efforts to revise the Dawes Plan, they insisted that this be done without establishing a formal connection between the war debt and reparation questions. Republican policy makers considered it a domestic political necessity to maintain a formal separation of the debt and reparation issues. Consequently, though they were aware that the former Allies would calculate their reparation needs at least in part upon the basis of their obligations to the United States,\(^8\) they were unwilling to accept any overt or formal connection between these two forms of inter-governmental debts. They sus-

\(^8\)See, for example, Edwin C. Wilson (unofficial American observer to the Reparations Commission) to Kellogg, November 13, 1928, Bureau of Accounts, Box 78, RG 39; Gilbert to Federal Reserve and to Mellon, November 22, 1928, ibid.
pected that the European powers, once having established such a link, might combine to exert pressure for a mutual reduction of all inter-governmental debts, thus saddling American taxpayers with the financial burden of the war.\footnote{See, for example, Stimson to Young, April 15, 1928, \textit{F.R.}, 1929, II, 1059-1062.}

Government officials also were determined to assume no official responsibility for the recommendations of the experts committee. In October, 1926, Kellogg informed Gilbert that while the Coolidge administration approved of private American citizens participating in the work of the experts committee, it did not wish to formally designate these individuals. He explained:

\begin{quote}
The mere fact of the Government's assumption of responsibility for their selection carries with it so much official responsibility for their recommendation that I do not believe this Government will or should care to assume it. The American interest in reparations is entirely too small to justify this Government's assumption, either directly, or indirectly, of any responsibility respecting settlement of the whole problem of reparations.\footnote{Kellogg to Armour, October 31, 1928, \textit{ibid.} 1928, II, 873-874.}
\end{quote}

Kellogg probably was expressing the administration's conviction that the United States should remain aloof from the European controversy over whether the evacuation of the Rhineland should be linked to a final
reparations accord. Since the French always had considered the occupation of the Rhineland to be a means of insuring German payments, this discussion was related to the whole question of safeguarding the Allied war claims. American officials were horrified by the thought of becoming involved in such a dispute. Thus, while Republican policy makers wanted to put an end to reparations as a source of friction in European affairs, their fear of becoming embroiled in European political squabbles circumscribed their ability to participate in an unrestricted and flexible fashion.

In the autumn of 1928, American officials had good reason to suspect that their involvement in a final

11 During the summer and autumn of 1928, the French insisted that the two questions of reparations and evacuation could not be discussed apart from one another. See, for example, Memorandum of conversation between Paul Hymans and Raymond Poincaré, August 27, 1928, in Ministère des Affaires Etrangères, Documents Diplomatiques Belges, 1920-1940 (3 vols.; Brussels, 1964), II, 528; also see the Memorandum of the conversation held in Geneva, September 11, 1928, ibid., 537-539; Carl Bergmann, "Germany and the Young Plan," Foreign Affairs, 8 (July, 1930), 584-585.

12 See, for example, the statement by Under Secretary of State Joseph Cotton, in House, Committee on Banking and Currency, German Reparation Bonds (Washington, 1930), 64. The American government also probably did not wish to be represented officially for fear of being engaged in a dispute with American bankers over the question of whether reparations (and therefore war debts) would have priority over private loans. This is discussed in Chapter III, pp. 185-186.
reparations settlement might compromise their position on the debt question and might entangle them in what they liked to consider purely European political affairs. During August and September European leaders met in Geneva and elsewhere to discuss a final reparations settlement and to clarify the relationship that existed between the indemnity issue and Germany's concurrent demand for the Allied withdrawal from the occupied parts of the Rhineland. In these negotiations, the complex and diverse relationships between American war debts and private loans and Europe's economic reconstruction and political pacification were highlighted time and again.

The Germans wanted the evacuation and reparation issues to be settled independently of one another. They argued that their enormous commercial and private indebtedness to American creditors insured the payment of reparations. They maintained that if it ever became known that they were unwilling or unable to make the obligatory reparation payments, Americans would call in their private loans. This would disrupt the entire economic life of Germany. German Foreign Minister Gustav Stresemann claimed that this was a sufficient guarantee that Germany would never consider defaulting on her reparation obligations. Therefore, the Allies could remove their occupation forces from the Rhineland without fear of any subterfuge.\(^\text{13}\)

The Germans also hoped to exploit the American private investment stake in Germany in another way. They believed that the participation of American businessmen on an independent committee investigating Germany's capacity to pay would insure a moderate settlement. Stresemann assumed that in order to protect the value of German securities held by American investors, the American experts would feel compelled to support the German thesis that the absence of a trade surplus and the dearth of domestic capital justified a large downward revision of German reparation payments.¹⁴

While the Germans looked upon the American investment stake in Germany as a form of insurance against outrageous Allied demands, the French used their war debt obligations to the United States as a means of justifying their position on the reparations issue. The French were much more intent on securing reparations than on reducing or cancelling the debt. They insisted that the war debt and reparation questions were inseparable and that the

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¹⁴ For German efforts to engage Americans in the work of the experts committee, see, for example, Poole (American Chargé, Berlin) to Kellogg, September 26, 1928, F.R., 1928, II, 871-872; Gilbert to Mellon, December 14, 1928, Gilbert to Kellogg, December 16, 1928, Bureau of Accounts, Box 78, RG 39; Antonina Luchaire-Vallentin, Stresemann (New York, 1931), 328. For Stresemann's view, see Sutton, Stresemann, III, 412-413. For some of the economic problems Germany encountered in the payment of reparations, see Bernhard Dernburg, "Germany's Restoration
amount of the German indemnity had to exceed their own out-payments to the United States and Britain. Though suspecting that Gilbert had called for a new settlement in order to protect private American investments in Germany, the French were not inclined to exert direct pressure on the United States to decrease the war debts. Gilbert informed the American government that French Premier Raymond Poincaré wanted no controversy with the United States. What Poincaré did desire was a reparations accord that would fix Germany's total indemnity. This would facilitate the commercialization of German reparation bonds. Once these bonds were in private hands, Poincaré believed Germany would be unable to risk a default. Moreover, the commercialization of German reparation obligations would enable Germany to make lump sum payments to the Allies. Poincaré hoped to use these funds to capitalize France's own war debts and to strengthen France's internal financial position.  

15  


15 The explanation of the French position presented in this and the following paragraph is based on the following sources: American Embassy (Paris) to Kellogg, October 8, 1928, November 16, 1928, Bureau of Accounts, Box 78, RG 39; Gilbert to Kellogg, October 4, 1928, ibid.; Gilbert to Kellogg and Mellon, October 23, 1928, ibid.; Wilson to Kellogg, November 27, 1928, ibid.; Armour to Kellogg, January 12, 1929, Box 77, ibid.; MacLean (Commercial Attaché,
Throughout the negotiations in late 1926 and early 1929 leading to the creation of the experts committee, the French were aware that a rapid settlement of the reparations question was in their own self-interest. In August, 1929, the war stocks debt of $400 million to the United States would be falling due unless the Mellon-Bérenger agreement was ratified. Under existing circumstances, the French preferred to avoid making such a payment. Their aim was to settle the reparations question first, to insure sufficient in-payments to cover their own out-payments, and then to ratify the British and American debt settlements; in this way the French would avoid any immediate substantial drain on their gold and foreign exchange reserves.

Whereas the French were anxious to fix Germany's total indemnity and to commercialize the bonds, the British initially were inclined to oppose the entire effort to finalize the reparations issue. The British goal was to have all war debts and reparations cancelled. They feared any tampering with the whole question of inter-governmental obligations that might lead to an additional strain on the British treasury. The British worried that reparations

Paris) to Bureau of Foreign and Domestic Commerce (B.F.D.C.), January 7, 1929, Records of the B.F.D.C., Box 3266 (Confidential Cables), RG 151 (National Archives); Raymond Poincaré, "Le Plan Young," Excelsior, March 28, 1930, in Bureau of Accounts, Box 78, RG 39; also see memoranda of conversations between Paul Claudel and William Castle, November 2, 1927, December 10, 1927, Box 62, ibid.; clipping from The New York Times, December 7, 1928, ibid.
revision might lead to some diminution in their in-payments without any commensurate change in the extent of their obligations to the United States. Consequently, they were much more intent than the French on interjecting the war debt question into the debate on reparations. Only after the talks between Winston Churchill, the Chancellor of the Exchequer, and Poincaré in mid-October were the British reassured that the French were not intent on juxtaposing the burden of reparations revision onto their former Allies.\(^\text{16}\)

American officials in Washington were well informed about the respective positions of the European governments. Thus, they were confronted with the almost impossible task of trying to cooperate with Gilbert's efforts to arrange a final settlement, which they understood to be in the interest of European economic and political stability, without compromising their traditional position on the debts and without becoming ensnared in Europe's political problems. This objective, however, was further complicated by the state of the American investment market in late 1928 and 1929. The

\(^{16}\)Gilbert to Kellogg, September 17, 1928, Bureau of Accounts, Box 78, RG 39; Gilbert to Jay, September 25, 1928, ibid.; Gilbert to Kellogg and Mellon, October 23, 1928, ibid.; American Embassy (Berlin) to Kellogg, October 25, 1928, ibid.; Gilbert to Stimson, December 13, 1929, Box 80, ibid.; memorandum of conversation between Hymans and Edouard Benes, May 17, 1928, Documents Diplomatiques Belges, II, 491. For some information on British financial problems, see Stephen V. O. Clarke, Central Bank Cooperation, 1924-1931 (New York, 1967), 112-142.
speculative mania in common stocks, high interest rates in the United States, and the consequent influx of European capital created an inhospitable environment for a successful flotation of German reparation bonds. Gilbert realized this and pleaded with American bankers and government officials to keep an open mind about the future possibility of selling such bonds. He cautioned against opposing a final settlement because of the existing condition of the bond market. 17

In response to this complex picture of European dissension and financial uncertainty, the American government pursued a cautious but not unconstructive policy. As already indicated, nothing was said to embarrass Gilbert's efforts. Furthermore, American bankers and businessmen (Owen Young, J. P. Morgan, Thomas Lamont, and Nelson Perkins), though not officially selected by the United States government, were allowed to engage in the work of the experts committee. There was an official American statement that the experts would not consider the war debts, but American officials knew that the reparation creditors were calculating their demands on the basis of their obligations to the United States. In fact, Gilbert explicitly informed Mellon that the limits of a possible settlement had been carefully circumscribed. 18 Thus, the Coolidge administration realized

17 Gilbert to Jay, September 25, 1923, September 28, 1928, Bureau of Accounts, Box 78, RG 39.
18 Gilbert to Federal Reserve and to Mellon, November 22, 1928, ibid.
that certain risks were being incurred by allowing Americans
to participate; even more so, by acquiescing to the selec-
tion of Owen Young as chairman of the experts committee.
Apparently, Gilbert's assurances that the United States
would not be asked to make any direct concessions on the
debt coupled with the realization of the benefits to be
derived from a final settlement of the reparations issue
were the determining factors in the government's decision to
cooperate even this much.

Unfortunately, events did not unfold in a way that
accorded with the expectations of the incoming Hoover admin-
istration. During the spring of 1929, after many weeks of
intense labor, the experts were unable to agree on the
amount of Germany's liabilities. This impasse was a result
of the fact that the experts were in no sense independent
agents. They all were aware of the minimum requirements of
their respective governments. Consequently, the question of
distributing the payments in a way that satisfied each of
Germany's creditors became as important as the question of
determining Germany's capacity. Each nation wanted sufficient
reparations to cover their own war debts plus an additional
amount to offset part of the financial burden of reconstruc-
tion. Young explained to Stimson that "From the beginning
we . . . had to work under this definite and universally

19 Gilbert to Kellogg, October 4, 1928, ibid.;
Gilbert to Kellogg and Mellon, October 23, 1928, ibid.
recognized condition." Poincaré initially had laid down this principle. And unlike 1924, when the French were susceptible to financial pressure, they were now in a position to remain intransigent. Therefore, Young was forced to mediate between what Germany considered her maximum capacity to pay and what each of the Allies maintained was the minimum basis for a politically acceptable agreement. In so doing, he could not avoid establishing a close link between reparations and war debts. This was especially apparent in the provision that promised Germany some additional relief if her European creditors subsequently were able to secure concessions from the United States on account of their own war debts. 20

During the first two weeks in April, American officials in Washington became extremely agitated over Young's actions in Paris. In an unusually acrimonious exchange of cables, Under Secretary of the Treasury Ogden Mills and Secretary of State Henry Stimson warned Young that the United States could never be a party to an accord that so closely tied war debts to reparation payments. They insisted that

20 Young to Stimson, April 20, 1929, ibid.; also see Young to Hoover, Stimson and Mellon, March 28, 1929, Box 77, ibid.; Young to Stimson, April 11, 1929, F.R., 1929, II, 1043-1045; Young to Stimson, May 6, 1929, Bureau of Accounts, Box 78, RG 39; American Embassy (Paris) to Stimson, May 6, 1929, ibid.; Hjalmar Schacht, The End of Reparations (New York, 1931), 48-60; Bergmann, "Germany and the Young Plan," 586-588, 595-597.
the European experts were conniving to make the United States the sole creditor nation and were preparing to form a united front to press for a reduction of the war debts. Stimson explained that the experts had a responsibility only to determine Germany's capacity to pay. "What the Allied governments are willing to accept is a political question with which the experts should not be concerned." Furthermore, Young was told that the United States government was not prepared to be connected formally with the newly created Bank for International Settlements (B.I.S.). Stimson claimed that it appeared as if the main object of the B.I.S. was the collection and distribution of reparation payments. The United States, he asserted, could not in any way become associated with these functions.  

Young tried to defend his actions as best he could. He explained the difficulty of his situation and elucidated the problems of securing a European consensus. He also insisted that he was an independent agent and not subject to directions from the United States government. In fact, he claimed that the administration was compromising his position and might force his resignation. After the administration

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21Stimson to Young, April 20, 1929, Bureau of Accounts, Box 78, RG 39; also see Stimson and Mills to Young, April 8, 1929, F.R., 1929, II, 1038-1040; Stimson to Young, April 15, 1929, ibid., 1059-1062.

22Young to Stimson, April 11, 1929, F.R., 1929, II, 1043-1045; Young to Stimson, April 20, 1929, and May 6, 1929, Bureau of Accounts, Box 78, RG 39.
retreated somewhat from its harsh criticism, however, Young proceeded to do what he could to safeguard the official American position. He did not wish to antagonize the American government. He was fully aware that the latter's cooperation was essential for the success of the experts' work. In the most narrow sense, the emerging Young Plan required formal American sanction because it contemplated revisions both in the terms and the amounts of German payments to the United States on account of mixed claims and post-Armistice occupation costs.  

In retrospect, it is hard to understand what caused the intensity of the rift between Young and the Hoover administration. During the autumn of 1928, Gilbert had emphasized that a final reparations accord was to be based in large part on the extent of the former Allies' obligations to the United States. Though there had been a change in administrations, there was enough continuity in personnel to insure adequate knowledge of the situation. What appears to have occurred is that the political problems encountered by all the experts in Paris caused such acrimony among themselves that in order to insure the success of the committee's work

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23 See, for example, Stimson to Young, May 2, 1929, F.R., 1929, II, 1065-1066.
24 For Young's efforts to protect American claims, see, for example, Armour to Stimson, May 18, 1929, ibid., 1067-1068; American Embassy (Paris) to Stimson, May 3, 1929, and May 6, 1929, Bureau of Accounts, Box 78, RG 39; Armour to Stimson, June 6, 1929, Box 77, ibid.
Young was compelled to establish a much more overt link than heretofore had been expected by American officials.  

Hoover and his advisers, however, feared that such a conspicuous connection between war debts and reparations would provoke an outcry in the press and in Congress. And this had dangerous implications, since congressional leaders already were upset by the sacrifices the United States was being asked to make with regard to the American claims upon Germany that heretofore had been met out of the Dawes annuities. Stimson and Mills worried that Congress might refuse to pass the required legislation if, in addition to these concessions, there appeared to be a concerted European effort both to secure a reduction of war debts and to impose some responsibility upon the United States for the collection of reparations. Policy makers themselves viewed these

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As is well known, the difficulties encountered by the experts almost caused a break-up of the committee's work. Meanwhile, the French exerted financial pressure on Germany by withdrawing considerable amounts of short-term credits. But there was also much dissension among the Allies over the distribution of the reparation annuities. For the incendiary atmosphere and Young's efforts to mediate the differences, see the references in footnote 20 above. Also see Armour to Stimson, May 16, 21, 25, 1929, Bureau of Accounts, Box 78, RG 39; Armour to Stimson, May 17, 18, 1929, F.R., 1929, II, 1071-1075.

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What most troubled American policy makers was the fact that Germany's payments to the Allies during the last 22 years of the agreement almost exactly coincided with the Allies' payments to the United States. Furthermore, and even more disturbing, was the provision making future reductions in German obligations contingent upon American generosity on the war debts.
European machinations with distrust and trepidation. 27

In reality, however, the Young Plan, as it emerged from the hands of the experts in Paris, was not a European plot to embroil the United States in Europe's political affairs nor a sinister effort to juxtapose the financial burden of the war exclusively on to the United States. On the contrary, it was a complex document that earnestly tried to accommodate the diverse political and economic imperatives of several nations. The Young Plan called for a reduction in the standard Dawes annuities of up to thirty per cent in the early years. The annuities, especially in the latter years, were arranged to cover the out-payments of Germany's creditors to the United States. All the annuities were divided into two parts, unconditional and conditional. The unconditional obligations were to be commercialized in the world's financial centers when circumstances so permitted. The conditional payments were to be watched over by the newly created B.I.S. to insure that exchange rates were not disrupted by the necessary transfers. This new banking

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27 The United States received payments out of the Dawes annuities on account of mixed claims and deferred American occupation costs. For the administration's position on the proposed reduction of these claims and on its sensitivity to the demands of Congress, see Stimson to Young, April 8, 15, 1929, F.R., 1929, II, 1039, 1061; Stimson to Armour, May 11, 17, 19, 25, 1929, ibid., 1068-1070, 1072-1073, 1075-1076, 1081-1082; Mills to Castle, May 21, 1929, ibid., 1077-1078; Mills to Stimson, May 6, 9, 1929, Bureau of Accounts, Box 78, RG 39; especially revealing is Stimson to American Embassy (Paris), June 5, 1929, ibid.
institution also was burdened with numerous other responsibilities including those of facilitating financial transactions, of financing deliveries-in-kind, and of stabilizing world commerce. The provision most repugnant to American policy makers, that is, the one that made future reparation reductions contingent upon America's reduction of the war debts, was taken out of the formal document, and inserted into a "concurrent memorandum." All in all, the Young Plan was an effort to permanently settle the reparations question in a manner that was politically palatable to all the nations concerned and in a way that offered the brightest prospects for at least an element of international economic stability.

The Hoover administration recognized both the positive and negative attributes of the Young Plan. In so far as it fixed the total German indemnity, removed this issue from the arena of international politics, and contributed to financial certainty in Germany and in Europe, the Young Plan was welcomed by American policy makers. In so far as it highlighted the connection between debts and reparations, and raised the possibility of the United States becoming involved in the enforcement of European reparation payments, the Young Plan was viewed with skepticism and apprehension.

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28 A good description of the Young Plan may be found in Harold Moulton and Leo Pasvolsky, War Debts and World Prosperity (Washington, 1932), 188 ff.
in United States government circles. Consequently, the Hoover administration adopted a policy that divorced the United States from any official connection with the Young Plan, but that did not interfere with its implementation in Europe. This was done by accepting the financial sacrifices (with regard to mixed claims and occupation costs) envisioned in the Young Plan, but by signing a separate accord with Germany that incorporated these concessions. Likewise, the administration forbade the participation of Federal Reserve officials in the B.I.S., but allowed private American bankers and banking institutions to play a leading role in its formation. In this way, the administration avoided an acrimonious debate in Congress over the entire Young Plan, reserved its position and protected itself from the international political complications that might arise in case of a breakdown in the machinery of the Young Plan, and ostensibly

29 For the negotiations with regard to signing a direct accord with Germany, see F.R., 1929, II, 1083-1106.

30 For the government's disapproval of official American involvement (through the Federal Reserve System) in the B.I.S., see statement issued to the press by Stimson, May 16, 1929, ibid., 1071. But also see Stimson to Armour, May 17, 1929, ibid., 1073; F.R., 1930, I, 234-238. It is interesting and revealing that during the House Banking Committee's hearings on German Reparation Bonds, Under Secretary of State Cotton admitted that Gates McGarrah, the new President of the B.I.S. (and former Chairman of the Board of the Federal Reserve Bank of New York) would have been one of those individuals selected by the administration if it had decided to officially involve itself. See House, Banking and Currency, German Reparation Bonds, 71-72.
maintained intact the traditional American policy of separating debts and reparations.

The object of the American government was to reconcile the political and fiscal imperatives of the domestic environment with the economic and financial needs of the international economy. In so doing, policy makers had to pursue a hazardous course between the demands of internationally-minded industrialists and bankers and the criticisms of local-oriented manufacturers and politicians. The prominent American businessmen and financiers who had worked on the committee of experts resented the implicit criticism inherent in the administration's lukewarm response to their efforts. Young and Lamont met with Hoover and Stimson in late June and recapitulated the problems they had encountered in Paris. In a thirteen page memorandum, they emphasized the positive aspects of the Young Plan. They insisted that realistic men had to face the fact that war debt and reparation payments were intimately linked to one another. The smooth functioning of the world economy and the prosperity of American commerce, they charged, depended upon the proper handling and efficient discharge of these inter-governmental obligations. In fact, it was with this purpose in mind that they had created the B.I.S. Young, Lamont, and other American financiers hoped the B.I.S. would both facilitate the commercialization and depoliticalization of all inter-governmental debts as well as provide a means
for the systematization of international bank cooperation. This was essential in order to insure currency stability, to protect the gold standard, and to create the conditions for a flourishing commerce.31 Administration officials obviously were sympathetic with these goals, but they also had to protect themselves from internal criticism that the United States was getting too embroiled in reparations and related European matters.32 Louis McFadden, the powerful chairman of the House Committee on Banking and Currency, already was preparing to wage a campaign against any additional United States involvement.33

While American policy makers were struggling to balance the conflicting pressures bearing on the Young Plan, they also were confronted with the task of helping French Premier Raymond Poincaré in his efforts to secure the French Chamber's unqualified ratification of the Mellon-Bérenger agreement. During the last two weeks of June, Poincaré began the herculean task of pushing the debt settlement (and implicitly the Young Plan) through the French Chamber of

31 Memorandum by Lamont, June 25, 1929, 462.00R296/3114; also see Young to State and Treasury Departments, March 19, 1929, Bureau of Accounts, Box 77, RG 39.

32 See, for example, Stimson to Armour, May 17, 1929, F.R., 1929, II, 1072-1073.

33 See, for example, the statement by Louis T. McFadden, in "Should an International Bank be Established," Congressional Digest, 8 (August-September, 1929), 215, 224; also see House, Banking and Currency, German Reparation Bonds, 1.
Deputies. At the time, there was tremendous confusion and apprehension in French parliamentary circles. There was much fear that the August 1 war stocks maturity date would compel French ratification of the debt settlement prior to a final European accord, which was anticipated in August, on the Young Plan. As a result of this unfortunate time sequence, if the Young Plan was modified or revised, France could have been left exposed to the possibility of having to make debt payments in excess of her reparation receipts. In order to avoid such a contingency, the French Chamber approved a resolution authorizing the government to try to secure a four-month extension of the August deadline on the war stocks debt.\textsuperscript{34} Thus, the buck was passed to the American government.

The Hoover administration already had taken action to afford France some additional time to examine the pending debt and reparation agreements. In June, just before Congress had adjourned, Mellon and Stimson had secured legislative approval of a bill that in practice gave the French approximately six additional weeks (from mid-June to August 1) to decide whether to ratify the debt accord or to pay the

\textsuperscript{34} Armour sent detailed and extremely informative accounts of the course of the French debate on ratification. These reports, in addition to a large number of press clippings on French ratification, may be found (amidst other material) in Bureau of Accounts, Box 58 (Economic Data-Annex I), Box 63, RG 39.
principal on the war stocks debt. Now, however, the French were asking for an additional extension of several months. In an extremely conciliatory letter to French Ambassador Paul Claudel, Stimson explained that as much as the administration would like to meet the French request, it was legally impossible to do so without legislative sanction. Unfortunately, the Congress was no longer in session. This negative response was not unexpected by the French. The sympathetic tone of the letter coupled with Stimson's expressed affection for France, however, made an excellent impression and helped quell the rising tide of French parliamentary opposition to an unqualified ratification. Furthermore, in mid-July, the American Treasury modified the valuation system on imported French perfumes.

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35 H.J. Res. 80, passed by the Senate and the House on June 19, the day of adjournment, deferred the payment of the war stocks principal until May, 1930, if the French ratified before August 1, 1929. Without this legislation, the French, if they wanted to avoid payment of the war stocks debt in August, would have had to ratify before the Congress adjourned in June. For H.J. Res. 80 and the discussions thereon, see Congressional Record, 71 Cong., 1 Sess., June 19, 1929, 3154-3158, 3230-3242; also see Claudel to Stimson, May 22, 1929, Bureau of Accounts, Box 62, RG 39; Mellon to Claudel, May 24, 1929, ibid.

36 Stimson to Claudel, July 1, 1929, 851.51/1557; also see memoranda of conversations between Castle and Claudel, June 28, 1929, and July 1, 1929, 851.51/1558, 1556; memorandum of conversation between Stimson and Claudel, June 29, 1929, 851.51/1555; Castle to Stimson, July 1, 1929, 851.51/1557. For the French reaction to Stimson's letter, see Armour to Stimson, July 1, 2, 1929, Bureau of Accounts, Box 63, RG 39; Warrington Dawson to Stimson, July 16, 1929, ibid.

37 Armour to Castle, July 8, 1929, 611.5131/773; Mills to Castle, July 11, 1929, 611.5131/774.
This, too, was a gesture aimed at fostering French parliamentary support for the debt settlement.

These American actions no doubt buttressed Poincaré in his struggle to secure the Chamber's ratification of the Mellon-Bérenger agreement without any binding reservations that would have made future French debt payments contingent upon the receipt of German reparations. But Poincaré's own prodigious efforts, the imminence of the war stocks maturity date, and the French government's insistence that the Young Plan already created a de facto link between reparation and war debt payments were of really critical importance. Norman Armour, the American Chargé observing the course of events in Paris, reported to Washington that French ratification was a result of these influences and was thus simply a matter of expediency. He warned that ratification should in no sense be interpreted as reflecting a sincere commitment by France to honor her obligations. Nevertheless, American officials were satisfied by the outcome of events in Paris. Stimson even instructed Armour to convey his personal appreciation to the French Premier. Furthermore, when Congress reconvened in December, the administration succeeded in obtaining both House and Senate approval of the debt

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38 See especially Armour to Stimson, July 22, 1929, Bureau of Accounts, Box 58 (Economic Data-Folder 1), RG 39.
39 Stimson to Armour, July 27, 1929, ibid., Box 63.
After France's ratification of the Mellon-Berenger accord, attention was turned to the Hague where in a series of conferences the European powers formally accepted a somewhat revised Young Plan and agreed upon a plan for an early evacuation of the Rhineland. In these negotiations, the United States government did not participate officially. But influential American citizens, including Lamont and Gilbert, as well as the unofficial American observer, Edwin Wilson, did exert pressure to insure a European accord that was not at the expense of direct American interests. The Hoover administration, while not wishing to upset the difficult European talks, was intent on safeguarding American claims against Germany, on remaining aloof from any plans to enforce Allied war claims, and on preventing the B.I.S. from becoming a clearing house for war debt payments. By threatening to oppose the marketing of reparation bonds in the United States and by threatening to forbid the cooperation of private American banking institutions with the B.I.S., the American government was able to exercise considerable influence on the outcome of the negotiations.  

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40 See F.R., 1929, II, 1083-1106, especially 1094-1097, 1101; Cotton to Wilson, January 6, 1930, Bureau of Accounts, Box 80, RG 39; Wilson to Stimson, January 9, 1930, ibid.; also see Gilbert to Stimson, December 13, 1929, ibid.; Charles G. Dawes, Journal as Ambassador to Great Britain (New York, 1939), 42-44, 50-54.
Thus, by the beginning of 1930, American officials and business leaders had considerable reason to hope that the reparation and war debt issues finally had been solved in a way that would both facilitate European stability and that would contribute to the economic well-being and political aloofness of the United States. American bankers, in particular, expected that under the astute direction of the B.I.S., currencies would be managed more adroitly, thereby facilitating the systematic expansion of world commerce and the stabilization of the international economy. If these goals were accomplished, the burden of intergovernmental debt transfers on national treasuries and exchange rates would be reduced substantially. In this context, the recent stock market crash was not viewed as a disaster. In fact, Grosvenor Jones, the widely respected Commerce Department expert on international financial affairs, believed it would encourage the flow of capital to Europe,

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41 The American press was extremely pleased over the signing of the Young Plan. See "The Young Plan Closes the War Books," Literary Digest, 104 (February 1, 1930), 12.

strengthen European currencies, and thus promote European economic progress. All this was to be welcomed because "Prosperity for Europe is desirable for the world at large . . . ." 43 Furthermore, it had long been anticipated that the ratification of the debt agreements and the commercialization of at least some of the reparation bonds would serve the interests of world peace and stability by minimizing the impact of political cross-currents on international financial transactions.

American policy makers had hoped that European economic stability and political tranquility could be brought about without compromising the American position on war debts and without entangling the United States in the political affairs of Europe, especially with regard to the enforcement of certain punitive sections of the Treaty of Versailles. These limitations on American action were a matter both of principle and political expediency. Republican administrations lived in constant fear that their efforts to deal with the war debts in a rational and constructive fashion would generate congressional opposition and provoke a popular outcry. The debt question could not be divorced from intensely partisan debates over tax and tariff issues. Nor could it be separated from the political controversy over

the whole nature of the relationship between Wall Street and Washington. Therefore, after 1926, the Republicans were intent on not reopening the debt question. This decision meant that Europe had to revise the Dawes Plan without commensurate action on the war debts. In reality, American officials were forcing the European governments to incur political risks that they themselves were unwilling to assume. This political cowardice was most unfortunate for the long run interests of European stability.

But there was another factor that greatly influenced Republican policy makers. They felt that the American stake in European stability, though vastly important, was not worth the risk of constant political entanglements. It was for this reason that they refused to have the reparation and debt issues directly linked. In private, they were willing to admit the *de facto* interrelationships that existed between these inter-governmental financial obligations. But fear of the United States becoming Germany's *de facto* sole creditor and thus assuming the responsibility for enforcing the payment of reparations precluded any formal recognition of the interrelationships between debts and reparations. This policy, then, did not stem from a naive ignorance of the realities of international politics or of international economics, but from a conviction that American self-interest rested in remaining officially aloof from European disputes over the provisions of the Treaty of Versailles.
This attitude was reinforced by the experiences of the 1920's, that is, by the apparent ability of American bankers and businessmen to mediate European differences and to finance European reconstruction. Thus, the role of the United States government was to discreetly encourage, facilitate, and regulate the actions of private citizens. All this seemed sufficient as long as there was a consensus between government officials and business leaders on what could and should be done and as long as the American financial contribution (through private loans and the adjustment of war debts) was all that was necessary to insure European stability. But what would happen if the consensus and cooperation between the private and public sectors began to deteriorate? What would happen if events unfolded in such a way as to interrupt the private sector's contribution to European stability? And what would happen if it became increasingly apparent that European stability depended upon some degree of American political as well as economic involvement?

These were disturbing questions. But the worsening of the world-wide depression and the growing political unrest in Europe soon compelled President Hoover and his advisers

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to grapple with them. In so doing, they had to make some very fine calculations. They had to estimate the degree to which the American economy was dependent on European stability. They had to decide what economic measures might serve the cause of European stability without exacerbating the domestic economic situation and without generating enduring political liabilities. Furthermore, they had to determine the extent to which the American government could directly influence European economic affairs without assuming unwanted political commitments. And finally, they had to decide whether the political aloofness of the United States was worth preserving at all if it had to be done at the expense of European stability.

As much as Republican policy makers might have wished to avoid these decisions, they could not escape the consequences of their post-war policies. They had assumed that European stability was a necessary ingredient of American prosperity. Therefore, they had sought within certain limitations to facilitate Europe's economic recovery. They had depended upon American bankers and American businessmen to participate constructively in the settlement of European disputes and they had encouraged the outflow of American capital to serve as the lubricant for Europe's economic reconstruction. As a result, the American and European economies had become more closely interwoven than ever before. Under these circumstances government officials
naturally felt a responsibility to protect the interest of all those American producers, exporters, workers, farmers, investors, and savers who had a direct or indirect stake in the European market or in European financial stability.

Even if the Hoover administration had wanted to ignore the implications of earlier Republican policies, it would have been difficult to do so. The French, in particular, did not carefully distinguish between the deeds of American citizens, acting as so-called experts, and the aims of United States government officials. They realized the multiple factors that accounted for the American interest in European stability. They understood that Americans were trying to protect their investments in Germany, safeguard their war debt claims, and sustain a healthy European market all at the same time. The French knew the brunt of this policy fell upon themselves. They were being asked either directly or indirectly to reduce reparations, to pay the war debts, and to accept the security implications of a revitalized Germany. French policy therefore was to get the United States to share at least in the short-term financial sacrifices that were necessary to restore Europe to full economic health. Thus, the French insisted that the reparation bonds be commercialized as quickly as possible and that the debt

45 See, for example, the memorandum of the conversation between Edouard Herriot and President Franklin D. Roosevelt, April 27, 1933, 550.51/707.
and reparation questions be linked to one another. Not surprisingly, they claimed that the Young Plan established a de facto link between these issues and that future reparation revisions would be contingent upon reciprocal American action on the war debts. Furthermore, the French deeply resented the extension of unproductive loans to Germany. These had weakened Germany's credit structure and had exacerbated the task of mobilizing German reparation bonds. The French tended to view this as an unscrupulous means of avoiding reparation payments. And they eventually came to condemn both American capitalists for engaging in such practices and American officials for protecting these bankers.

This was the atmosphere of American-French and American-European relations as American foreign policy evolved from prosperity diplomacy to depression diplomacy. In the first half of 1930, the immediate task was to commercialize a proportion of the Young Plan bonds. This did not pose an insuperable hurdle since investment markets during the first

46 The intent of French policy was elucidated during the course of the Chamber's debates on the Mellon-Bérenger accord, on the Young Plan, and on the Hague agreements. See the relevant material in Bureau of Accounts, Boxes 58, 59, and 63, RG 39; also see the letter from Moreau and Parmentier to Poincaré on the advantages of the Young Plan in "Le Règlement de la Paix," Le Temps, June 17, 1929, in ibid., Box 77; Armour to Stimson, March 31, 1930, April 15, 1930, ibid., Box 78; Edge to Stimson, April 7, 1930, ibid.

47 See, for example, André Tardieu, France in Danger (London, 1935), 28-29; Wilson to Stimson, January 9, 1930, Bureau of Accounts, Box 80, RG 39.
half of 1930 experienced a remarkable recovery. Three hundred million dollars of Young Plan bonds were marketed successfully in the world's financial centers in June, 1930. Yet, throughout the negotiations leading up to the successful flotation, American bankers and policy makers felt real uncertainty over the amount of bonds the American market could absorb and expressed apprehension over the possible domestic political repercussions of the flotation. Louis McFadden was politicizing the issue and trying to prevent American banks from purchasing the reparation bonds. Fearing a political uproar, Under Secretary of State Joseph Cotton insisted that the American participation should not exceed one-third of the total flotation and that the quantity commercialized should not too seriously strain the New York market.

During the hearings of the House Banking and Currency Committee on the mobilization of German reparation bonds in the United States, Cotton stressed the positive impact of foreign loans on the American economy. He was not alone in hoping that the resurgence of American capital exports might help to rejuvenate world purchasing power and to stimulate

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49 Jay E. Crane (Deputy Governor of the Federal Reserve Bank of New York) to George Harrison, March 28, 1930, and Harrison to Crane, March 29, 1930, Bureau of Accounts, Box 218 (unmarked folder), RG 39; House, Banking and Currency, *German Reparation Bonds*. 
American exports. Unfortunately, however, after the flotation of the Young loan, the entire international economic situation deteriorated, financial markets collapsed, and political and economic upheaval spread. In September, 1930, the German National Socialist Party capitalized upon the wave of distress and became a major factor in German politics. The result was a hardening of German foreign policy to accommodate the right. This was evidenced by the increasing talk of the necessity to reduce or cancel reparations and by Chancellor Heinrich Bruning's efforts to establish a customs union with Austria. These developments accelerated the withdrawal of French credits both from Austria and Germany. This, in turn, exacerbated the credit crisis throughout Central Europe. During the first six months of 1931, this crisis intensified, reached unparalleled dimensions in May, and culminated in the failure of the Creditanstalt, additional runs on Germany, and the declaration of the Hoover moratorium.

Since the autumn of 1930, there had been considerable


discussion in American government and banking circles of a possible postponement of reparation and war debt payments in order to alleviate Central Europe's financial crisis. By February, 1931, there was growing alarm over the safety of short-term American capital in Germany. In order to protect these investments, Albert H. Wiggin, Chairman of the Chase National Bank, publicly recommended that the war debts be scaled down. This generated an acrimonious debate in the press and among politicians over the advisability of revising all debt and reparation settlements. The Alexander Hamilton Institute reported that as a purely economic matter

the question of cancellation or reduction of inter-Allied debts ... centers primarily on a decision as to whether a revival in trade is more important than an increase in taxation or, to say the least, a postponement of the reduction in taxation in the United States.  

But Hoover and his cabinet officers had to determine the American response to Central Europe's credit crisis on financial and political grounds as well as according to strictly economic criteria.

President Hoover, of course, was aware of the precarious situation in Germany and Austria.  

After a talk

52 "What Action--or Inaction--on War Debts Will Do," Literary Digest, 108 (March 28, 1931), 44-45; also see "War Debt Reduction and Business Recovery," ibid., 108 (January 24, 1931), 38-40; Kent to Hoover, October 21, 1930, Box 3 (Japan), Fred I. Kent Papers (Princeton University Library, Princeton, New Jersey); Bennett, Financial Crisis, 18-39.

53 In the autumn Hoover had talked to Schacht about the financial crisis and during the winter he had conferred with Frederic Sackett, the American Ambassador to Germany. See Bennett, Financial Crisis, 22-23, 34-37.
with Frederic Sackett, American Ambassador to Germany, at the White House on May 6, 1931, however,他 became even more gravely concerned. Throughout the rest of May, he received increasing statistical information on the course of financial affairs in Europe, on the extent of the American financial stake in Central European stability, and on the interrelationships between war debts, reparations, and private loans. On May 20, 21, and 22, Hoover spoke with Governor Eugene Meyer of the Federal Reserve Board. Subsequently, as Germany experienced an unprecedented drain of her foreign exchange, the President continued to study the probable impact of a financial collapse in Germany on the banking and credit structure of the United States. Senator Dwight Morrow reported that his former colleagues on Wall Street were extremely panicky over the German situation. Circumstances were exacerbated when the British and German Prime Ministers met at Chequers and when a German manifesto was issued declaring that nation's need for additional relief from the reparations burden imposed by the Young Plan. 54

Thus, by the second week in June the financial situation both in Europe and the United States had reached ominous proportions. Ogden Mills, the Under Secretary of the Treasury, subsequently told the House Committee on Ways and

54 Mark Sullivan, "President Hoover and the World Depression," Saturday Evening Post, 205 (March 11, 1933), 3-5; Bennett, Financial Crisis, 121-135.
Means that "The world . . . was confronted with the danger of a major catastrophe of incalculable consequences to the credit structure of the world and to the economic future of all nations." Individual creditors, clamoring to protect themselves from a possible German moratorium on all foreign exchange transactions, withdrew their loans. This intensified the credit crunch and increased the likelihood of the very moratorium that they all wished to avoid. On June 6 and 7, Stimson expressed his fears to the British Ambassador and urged that the $1 billion of short-term credits be protected. The Secretary of State emphasized that any moratorium in respect to reparation payments "be calculated to increase security [sic] of commercial indebtedness." The British, however, would not relieve their debtors without being assured of similar relief for themselves. British Foreign Secretary Arthur Henderson maintained that "The key to the situation seems to rest with the United States and France."
Consequently, the responsibility of staving off a world financial crisis (with especially disastrous ramifications for the American economy) was transferred to the President of the United States. Charles Dawes, the Ambassador to England and a man in close contact with Hoover during the hectic days of June and July, correctly noted:

What first moved Hoover to immediate action was the fear of the collapse of the Reichsbank and German credit, which would affect adversely the immense American holdings in German securities, especially in short-term German bank credits.  

Hoover's problem, of course, was to find a means of relieving Germany's liquidity crisis without upsetting Germany's creditors and without antagonizing the American people. The convocation of an Advisory Committee under the terms of the Young Plan to study Germany's capacity to pay reparations did not appear as an adequate alternative because it offered no prospect of relieving Germany of both her conditional and unconditional obligations. On the other hand, American policy makers did not wish to have the problem discussed at an international conference. They feared that this would entangle the United States in all of Europe's economic and political problems. The end result, they believed, would be the imposition of unduly heavy sacrifices

58 Dawes, Journal as Ambassador, 356.

59 Moulton and Pasvolsky, War Debts and World Prosperity, 320 ff.; also see memorandum of conversation between Stimson and Claudel, June 18, 1931, F.R., 1931, I, 27.
upon the American people for at such a conference the United States would stand alone. Thus, it was agreed, that the only practical solution was for the President to make a unilateral request to all the powers to postpone the collection of inter-governmental debts for a period of time. Hoover was contemplating such action in early June. Subsequently, virtually everyone with whom he consulted advised that the moratorium be for at least two years. Moreover, Mellon, Mills, Stimson, and others urged that France be informed in advance of the intended American action.

For almost two full weeks, however, Hoover hesitated to act. He worried about the possible political repercussions and about the consequences of implicitly linking debts and reparations. Between June 6 and June 14, despite considerable pressure from Stimson, Mills, Morrow, Young, Gilbert, Meyer, and George L. Harrison (of the Federal Reserve Bank of New York), the President wavered. Even after returning from a brief visit to the mid-west, where he sounded out some prominent politicians, Hoover remained irresolute. On

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60 See, for example, Mills to Hoover, June 18, 1931, Box 109, Ogden Mills Papers (Manuscript Division, Library of Congress).

June 18th, Stimson and Mills met with him in Washington and pressed for an immediate announcement. The atmosphere was gloomy. "It was like sitting in a bath of ink to sit in his [Hoover's] room." Finally, however, after learning that Mellon, in London, had telephoned his approval of the contemplated action, the President decided to act. Though Congress was adjourned, leaders of both parties were contacted and their approval secured. This was essential because a moratorium on debt payments necessitated legislative sanction at the next session of Congress. But in the process of obtaining bipartisan support, Hoover watered down the proposal to a one-year moratorium on all inter-governmental debt payments. Equally significant was the fact that while conferring with senators and congressmen on the telephone, there was a leak to the press. This compelled Hoover to issue a public statement before fully informing other governments of the American proposal. 

In his moratorium announcement to the press, the President explained that his intention was "to give the


63 Hoover, Memoirs, III, 67-70; Stimson and Bundy, On Active Service, 205-206; Morison, Turmoil and Tradition, 287-288. Mills explained to John Foster Dulles how the necessity of winning congressional approval over the telephone affected the nature of the administration's proposal. See Mills to Dulles, June 25, 1931, Box 109, Mills Papers.
forthcoming year to the economic recovery of the world." He went on to say that the abnormal influx of gold into the United States disrupted credit arrangements throughout the world. "These and the other difficulties abroad diminish buying power for our exports and in a measure are the cause of our continued unemployment and continued lower prices to our farmers." The moratorium therefore was aimed at relieving the burden of inter-governmental debts on national economies, at restoring confidence, and at promoting "political peace and economic stability in the world." Such action, the President stressed, did not forebode a change in the traditional American policy of separating debts and reparations. Nor was any cancellation of the debts envisioned. In fact, the moratorium was in accord with the nation's traditional insistence on demanding payment according to the debtors' capacity. Thus, the "course of action is entirely consistent with the policy which we have hitherto pursued. . . . It represents our willingness to make a contribution to the early restoration of world prosperity in which our people have so deep an interest."^64

Though the President did not say it, the events preceding this announcement indicate that his immediate motivation was to relieve Germany's credit crisis and thereby to

^64The statement may be found in William Starr Myers and Walter H. Newton, The Hoover Administration (New York, 1936), 93-94.
protect America's banking structure from an almost inevitable German financial upheaval and from a probable German moratorium on all foreign (public and private) debt payments.\textsuperscript{65} But in a more fundamental sense, the moratorium was intended to help generate recovery at home by relieving distress abroad. Only in the context of world economic progress could the United States return to full prosperity. Stimson subsequently informed the House Ways and Means Committee that if Germany collapsed, world prices would have further depreciated, and the capacity of America's own debtors would have been weakened.\textsuperscript{66} Thus, both as seller and creditor, the United States had much to gain from German stability and German reconstruction.

In a similar fashion, Ogden Mills told both the appropriate House and Senate committees that the administration's aim was to prevent Germany from going off the gold standard and thus endangering her entire industrial and commercial network.\textsuperscript{67} The results of such action would have been devastating. Mills himself privately had rejected

\textsuperscript{65} Bennett, Financial Crisis, 134-140; also see statement by Mills before the House, Committee on Ways and Means, Foreign Debts, Part I, 4-12; statement by Mills before Senate, Committee on Finance, Postponement of Inter-Governmental Debts (Washington, 1931), 9, 13-15.

\textsuperscript{66} House, Ways and Means, Foreign Debts, Part I, 51.

\textsuperscript{67} Ibid., 9-12; Senate, Finance, Inter-Governmental Debts, 13-15.
proposals that called for the utilization of war debts as a level to artificially expand American exports. The Treasury Under Secretary opposed temporary expedients that envisioned the expansion of American commerce at the expense of other nations or at the expense of American taxpayers. He insisted that real recovery had to be world-wide and that it depended upon thoroughgoing readjustments.  

The moratorium was to afford time for these readjustments to occur. But its aim was also to alleviate the world banking crisis and to provide Europe with enough foreign exchange to purchase American goods. Ever since 1929, American bankers and businessmen had understood that the precipitous decline in American exports was at least in part due to the reduction in foreign lending. Similarly, as European financial conditions deteriorated and as American bankers grew more apprehensive, the availability of sufficient credits to finance the export trade of the United States was affected. In this context, the moratorium may be seen as an effort to restore confidence, to preserve the gold standard, and to reinvigorate trade.  

68 Mills to Walter H. Newton (Secretary to the President), June 17, 1931, Box 109, Mills Papers.  

69 For the interrelationships between loans, currency stability, trade, and the depression, see, for example, American Bankers Association, Commission on Commerce and Marine, Domestic and Foreign Affairs (New York, 1929), 12, 17; James A. Farrell, "The World Outlook," National Foreign Trade Council, Official Report of the Eighteenth National
loan from the American government (and other creditor nations, especially France) aimed at stabilizing European finances and rejuvenating world commerce. In so far as it sought to facilitate world peace and prosperity, without too deeply embroiling the United States in Europe's political affairs, the Hoover moratorium was a logical continuation of post-war American policy toward Europe. In a fascinating article in Current History, John Carter of the Division of Western European Affairs emphasized just this point. He explained that the moratorium did not signify a revolution in American diplomacy. It was simply a new tactic aimed at accomplishing old objectives.

Hoover's initiative was received exuberantly at home and well regarded abroad. Only the French demurred. The


French were skeptical of the benefits of the moratorium since under its terms they would be a net financial loser. Much more importantly, they deplored the postponement of the unconditional annuity. They believed that once the unconditional annuity was suspended, no German government would be able to incur the political risks of reimposing taxation for the purpose of paying reparations, whether conditional or unconditional. Though they knew that something had to be done to relieve the German financial crisis, the French hoped to reap certain political concessions from Germany in return for their own financial sacrifices. What agitated them as much as anything was the fact that an outside power (the United States) unilaterally had called for the abrogation of contractual accords (the Young Plan and Hague agreements) without regard to the legal implications of such action. The French feared that this might encourage Germany to call for political as well as economic revisions of the Treaty of Versailles and related agreements.  

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For the domestic reaction to the moratorium, see, for example, "What the 'Hoover Holiday' Means to the World," Literary Digest, 110 (July 4, 1931), 5-6; "The 'Hoover Holiday' and Business Recovery," ibid., 110 (July 11, 1931), 42-44. For the European and especially the French reaction to the American initiative, see "Europe's Cheers and Jeers for the War-Debt Holiday," ibid., 110 (July 4, 1931), 13-14; Bennett, Financial Crisis, 168 ff.; Clarke, Central Bank Cooperation, 184-185; Geoffrey Warner, Pierre Laval and the Eclipse of France (London, 1968), 31-33; Dawes, Journal as Ambassador, 354-355; Tyrrell to Henderson, June 28, 1931, July 10, 1931, D.B.F.P., II, II, 107-108, 166-167; Henderson to Lindsay, June 30, 1931, ibid., 112-113.
French apprehensions about the far-reaching ramifications of the Hoover moratorium were intensified by the way it was imposed upon them. They bitterly resented that they were not consulted in advance. Even Aristide Briand, the French Foreign Minister and the most conciliatory member of Premier Pierre Laval's government, was furious. He felt the moratorium had been inspired by Bruning and Montagu Norman (Governor of the Bank of England) and had been instituted by Hoover to save Anglo-American private investments. Laval, too, was upset by American "shock-tactics." He remarked that he would never again believe that the United States was not disposed to intervene in European affairs and always on behalf of Germany and at the expense of France. American Ambassador Walter Edge accurately summed up French sentiment:

They believed that American and British finance had conspired to cheat France out of the fruits of military victory. They would not accept the explanation that all we and the British wanted was to accelerate the reconstruction of Europe. In fact, they pointedly remarked that Europe in the eyes of Anglo-American financiers had come to mean the German Reich.72

Despite intense and widespread resentment in France,

Laval realized the French could not afford to be isolated from the other powers. Moreover, from a strictly financial point of view, the French lost less under the terms of the Hoover moratorium than they would have relinquished under the conditions of a Young Plan moratorium. Consequently, Laval and French Finance Minister Etienne Flandin fought desperately both to moderate the hostile French reaction and to protect France's vital national interests. They approved of the one year postponement, but insisted that the unconditional annuities be paid and then reloaned through the B.I.S. both to Germany and to other needy Central European powers (especially to France's allies in that region). They emphasized that it was essential to maintain some semblance of German payments in order to demonstrate that the validity of existing accords had not been compromised. Laval and Flandin also demanded that the unconditional annuity be reloaned to the German railroads rather than to the German government. This was to preclude any additional German expenditures on armaments. Furthermore, the French insisted that the deferred payments should be quickly repaid after the holiday year and that certain deliveries-in-kind should be continued even during the moratorium. Finally, in return for their financial concessions, the French also requested other assurances of Germany's good faith. This might be

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73 Bennett, *Financial Crisis*, 171-172.
illustrated by the stoppage of certain German battleship
collection then underway, by the abandonment of the
Austro-German Customs Union project, and/or by the cessation
of Germany's economic and political penetration of French
spheres of influence in Central Europe and the Balkans. 74

The conditional French response to Hoover's proposal
delayed its universal acceptance for two weeks. In the
interim, while protracted and acrimonious negotiations were
underway to iron out the differences in the French and
American positions, the initial positive impact of the
announcement was undermined, confidence was shaken, bankers
became apprehensive, financial markets weakened, and the
drain of Germany's foreign exchange resumed. These develop­
ments caused considerable consternation in American policy
making circles and complicated negotiations with the French.
Eventually, Washington's irritation with France became so
intense that on several occasions the talks almost broke
down. American policy makers insisted that "a clean sweep
and postponement of all intergovernmental payments for one
year" was essential for the restoration of confidence and
for the revitalization of German credit. The full benefit
of the moratorium, therefore, had to redound to Germany and

74 For the French position during the negotiations
over the implementation of the moratorium, see F.R., 1931,
I, 44, 47, 57-58, 61-65, 80, 96, 105-108, 133-135, 142-143,
150-159. For a convenient and cogent summary of the French
position, see Moulton and Pasvolsky, War Debts and World
Prosperity, 327-329.
she had to be given adequate time to repay the deferred annuity. For the most part, American officials dismissed the French objections as irrelevant. American sacrifices, they claimed, were greater than the French. Moreover, they believed the French had most to gain from a restored and prosperous Germany. Even, in retrospect, Hoover maintained that the French raised only "technical and fictitious difficulties." Despite these sentiments emanating from Washington, Ambassador Edge and Secretary Mellon, both in Paris, worked tirelessly and tactfully to reconcile the conflicting positions, to elicit concessions from both sides, and to bring a compromise accord to fruition.

The United States ultimately agreed that the unconditional annuity be reloaned to Germany through the B.I.S. and that there be some additional financial aid extended to the other Central European nations, but through private banking channels. The French, in turn, accepted the one year moratorium in principle and acceded to the American demand that the entire unconditional annuity be used for the relief of Germany. Both sides compromised and agreed that all suspended payments be repaid over a ten year period. More technical questions with regard to deliveries-in-kind and

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For the American position during these negotiations, see F.R., 1931, I, 55-57, 65-67, 74-82, 88-91, 112-117, 127-128, 133-135; also see Hoover, Memoirs, III, 72; Edge, Journal, 197-200; Mark Sullivan, "President Hoover and the World Depression," Saturday Evening Post, 205 (March 11, 1933), 31-34.
French payments into a guarantee fund (as stipulated in the Young Plan) were reserved for subsequent deliberations between financial experts of the various nations. This accord, signed on July 6, 1931, ended the immediate dispute but did not terminate the ill will and harsh feelings that persisted in both nations.

The French-American controversy over the Hoover moratorium illustrated the different approaches of the two nations to post-war Europe. The American perspective was economic. Therefore, the United States proposed a financial solution to Europe's troubles and disregarded its political ramifications. The French approach, though not devoid of economic considerations, was mainly political. Consequently, even a man like Laval, who was intent on facilitating some type of rapprochement with Germany, was compelled to safeguard France's international political and strategic interests before acceding to purely economic palliatives. To the French, stability still meant the enforcement of the provisions of the Treaty of Versailles and the preservation of French predominance on the European continent. To the Americans, stability rested in a prosperous and republican Germany. When these conflicting approaches collided, something had to give. American policy makers had to decide

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76 See the "Basis of Agreement," July 6, 1931, F.R., 1931, I, 162; also see ibid., 114-117, 133-135, 142-143, 150-157.
whether, in order to secure France's adherence to their own viewpoint, they were prepared to accept some responsibility for protecting France's political and strategic interests. In essence, were they willing to enter Europe's political affairs in a constructive and meaningful fashion if Europe's economic and financial stability depended upon it?

All during the painstaking and frustrating talks with the French over the implementation of the moratorium, American officials had been aware that their bargaining position would be strengthened if they could solicit certain political concessions from the Germans. For the most part, however, they refrained from exerting systematic pressure in this direction. On several occasions, Acting Secretary of State William Castle made it absolutely clear that the United States opposed using "a purely economic proposal which was advanced for the benefit of the whole world as a means of forcing political concessions." This American attitude was apparently the result of three factors. First, policy makers feared that Congress might object to any political intervention. Such objections might then lead to an emasculation of the constructive financial proposal itself. Second, policy makers seemed to be apprehensive about becoming enmeshed in the intractibilities of European politics. Third, government officials assumed that economic and financial solutions themselves would promote international political stability. This attitude was best illustrated by
Hoover's statement to the press upon the conclusion of the Franco-American talks. On that occasion, he said:

While the plan [moratorium] is particularly aimed to economic relief, yet economic relief means the swinging of men's minds from fear to confidence, the swinging of nations from the apprehension of disorder and guaranteed collapse to hope and confidence of the future.77

This faith in the efficacy of economic palliatives really begged the question of what was to be done if the success of such proposals themselves depended upon a prior American political involvement or commitment. In many ways, this was the crux of the dispute with France. And American policy makers reluctantly came to realize that some pressure had to be exerted upon Germany if the negotiations with France were to be successful. Consequently, Castle ordered Ambassador Sackett to urge Germany to alleviate French fears about German rearmament in general and about German battleship construction in particular. But the American initiative in this direction was of limited magnitude. The Germans did not take it too seriously and did relatively little to facilitate the talks between French and American negotiators. American officials realized that German intransigence had exacerbated the task of securing French cooperation. As a result, Mills was as upset with the Germans as he was with the French. "They are all a great crowd to do business

77For Hoover's statement, see ibid., 163; for Castle's statement, see ibid., 93-94; also see ibid., 77-78, 84-85, 97.
with," he sarcastically commented to former Under Secretary Garrard Winston. 78

The entire experience highlighted the fact that a financial moratorium in and of itself was not sufficient to restore confidence under the prevailing circumstances in Europe. American policy makers, therefore, once again had to re-evaluate the importance of European stability to American self-interest. Was it worth additional political commitments? What further economic or financial contribution might the United States make to foster European stability without injuring the domestic economy and without provoking too much internal political controversy? These were not idle questions. The recrudescence of the German financial crisis during the first two weeks of July compelled American officials to scrutinize policy alternatives. The recent dispute with France had made it clear that politics and economics were hardly divisible spheres of activity. Given this growing awareness, how would American policy makers react to the intensification of the European economic and political crisis?

78For references to the nature of American policy toward Germany during the French-American negotiations over the moratorium, see ibid., 49, 84-85, 93, 96-98, 109-110, 129-132; D.B.F.P., II, II, 107, 111, 112, 115, 117-118, 124-125, 141 (including footnote number 2), 133, 144, 155-157; Bennett, Financial Crisis, 177-203, especially 190-196. For the quote, see Mills to Winston, July 15, 1931, Box 109, Mills Papers.
During the first week of July, Hoover and Castle decided to support British efforts to convene a conference in London to deal with the deteriorating financial situation in Germany. Such a meeting became absolutely imperative as the drain of foreign exchange and the withdrawals of short-term credits multiplied during the second week of July. The crisis was intensified by several large German industrial bankruptcies coupled with a major bank failure. The liquidity of Germany's entire banking system seemed in question. Germany appealed for more credits, but neither the B.I.S. nor the central banks of Britain or France were willing to extend additional help. The existing $100 million credit to Germany (from the B.I.S., the Bank of France, the Bank of England, and the Federal Reserve Bank of New York) was renewed, but the bankers generally concurred that fundamental solutions to the international financial crisis depended upon political accords between governments and not upon further injections of short-term credits.

While American policy makers recognized the need for an international conference to decide upon more effective

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79 Lindsay to Henderson, July 2, 6, 1931, D.B.F.P., II, II, 120-121, 145; Bennett, Financial Crisis, 211-218, 246-248.

measures to relieve Germany's credit crunch, they were apprehensive lest the United States government be called upon to make the major financial contribution. They insisted that Germany had to make a greater effort to help herself. With this in mind, Hoover instructed Stimson, who was then travelling in Europe, not to proceed to Berlin for fear that his visit there might be misinterpreted as evidence that the United States was preparing to provide Germany with all necessary relief. 81 By the middle of July, the internal American banking crisis had become sufficiently grave to circumscribe the flexibility of both Washington and Wall Street in dealing with the international financial crisis. Nevertheless, something had to be done in order to forestall the possibility of a "wholesale bank failure" in the United States. As Hoover later admitted, "The situation was no longer one of helping foreign countries to the indirect benefit of everybody. It was now a question of saving ourselves." Stimson and Mellon therefore were instructed to participate in an inter-governmental conference in London, the preparations for which were then underway. 82

As Stimson began his talks with French and British officials in Paris on July 15, Hoover, Mills, Castle, Meyer, Morrow, and Dawes mapped out American strategy in Washington.

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81 Castle to Stimson, July 14, 1931, F.R., 1931, I, 256.
82 Hoover, Memoirs, III, 75.
They decided that the London conference, scheduled for July 21, should be focused exclusively on the present emergency. In their opinion, the emergency was in large part a banking matter. "It arises from the overextension of short-term credits abroad and the loss of confidence resulting in the flight of the mark from Germany." Thus, the immediate task was to arrange for the stabilization of credits in Germany. If the bankers agreed to maintain their existing lines of credit in Germany and if the German government took rigorous measures to prevent the internal flight from the mark, policy makers in Washington believed the immediate crisis would be overcome, the situation would be stabilized, confidence would be restored, and money would begin to return. Guided by these assumptions, they advised Stimson and Mellon to expend the major part of their efforts on securing a standstill accord. 83

This American approach was in conflict with the attitudes of German, French, and British officials. Each of the major European powers wanted to have more basic issues discussed and settled at the forthcoming financial conference. The Germans desired additional long-term credits in order to deal with the crisis in a comprehensive manner. The French were willing to participate in a long-term international

loan, if it was guaranteed by all the governments. But they were also demanding that the loan be conditioned upon a political moratorium, that is, upon a termination of German requests for further revisions in the Treaty of Versailles. The English, meanwhile, were hoping that the conference might attack the whole problem of revising (or cancelling) war debts and reparations.  

American policy makers realized the vital importance of all these issues. Yet, Hoover and his advisers insisted on treating the immediate crisis as a banking matter. This was because they believed that the deep-seated economic, financial, and political problems which gave rise to the present emergency could not be dealt with quickly enough to relieve the on-going liquidity crisis. Attacking the root causes of this crisis, they feared, might lead to prolonged negotiations. In the meantime conditions might worsen and the American banking system might be threatened. In American eyes, the aim of the standstill itself was to provide a breathing spell for the governments to cope with the fundamental sources of political unrest and financial chaos in

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84 For the positions of German, French, and British officials during the Paris and London negotiations, see, for example, D.B.F.P., II, II, 180-181, 190-195; 204-205, 212-217, 435-438; memorandum of conversation between Henderson and Stimson, July 15, 1931, 462.00R296/45061; Castle to Stimson, July 15, 1931, 462.00R296/4497; memorandum of phone conversation between Stimson and Hoover, July 16, 1931, 462.00R296/4525½; F.R., 1931, I, 286-287, 315-321; Bennett, Financial Crisis, 244-274.
In other words, Hoover and his advisers in Washington understood that a stabilization accord was not an altogether satisfactory solution to the problems at hand. But they assessed the financial and political conditions at home and abroad and they decided that for the time being there was no other viable alternative. Domestically, neither Washington nor Wall Street was in a position to provide long-term financial assistance to Germany. The President was convinced, for example, that Congress would never agree to a United States government guaranteed loan, the proceeds of which would go to Germany. With a budget deficit of approximately $1.6 billion and with widespread unemployment, Hoover felt it preposterous to assume that Congress would authorize

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85 Castle to Stimson, July 15, 1931, 462.00R296/4497; Castle to Stimson, July 17, 1931, F.R., 1931, I, 275-278; Castle to Stimson and Mellon, July 19, 1931, ibid., 280-282, 283-286; Dawes, Journal as Ambassador, 360. For indications that American policy makers understood the importance of resolving political problems and of revising the reparations burden, see pp. 419-424, infra.

86 For example, Stimson and Mellon informed Hoover and Castle that a standstill accord was not a sufficient remedy and that Germany needed new funds. American officials in Washington did not dispute the validity of this. Castle emphasized, however, that the stabilization accord was an essential first step. Without a standstill on existing credits, new loans would do nothing but fill the vacuum as old ones were withdrawn. For the opinion of Stimson and Mellon, see memorandum of phone conversation between Stimson and Hoover, July 20, 1931, F.R., 1931, I, 300; Stimson to Hoover, August 11, 1931, ibid., 317. For the attitude of officials in Washington, see, for example, Castle to Stimson and Mellon, July 19, 1931, ibid., 283-284.
such action. And without a government guarantee, there was little possibility of floating a loan successfully in the American market. This was especially true because American bankers, already overextended and extremely apprehensive, did not wish to float another loan (particularly if France was not going to allow it to have priority over reparations). Some American financiers even were opposed to the standstill proposal and succumbed only to the intense pressure exerted by Hoover himself. Though Stimson was momentarily shocked by the realization that the government could no longer rely upon the financial community to provide additional capital for European stability, Hoover seems to have understood the bankers' reluctance to make additional commitments under prevailing conditions. Consequently, the

87 Memorandum of phone conversation between Stimson and Hoover, July 15, 1931, 462.00R296/4513½.

88 Memorandum of phone conversation between Stimson and Hoover, July 16, 1931, 462.00R296/4525½; Castle to Stimson, July 16, 1931, F.R., 1931, I, 268; Dawes, Journal as Ambassador, 361-362; Hoover, Memoirs, III, 77-78.

89 For Stimson's reaction, see memorandum of conversation between Stimson and Jay, July 17, 1931, F.R., 1931, I, 279-280. Hoover, on the other hand, does not seem to have been surprised by the bankers' opposition to new commitments. He was more keenly aware of the gravity of the internal crisis and felt that the burden of the standstill itself would fall primarily on American bankers. Consequently, he did not press the New York Federal Reserve Bank to accept a German proposal that all central banks be required to rediscount up to $500 million of internal German commercial bills. On this latter point, see Stimson to Hoover, August 11, 1931, ibid., 320; Sullivan, "Hoover and the Great Depression," 82; Bennett, Financial Crisis, 276-277.
standstill represented the maximum contribution that the United States could make in the immediate future to European financial stability.

There was little reason to suspect, however, that foreign governments would be any better able to agree to the fundamental adjustments that were essential for a comprehensive attack on the root problems of the international crisis. Bruning, for example, could not make political concessions until the Young Plan was revised. Laval, however, could not tamper with the Young Plan unless Germany accepted the political status quo and unless the United States acquiesced to additional war debt sacrifices. In turn, British Prime Minister Ramsay MacDonald and Chancellor of the Exchequer Philip Snowden could not assent to further infusions of British capital into Germany without assurances that war debts and reparations would be wiped out. Given the intractable positions of the various nations, a stabilization accord presented the only possible common denominator for an immediate end to the liquidity crisis. It would have been futile and counter-effective for British, French, German, and American officials to have tried at once to tackle the more fundamental issues. While they would have been engaged in prolonged, tedious, and frustrating negotiations, the temporary and unilateral standstills arranged in

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90For the positions of the various governments, see the citations in footnote 84.
Britain and the United States (by the Bank of England and the Federal Reserve Bank of New York) might have broken down and the entire situation might have been considerably worsened.

Given the situation, Stimson adroitly managed to establish a consensus among French, British, and German leaders that a stabilization of existing credits was the necessary prerequisite for more comprehensive action at a subsequent time. Thus, the outcome of the London conference was a series of recommendations to the appropriate financial institutions in the various nations to maintain the central bank credit of $100 million, to maintain the existing volume of private banking credits in Germany, and to establish a committee to examine the future capital needs of Germany.

In accordance with this mandate, in August, 1931, the

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91 Real problems were being created by Dutch, Swiss, and Swedish banks, as well as by smaller banks in the Anglo-Saxon nations, as they continued to withdraw short-term capital from Germany. As a result of these withdrawals, during the London conference both Stimson and Snowden were afraid they might not even be able to secure universal cooperation on the standstill proposal. For information on the informal standstills established in New York and London during the first days of July, see Clarke, Central Bank Cooperation, 193-194. For indications of Stimson's and Snowden's fears lest these standstills break down before universal cooperation was achieved, see, for example, stenographic notes of the second meeting of the London conference, July 21, 1931, D.B.F.P., II, II, 445-452.

92 The proceedings of the London conference may be found in D.B.F.P., II, II, 435-485. The "Declaration of the London Conference" may be found in F.R., 1931, I, 313.
bankers of all the major creditor nations agreed to a standstill accord for six months, provided that the central banks renewed their credits to Germany in the interval. Meanwhile, the international committee of bankers established by the B.I.S. to study conditions in Germany, and chaired by Albert Wiggin of the Chase National Bank, concluded that Germany was experiencing a severe credit crisis. The Wiggin Committee prescribed a long-term loan and a conversion of short into long-term credits. It also pointed out that Germany's commercial and budgetary situation was not attractive to foreign investors. Additional loans, however, would not be forthcoming unless governments took action to promote stability and confidence by resolving the political problems in Europe and by readjusting the external obligations (reparations) of Germany.93

In many ways the recommendations of the Wiggin Committee were in close accord with the perceptions of the Hoover administration. Since mid-July, American policy makers had been insisting that it was the task of private bankers to provide the means of dealing with the international liquidity crisis.94 But, while relying upon the bankers to

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93 The report of the Wiggin Committee may be found in D.B.F.P., II, II, 485-494; also see Cochran to Castle, August 14, 20, 1931, Bureau of Accounts, Box 104, RG 39.

94 See, for example, memorandum of conversation between Hoover and Stimson, July 16, 1931, 462.OCR296/4525; also see F.R., 1931, I, 274-275, 281, 551-552; D.B.F.P., II, II, 461-462.
provide the necessary financial resources to overcome the present crisis, Hoover and his advisers did realize that it was the obligation of the governments to create a favorable political and economic environment for the extension of additional private loans and credits.  

Like the Wiggin Committee, American officials were convinced that no permanent solution to the financial crisis could be achieved without accompanying action in the international political sphere. Castle repeatedly stressed that the essence of the crisis was a lack of world confidence in Germany's economic life. To re-establish the necessary confidence, Europe had to solve its political problems, eliminate the sources of political friction, and institute political stability. Stimson also understood the critical importance of facilitating a German-French political rapprochement. He told British Foreign Secretary Arthur Henderson "That the most important thing in this whole situation was that France and Germany should come out of it closer together rather than

95 On June 19, Assistant Secretary of Commerce Julius Klein wrote that "it is generally believed here [official Washington] that investment bankers can do little to promote exports at present, since conditions beyond their control prevent the flotation of foreign securities on a large scale for any prospective borrower except Canada." Klein to Willcox, jr. (Dillon, Read), June 19, 1931, B.F.D.C., Box 640, RG 151. The aim of the Hoover administration was both to try to improve those conditions beyond the control of the bankers and to get the bankers to help themselves. This had been the object of the moratorium and the standstill.
farther apart. . . ."96

Though American policy makers recognized the relationship between European political tranquility and European financial stability, they believed it was primarily the task of European governments, and not that of the United States government, to resolve European political squabbles. It was for this reason that Laval's apparent willingness to be conciliatory toward Germany made such a favorable impression upon Stimson. The Secretary of State hoped that the standstill would provide the necessary time for Laval and Bruning to iron out their political differences as equals in an atmosphere of confidence rather than a crisis environment.97

The Hoover administration also concurred with the Wiggin Committee's conclusion that it was the obligation of governments to institute financial policies that were likely to restore confidence and lead to a resumption of private foreign investments. All through July and August, the German government was urged to implement whatever

96Memorandum of Conversation between Henderson and Stimson, July 15, 1931, 462.00R296/4506\frac{1}{2}; also see Castle to Stimson, July 17, 1931, E.R., 1931, I, 275; Castle to Stimson and Mellon, July 19, 1931, ibid., 280.

97For Stimson's attitude toward Laval and toward the possibilities of creating a better political environment in Europe, see Stimson to Hoover, August 11, 1931, ibid., 321; also Stimson to Hoover and Castle, July 24, 1931, ibid., 549. Nevertheless, policy makers in Washington opposed the French proposal to make a loan dependent on political concessions. See, for example, Castle to Stimson and Mellon, July 19, 1931, ibid., 285-286.
measures were necessary to prevent the internal flight from the mark and to attract an inflow of foreign capital. After the London Conference, Stimson went to Berlin and told Hans Luther, President of the Reichsbank, that the success of the standstill depended upon Germany turning "to courage and self-help." But at the same time that American officials were urging the German government to gain control of the situation, they also acknowledged that all European governments had to proceed toward a revision of Germany's reparations burden. On August 21, Castle told the German Ambassador that "I had always taken for granted that the German Government would appeal [for help] before the committee provided for under the Young Plan."

The Hoover administration, however, did not plan to juxtapose the entire responsibility for reviving confidence and stimulating investments onto other governments. In July, Ambassador Dawes had noted in his diary that the moratorium had brought the United States to the point of

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98 Memorandum of Conversation between Stimson and members of the German government, July 25, 1931, F.R., 1931, I, 552-553; for similar remarks by Stimson, see ibid., 274, 562.

99 Memorandum of Conversation between Castle and von Prittwitz, August 21, 1931, ibid., 325. Under the terms of the Young Plan, Germany was allowed to appeal to the B.I.S. for a study of her capacity to pay, if she believed that her entire economic life might be impaired by the transfer of all or part of the conditional annuity. The function of the Advisory Committee of experts was to determine if the German claim was well founded. If so, payments of the conditional annuity might be suspended for two years.
facing prolonged negotiations with regard to debt reduction. A month before Mills privately had acknowledged this to be the truth. Hoover himself, though discounting the possibility of cancellation, had hinted in his moratorium statement that revisions based on the existing capacity of the debtors were a possibility.100

To bring about such revisions, however, required time, political tact, and the highest form of enlightened statesmanship. Therefore, Hoover, Mills, and Castle had insisted that the negotiations in Paris and London disregard the interrelated questions of debts, reparations, and the political provisions of the Treaty of Versailles. "We are strongly of the opinion," Castle had wired Stimson, "that the time is not right for such a general conference and that the results would be disastrous."101 But not long thereafter, American officials did begin to examine various means by which the United States government might help solve the problems contributing to and resulting from the European financial crisis. Such efforts were accelerated

But strictly speaking, nothing could be done with regard to the unconditional annuity.

100 Dawes, Journal as Ambassador, 351; Mills to Dulles, June 16, 1931, Box 109, Mills Papers. In his moratorium announcement, Hoover had said, "I am sure the American people have no desire to attempt to extract any sum beyond the capacity of any debtor to pay and it is our view that broad vision requires that our government should recognize the situation as it exists." See Myers and Newton, Hoover Administration, 94.

101 Castle to Stimson, July 14, 1931, F.R., 1931, I, 256.
by the expansion of the liquidity crisis, by England's departure from the gold standard, by the increasing pressure on the dollar, and by the hastily arranged trip of Premier Laval to the United States.

By the latter part of October, 1931, key American policy makers and influential financial leaders agreed that settling the renewed controversy over war debts and reparations was the most immediate of all economic tasks that had to be accomplished. In an important meeting at the Federal Reserve Bank of New York on October 19, Ogden Mills and Herbert Feis discussed this issue with Federal Reserve officials and with leading members of the New York financial community. They all concurred that "it is desirable that there should be revision of existing arrangements, that the subject be discussed with the French, and that the quicker that any arrangements could be definitely arrived at and put into force the greater the benefit to be effected." While concluding that the American government should view sympathetically the idea of a general and permanent revision, they realized that such a policy would be favorably received by the American people only in so far as it was linked to a European accord on disarmament. Similarly, because they understood the incendiary nature of debt reduction as a political issue, there was considerable discussion on how best to proceed
toward a general revision of all inter-governmental debts. The consensus of opinion was that Germany should take the initiative and convoke the Advisory Committee provided for in the Young Plan. Subsequently, if the European governments agreed to pursue a constructive policy on reparations, the United States would proceed to renegotiate the debt accords. The attraction of this procedure was that it avoided a general conference on debts and reparations. At such a conference the United States might have found itself standing alone against a united Europe.\footnote{Memorandum by Feis, October 20, 1931, 033.5111 Laval/217. For the views of key policy makers on debts and reparations, also see Feis to Stimson, October 1, 1931, 033.5111 Laval/49\textfrac{1}{2}; Mills to Winston, October 3, 1931, Box 109, Mills Papers; Winston to Mills, November 7, 1931, Box 9, ibid.}

This illustrates that by the autumn of 1931, American officials were well aware that the United States had to revise the debt agreements in order to facilitate a European accord on reparations and in order to inspire confidence within the international investment community. There was much apprehension that unless such joint action was undertaken on debts and reparations, financial conditions in Germany would worsen, the standstill accord would be threatened, American foreign investments would be endangered, and the domestic banking crisis would be exacerbated. Feis emphasized to Mills and Stimson that
"Continued dissention [sic] between the governments and economic retrogression in Germany will be sufficient to set back any advance we can make towards the improvement of American economic conditions." In order to prevent such economic setbacks, it was considered imperative to link action on inter-governmental debts with simultaneous efforts to preserve the gold standard, to maintain exchange stability, to limit armaments, and to normalize political relations in Europe. If such a comprehensive program could be implemented, it was assumed that investment confidence would be restored, normal capital movements would be resumed, and world trade would be stimulated. 103

These were the issues that preoccupied American and French officials during Laval's visit to Washington late in October, 1931. The leaders of both nations were struggling to reconcile their divergent approaches toward European stability. This was no easy task given Laval's precarious parliamentary position and Hoover's unsatisfactory relations with an uncontrollable Congress. But it was clear both to Hoover and Laval that the mutual interest of France and the United States rested in the preservation of the gold standard and the restoration of

103 Feis to Stimson and Mills, November 2, 1931, Bureau of Accounts, Box 105, RG 39; also see Feis to Stimson, October 9, 1931, 033.5111 Laval/98 4/8.
exchange stability. With this as a common denominator, could they not accommodate one another on other issues as well? On such matters as disarmament and security, no progress was possible. But Laval, Hoover, and Stimson found themselves able to agree on how to proceed with regard to war debts and reparations. Despite the ambiguously worded Joint Statement at the conclusion of their talks, there was a general understanding that Laval would return to Europe and set the Young Plan machinery into operation. The German government was to request the B.I.S. to appoint the Advisory Committee of experts to study Germany's capacity to pay. This was to be followed by a governmental conference to examine the recommendations of the experts and to take concrete action to alleviate Germany's reparations burden. Meanwhile, American officials were to prepare to ask Congress for a revision of the debt accords as the necessary supplement to European action on reparations.104

104 For the Joint Statement, see Myers and Newton, Hoover Administration, 138-139. For the mutual interest in maintaining the gold standard and exchange stability, see Hoover, Memoirs, III, 95-96; Edge, Journal, 208-209; Edge to Stimson, October 17, 21, 1931, 033.5111 Laval/115, 124. For key references to the Laval-Hoover negotiations on disarmament, debts, and reparations, see Memorandum of Conversation between Stimson and Lindsay, October 26, 1931, 033.5111 Laval/168; Lindsay to Marquess of Reading, October 26, 1931, D.B.F.P., II, II, 307-308; Tyrrell to Reading, November 5, 1931, ibid., 316-318; Feis to Stimson and Mills, November 2, 1931, Bureau of Accounts, Box 105, RG 39. Shortly after Laval's visit, Italian Foreign Minister Dino Grandi also came to the United States for talks.
In general, both Laval and Hoover tried to fulfill the terms of their bargain. But the domestic political and economic environments in both nations created insuperable obstacles. The French Premier did get Bruning to solicit a B.I.S. study of Germany's capacity. But at the same time he tried to limit its frame of reference. Laval emphasized that France would never abandon the unconditional annuity, that reductions in the conditional annuity had to be linked to debt reductions, and that any new arrangements had to be limited to the period of the depression. Moreover, Laval was adamant that the repatriation of private credits in Germany not be accorded priority over the payment of reparations. The pressure of public opinion, the clamor of the press, the growth of National Socialism in Germany, and the precipitous downturn in French economic activity circumscribed Laval's ability to act in the exact fashion that American policy makers expected. Hoover and Castle had assumed that though the Young Plan would be adhered to in setting up the Advisory Committee, it would not limit the scope of the experts' recommendations. In other words, American officials anticipated that the experts' study would include the issue of

Grandi subsequently told the British Ambassador in Rome that Hoover had said that "Allied sacrifices of reparations would 'most probably' lead to American remission of debts." See Graham to Simon, December 9, 1931, D.B.F.P., II, II, 364.

105 For the French position and the factors affecting it, see Howell to Stimson, November 30, 1931, December 10, 1931, Bureau of Accounts, Box 105, RG 39; Cochran to Castle, December 3, 10, 1931, Box 104, ibid.; "Le point de vue
unconditional payments and that its suggestions would have long term implications.106

On the other hand, the French were disillusioned by the Hoover administration's failure to get Congress to agree to a readjustment of the war debts. Finance Minister Etienne Flandin told the British Treasury expert Frederick Leith-Ross that the French could no longer depend upon anything Hoover, Stimson, or Mills said because they were not able to determine the course of American policy.107 The French press condemned America's intransigence on war debts and depicted American policy as selfish and shortsighted. In French eyes, the object of American diplomacy was to extract French concessions on


106 Lindsay to Simon, November 13, 1931, D.B.F.P., II, II, 331; Warner, Laval, 50-51. Laval insisted that the Young Plan be adhered to both in setting up the Advisory Committee and in delimiting the nature of the experts' recommendations. Laval's desire was to keep the issue of unconditional payments out of the scope of the experts' mandate. See the explanation of this in footnote 99, above. In effect, the Advisory Committee pursued a middle course, suggesting a moratorium on the conditional annuities, but pointing out that additional action was necessary in light of the wholly unanticipated intensity of the depression. The report of the Special Advisory Committee (known as the Basle Report) may be found in D.B.F.P., II, II, 495-508.

107 Memorandum of Conversation between Flandin and Leith-Ross, December 20, 1931, D.B.F.P., II, II, 380; also see Cochran to Castle, December 22, 1931, Bureau of Accounts, Box 104, RG 39; Howell to Stimson, December 21, 1931, Box 105, ibid.
reparations in order to save private American investments. This distorted, but popular French view of American policy complicated and embarrassed Laval's attempts to conciliate both Germany and the United States.

In fact, Hoover was willing to revise some of the war debt agreements as part of the American contribution to world stability. On December 10, 1931, the President explained to Congress that several debtors would be unable to meet their obligations in the forthcoming year and that the United States had to be prepared to cope with the realities of the international financial situation. Therefore, he suggested that the moratorium be approved and that the War Debt Commission be re-established. At about the same time, Mellon indicated that the intent of the Administration's policy was to readjust debts according to the existing capacity of the debtors to pay.  

Congress, however, could not be persuaded to re-examine the debt agreements. While accepting the


moratorium, it explicitly forbade any further revisions or reductions of the former Allies' war debt obligations. During the debate, there were many references to the traditional shibboleths of American policy: the American taxpayers could not be further burdened; Europe would simply exploit American generosity to rearm; the debtors could pay if they so desired. But, in addition, there was also a good deal of emphasis on France's great capacity to pay and on the bankers' desire to cancel debts in order to salvage their own loans to Germany. There was little understanding that the gold drain to France was a temporary phenomenon and not illustrative of that nation's long-term ability to pay. Nor was there much sensitivity to the fact that in so far as the viability of the American banking system was a key component of a healthy economy, all Americans would benefit from the restoration of investors' confidence and from the resumption of the normal flow of capital movements.

110 "New Congress Tackles Foreign Debt Problem," Congressional Digest, 10 (January, 1932), 13, 29; also see "The War-Debt War in Congress," Literary Digest, 111 (December 26, 1931), 1-3; "A Ratification with A Sting in It," ibid., 112 (January 2, 1932), 7.

111 These generalizations about congressional sentiment are based on the excerpts from statements by Senators Smoot, Reed, Johnson, Shipstead, and Howell in "Should America Cancel the War Debts?" Congressional Digest, 10 (October, 1931), 241, 247, 249; also see similar excerpts by Senators Reed and Johnson and Congressmen Williamson, Crisp, and Parsons, in "Should the United States Further Readjust Foreign Debt Settlements," 15, 17, 18, 20, 23;
Congress stymied Hoover's effort to partake in the sacrifices necessary to restore European stability. And without American cooperation on the war debts, European efforts to readjust reparations were likely to be infinitely complicated. Furthermore, the delay or failure to revise inter-governmental debts was certain to have a negative impact on the international banking community. Since the Hoover administration still depended upon the bankers to provide the capital and a large part of the initiative for the resuscitation of the international economy, it was no wonder that Stimson was deeply discouraged by the intransigence of Congress. 112

Yet, it is extremely significant that Hoover bowed to the congressional mandate without a prolonged struggle. This signified that though he understood the relationship between European stability and American self-interest, he did not define it in such a way as to make the success of his recovery program dependent upon events abroad. He still hoped to foster stability in Europe and he and his advisers would shortly partake in new efforts to harmonize


Stimson admitted his discouragement in a conversation with Claudel. See Memorandum, December 17, 1931, 800.51 W89/448.
American self-interest with European stability. But Hoover carefully weighed means and ends and he believed, at least for the time being, that given the sentiment of Congress and the inflexibility of European governments, the United States had to be wary of political commitments and cautious of its economic sacrifices. 113

In these respects, Hoover's policies reflected enlightened business sentiment in the United States. His desire to readjust debts according to the principle of capacity was in step with the recommendations of those who most clearly understood the relationship between the United States economy and the world economy. Few businessmen and bankers called for greater sacrifices. There was much accord that as important as the foreign market was, the internal fiscal situation, the budgetary crises, and the general domestic economic situation set real limits on what the United States could and should do to ameliorate the world crisis. This viewpoint even was reflected in the annual address of James A. Farrell to the National Foreign Trade Convention in 1931. On that occasion, the long-time President of the nation's leading foreign trade organization

113 See, for example, Memorandum of Conversation between Stimson and von Prittwitz, January 11, 1932, 462. OOR296 A1/41. In this regard, it is interesting to note that in his message to Congress on December 8, 1931, Hoover, while stressing the shocks from abroad, still claimed that "we can make a large measure of recovery independent of the rest of the world. A strong America is the highest contribution to world stability." See F.R., 1931, I, ixff. The quote is on p. xiii.
While it is vital to our prosperity as a nation to find a market overseas for at least ten percent of our total production, we should not forget the rock from whence successful foreign trade is hewn, the industrial foundations that have been so well and deeply laid in our home market. While our foreign trade must always be more susceptible to world conditions, it should be possible for us to discover means of making our domestic market a stronger stabilizing influence in periods of world depression.114

Thus, as the calendar year turned from 1931 to 1932, the world outlook seemed bleak indeed. Hoover had tried rather unsuccessfully to adjust America's dwindling financial strength to serve the needs of the world and of the American economy. The moratorium proposal, the standstill accord, and the capacity formula were efforts to alleviate the international liquidity crisis, to preserve the gold standard, to boost bankers' confidence, to safeguard private American investments, to foster an improved

environment for disarmament talks, to stabilize European political relations, and to stimulate world trade. All this was hopefully to be achieved without too noticeably compromising the traditional American policy of political aloofness and without injuring purely domestic attempts to generate economic recovery.

The French, however, were still unsatisfied. They felt that the Hoover administration had acted arbitrarily in America's own self-interest, had failed to carry through on its commitment to revise war debts, and had ignored the strategic and political implications of American financial and disarmament policies. For the French, the maintenance of the Young Plan was of great symbolic as well as financial importance. Its destruction seemed to foreshadow the end of the Treaty of Versailles.

On the other hand, to American policy makers, French complaints often seemed ungrateful, contentious, and ill-founded. As the world economic situation deteriorated and as European political relations worsened, there was greater urgency than ever before for the western democracies to harmonize their financial and economic, as well as their strategic and disarmament policies. World stability depended upon a common and cooperative approach toward both the world economic depression and the European political crisis. Would French and American leaders have the foresight to come to grips with the ominous situation? Would they have the courage and ability to carry through unpopular but necessary compromises?
CHAPTER VII

HOOVER, FRANCE, AND EUROPEAN STABILITY

In his State of the Union Message on December 8, 1931, President Herbert Hoover analyzed the causes for the prolonged depression and presented a program to stimulate recovery. "The chief influence affecting the state of the Union during the past year," he emphasized, "has been the continued world-wide economic disturbance. Our national concern has been to meet the emergencies it has created for us and to lay the foundations for recovery." To do this it was necessary to cooperate "with the other nations to restore world confidence and economic stability." But dislocations abroad were not alone responsible for the problems at home. The Chief Executive asserted that the general credit paralysis and the financial situation of American railways were also "outstanding obstacles to recuperation." This led the President to believe that "If we can put our financial resources to work and can ameliorate the financial situation in the railways, . . . we can make a large measure of recovery independent of the rest of the world. A strong America is the highest contribution to world stability."¹

¹Message of the President to Congress, December 8,
In essence, Hoover believed that recovery depended upon the restoration of confidence, the free flow of capital, and the implementation of a limited number of corrective measures. Though he maintained that foreign developments retarded domestic economic progress, he did not define his recovery program strictly in terms of the international situation. In fact, he made no attempt to propagate the notion that domestic recovery depended on new American initiatives in the international arena. On the contrary, in a Press Statement on December 11, 1931, Hoover cogently stated:

"The major steps that we must take are domestic. The action needed is in the home field, and it is urgent. While reestablishment of stability abroad is helpful to us and to the world, . . . we must depend upon ourselves. If we devote ourselves to these urgent domestic questions we can make a very large measure of recovery irrespective of foreign influences."

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1931, Department of State, Papers Relating to the Foreign Relations of the United States, 1931 (3 vols.; Washington, 1946), I, ix-xxiii. (Hereinafter, this source shall be cited as F.R., year, volume, page.)

2William Starr Myers (ed.), The State Papers and Other Public Writings of Herbert Hoover (2 vols.; Garden City, New York, 1934), II, 83; also see Hoover's two addresses to Congress on December 8 and 10, 1931, in F.R., 1931, I, ix-xxxii. It is often stated that Hoover had an internationalist solution to the depression whereas Roosevelt, at least in 1933, advocated a nationalist solution. See, for example, Richard Hofstadter, The American Political Tradition (New York, 1948), 328; Arthur M. Schlesinger, Jr., The Crisis of the Old Order, 1919-1933 (Cambridge, Massachusetts, 1957), 442 ff. Hoover did emphasize the international sources of the depression, but he did not maintain that domestic recovery was possible only if the international problems were overcome.
This is not to say that Hoover discounted the importance of European controversies. He did feel that the settlement of such disputes would abet the painful process of internal recovery. He therefore had taken action to help alleviate the international credit crisis. But such measures, though considered necessary and constructive, were always to remain complementary, if not supplementary, to internal reforms and readjustments. International initiatives were certainly not to take precedence over domestic developments, especially if they conflicted with internal policies, or generated political conflicts, or demanded a commitment to overseas political action.

Consequently, though the refusal of Congress to re-establish the War Debt Commission constituted both a blow to Hoover's foreign policy and an impediment to European efforts to work out a reparations accord, it was not believed to present an insuperable obstacle to domestic recovery. Rather than become immersed in a protracted struggle with Congress over this issue, Republican officials chose to focus more of their attention on domestic matters. Secretary of State Henry Stimson told German Ambassador Friedrich von Prittwitz that the United States government had found not only from the attitude of its own Congress but from the divergent and discordant feelings of the different countries abroad that it was very likely that a successful defense against foreign disaster might be too slow in organizing to be successful and therefore we had adopted the
method for the present of concentrating our primary attention on our home legislation.3

In other words, when caught in a squeeze between Europe's demands and Congress' recalcitrance, Hoover was inclined to acquiesce to the latter rather than struggle in behalf of the former. In fact, he had little choice given the state of American public opinion, the uncooperative spirit of European governments, and the disrepute of the bankers. At the time, congressional disclosures of the selfish machinations and illegal manipulations of Wall Street financiers made any effort to reduce inter-governmental obligations (and thereby to safeguard private investments) extremely risky from a political point of view.4

Hoover's intent, however, though often unsuccessful, always had been to harmonize and to reconcile domestic and foreign policy into a coherent program aimed at stabilizing the international economy and generating American economic progress. He never felt that domestic economic growth had to be achieved at the expense of the international economy.

3Memorandum of conversation between Stimson and von Prittwitz, January 11, 1932, General Records of the Department of State, File No. 462.00R296A1/41, RG 59 (National Archives). (Hereinafter, a decimal number standing alone will indicate Record Group 59, in State Department files, National Archives.)

4For a cogent summary of the findings of congressional inquiries into the practices of Wall Street bankers, see Vincent P. Carosso, Investment Banking in America (Cambridge, Massachusetts, 1970), 322-351.
Ideally, the two could and should be accomplished together. Though a large measure of internal progress was possible without parallel adjustments in the international economy, full recovery and the restoration of complete confidence depended upon the normalization and stabilization of political, financial, and economic conditions in Europe.

Consequently, American policy makers continued to urge European governments to proceed to yet another settlement of the reparations question. Even more significantly, State Department officials intimated that this was the necessary prerequisite for the reassessment of Allied war debt obligations to the United States. Stimson told European diplomats that if they went ahead and readjusted Germany's reparation obligations in a generous and far-sighted manner, the United States might be willing to meet individually with each debtor and to renegotiate agreements based on the existing capacity of each debtor to pay. In this way, the Hoover administration would show that it had not abandoned its effort to work "in as conciliatory a way as possible for the amelioration of the world situation."

In the meantime, however, the United States could not recognize a formal link between the debt and reparation issues. Nor could it participate in an international conference on reparations. As circumstances existed, American taxpayers would never assume the entire financial burden of the former conflict. But progress was conceivable
if the European governments assumed the initiative. The British and Germans were eager to seize the opportunity and to convene another conference to settle the reparations controversy. They wanted to terminate all indemnity payments as quickly as possible. At the very least, the British hoped to secure France's consent to an extended and complete moratorium. The British believed that a lengthy moratorium would reassure financial markets, would facilitate the renewal of the Standstill accord, and would establish the framework for a final settlement in June (after the French and Prussian elections). The French, however, were not anxious to participate in an immediate conference. Time, they believed, was on their side. The continued deterioration of the German and the international financial situation, they assumed, would compel both German and American officials to become more pliable on the issues

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6 For the British and German positions, see, for example, Simon to Graham, January 7, 1932, Rumbold to Simon, January 8, 1932, Tyrrell to Simon, January 15, 1932, D.B.F.P., II, III, 11, 12, 29-30; also Sackett to Stimson, January 9, 1932, 462.00R296Al/23, 28.
of war debts and reparations. 7

In particular, the French objected to the Hoover administration's assumption that the capacity formula offered a practical and equitable means of harmonizing national and international priorities. Premier Pierre Laval maintained that revisions of the war debt agreements based on the capacity formula were not in the best interest of France. Since France was not yet suffering from the worst effects of the depression and since she had accumulated enormous gold reserves, it was obvious that new debt agreements based on the capacity principle would discriminate against the French and in favor of the other European debtors. 8 Meanwhile, France would be asked to make the largest sacrifices on reparations account. French public opinion naturally opposed such an arrangement. 9

All this did not mean that Laval was inflexibly opposed to participating in the revision of existing financial agreements. Indeed, he and his Finance Minister,

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8 See, for example, Edge to Stimson, February 2, 1932, Bureau of Accounts, Box 106, RG 39.

9 For comments on the intensity of French public opinion, see Edge to Stimson, January 19, 1932, 462.00R296A1/62; also see Edge to Stimson, January 25, 1932, F.R., 1932, I, 659-660.
Etienne Flandin, indicated their willingness to cancel the conditional annuities and to mobilize and to market the unconditional obligations. But this was contingent upon a substantial reduction or cancellation of the war debts. In fact, in order to pressure the United States into making the necessary concessions, the French solicited British cooperation in presenting a common front against the United States. Specifically, they proposed the convocation of a wide-ranging conference to which they would invite the United States and at which the United States might find itself confronted with a united phalanx of European debtors.

The British, however, would have none of this. Though their aim was to secure as complete a cancellation of reparations and war debts as possible, they were determined not to join a common front with America's other European debtors. Thus, a key obstacle to a Franco-British accord on how to deal with the German reparations enigma was their disagreement on how to approach the United States. Lord Tyrrell, the British Ambassador to France, accurately summed up the dilemma. He informed the Foreign Office that the

10 For the French government's position, see Edge to Stimson, January 16, 25, 1932, 462.00R296A1/57, 101.

11 The French knew the United States would never attend a conference focused exclusively on reparations. Therefore, they hoped that by extending its scope, they might entice American cooperation. See Tyrrell to Simon, January 17, 18, 1932, D.B.F.F., II, III, 35, 38-40.
French Government wished to make it clear to its public opinion that it was not contemplating a new reparations settlement save in conjunction with debts or a new reparations moratorium unless safeguarded in respect of payments to America. [The] British Government wished to present America with a complete reparations settlement and leave it to her to treat Europe with magnanimity.\textsuperscript{12}

There is little doubt that the United States contributed to this Franco-British impasse. American officials had made it abundantly clear to British diplomats that the British debt would be the most generously treated. Therefore, it was distinctly to the British advantage to approach the United States separately and apart from France. British Ambassador Ronald Lindsay wired the Foreign Office, "We only lose by having to be associated with them [the other debtors]."\textsuperscript{13}

While the French fumed at these American tactics,\textsuperscript{14} policy makers in Washington defended their capacity formula and pro-British orientation on the basis of the British financial plight and the disproportionately large amount

\textsuperscript{12}Tyrrell to Simon, January 29, 1932, \textit{ibid.}, 70-71; also see Simon to Tyrrell, January 27, and February 6, 1932, \textit{ibid.}, 65-66, 76-79; Tyrrell to Simon, February 9, 1932, \textit{ibid.}, 83-84.

\textsuperscript{13}Lindsay to Simon, January 18, 1932, \textit{ibid.}, 44; also see Lindsay to Simon, December 28, 1931, January 6, 17, 1932, \textit{ibid.}, 2, 10, 37-38; Simon to Lindsay, January 16, 1932, \textit{ibid.}, 33.

\textsuperscript{14}Norman Armour (American Chargé, Paris) to Stimson, February 16, 1932, Bureau of Accounts, Box 106, RG 39.
of debt payments already made by England. Though some State Department officials (for example, Herbert Feis) recognized the necessity of establishing a new formula in order to placate the French and to avoid a reparations deadlock, this seemed to appear a domestic political impossibility. Anti-French sentiment in the United States was at high tide and even by intimating the possibility of revisions based on capacity, the Hoover administration was risking an eventual confrontation with Congress. Though Feis was correctly assessing the European scene, Hoover was equally right in sensing the incendiary nature of the debt question as an internal political issue. As Secretary of the Treasury Ogden Mills admitted, the situation was very difficult. Some modifications, he acknowledged, were "clearly necessary," but he was unwilling to forego the hope of receiving substantial payments in the future. Unfortunately, the French seemed likely to bear the brunt of this policy.

For the time being, however, the American position only exacerbated the domestic political situation in France. The critical impediment to an early conference on reparations


16 Memorandum, "The Drift of the World Economic Situation" [probably by Feis], February 4, 1932, Bureau of Accounts, Box 105, RG 39.

17 Mills to Julian Mason, January 20, 1932, Box 110, Ogden Mills Papers (Manuscript Division, Library of Congress).
was German Chancellor Heinrich Bruening's announcement on January 8 that Germany was unlikely to be able to pay additional reparations. In France, this was interpreted almost as a unilateral German abrogation not only of the Young Plan, but also of the Treaty of Versailles. The attitude of the French government stiffened accordingly and it became all the more difficult to contemplate an immediate meeting to arrange a final settlement. How could either the French or the German governments make the necessary concessions and then face their respective electorates? It appeared much wiser to wait until after the spring elections. As a result, the final conference on reparations was scheduled to take place at Lausanne in June.

During the next several months, as the respective European nations planned their strategy for Lausanne, the position of the United States on both reparations and debts assumed increasing importance in European foreign offices. The French, in particular, were anxious to ascertain exactly where the United States stood on all the issues affecting the economic rehabilitation of Europe. In mid-March, French Premier André Tardieu articulated a desire to reconcile

French policy with the aims of American policy makers. He requested that the United States government send an observer to Lausanne. Similarly, during the electoral campaign in France, Edouard Hérriot, the leader of the Radical Socialists and the future Premier of the Cartel des Gauches, also declared that the United States had to partake in a general reconstruction program. "International order," he stressed, "supposes international collaboration really international." And in order to elicit a positive response from the United States, the French began to demonstrate more flexibility than ever before on the reparations issue. Norman Davis, one of the American representatives to the Geneva Disarmament Conference and a person familiar with all aspects of the European situation, wrote Thomas Lamont:

It seems to me that the British now are the chief objection in the way of a reparations settlement. So long as the British government is in favor of a total cancellation of reparations, Germany is not going to make any settlement. France, as you know, is more inclined than ever to be reasonable about this but it is asking too much for her to agree to total cancellation.

The French had two objectives. The first was to get the United States to oppose the British goal of cancelling all reparations. A complete wiping out of the German

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19 For Hérriot's statement, see Edge to Stimson, May 3, 1932, 462.00R296A1/149; for Tardieu's feelings, see Gibson to Stimson, March 17, 1932, F.R., 1932, I, 58-59; also see Armour to Stimson, June 6, 1932, 550.51/66.

20 Davis to Lamont, April 29, 1932, Box 33, Norman Davis Papers (Manuscript Division, Library of Congress).
indemnity would not only impose a financial burden upon the French government but it would also invite further abrogations of international treaties. No French government could risk this. Secondly, the French wanted assurances that the United States would reciprocate any financial concessions extended to Germany. In order to secure American support, Tardieu indicated his willingness to disavow the Young Plan and to reduce reparations substantially. He even intimated that he might eliminate the nomenclature of "reparations." \(^{21}\)

The Hoover administration, because of its interest in war debts and its concern for American banking and commercial interests overseas, could not avoid getting involved in the dispute over reparations. At first, the contacts between the United States and European governments were generally indirect and unofficial. But as the date for the convocation of the Lausanne Conference approached, the exchange of ideas and attitudes became more official and more revealing of the intimate American involvement in the course of European affairs. The flow of events indicates

\(^{21}\) In return for these actions, Tardieu also hoped to obtain private American financial support for French plans in the Danube. For Tardieu's views, see Lamont to Morgan, Leffingwell, and Gilbert, April 19, 1932, 462.00 R296A1/154; Lamont to Carter, May 4, 1932, ibid.; for Tardieu and his Danubian plans, see Gibson to Stimson, March 17, 1932, F.R., 1932, I, 58-59; Edge to Stimson, March 23, 1932, Bureau of Accounts, Box 105, RG 39; Edge to Stimson, March 25, 1932, 462.00R296A1/142. For a cogent statement of why France could not cancel, see Edouard Hérriot, Jadis (2 vols.; Paris, 1952), II, 334.
that the United States government wanted the European nations to permanently resolve the reparations controversy. Such action would restore confidence in European stability, would stimulate capital and commercial movements, and would help create the conditions for fair trade. Even more importantly, the Hoover administration wanted a European settlement that would inspire and impress the American people. By so doing, an atmosphere might be created that would enable the administration to proceed to revise the war debt agreements without exacerbating the already strained relations between the executive and the legislature and without risking the setback of the administration's internal program.

On April 19, 1932, Tardieu and Flandin approached Thomas Lamont, the New York financier, and inquired into the views of the American business community on reparations and war debts. They explained that the British kept insisting that the United States desired an outright cancellation. Was this the case? Lamont replied that in general the American business community supported Hoover's approach to the reparations-war debt imbroglio. Lamont believed that if the European nations quickly arranged a wise and generous final settlement, American opinion would be influenced and reciprocal action on the war debts might be possible after the November presidential elections. Lamont emphasized, however, that the British were not accurately portraying
American opinion. The American people, he emphasized, did not advocate the cancellation of reparations. If he himself ruled the world, Lamont noted, he might prefer an end to all inter-governmental debts. But in real life, governments had to respond to public opinion. And neither the American nor the French people were ready for cancellation. A realistic approach, he asserted, would provide for a three-year moratorium on indemnity payments. For several years thereafter, if economic conditions permitted, there might be annual payments of $50 to $100 million. But then it was time to call it quits.  

From Paris, Lamont went on to London where he discovered that the British were in fact advocating total cancellation. They believed that Germany could not recover economically or financially unless reparations were wiped out. Moreover, they feared that unless reparations were cancelled, Germany might declare a total moratorium on private as well as public debts. This would have a devastating impact on the British financial structure. Lamont, however, dissented from these views. After consulting with Norman Davis and Andrew Mellon (now Ambassador to England) he wrote a memorandum for the use of top British policy makers. In it, he warned against cancelling reparations.

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22 Lamont to Morgan, Leffingwell, and Gilbert, April 19, 1932, 462.00R296A1/1544.
In the United States, it would be interpreted as reflecting Europe's intent to repudiate the war debts. Furthermore, Lamont doubted whether cancellation would lead the Germans to be one whit more circumspect or anxious to handle their commercial obligations properly. Germany would have received a wonderful example of the money value of evading obligations and might well be encouraged to pursue that policy in other directions.  

Rather than push for cancellation, Lamont urged the British to cooperate with the French. Divisions between the former Allies, he warned, only served to intensify German intransigence. He suggested that they arrange for a three to five year moratorium. This might then be followed by several moderate annuities. As evidence of her intent to pay, Germany might hand over certain obligations. Payments would begin when and if conditions confirmed Germany's capacity to pay. Even if the European nations could agree on such a constructive program at Lausanne, however, Lamont strongly advised that they postpone their démarche to the United States until after the American elections. This delay might compel Britain and France to pay their semi-annual installment in December. But in the long run, he believed this over-all approach would pay rich dividends.

23 Lamont to Stimson, May 23, 1932, ibid.; memorandum on reparations and debts (left by Lamont in London), May 5, 1932, ibid. The quote is in the latter document. For the British view that cancellation would lead to the extension of new credits and thus foster general recovery, see, for example, Runciman's remarks, in Notes of a Conversation at Lausanne, June 20, 1932, D.E.F.P., II, III, 226.
and greatly contribute to a final positive settlement.24

In his memorandum on reparations and debts Lamont indicated that though he was presenting the perspective of the American banking community he believed it coincided with the viewpoint of official Washington. On his return to the United States he discussed the entire situation with Hoover and Mills. They do not seem to have objected to the substance of Lamont's advice to the European leaders. In fact, Hoover agreed that Norman Davis might carry on appropriate private talks with French and British officials. The President, however, felt it inexpedient for Davis himself to go to Lausanne.25

Knowledge of Lamont's plan was widely disseminated. The British, however, largely ignored his recommendations and continued to press for total cancellation. The French, though appreciative of Lamont's efforts, were disappointed by his inability to influence the British.26 Within the Department of State, Herbert Feis considered Lamont's approach the best way to proceed. The question, however, was whether the United States government should make its position known to the respective European governments. Feis knew that an

24 Memorandum on debts and reparations by Lamont, May 5, 1932, 462.00R296A1/154; Lamont to Stimson, May 23, 1932, ibid.; Lamont to MacDonald, May 13, 1932, ibid.

25 Lamont to Stimson, May 23, 1932, ibid.

26 Carter to Lamont, May 31, 1932, ibid.
official American initiative would weigh greatly in the
counsels of Europe, but he wondered whether it was worth the
assumption of fresh responsibility.27 Though Stimson had
told European leaders at Geneva in April that the United
States felt "a modification rather than a cancellation" was
the most reasonable way to treat the reparations dilemma,28
nothing further had been communicated through official
channels.

On June 1, the administration decided to assume the
risks of clearly communicating its stand on the reparations
question. On that date, Stimson told the British and
Italian ambassadors that the United States opposed the
cancellation of reparations. During the next few days,
Stimson reiterated the American viewpoint to other European
emissaries. And on June 8, partly in response to a French
request, the Secretary of State issued a public statement
to the same effect.29 The reasons for the American position

27 Memorandum, by Feis, May 27, 1932, 462.00R296A1/
157½.

28 Record of a conversation at Geneva, April 23,

29 See, for example, memorandum of a conversation be­
tween Stimson and Lindsay, June 1, 1932, F.R., 1932, I,
673-675; memorandum of conversation between Stimson and
Nobile Giacomo (Italian Ambassador), June 1, 1932, 462.00
R296A1/156; memorandum of phone conversation between Stimson
and George Harrison (Governor, Federal Reserve Bank of New
York), June 1, 1932, 550.81/29; memorandum of conversation
between Castle and Claudel, June 3, 1932, 462.00R296A1/183;
statement, by Stimson, June 8, 1932, 462.00R296A1/158½.
in favor of a large reduction, but not a cancellation, were varied. Policy makers wanted to maintain the sanctity of agreements. Even more importantly, they wanted to demonstrate to the American people that no single nation would be assuming the entire financial burden of the war.\textsuperscript{30} And furthermore, they feared that if reparations were totally eliminated, the ability of German industry to compete in world markets might be too greatly enhanced. The French reiterated this theme time and again to justify their desire to collect at least a modicum of reparations. Americans were not unsympathetic.\textsuperscript{31}

But if the United States came to publicly support the French view on reparations, there was no commensurate change in the Hoover administration's attitude on the war debts. American policy makers warned that a reparations settlement must not be made contingent upon reciprocal

\textsuperscript{30} Memorandum of conversation between Stimson and Lindsay, June 1, 1932, F.R., 1932, I, 673-675; also see memorandum of conversation between Stimson and von Prittwitz, June 6, 1932, 462.00R296A1/163.

\textsuperscript{31} For France's constant reiteration of the theme of German competitive ability, see, for example, notes of a conversation at the British Embassy, Paris, June 11, 1932, D.B.F.P., II, III, 176-177; notes of a conversation at Lausanne, June 20, 1932, \textit{ibid.}, 221; Tsushima (Japanese delegate to Lausanne) to Lamont, July 9, 1932, 462.00R296 A1/2914. Stimson also had this factor in mind. See, for example, record of a conversation at Geneva, April 23, 1932, D.B.F.P., II, III, 123. American exporters had long feared the permanent impact of reparations on Germany's competitive ability. See, for example, National Foreign Trade Council, \textit{The American Trade Balance and Probable Tendencies} (New York, 1932, 34-35, 36-37.)
American action on the debts. Under Secretary of State William Castle told Davis "there will be the Devil to pay" if European governments linked the debt and reparation issues. Mills told the French Financial Attaché Emmanuel Monick that reparations must be settled first; but the United States could make no promises about the future. In addition, Stimson emphasized that a united European front against the United States would be counter-effective. It would antagonize Congress and alienate public opinion. 32

These warnings, however, were only part of a complicated picture. In reality, Republican policy makers recognized that the debt settlements would have to be revised. Stimson's personal sentiments on this point are well known. 33 But he was not alone in feeling this way. His differences with Mills and Castle (and probably with Hoover) were more tactical than substantive. Mills, for example, hoped that at Lausanne the European governments would lay the foundation for a final settlement of the debt issue. During April and


33 For Stimson's view, see McGeorge Bundy and Henry Stimson, On Active Service in Peace and War (New York, 1948), 213 ff.
May, he worked quietly and discreetly to prevent any planks on the debt issue from being inserted into the Republican platform that might prove embarrassing to the French or British. He realized that new accords would have to be written. But because of the inhospitable political environment in the United States, he believed that such revisions would have to be negotiated with a War Debt Commission on a country by country basis and probably according to the criteria of capacity. Shepard Morgan, the New York financier, told Stimson that Mills knew the debts were worthless, but he couldn't admit it until after the elections. The Treasury Secretary was reported as saying that "while the Kansas farmer was in trouble and we couldn't pay any money to him it was folly to talk of giving up hundreds of millions of dollars to foreign sufferers." Stimson concurred.\(^{34}\) It was therefore imperative that the European nations settle the reparations controversy in a constructive and dramatic way. Only this might convince the American people that the European debtors were deserving of American generosity.

\(^{34}\) For Mills' views and actions, see Lindsay to Simon, April 25, 27, 1932, D.B.F.P., II, III, 125, 132-133; Gilbert to Lamont, May 19, 1932, 462.00R296A1/154; Mills to Foster Kennedy, July 7, 1932, Box 111, Mills Papers. For Shepard Morgan's account, see memorandum of conversation between Morgan and Stimson, June 8, 1932, 800.51W89/533. For Castle's views, see William R. Castle, Jr., "Treaty Negotiations in World Trade," in National Foreign Trade Council, Official Report of the Twenty-Third National Foreign Trade Convention (New York, 1933), 404-405.
The respective positions of the United States government on reparations and war debts tremendously influenced both the proceedings and the outcome of the Lausanne Conference. At the Conference, the French representatives, especially Premier Hériot and Finance Minister Germain-Martin, used the American attitude to buttress their own arguments against cancellation (which the British were insisting upon). Germain-Martin contended that "If everything was cancelled at Lausanne, America would say that Europe had cancelled everything there and tried to put the whole weight of the war on America, which would refuse to admit a unilateral settlement of this kind." And at another session, he emphasized that the entire French delegation was convinced "that complete cancellation at Lausanne would be the best means of creating a spirit of hostility in the United States on the Debts question." After considerable acrimony, the British finally acceded to the French (and American) position. Hériot felt that Stimson's attitude had been of crucial importance in eliciting the British concession.

In reality, the American influence went far beyond this. Once having agreed that some reparations would have

35 For France's exploitation of the American position, see notes of a conversation at Lausanne, June 20, 21, 1932, D.B.F.P., II, III, 222-223, 239.

36 Memorandum of conversation between Claudel and Stimson, October 13, 1932, 462.OOR296A1/349.
to be paid, the French, British, and Germans immersed themselves in a protracted debate over the amount and the nature of the payments. They finally agreed on an accord that was in most respects remarkably similar to the one recommended by Lamont. 37 Significantly, during the Conference, Hériot told his British colleagues:

What the French Delegation wanted was a payment in money which would provide first, a basis of a real offer to be made later to America. 38

And after the Conference, Georges Bonnet, one of the French delegates, remarked:

In reality, the view of the French delegation was that the figure was only of importance in so far as it might be judged acceptable by the United States at the moment, which is approaching, when the European debtors will themselves be called upon to discuss their own debts with America. 39

There is little question that at Lausanne, the French made every effort to adjust their attitudes on reparations to coincide with those of American officials. American policy makers realized this and appreciated it. 40 But with

37 Compare the final settlement at Lausanne to the one outlined by Lamont. The final accord may be conveniently located in Wheeler-Bennet, Wreck of Reparations, 259 ff.


39 Bonnet's remarks which appeared in L'Information on July 29, 1932, were translated and forwarded to the State Department. See 462.00R296A1/328.

40 For Stimson's expressed appreciation of Herriot's actions on reparations at Lausanne, see memoranda of conversations between Claudel and Stimson, July 8, 28, 1932, 462.00R296A1/238, 289.
regard to the means of approaching the United States on the war debts, there was little harmony between French and American officials. From the onset of the Lausanne discussions, the French insisted that they could make no concessions without assurances that the United States would respond in kind on the war debts. Their plan was to defer the ratification of any European settlement regarding reparations until the United States had committed itself to mutual sacrifices. French officials probably believed they had no alternative. They knew the French public and the French Chamber would never acquiesce to unilateral French concessions. And to ratify an accord prior to United States action must have reminded many Frenchmen of the precedent of the Peace Treaty. There, too, the French had made concessions on the expectation that the United States would fulfill its commitments. And they had been cruelly disappointed. Consequently, they were not satisfied with unofficial innuendos that the Hoover administration might reciprocate French concessions.

The British, however, were not anxious to join the French in a united front against the United States. They knew they had the most to gain from approaching the United

41 See, for example, notes of a meeting at the Ministry of Foreign Affairs, Paris, June 12, 1932, D.B.F.P., II, III, 179-181; notes of a conversation at Lausanne, June 21, 1932, ibid., 238; Armour to Stimson, June 6, 1932, 462.00 R296A1/178; Gibson to Stimson, June 20, 1932, 462.00R296A1/179.
States separately. They also were aware of the antipathy of the United States government to any accord emanating from Lausanne that made reparations revision dependent upon the readjustment of war debts. But what could the British do if the French refused to agree to a new reparations accord unless the British joined in a cooperative démarche vis-a-vis the United States. Uncertain how to proceed, the British wavered. Hoover's disarmament proposal on June 21, however, settled the problem. The British were agitated that they had not been more closely consulted. Moreover, since the American initiative upset the British objective of trading reparations for a German political détente, they had no alternative but to support the French desire for an adequate quid pro quo on the war debts. So in the "Gentleman's Agreement," signed on July 2, Britain and France (as well as Italy and Belgium) agreed that the Lausanne settlement would not come into effect until it was ratified in each nation.

42 To be somewhat more precise, it should be stated that the British were divided among themselves over whether to join a united front. See Gibson to Stimson, June 20, 1932, 462.00R296A1/179.

43 For the impact of Hoover's disarmament proposal on the British, see Hériot, Jadis, II, 345-347; Henry Bérenger, "Les Résultats de Lausanne," La Revue de Paris, July 15, 1932, in 462.00R296A1/292. For the British intent to trade reparations for a political truce, see Simon to Neurath, June 9, 1932, D.B.F.P., II, III, 161; Simon to Foreign Office, June 11, 1932, ibid., 173. Hoover's speech, which stressed arms limitation but not guarantees of security, contributed to the hardening of the German position. For the disarmament proposal, see Chapter IX.
And ratification would be deferred until the former Allies had reached satisfactory settlements with their own war debt creditors. This "Gentleman's Agreement" was not made public along with the Lausanne Agreement which officially was initialled on July 9. The latter eliminated the nomenclature of reparations, drastically reduced (but did not cancel) the German indemnity, and made future payments contingent upon various factors.\textsuperscript{44}

Almost from the beginning of the Lausanne Conference, there were widespread rumors in the United States that the European nations were trying to link the reparation and war debt questions. It was reported that American diplomats were discussing such a possibility with their European counterparts. These stories multiplied after Hugh Gibson and Norman Davis met with British and French officials at Morges, a small town not far from Lausanne. Despite an official State Department declaration that these discussions pertained only to the Disarmament Conference, the rumors persisted and generated suspicions both in the press and in Congress. Democratic Senator Kenneth McKellar of Tennessee led the congressional attack on the administration's assumed conspiracy to reduce the war debts irrespective of the will of the people's chosen representatives. This popular uproar compelled Hoover to write a public letter to Senator William

\textsuperscript{44} For the appropriate documents, see Wheeler-Bennett, \textit{Wreck of Reparations}, 239 ff.
Borah praising the reparations settlement, but denying that the United States had been consulted with regard to the "Gentleman's Agreement." The President assured the American public that the United States would not be influenced or intimidated by concerted European action.\(^\text{45}\)

Hoover's reaction demonstrated his intense preoccupation with the debts as a political issue. Though Stimson apparently disapproved of this letter because it implied a hard line and illustrated an irrational response to the economic and financial imperatives of the world situation, the President succumbed to what he no doubt felt was overwhelming public and congressional pressure.\(^\text{46}\) Yet, even in his epistle to Borah, Hoover did not reject the possibility of revisions. Neither did his closest confidants, Mills and Castle. But Europe would have to sit tight until after the elections. At that time, reductions, but not cancellation, were possible, especially if there was some progress on the disarmament front as well. In the meantime, the expedients of the political process would have to take precedence over the realities of the international economic

\(^{45}\) For the letter to Borah on July 14, 1932, see Myers, State Papers, II, 235. For accounts in the press of European machinations, see "A 'Rubber Check' from Europe for Uncle Sam," Literary Digest, 114 (July 2, 1932), 5; also see Wheeler-Bennett, Wreck of Reparations, 236-238.

\(^{46}\) For Stimson's feelings, see Bundy and Stimson, On Active Service, 213-214.
situation. It was no accident that when French Ambassador Paul Claudel emphasized to Mills that the Lausanne accords would have a positive impact on American bankers and on the American financial situation, the Secretary of the Treasury responded that it benefited Wall Street and Wall Street was even more unpopular than Europe in America.\textsuperscript{47}

To explain the political motives of the Hoover administration is not to justify them. Indeed, bankers, like Lamont and Gilbert, and some officials, like Feis, believed that the President could have mobilized opinion in favor of an all-around settlement.\textsuperscript{48} This meant abandoning the capacity formula and accepting the inevitability of large reductions, though not necessarily cancellation.\textsuperscript{49} The question was whether the American people were likely to realize how much they had to gain financially and commercially from a comprehensive settlement that restored confidence and stimulated exports. Or would they feel that desirable as these objectives might be, they were not worth the fiscal sacrifices and the international entanglements that would accompany them. Hoover obviously felt he was


\textsuperscript{48} Lamont to Stimson, May 23, 1932, 462.OOR296A1/154\frac{1}{2}; Gilbert to Stimson, July 20, 1932, 462.OOR296A1/550\frac{1}{2}; memorandum by Feis, June 7, 1932, 800.51W89/566.

\textsuperscript{49} Gilbert to Stimson, July 20, 1932, 462.OOR296A1/550\frac{1}{2}. 
incapable of persuading the public that American self-interest rested in a flexible and generous settlement of the debt question. The administration's great consternation over the "Gentleman's Agreement" was related to the fact that it had antagonized public and congressional opinion and had made the administration's own desire to effect moderate revisions all the more difficult. How could the administration convince the American people that they ought to be generous to the scheming and sinister French? Were not the French immune from the depression, weighed down with gold, and enjoying general prosperity? So they were popularly portrayed. And if such were the case, were not the French better able to pay than the Americans to cancel?

Of course, conditions in France were not quite so rosy. Budgetary deficits were increasing and the unfavorable balance of trade was ominous indeed. Exports were only approximately 65 per cent of imports. At Lausanne, Hériot had been courageous. And even more importantly, the French public felt he had been wise and had applauded his actions.

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50 Claudel to Hériot, July 12, 1932, D.D.F., I, I, 16-17. On July 14, Castle mentioned to the Italian Ambassador that if the "Gentleman's Agreement" existed, American opinion would be instantly solidified against Europe. See memorandum of conversation between Castle and Italian Ambassador, July 11, 1932, 462.00R296A1/255.


52 Armour reported that the French public and the French press, for the most part, responded positively to Lausanne. See Armour to Stimson, July 11, 12, 1932, 402.00 R296A1/224, 265.
If he had connected reparations and debts, was he not facing economic and political realities? And if he had made action in one realm contingent upon action in another, was he doing anything different than Hoover had done in initially declaring his moratorium? The French had good reason to feel that they had gone far to satisfy the wishes of American policy makers.

It might have been wise for Hoover to have expressed his gratitude and to have proceeded to educate the American public. But he was timid and probably uncertain of the extent of the economic benefits to be derived from debt revision. So he decided to equivocate and to leave things unsettled until after the elections. European diplomats knew some action was pending but the extent of the revisions and the conditions under which they would be made were left in doubt. Though not unbending, the Hoover administration was certainly not bold or imaginative. Ironically, both France and the United States were moving toward one another but the progress was slow, the obstacles great, and the suspicions mutual. Faulty policy implementation had made matters appear much worse than they really were. If the Hoover administration had angered the French by acting

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53 On August 11, Monick told Mills of the positive effect Lausanne was likely to have on trade. Mills said taxes were so high, especially on farmers, that it was best to postpone debt talks until after the elections. See Monick to Germain-Martin, August 11, 1932, D.D.F., I, I, 168-169.
unilaterally and somewhat arbitrarily, the "Gentleman's Agreement" equally antagonized Americans because of its secrecy and supposed duplicity.  

So matters drifted until after the November elections and Hoover's defeat. In the interval French (and British) policy makers examined the political, economic, and financial factors influencing the payment of the debt installment falling due on December 15. The French government understood that despite the obvious links between debts and reparations created by the Young Plan, the Hoover moratorium, and the Lausanne accords, the forthcoming debt payment was still legally and contractually due. Though there was much public sentiment in France justifying the suspension of debt payments on these precedents, the Herriot ministry recognized the juridical basis of the debt. Furthermore, the government did not wish to default; nor to have the debts cancelled. It was intent on maintaining the principle of the sanctity of contracts as well as preserving the integrity of its own credit. French policy makers realized that the security of France depended on respect for former treaties and on France's ability to secure additional credits in the  

54 American officials felt that the secrecy of the "Gentleman's Agreement" made it seem as if the accord was much more sinister than it really was. See Armour to Stimson, July 22, 1932, 462.00R296A1/304; memorandum of conversation between Stimson and the Czech Ambassador, August 11, 1932, 462.00R296A1/321.
If French officials did not wish to default because of strategic and financial reasons, they also knew it was impossible to pay because of political factors. Consequently, in order to pursue a middle course, Hérriot and Germain-Martin decided to request the prolongation of the existing moratorium. This, they hoped, might afford time to revise the existing agreements and to reach a new settlement providing for a lump sum payment. Naturally, the French wanted such an accord to be based on the figures agreed to at Lausanne and not according to any criteria of capacity. Germain-Martin hoped to get the British to initiate conversations in Washington that would be aimed at these objectives. The British, he knew, were most likely to obtain a sympathetic hearing in the United States and he felt that any concessions granted the British would have to be extended to all the debtors. When the British refused to act in behalf of all the debtors, however, the French decided to act unilaterally but along the same lines as the English. On November 10, both the British and French ambassadors formally


56 Germain-Martin to Hérriot, October 15, 1932, November 4, 1932, ibid., 462-467, 657, 658; Hérriot to de Fleuriau (French Ambassador to Britain), October 27, 1932, November 4, 1932, ibid., 541-543, 656-657; memorandum by Claudel, late August, 1932, ibid., 197-199.
requested the suspension of the December installment and asked for the immediate initiation of negotiations aimed at a new settlement. The French pointed to the sacrifices they had made at Lausanne and asserted that similar action on the war debts was essential for the solution of the world economic and monetary crisis. 57

The French and British notes created a real dilemma for the Hoover administration. Hoover, Stimson, and Mills all realized that revisions were essential. But how could they be effected? A year before Congress had refused to entertain such a possibility. There was little reason to expect a more favorable response after Hoover's overwhelming defeat. If anything, legislative-executive relations had further deteriorated. Yet, Congress still retained control of the debt issue and without congressional cooperation nothing could be accomplished. Both Stimson and Mills explained this situation to French diplomats. They were not optimistic about the ability of the administration to respond sympathetically to the French request. The Secretary of State, however, intimated that constructive action might be possible if Roosevelt cooperated. But nothing could be done until Hoover returned from the west coast where he had cast

57 For the British desire to act separately, see de Fleuriau to Hériot, November 6, 1932, ibid., 666-667. For the French and British notes to the United States dated November 10, 1932, see F.R., 1932, I, 727-728, 754-756.
In reality, action came sooner than anticipated. Mills and Stimson communicated with Hoover while he was still in California and urged him to consult with Roosevelt. In Yuma, Arizona, on his way back to Washington, Hoover sent a telegram to the President-elect inviting him to the White House to discuss the problem of the war debts. In this invitation to Roosevelt, in subsequent notes to the foreign debtors on November 23, and in a statement to the press on the latter date, the President recapitulated American war debt policies since the war and outlined possible means of proceeding in the future. He emphasized that American policy in the past had been based on four principles: the integrity of contracts (that is, no cancellation), individual negotiations with each debtor, settlements based on the capacity to pay formula, and the separation of the debt and reparation issues. Hoover explained that the last principle had been especially important since the United States had been the only nation to emerge from the world conflict with no financial obligations to other nations. This meant that any


American "concession would result in the inevitable transfer of a tax burden from the taxpayers of some other country to the taxpayers in our own, without the possibility of any compensating setoff."^60

While reviewing these policies, the President also stressed the crucial role of Congress in negotiating the former settlements. Even more significantly, he pointed out that "The debt agreements are, through force of law, unalterable save by Congressional action." From a practical point of view it was therefore obvious that "no progress is possible without active cooperation of the Congress." Yet, Congress had revealed no inclination to reconsider the debt settlements despite his own proposal to re-establish the War Debt Commission, the requests of foreign debtors for revisions, and the obvious deterioration in world economic conditions. Thus, he was appealing to Roosevelt because he realized that "if there is to be any change in the attitude of Congress it will be greatly affected by the views of those members who recognize you as their leader ... ."^61

But Hoover, while emphasizing past precedents, the authority of Congress, and the influence of Roosevelt, did

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60 The invitation to Roosevelt and the statement to the press may be found in Myers, State Papers, II, 483-486, 487-493. The response to the French on November 23 may be found in F.R., 1932, I, 732-734. The quote is in Myers, State Papers, II, 465.

61 Myers, State Papers, II, 489-490, 485.
not abdicate his own responsibility to cope with the existing crisis. Indeed, he admitted that new economic and financial circumstances compelled the revision of prevailing agreements. Such revisions, he realized, would facilitate world recovery. Desirable as these revisions were, however, they could not be made at the expense of the American people who were already heavily burdened with taxes. For this reason, the President opposed cancellation under any circumstances. New arrangements might be made, however, if the American people received tangible compensation for debt reduction in the form of expanded markets, limitation of armaments, or in other ways. In any case, the Chief Executive definitely thought that Congress should establish some agency or commission to exchange views with the debtor governments. Since he believed that the economic conference, the disarmament conference, and the debt issue could not be solved in isolation from one another, he felt this commission would be well advised to give thorough consideration to possible concessions the United States might accept as quid pro quos for debt revision. In the meantime, Hoover urged foreign governments to pay their December installments. This would create a favorable atmosphere for the initiation of negotiations. If such payments were impossible because of transfer problems, he cited his willingness to accept payment in foreign currencies. All in all, he realized that:
If our civilization is to be perpetuated, the great causes of world peace, world disarmament, and world recovery must prevail. They cannot prevail until a path to their attainment is built upon honest friendship, mutual confidence, and proper cooperation among the nations.\(^{62}\)

Hoover's policy statements were a mixture of old and new ideas. They revealed elements of rigidity as well as flexibility in his thinking. They demonstrated both his concern with resuscitating his political reputation and his sensitivity to the imperatives of the international economic situation. This hodgepodge of ideas and ambiguity of intentions were not surprising given the time and the circumstances. Hoover, after all, was confronted with a very difficult situation. On the one hand, he was well attuned to the dimensions of the world political and economic crisis. On December 6, he told Congress that "today as never before the welfare of mankind and the preservation of civilization depend upon our solution of these questions [world peace, world disarmament, and organized world recovery]."\(^{63}\) On the other hand, he realized the extent of the suffering at home and the sentiments of Congress against revision. Moreover, he shared the belief, held by most Americans, that France could and should pay the next installment.\(^{64}\) But how could

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\(^{62}\)Ibid., 490-493. The quote is on pp. 492-493.

\(^{63}\)Ibid., 503.

\(^{64}\)For the French Ambassador's assessment of American public opinion, see Claudel to Hérriot, November 18, 25, 1932, D.D.L., I, II, 19, 71-74. At the time, Sumner Welles
he force the French to pay while he granted a moratorium to the British, especially if the latter were insisting, as they were, that all the debtors be treated similarly. 65

Hoover's response, as usual, was to try to reconcile domestic and international imperatives. He recognized, quite rightly, that Congress would never accept unilateral American concessions on the war debts. He also realized, equally incisively, that the revision of the war debt agreements would have little impact on the international crisis if not accompanied by action in other spheres. Thus, his decision to treat the debt issue only in conjunction with the disarmament and economic conferences was an intelligent

wrote Norman Davis that the European requests for suspension and revision had had a disastrous impact on public opinion. He said he had rarely known public opinion to be more unanimous. See Welles to Davis, November 19, 1932, Box 63, Davis Papers. 65

The British, though they refused to present the case in behalf of all the debtors, insisted that they all be treated equally. The British knew that if they secured favored treatment, the French would be alienated and would refuse to ratify the Lausanne accords. Under no circumstances did the British wish to have the accord on reparations compromised. This complicated matters for American policy makers since they understood the real financial problems that Britain was confronting. If the British had been willing, some special arrangement might have been possible. For British financial problems, see memoranda of phone conversations between Lamont and Stimson, November 17, 28, 1932, 800.51W89/588, 5984. For the British commitment to France and the American willingness to treat Britain more generously, see, for example, Monick to Germain-Martin, December 7, 1932, D.D.F., I, II, 173-174; French-British meeting, December 8, 1932, ibid., 191-201; also see Mellon to Stimson, December 7, 1932, F.R., 1932, I, 770-771.
means, perhaps the only means, of trying both to cope with the international economic crisis and the domestic political impasse at the same time. By trading debts for the elimination of quotas or exchange controls, he hoped to revive international commerce and to stimulate American exports. By trading debts for some limitation of armaments, he hoped to reduce budgetary difficulties in every nation, including the United States, and to ease political tensions. This would contribute to currency stability and to a revival of confidence. Hoover no doubt hoped that if Congress perceived this coordinated effort to deal constructively with the entire matrix of international issues and if Congress recognized the tangible advantages to be derived therefrom, it would respond generously with regard to the war debts.

But in order to make any headway at all, Hoover needed Roosevelt's cooperation in getting Congress to recreate the War Debt Commission. Only a bipartisan commission of individuals appointed by both Hoover and Roosevelt and

66 This interpretation is derived from an analysis of Hoover's statements and messages in November and December, 1932, as well as from an analysis of the diplomatic notes sent to Britain and France on November 23 and December 7-8, 1932. See Myers, State Papers, II, 487-493, 502-503, 550-554; F.R., 1932, I, 732-734, 756-757, 739-740, 771-775; also see Monick to Germain-Martin, December 10, 1932, D.D.F., I, II, 226-228. In this telegram, Monick, the French Financial Attaché, emphasized the real desire of Hoover and Mills to cope with the entire crisis on a comprehensive scale. Their problem was that they lacked sufficient influence to secure the cooperation of Congress. Also see Claudel to Paul-Boncour, December 19, 1932, ibid., 281-282.
approved by Congress would have the ability to bargain persuasively and meaningfully with foreign powers and at the same time have the prestige and political influence domestically to insure eventual congressional approval of the contemplated settlement. In light of his contempt for Roosevelt and his feeling that his own policies had been sorely misrepresented during the campaign, Hoover's decision to meet with Roosevelt revealed an intense concern for the body politic and a correct assessment of how best to proceed to meet both the domestic and foreign crises.

But if Hoover could be statesmanlike and far-sighted, he could also be petulant, uncompromising, self-serving, and irascible. These traits are all very evident in his invitation to Roosevelt, in his response to the French on November 23, and in his statement to the press. Hoover never could admit he was wrong. Nor could he easily abandon outworn policies. So in all these documents, the President insisted on tracing the historical background of the debt question, on reiterating old principles, and on portraying the stubbornness of Congress. This created confusion, uncertainty, and suspicion. It was not easy to recognize that couched in the rhetoric of past precedents was a new innovation in the administration's foreign policies. Ogden Mills might privately stress that "The last part of the President's speech [that referring to possible quid pro quos and the need for revisions] . . . presents . . . the real approach to what has become a very grave world problem." But the
French were not so sure they perceived a new departure; nor were the British. And at home, Congress was not appeased to hear any words that sounded like recriminations; nor was Roosevelt reassured to learn that Hoover wanted him to obtain congressional support for a plan designed by his recently defeated opponent. Poor Hoover, his own perspicuity was often drowned in a sea of offensive verbiage, uninspired platitudes, and circumlocution. 67

Stimson and others kept urging Hoover to take a "simple and magnanimous tone" both toward Roosevelt and the

67 Hoover's position is still extremely hard to ascertain with certainty. Though he reiterated the old principles of treating the debt question and stated they still applied, he then went on to discuss the possibilities of a comprehensive settlement based on reciprocal concessions. Did this mean he was abandoning the old principles, even though he rhetorically insisted upon their applicability? Or was he going to try to link the new with the old? It is interesting that in the notes of December 8 to Britain and France, there is virtually no mention of the old principles. Was this a substantive change in policy or simply a tactful means of demanding payment of the December installment? Mills emphasized the new approach, but also indicated the old principles, especially the one applying to individual negotiations with each debtor, still were in force. Pierrepont Moffat, a key State Department official, subsequently told Hull the linkage policy was an important last minute innovation of Hoover's. And on December 16, Stimson told Claudel that Hoover insisted on two points: no total cancellation and some quid pro quo for American concessions. For Hoover's statements and the diplomatic notes, see the citations in footnote 68. Also see Mills to Richard Olney, November 30, 1932, Box 111, Mills Papers; Mills to Richard Warren, December 1, 1932, ibid.; Mills to Winston, December 10, 1932, ibid.; Moffat to Hull, August 31, 1933, Box 63, Cordell Hull Papers (Manuscript Division, Library of Congress); memorandum of conversation between Claudel and Stimson, December 16, 1932, 800.51W89 France/7703. For evidence that the French were confused by American policy, see memorandum of phone conversation between Stimson and Lamont, November 28, 1932, 800.51W89/5986.
debtors. But the President was temperamentally unable to do so. As a result, small differences assumed substantive dimensions. From the time of the receipt of the European notes, through the meeting with Roosevelt on November 22, and up till the December 15 installment date, the President was in constant conflict with officials in the State Department and sometimes even with his confidant, Mills. This friction was out of all proportion to the actual differences that existed between the individuals involved. Significantly, Hoover, Stimson, and Mills all believed that revisions had to take place as part of an overall settlement including disarmament and other economic matters. They all accepted the need for a special commission to coordinate American debt, disarmament, and economic policies. The only important point of dissension was with regard to the payment of the December 15 installment. Hoover wanted it paid. Stimson equivocated. But nobody would have known that this was the only substantive difference between them given the acrimony that permeated the discussions over the wording of the replies to the British and French notes of November 10. Hoover wanted to vindicate his past policies. He did not want to seem too conciliatory. Humiliated by his recent defeat, he wished to resuscitate his political reputation. But it was impossible to reconcile the past with the future. And in trying to do so, Hoover undermined his own constructive effort to attack the entire crisis on a comprehensive
Particularly destructive was Hoover's insistence that the debtors pay the December 15 installment. He feared that immediate suspension might compromise his former policies and might undermine his efforts to secure adequate *quid pro quo*. He also wanted to break down any collusive European action and to safeguard the integrity of the accords. But Hoover's primary reason for demanding the payment of the December installment probably stemmed from his feeling that Congress would never agree to the suspensions, especially of the French payment. Though several members of the State Department continued to press for some form of moratorium, they, too, were confused and uncertain.

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68 See Morison, *Turmoil and Tradition*, 350-365, especially 354; Herbert Feis, *1933: Characters in Crisis* (Boston, 1966), 33-91. The usual accounts of this period rely heavily upon the Stimson diaries. Stimson was critical of Hoover's distress after the elections and asserted that the President was mainly concerned with salvaging his political reputation. Stimson's criticisms appear too harsh. Could Hoover have been expected to feel very differently? And if he was concerned with the politics of the situation, was this not unavoidable given the sentiment of Congress? Was there not good reason for him to believe that if he appeared too conciliatory Congress might ignore all requests for a reconsideration of the debt issue? To say this, however, is not to dismiss the self-righteousness and inflexibility that characterized the Hoover personality. Carl Degler has incisively portrayed this aspect of the Hoover personality. See Carl N. Degler, "The Ordeal of Herbert Hoover," in Gerald N. Grob and George A. Billias, *Interpretations of American History: Patterns and Perspectives* (2 vols.; New York, 1967), II, 312-317.

on what to do. In retrospect, it seems unlikely that Congress would have acquiesced to an extended moratorium. But Hoover had nothing to lose by trying.

Perhaps if Roosevelt had supported an immediate suspension, Hoover would have acted differently. But the President-elect had no such intention. On November 23, the day after he met with Hoover, Roosevelt made clear that he would not even join in an appeal to Congress to re-create the War Debt Commission. He made no comment on the prospects of trading war debts for concessions in other fields. Instead, he simply uttered his agreement with Hoover's four outworn principles and reaffirmed his belief that every debtor should have access to his creditor. For the present, he felt it was Hoover's responsibility to proceed as best he could. Roosevelt saw no reason why effective negotiations could not be carried on through normal diplomatic channels. He failed to realize, or probably did not wish to realize, that serious negotiations were urgent and that no foreign nation would bargain seriously with a government that had just been voted out of power and that had no influence whatsoever with Congress. This attitude was not surprising given Roosevelt's total unfamiliarity with the debt issue, his failure to understand its psychological importance, and

70 Morison, Turmoil and Tradition, 359-362.
71 For Roosevelt's statement to the press, see Myers and Newton, Hoover Administration, 287-288.
his unwillingness to grapple systematically with the problems of reconciling domestic recovery with international stability.

Meanwhile, however, Hoover's insistence that the December installment had to be paid outraged the French press and alienated French public opinion. And the inability of the President, the President-elect, and the Congress to agree on a policy for revising the existing agreements further complicated the situation for the French government. The French felt, and not without cause, that the Hoover administration had repudiated its commitment to respond in kind to a European settlement of the reparations controversy. Moreover, they considered the United States responsible for bringing German reparation payments to an end in the first place. This, the French believed, had been the inevitable result of Hoover's moratorium announcement. And the fact that American private credits in Germany temporarily had been salvaged as a result only intensified their agitation and feelings of betrayal. In general, the French contended that the United States bore a moral responsibility for modifying the Young Plan and thus had a moral obligation to revise the Mellon-Bréen agreement accordingly. Again and again, the French insisted that their requests for postponement and revision were justified by Bréen's unofficial reservations in 1926, by the Hoover moratorium, by the Laval-Hoover communique, by the Basle Report of December,
1931, and by the Lausanne Conference.\footnote{72}

With French public and parliamentary opinion in such a state of upheaval, Hérriot was powerless. Yet, he did not want to default. He was well informed that a default would only complicate the more important objective of securing a permanent revision.\footnote{73} Even more significantly, he believed his entire policy of seeking close cooperation with Britain and the United States was at stake. He did not want French relations with either of these nations to be unnecessarily strained. One of his great triumphs at Lausanne had been in obtaining a commitment from Britain to cooperate with France on the major international issues.\footnote{74} But by early December

\footnote{72}For French sentiment, see French-British meeting, December 8, 1932, D.D.F., I, II, 191-201. Herbert Feis understood the French feelings and believed they were, at least in part, justified. See "French Point of View on War Debts," December 12, 1932, 800.51W89 France/821. Also see Marriner to Stimson, November 14, 15, 25, 1932, 800.51W89 France/728, 741, 739; French note to the United States, December 1, 1932, F.R., 1932, I, 734-739.

\footnote{73}For Hérriot's difficult political situation and for his knowledge of the consequences of default, see Davis to Stimson, November 12, 1932, F.R., 1932, I, 731-732; memorandum of conversation between Stimson and Claudel, November 28, 1932, 800.51W89/598\footnote{1}; Claudel to Hérriot, December 2, 1932, D.D.F., I, II, 111-112.

\footnote{74}For this accord, see Wheeler-Bennett, Wreck of Reparations, 276. In his speech to the Chamber advocating payment, Hérriot stressed the dangers of French isolation. He said France must follow the English example and must try to create a better public image in the United States. This speech is in the Archives, 800.51W89 France/808; also see Edge to Stimson, December 21, 1932, 800.51W89 France/779. For further discussion of Hérriot's efforts to reconcile French and American disarmament policies, see Chapter IX.
he had learned that Britain was going to pay the December installment if forced to do so. So despite Britain's loyal efforts to secure equal treatment for all the debtors, France was to be stranded when the crunch came. Hérrriot understood the British dilemma. But he was angered and embittered by the predicament in which he was placed by American intransigence. Nevertheless, he struggled valiantly and courageously to obtain the Chamber's approval of payment with reservations. He made it a matter of confidence in his government. He was defeated and thrown from power. On December 15, the French did not pay. The British did.

It is essential to realize, however, that December 15th was not a rigid turning point. The French emphasized that their refusal to pay was not a default. The Chamber's action was coupled with reservations that the money would be forthcoming if the United States took certain concrete steps to negotiate permanent revisions. Throughout France, the moderate and conservative press was nervous and apprehensive over the legislature's action. Joseph Paul-Boncour, the new Foreign Minister, immediately sought out the American Ambassador and emphasized his desire to make the payment. What was needed, he said, was some "new fact" to convince the Chamber of America's good will. This would enable the deputies to save face after their hasty action. And Hérrriot,

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through Ambassador Claudel, notified Stimson that he was intent on dedicating himself to solving the differences that existed between the two countries. 76

Within the Hoover administration there was a similar feeling that the situation was still fluid, that the positions of the two governments were not irreconcilable, and that the payment might still be obtained through tact and conciliation. The Secretary of State met with the French Ambassador on December 15 and 16. Stimson maintained that the differences between the two nations on the debt issue were now only procedural in nature. The French appeared willing to pay provided the United States government committed itself to revising the existing accords. The Hoover administration was prepared to solicit such authority from Congress if the December installment was paid. Moreover, to entice the French into paying, Stimson, after consulting with Hoover and Mills, wrote a most amiable letter to Hérrriot. He expressed the administration's good will and declared its readiness to partake in negotiations if the debt in arrears were paid. 77 For the moment, the restraint

76 For the French Chamber's action, see F.R., 1932, I, 746-747. For the reaction of the French press and of the new French government, see Edge to Stimson, December 15, 17, 21, 23, 1932, 800.51W89 France/766, 796, 779, 785. Also see Walter Edge, A Jerseyman's Journal (Princeton, 1948), 226.

of the American press and of American politicians afforded
the administration some time to work out the incendiary
issues. In this country, bitterness over France's action
was mixed with a widespread appreciation of Hébertot's
courageous stand. The question was whether a solution could
be worked out before the latent resentment of the American
public matured into overt anger and hostile recriminations.78

Hoover, himself, recognized the seriousness of the
situation and was aware of the need for urgent action to
forestall both the worsening of the international economic
and political crises and the hardening of American sentiment.
During the week following the December 15 installment date,
he addressed Congress and corresponded with Roosevelt. He
emphasized that the situation was critical. Constructive
discussions on all the major problems—disarmament, war
debts, currency stabilization, and price levels—were impera-
tive. The President reiterated the statesmanlike and
realistic policies he had introduced in late November, but
this time without any venomous or self-serving overtones.
He stressed that debts, disarmament, and currency matters
should be dealt with together in a coherent and systematic

78 "Excerpts of Editorial Comment Throughout the
Country on the French War Debt Default," December 15, 1932,
800.51W89 France/775. On December 19, Pierrepont Moffat
wrote Norman Davis that "There seems to be a tendency to
give the French plenty of time to realize the implications
of her decision will be far more widespread than she has
any realization of . . . ." See Moffat to Davis, December
19, 1932, Box 41, Davis Papers.
fashion. If the United States was to make concessions on the war debts, it would have to be "compensated by definite benefits in markets and otherwise." Knowing, however, that final settlements could not be reached until after the new administration was seated in power, Hoover stressed procedural matters. Once again he requested the re-creation of a bipartisan War Debt Commission which would include members of Congress as well as some of the delegates to the world disarmament and economic conferences. He asked the President-elect to join in the selection of the personnel. Furthermore, in order to reassure Roosevelt of his good intentions, Hoover wrote him on December 20:

I fully recognize that your solution of these questions of debt, the world economic problems, and disarmament might vary from my own. These conclusions obviously cannot be attained in my administration and will lie entirely within your administration. I wish especially to avoid any embarrassment to your work and thus have no intention of committing the incoming administration to any particular policy prior to March 4.  

While the President did not feel it was then either necessary or appropriate to ask Roosevelt for any commitments, Hoover, Stimson, and Mills did proceed to analyze

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79 For Hoover's message to Congress on December 19 and his letters to Roosevelt on December 17 and 20, see Myers, State Papers, II, 547-558. The quote is on page 558.

80 Toward the end of February, when the banking crisis became absolutely critical, Hoover did ask Roosevelt to declare himself in favor of a stable dollar and a balanced budget. He felt this was essential to restore confidence. See Myers and Newton, Hoover Administration, 338-341. But Hoover did not seek any commitments from Roosevelt on this
the major problems retarding recovery and to demarcate the areas where remedial action was of the greatest importance. There was much accord between the three men on the need to revive prices and restore confidence. Hoover told Congress, "It is certain that the most urgent economic effort still before the world is the restoration of price levels." In order to strengthen prices and boost confidence, Hoover outlined three goals that had to be accomplished immediately. First, the government had to reduce expenditures and balance the budget. "That is the first necessity of national stability and is the foundation of further recovery." Second, the banking system had to be completely reorganized. Third, "vigorous and whole-souled [sic] cooperation in the economic field" had to be effected immediately. 82 In a letter to Owen Young, Mills reiterated the absolute necessity of balancing the budget and of stabilizing foreign currencies. And in a confidential press conference on December 19, Stimson once again reaffirmed the critical importance of monetary stability. 83

matters in November or December. Indeed, he probably hoped that if the proper machinery were established to deal with critical problems, financial conditions would not further deteriorate.

81 Myers, State Papers, II, 548.
82 This program had been announced by Hoover in his fourth annual message to Congress on December 6, 1932. See ibid., 494-505, especially 497.
83 Mills to Young, December 16, 1932, Box 9, Mills
In the eyes of Republican policy makers this latter factor was of special significance because they believed that the domestic price level was constantly being undermined by fluctuating exchange rates abroad. Hoover told Congress:

These fluctuations in themselves, through the uncertainties they create, stifle trade, cause invasions of unnatural marketing territory, result in arbitrary trade restrictions and ultimate diminished consumption of goods, followed by a further fall in prices.

Thus, in order to raise the domestic price level, it was necessary to cooperate in bringing about exchange stability and the restoration of the gold standard. Otherwise, foreign manufacturers, benefiting at least temporarily from the depreciation of their currencies, might undersell American goods both inside and outside the United States. If, however, currencies were stabilized, even at new levels, American businessmen would be able to adjust to the new competitive conditions. Stability would lead to predictability. This would contribute to a resurgence of confidence, to new investments, to more employment, and to higher wages. Furthermore, if currencies were stabilized and the burden of intergovernmental debts reduced, international financial flows might resume. 84

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84 For the quote, see Myers, State Papers, II, 548; also see Mills to Young, December 16, 1932, Box 9, Mills.
In late 1932, the immediate objective was to convince or to induce the British to return to the gold standard. Mills was prepared to reduce the war debts in order to secure the stability of the pound. But to reduce war debts meant a decrease in revenues while the administration was struggling to balance the budget and to curtail congressional expenditures. Under such circumstances, would Congress acquiesce to a reduction of war debts (and of government revenues) for the less tangible asset of exchange stability? Would Congress not demand something more concrete? Hoover thought it would. He himself was anxious for some more tangible and immediate benefit. Thus, the enigma facing the administration was how to reconcile its emphasis on domestic action (balanced budget) with its stress on international action (currency stability). Hoover wanted to solve it by linking the debt

85 Mills to Young, December 16, 1932, Box 9, Mills Papers.

Papers; memorandum of special press conference, December 19, 1932, 800.51W89/627½. Many business and financial leaders, as well as government and private experts, also emphasized the key importance of exchange stability. Currency fluctuations, they believed, were responsible, at least in part, for exchange controls and import quotas. It was believed that if the latter could be eliminated, total world commercial and financial transactions would increase. This would lead to an increase in world prices. And since American prices were dependent on price movements elsewhere, internal prices would also rebound. See, for example, memorandum by Feis, October 15, 1932, 550.S1/231½; report of American delegates to Preparatory Commission of Experts of the World Monetary and Economic Conference, December 1, 1932, 550.S1/372½; Sackett to Bundy, November 28, 1932, 550.S1/365½. Also see references in Chapter VIII, footnote 16.
and currency issues to the disarmament conference. The President, not coincidentally, explained to Congress that American participation in the disarmament conference might hasten the conclusion of an accord on arms limitation. If this were the case, tax burdens in the United States might be lightened as a result of a decrease in expenditures on arms. In other words, Hoover hoped that Congress might be induced into a more generous mood on the war debts if it realized that the United States would receive some direct fiscal relief from a comprehensive accord on debts, exchange stability, and disarmament.

In essence, then, the Hoover administration believed that action in the national and international spheres was necessary in order to generate full domestic recovery. Though the President often maintained that the roots of the depression sprang from imbalances in the international economy, he did not think that domestic recovery had to be postponed until these imbalances were rectified. If he had so believed, he would have been more inclined to take bolder action and to cooperate more systematically and generously with foreign nations. Hoover, however, was committed to a balanced, but restricted program of domestic and

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87 See, for example, ibid., 41-43, 248-249, 298-299, 338 ff., 495.
international activity. In fact, ever since 1921 the Republican administrations had tried hard to harmonize domestic and foreign policies, to reconcile internal fiscal imperatives with the capital needs of the international economy, and to balance the need for stable currencies and foreign markets with the scientific protection of the domestic market. These were difficult objectives and it is not surprising that there were more failures than successes. In addition to the usual problems of inadequate knowledge and interest-group pressures, Republican policy makers themselves were often caught in a vice between congressional restrictions and European intransigence.

But throughout their tenure in office, Hoover and his advisers grappled to find some means of creating a harmonious balance between the needs of the domestic economy and the exigencies of international stability. Though their plans for internal reform and recovery were no doubt limited, they never stopped believing that national and international policies should ideally form a complementary whole, that full domestic recovery depended upon international stability. Thus, there was a real need for international cooperation. But when Hoover talked of such cooperation, he was speaking of mutual *quid pro quos*. He was not willing to undertake unilateral sacrifices or to incur political or strategic commitments. There were certain principles and beliefs he would never compromise as well as certain prejudices he
would never overcome. Thus, in early 1933, he might assert that the next great step forward rested in the international field, but this did not mean he would cancel the war debts. For Hoover, the sanctity of contracts and the balancing of the budget took precedence over all else. Action in the international arena, necessary as it might be, could not be at the expense of certain fundamental tenets. Nor would it take place if other nations did not concede as much as or more than the United States.

This constellation of beliefs can be fully understood only if it is remembered that Hoover felt that the United States could and would follow the uncharted course into national self-containment if circumstances so demanded. This would entail substantial changes, but the necessary adjustments, he felt, could be made. Given this outlook, it is doubtful whether Hoover would have made sufficient concessions to satisfy French and British demands either on the debts or disarmament. Thus, despite his sensitivity to the problems of the international economy, despite his realization of the need for systematic action on the debt, disarmament, and currency issues, and despite his elaboration of a plan of procedure that had some chance of

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88See Hoover's very important address to the National Republican Club of New York City, February 13, 1933, in ibid., 586-595, especially 592-594.
reconciling congressional sentiment with European demands, there is good reason to doubt whether Hoover could have made any headway in redressing either the international or the domestic crises.
CHAPTER VIII

ROOSEVELT, FRANCE, AND EUROPEAN STABILITY

On election eve, 1932, Franklin D. Roosevelt sat in front of the fireplace at his home in Hyde Park and talked to his closest confidants about the presidential campaign, the economic crisis, the mounting unemployment, and the declining prices.\(^1\) The situation abroad was no more encouraging. In Asia, the Japanese were consolidating their gains in Manchuria and North China. In Europe, the persistent economic and political crises showed no signs of abating. In fact, the economic dislocations seemed to be spreading to France, Belgium, and other gold bloc nations. Not far ahead lay mounting political controversies and parliamentary upheavals. Meanwhile, in Germany, the National Socialists, under the leadership of Adolph Hitler, were on the threshold of obtaining power. All in all the world situation seemed bleak indeed.

During the electoral campaign neither Roosevelt nor the Republican incumbent, Herbert Hoover, expended much energy on outlining a coherent program for generating

\(\footnote{\text{1} Frank Freidel, \textit{Franklin D. Roosevelt: The Triumph} (Boston, 1956), 369.} \)
recovery at home or promoting stability abroad. Instead the Democratic candidate concentrated on assailing "the 'Four Horsemen' of the present Republican leadership: the Horse­men of Destruction, Delay, Deceit, and Despair." In turn, Hoover devoted himself to defending his record and to warning that as bad as conditions were, they were sure to worsen if Roosevelt were elected. In the weeks following his defeat, however, Hoover did lay out a general blueprint for attacking the problems of war debts, disarmament, and currency stability. If successful, he hoped to relieve the fiscal plight of the nation, to revive confidence, and to foster recovery at home and stability abroad.

Whereas Hoover had some idea of what ought to be done to reconcile international stability with domestic recovery and had some notion of how it might be accomplished, in the winter of 1932-1933, Roosevelt had neither. In response to Hoover's inquiries whether he would participate in the selection of a commission to study and to discuss the three major international problems, the President-elect responded in the negative. Dismissing Hoover's assurances that no commitments would be made prior to the inauguration, Roosevelt insisted that he could assume no responsibility until he had complete authority. He advised


\[3^{\text{See Chapter VII, pp. 469-492.}}\]
Hoover to appoint his own representatives to conduct preliminary talks on the various issues. He warned, however, that nothing should be done to bind the incoming administration. Furthermore, Roosevelt indicated that he preferred to treat the debt, disarmament, and economic issues separately.4

Roosevelt's refusal to collaborate with Hoover is often defended on the grounds that he did not wish to be coopted into accepting Hoover's misguided and ineffective policies. In contrast to Hoover's internationalist approach, it is said that Roosevelt had decided upon a domestic plan for recovery. Thus, the argument goes, Roosevelt was naturally suspicious of any efforts to divert him from his objectives.5 If Roosevelt had developed a coherent program aimed at domestic recovery irrespective of external influences, his subsequent actions might well have been understandable. But, in fact, Roosevelt had not developed any systematic policy for generating recovery. To attribute such a coherent program to him in the winter of 1932-1933 is simply a product of historical hindsight. Raymond Moley and Rexford G. Tugwell, two of his closest advisers,

4This latter statement, however, was somewhat qualified by the recognition that "in the ultimate outcome a relationship of any two or of all three may become clear." See William Starr Myers (ed.), The State Papers and Other Public Writings of Herbert Hoover (2 vols.; Garden City, New York, 1934), II, 556-557, 558-559.

5See, for example, Arthur M. Schlesinger, Jr., The Crisis of the Old Order, 1919-1933 (Cambridge, Massachusetts, 1957), 446-448.
were undoubtedly engaged in devising a purely internal program for recovery, but the same cannot be said for Roosevelt himself.

In fact, throughout January and February of 1933, the President-elect, as well as some of his advisers, encouraged French diplomats to believe that he would pursue a more "internationalist" policy than the incumbent administration. On January 10, French Ambassador Paul Claudel met with Roosevelt and reported to the French Foreign Office that the President-elect was a real friend of France. Roosevelt was willing to discuss all outstanding issues with the French. More significantly, he felt that the United States and France could agree on all issues. With regard to the need to increase prices, to preserve the gold standard, and to bring about the stability of the pound, the President-elect stressed he was in particular accord with the French. Moreover, he said he hoped to arrange a "modus-vivendi" as far as the forthcoming June debt installments were concerned. On such matters as French security and the importance of reciprocal tariff concessions, Roosevelt was equally conciliatory.6

Such attitudes reflected the influence of Norman

Davis and Henry Stimson. During January 1933, Roosevelt was under intense pressure from these individuals, from prominent bankers, and from leading Democrats to adopt an internationalist position. During the third week in January, there was a clash between the nationalist and internationalist forces within Roosevelt's own camp. Moley thought he had emerged the victor. He was wrong. Roosevelt was still vacillating and wavering. While Moley was put in charge of foreign economic matters and therefore believed the future direction of the administration was no longer in doubt, William Bullitt, Roosevelt's confidant, was in Paris and London exploring possible means of dealing with the international crisis.

Meanwhile, in New York and Warm Spring, Georgia, where Roosevelt and his entourage spent a good part of their time during the interregnum, French and British diplomats were led to believe that Roosevelt would be as conciliatory as Congress would permit on the war debts. On January 30, British Ambassador Ronald Lindsay informed his

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government that Roosevelt was not at all interested either in the legal aspects of the debt question or in the capacity formula. On February 18, Emmanuel Monick, the French Financial Attaché, met with Roosevelt. He found the President-elect extremely agitated over the banking crisis. Roosevelt said the future of Western Civilization depended upon French-British-American cooperation. In particular, he stressed the identity of interests between French and American objectives on economic and financial matters. Subsequently, in separate talks with the British and French ambassadors on February 21, he again emphasized the importance of settling international financial and economic problems and of reconciling the differences between the three great democratic nations. Claudel was absolutely exhilarated by Roosevelt's demonstration of good will toward France. The President-elect seemed willing to go as far as he could to satisfy French demands and to alleviate French anxieties. 9

Roosevelt's meetings with French diplomats were in stark contrast to his talks with Ronald Lindsay. The

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British Ambassador's visits with the President-elect and his advisers were rather strained. Discord over the future treatment of the debt and currency issues produced anxieties on both sides. The difficulties encountered in these conversations led Claudel and Monick to believe that Roosevelt might be planning to solicit French support against Britain. This would make sense only if Roosevelt were trying to secure a commitment from Britain to stabilize the pound. The French were sure this was Roosevelt's intention. Yet, Lindsay felt Roosevelt did not know very much about currency matters. And both the British and French ambassadors were unimpressed with the vague utterances of Cordell Hull, Roosevelt's recently appointed Secretary of State, on this vital matter.

In fact, despite the assurances given the French on the matter of exchange stability, the President-elect had no clearly delineated program. Throughout the winter of 1932-1933, James P. Warburg, one of the three experts

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10 For the difficulties surrounding the talks between Lindsay and Roosevelt and French thinking thereon, see Claudel to Paul-Boncour, February 18, 21, 1933, D.D.F., I, II, 653, 684-686; Paul-Boncour to Claudel, February 19, 1933, ibid., 659; Lindsay to Simon, February 21, 1933, D.B.F.P., II, V, 771.

11 Lindsay to Simon, January 30, 1933, February 27, 1933, D.B.F.P., II, V, 750; 774-775; Claudel to Paul-Boncour, February 27, 1933, D.D.F., I, II, 702-703.
appointed by Moley to work on international economic questions, was desperately trying to ascertain whether the incoming administration was planning to emphasize international recovery and stabilization or whether it was intending to subordinate international considerations to the achievement of domestic recovery. Try as he might, he was unable to detect where the administration was heading. Roosevelt and his intimates knew they wanted to raise prices, as did Hoover, but they were uncertain on how to proceed. Would it be an internationalist approach or a nationalist approach? No one seemed to know. While confusion reigned in Roosevelt's camp, events abroad were moving rapidly. Adolph Hitler assumed power in Germany. The success of the Nazis in Germany intensified the growing internal political crisis in France. And the British, agitated by American intransigence and irresolution, began looking to the Commonwealth and the sterling bloc for relief.

If Roosevelt came to power without a coherent program of stimulating domestic recovery, or of stabilizing the international situation, or of reconciling the two, he

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was even more uncertain on how it might be possible (if he so desired) to reconcile the diametrically opposite positions of Congress and the former Allies on such matters as debts and disarmament. In the discussions between the outgoing and incoming administrations, Roosevelt acceded to the demands of Moley and Tugwell and insisted that the debt, disarmament, and economic issues be settled separately. Moley was especially adamant that the debts not be traded for illusory European concessions on other issues. In a subsequent account, he explained that

Hoover's argument for trading the debts or a modification thereof for concessions— the quid pro quo idea—was unsound because while we had a definite quid, we were unable to know what the quo might be. 13

There is no evidence, however, that Moley ever systematically analyzed the possibilities of securing concessions in other fields. In fact, the French government of the Cartel des Gauches was intent on working out the differences between the two nations. Foreign Minister Paul-Boncour wrote Claudel that though France desired a final debt accord that was in conformity with the Lausanne agreements, a debt settlement might be deferred until other economic issues were settled. In this way, the United States would be able to obtain some quid pro quos

13 Moley, First New Deal, 411.
in exchange for concessions on the war debts.\textsuperscript{14}

But Moley was uninterested in closely examining the possibilities of agreement. Years later, his account of the problems encountered by Hoover and Roosevelt during the interregnum is filled with factual errors about the debt settlements and their meaning. As late as the middle of May, 1933, Leith-Ross, the British financial expert, "found Mr. Moley singularly ignorant of the elements of the debt problem" and he had to spend a considerable amount of time informing him of the most basic facts. What made matters even worse, however, was the streak of xenophobia that ran through Moley, a characteristic that those who worked with him did not fail to detect.\textsuperscript{15} Yet, this was the man that Roosevelt chose to oversee the development of American foreign economic policy.

Moley did not want the debt, disarmament, and currency matters linked because he was reluctant to confront Congress with the incendiary issue of debt revision.

\textsuperscript{14}Paul-Boncour to Claudel, February 27, 1933, D.D.F., I, II, 700-701; also Jacques Lyon, February 20, 1933, \textit{ibid.}, 668.

\textsuperscript{15}For errors in Moley's account, see, for example, Moley, \textit{First New Deal}, 25, 41; also see Memorandum, by Leith-Ross, May 12, 1933, D.B.F.P., II, V, 798; Warburg, \textit{Long Road Home}, 115, 116; Herber Feis, 1933: \textit{Characters in Crisis} (Boston, 1966), 101-103. In light of Leith-Ross' assessment of Moley's knowledge of the debt issue in May, 1933, it is not surprising that in the previous November, Mills and Hoover both found Roosevelt astonishingly ignorant of the international economic situation. See, Nancy H. Hooker (ed.), \textit{The Moffat Papers} (Cambridge, Massachusetts, 1956), 77.
This, he feared, might undermine the chances of securing legislative passage of the yet unformed domestic program. By isolating the international issues from one another, however, he was insuring the defeat of a comprehensive international settlement. France and Britain would never agree to any general accord that did not substantially reduce the war debts. Given the intensity of the domestic crisis, Moley may well have felt that under no circumstances should the purely domestic road to recovery be compromised. This would have been an acceptable position if Roosevelt had not been encouraging the French at the very same time to believe that mutually satisfactory arrangements could be achieved on all unsettled questions. It might also have been

For Moley's motives, see Moley, First New Deal, 51-58, 412-416. Moley and Tugwell both have claimed that Roosevelt did not feel the war debts were sufficiently important to warrant action, especially when compared to the tariff issue. See, in addition to the above, Rexford Guy Tugwell, The Democratic Roosevelt (New York, 1957) 255 ff. But to feel this way was to be incredibly insensitive to the existing international situation. The British were quite clear in stating that nothing could be done without prior action on the war debts. The French also hoped to secure at least parallel action. In actual fact, the war debts may not have been a large sum, but their psychological importance was enormous. Given the lucidity of British and French sentiments, there was no excuse for misreading the significance of this issue. For British and French thinking about the war debts, see Instructions to His Majesty's Ambassador at Washington, February 10, 1933, D.B.F.P., II, V, 754 ff.; Lindsay to Simon, February 21, 1933, ibid., 769-770; Memorandum, by Jacques Lyon, D.D.F., I, II, 666-667.
acceptable if the incoming administration was preparing a thoroughgoing program of domestic reforms, including a drastic redistribution of income, a comprehensive public works program, and an increase in wages to boost total internal consumption. But such was not the case. Roosevelt was still committed to a balanced budget and a policy of governmental economy. Therefore, he was forced into a program of expedients to raise prices and generate confidence. 17

Moley admitted that "Underneath all was a determination to achieve a psychological effect upon the country by the appearance of 'action' on many fronts". 18 But if the incoming administration was depending upon a return of confidence, nothing was more likely to be counter-effective than a foreign economic policy that divorced the United States from the gold standard and thereby intensified the problems of currency instability, of trade barriers, and of exchange controls. Without exchange stability, commercial and financial transactions had to take place without the predictability that businessmen and bankers desperately desired. Republican policies for over a decade had been focused on securing and maintaining the stability of foreign currencies as the prerequisite for a flourishing international commerce.

17 For the confusion and uncertainty in the administration's thinking, see, for example, Warburg, Long Road Home, 118; Tugwell, Democratic Roosevelt, 261-262.

18 Moley, First New Deal, 338-339.
If a government wanted to generate business confidence, arbitrary manipulation of the currency was not the way to do it.\(^{19}\)

In the winter of 1932-1933, Roosevelt probably realized this. Unlike Moley and Tugwell, he was not at all sure which way to proceed. Therefore, while he acquiesced to Moley's strident demands that the debt, disarmament, and currency questions be separated, he still did not want other nations to feel that all progress on the international questions should be postponed until a domestic program was implemented. On the contrary, he emphasized the need for immediate action and cooperation in the international arena. Both Roosevelt and Bullitt urged the French and British governments to send over high officials to conduct negotiations with the incoming administration.\(^{20}\)

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\(^{19}\)Throughout 1932-1933, businessmen, bankers, and economists clamored for exchange stability as one of the most essential of all prerequisites for the return of confidence, the resuscitation of commerce, and the increase in prices. See, for example, Speech by Virgil Johnson (economist and editorial writer for Business Week) to Overseas Club of New York, November, 1932, 550.51/417; James A. Farrell (President, National Foreign Trade Council) to Stimson, November 22, 1932, 550.51/356; Francis T. Cole (General Manager, American Manufacturers Export Association) to Robert P. Lamont (Secretary of Commerce) June 1, 1932, Records of the Bureau of Foreign and Domestic Commerce, Box 600.2, RG 151 (National Archives); Lionel D. Edie, "Laying the International Foundations for Trade Recovery," in National Foreign Trade Council, Official Report of the Twenty-Third National Foreign Trade Convention (New York, 1933), 24-35; Fred I. Kent, "Origin, Background, and Present Elements of the Foreign Exchange Problem," ibid., 200; "Final Declaration," ibid., xi-xii.

The President-elect no doubt hoped to persuade the British and French to place the debt issue in the background until other economic and financial matters were settled. Consequently, when Roosevelt spoke to foreign diplomats about the war debts, he spoke in conciliatory terms, but emphasized the problem of securing congressional approval. Hull, however, spoke more bluntly and tried to squelch the idea of trading concessions in one area for those in another. The President-elect and his Secretary of State refused to realize that an impasse was inevitable on all international issues if the incoming administration did not act resolutely on the war debts. Roosevelt's conciliatory words and engaging personality would not pacify the demands of the British and the French. The government of the Cartel des Gauches already had assumed the political risk of virtually eliminating reparations. Would not the United States follow suit? The Roosevelt administration might have been able to do so if it realized the importance of the issue, if it developed a comprehensive plan for recovery, and if it grappled systematically with the problem of reconciling the conflicting demands of Europe with the sentiments of Congress.

Roosevelt's vacillation and uncertainty were not

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by any means the most remarkable aspects of his foreign policy during the interregnum. His actions toward France with regard to the recent default were far more interesting and inexplicable. The President-elect had refused to collaborate with Hoover because he said he did not want to assume responsibility without commensurate authority. Yet he proceeded to act in a way that prevented Hoover's own policies from having the desired effect.

After the French failed to pay on December 15, Hoover decided that his administration would not enter negotiations with any nation that had willingly defaulted on its obligations. Though he was intensely upset by France's action, this decision was probably not a result of bitter feelings, but of a realistic appraisal of what the reaction of Congress was likely to be if France remained recalcitrant. This is illustrated by the discreet and conciliatory manner in which the United States first approached France after the December installment fell due. As already mentioned, Stimson wrote a friendly letter to Herric and the President himself delivered a measured address to Congress on December 19. These actions convinced French Ambassador Claudel that the Hoover administration sincerely desired to reconcile differences with the French. 22

Initially, there was even some feeling that the recreation of the War Debt Commission might itself be the "new fact" necessary to secure the reversal of the French Chamber's decision.²³

But while Hoover controlled his rage and tried to elicit payment in an amicable way, Roosevelt and his advisers informed the French that the incoming administration would conduct negotiations with nations regardless of whether past payments had been made. The President-elect personally told this to Claudel on January 10. Similarly, Monick was told by Roosevelt's associates that the President-elect wanted France to pay the December installment after his inauguration. Roosevelt hoped to facilitate French action by expressing some good will toward France in his Inaugural Address. Bullitt emphasized this means of procedure to Paul-Boncour in the latter part of January.²⁴

There is good evidence to demonstrate that Roosevelt's actions and statements did affect French policy. Paul-Boncour told Ambassador Edge that Roosevelt's failure to support the recreation of the Debt Commission affected

²³Edge to Stimson, December 21, 23, 1932, General Records of the Department of State, File No. 800.1W89 France/778, 785, RG 59 (National Archives). (Hereinafter a decimal number standing alone will indicate Record Group 59, in State Department Files, National Archives).

the Chamber's willingness to reconsider its previous decision. Much more significantly, the belief that Roosevelt intended to negotiate with all the debtors encouraged the Daladier ministry to let matters drift until after March 4. As a result, both Hoover's conciliatory stance and his more belligerent posture in late January failed to elicit payment of the December installment. This left the President infuriated at Roosevelt, at Stimson, and at the French, all of whom he believed were conspiring to sabotage his administration and to further undermine its image.

25Edge to Stimson, December 23, 1932, 800.51W89 France/785; Memorandum, by de Laboulaye, January 24, 1933, D.D.F., I, II, 505-508.

26In his Memoirs, Hoover claimed that Roosevelt's intimations of future policy caused the French not to pay. See Hoover, Memoirs, III, 184-185. This statement has a good deal of validity with regard to developments in late December and January. Though Roosevelt denied that he was preparing to reverse Hoover's policy, there can be little doubt that this was his intention. In fact, upon hearing reports of Roosevelt's denial, Sumner Welles was extremely confused since he had been informed that Roosevelt did plan to speak to all the debtors. See Welles to Davis, January 25, 1933, Box 63, Norman Davis Papers (Manuscript Division, Library of Congress). It is only in light of these circumstances that one can understand the intense anger that Hoover expressed toward Stimson, Roosevelt, and the French in late January. Hoover did have reason to suspect that his Secretary of State and Roosevelt were undermining his efforts to solicit payment. He was naturally as anxious as Roosevelt to stabilize relations with France. His desire to send a harsh note in January demanding payment stemmed, at least in part, from his feeling that his more conciliatory efforts had been sabotaged. For information on the confrontations between Hoover and Stimson and Mills and Bundy, see Elting E. Morison; Turmoil and Tradition: A Study of the Life and Times of Henry L. Stimson (New York, 1964), 364-366; Feis, 1933, 72 ff.; Richard N. Current, Secretary Stimson (n.p., 1970), 123-125.
Roosevelt may not have done it in a malicious sense but information that he and his advisers conveyed directly to the French did influence their decision not to respond to Hoover's enticements and warnings. After having refused responsibility to coordinate a policy with the outgoing administration, Roosevelt did assume the responsibility of discrediting its initiatives. And by so doing, he encouraged the French to assume that he was about to usher in a new foreign policy based on conciliation, compromise, and commitment.  

Roosevelt's general failure to cooperate with Hoover together with his ambiguity of intentions also obstructed the preparations for the World Economic Conference. The decision to hold such a conference had been taken in the late spring and early summer of 1932. British, French, and American officials were hopeful that such a meeting might foster cooperation in areas that they considered vital to their own national self-interest. The Hoover administration had solicited congressional support for American participation on the condition that debts, reparations, and tariff levels (not tariff principles) be excluded from the deliberations and that the silver question be included. At the first preparatory session in the autumn the discussions did not go 

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27 See, for example, Claudel to Paul-Boncour, February 23, 1933, March 5, 1933, D.D.F., I, II, 684-686, 735-736.
too well. The British did not want to return to the gold standard until other economic problems had been solved and imbalances rectified. But there was general accord that exchange rates had to be stabilized, that the burden of intergovernmental indebtedness had to be reduced, and that the conditions of world trade had to be liberalized.  

Naturally it was easier to enumerate objectives than to agree on the means of taking appropriate action. Initially, there was a good deal of uncertainty on what might be done to accomplish the agreed upon goals. But after the second session of the preparatory talks in January, the American delegates, Edward E. Day and John H. Williams, were considerably more optimistic about the chances of agreeing on a means of procedure. They believed a comprehensive program might be worked out through mutual concessions; the British would stabilize the pound; the French would eliminate quotas and other commercial impediments; the Germans would remove exchange controls; and the Americans would reduce the war debts. Day and Williams were not alone in feeling that the second meeting had made noteworthy progress. The French delegates also commented that the talks had been more relaxed than previous ones.  

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28 For information on the first preparatory meeting, see Day and Williams to Stimson, December 1, 1932, 550. S1/3724; Feis, 1933, 115.

While the preparatory talks were underway, the position of the incoming administration remained an unknown factor. In December, Secretary of State Stimson acknowledged that the problems of transition were complicating the efforts to develop a well defined American position. In January, however, after Stimson, Day, and Williams spoke to Roosevelt and Moley, there were indications that the Democrats might adhere to the type of settlement envisioned by the American delegates. The President-elect may have been influenced by a report from Bullitt that the British increasingly were inclined to return to the gold standard. He may also have been informed of the French willingness to reduce trade barriers as part of an overall agreement. In any case, he decided to invite leading French and British officials to Washington shortly after his inauguration. And he expressed optimism that these conversations might lead to a comprehensive accord. The French naturally were elated by these and other indications that Roosevelt would

30 Stimson to Davis, December 7, 1932, F.R., 1932, I, 841.
31 For Moley's approval of the steps taken by Day and Williams, see Feis, 1933, 76, 115; also see Nixon, F.D.R., I, 6-7; for indications of French willingness to make some concessions on commercial matters, see, for example, Memorandum, December 29, 1932, D.D.F., I, II, 330; Boisanger to Paul-Boncour, January 9, 1933, ibid., 387; Memorandum, by Jacque Lyon, February 20, 1933, ibid., 668; Paul-Boncour to Claudel, February 27, 1933, ibid., 700-701.
32 See, for example, Lindsay to Simon, January 30, 1933, D.B.F.P., II, V, 748-751; Paul-Boncour, Entre Deux Guerres, II, 377 ff.
remain committed to the principle and the reality of exchange stability, that he would consider the possibility of reciprocal trade concessions, and that he would treat them on equal terms with the British so far as the war debts were concerned.\(^{33}\)

But there were also indications of great ambivalence in Roosevelt's thinking. Stimson was instructed to reserve the position of the incoming administration on all matters, including the date of the conference. Roosevelt revealed distinct uncertainty over what he could do with the debts. And more quietly, the incoming administration began investigating the possibility of embargoing gold shipments and divorcing the dollar from the gold standard.\(^{34}\) Given these inconsistencies, no one should have been too optimistic about the prospects of the forthcoming conference.

In retrospect, it seems clear that Roosevelt's refusal to cooperate with Hoover in appointing a commission for a systematic exchange of ideas with foreign governments was a foolish and impetuous mistake. The decision itself

\(^{33}\)See, for example, Memorandum by Jacques Lyon, February 20, 1933, D.D.E., I, II, 666-668; Paul-Boncour to Claudel, February 19, 1933, ibid., 658-659.

\(^{34}\)For the above, see Memorandum by Rogers, January 23, 1933, F.R., 1933, I, 458-460; Lindsay to Simon, February 21, 1933, D.B.F.P., II, V, 769-770; Feis, 1933, 117-119.
probably stemmed from the President-elect's own uncertainty about how to proceed to solve the existing crisis. Fearful that consultation might lead to commitment, Roosevelt and his advisers foreclosed the opportunity of systematically exploring whether their own emerging domestic policies might have been reconcilable with the demands and imperatives of international stability. This was no academic matter since the extent of stability in the international economy had a vital bearing on domestic recovery. All too often, some of Roosevelt's advisers looked at the alternatives before them as being nationalist or internationalist. Might not extensive negotiations have convinced them of the possibility or of the necessity of molding and adjusting internal policies to suit the needs of both the national and international economy? And if not, might these negotiations have not clarified their own thinking on how best to insulate the American economy from dislocations abroad. In any case, the result of the conversations probably would have elucidated the desires and intentions of the major nations. This would have enabled each to proceed with a good deal of knowledge of what they could expect from the others. But Roosevelt's decision in November provided the Democrats with the luxury of procrastinating and prevaricating for four crucial months while the American economy deteriorated and the international situation
worsened. It encouraged foreign governments to postpone hard decisions until the future course of American policy was made clear. The contacts with foreign diplomats, episodic and spasmodic as they were, were an inadequate substitute for the sustained and comprehensive negotiations that might have taken place.

Yet even after the new Democratic administration was firmly seated in power, there persisted, both within and without top policy making circles, a great deal of uncertainty about the course of American policy. This no doubt generated an extraordinary amount of creative energy and facilitated a large amount of necessary experimentation, but it also created serious problems that ultimately impeded recovery and obstructed the development of a consistent and constructive foreign policy. Naturally, the banking crisis compelled policy makers to concentrate on internal matters immediately after the inauguration. Ironically, the banking and economy bills were in accord with Hoover's own prescriptions on what needed to be done first. At this point, if the former President had been in office, his attention probably would have turned to the international situation.

The Roosevelt administration, however, was undecided about what to do next. Overwhelmed by the public's and the Congress' response, exhilarated by the revival of optimism, and captivated by the appurtenances and reality of power, there was a strong inclination to attack the structural problems that afflicted the agricultural and industrial
sectors of the economy. The related questions of overproduction and low prices begged for solutions. But how were they to be solved? There was no unanimity of opinion. None should have been expected. But there was also little direction from the top. So key policy makers moved in opposite directions. The emphasis was on speed, movement, quick answers, and facile solutions. On each question, executive officials responded to the needs and demands of the pressure groups most directly involved. Such action was politically appealing but economically questionable. There was little time or motivation to see how everything was fitting together. Often unaware of the rapid, tumultuous, and unexpected changes that were occurring in related fields, policy makers were unable to harmonize their ideas, to systematize their actions, and to reconcile their objectives.\textsuperscript{35}

This means of procedure eventually had a disastrous impact on American-French relations and on American policy toward all of Europe. Roosevelt and his advisers realized that the instability of currencies, the proliferation of exchange controls, the burden of indebtedness, and the multiplication of trade barriers were significant impediments to international stability. And they recognized that a stable

\textsuperscript{35}This is based on a reading of some of the standard works on the New Deal. See, for example, William Leuchtenburg, \textit{Franklin D. Roosevelt and the New Deal} (New York, 1963); Arthur M. Schlesinger, Jr., \textit{The Coming of the New Deal} (Boston, 1958); James M. Burns, \textit{Roosevelt: The Lion and the Fox} (New York, 1956); Paul Conkin, \textit{The New Deal} (New York, 1967).
and prosperous international economy would facilitate domestic recovery. But apparently, there was no coordinated effort to see how measures being contemplated to solve the international crisis might jibe with the measures being taken to relieve the domestic crisis. Nor was there any sustained effort to educate the American people on the need for a comprehensive program of national and international action. So when the crunch came, when decisions could no longer be postponed, Roosevelt was forced to choose between two distinct courses of action. Faced with a crossroads, partly of his own making, the President followed the path toward economic independence and abandoned his sincere and instinctive desire to cooperate constructively in world affairs. The penalties for creative anarchy, for lack of discipline, for political expediency were as great in the international sphere as were the rewards in the domestic sphere. By examining the Roosevelt administration's actions on the debt, trade, and currency issues, it will be possible to show how the United States divorced itself from the struggle for international stability in the spring, summer, and autumn of 1933.

Shortly after the Democrats assumed power, the French and British ambassadors reminded Secretary of State Hull and

36See, for example, Samuel I. Rosenman (ed.), The Public Papers and Addresses of Franklin D. Roosevelt (13 vols.; New York, 1938-1952), II, 148, 150-152, 158-159.
Under Secretary of State William Phillips that the debt question had to be solved prior to or parallel with the resolution of other international issues. For the French and the British, the question of the war debts was not only of fiscal and political importance. It was still intimately tied to the reparations issue. With these factors in mind, the British and French pleaded that Roosevelt take action to relieve their anxieties about the war debts. They were especially fearful that the World Economic Conference would be endangered if the June installment fell due while it was in session. Realizing, however, that a definitive solution would take time to arrange, they requested that Roosevelt solicit authority from Congress to postpone the forthcoming installments pending a revised and final settlement. If Roosevelt did this, the French government was prepared to ask the Chamber to authorize the payment of the December 15 installment.

The Lausanne accords still had not been ratified. And if the United States did not reduce Allied war debt obligations to coincide with the German indemnity, the entire reparations controversy was likely to be revived. See, for example, Simon to Lindsay, April 10, 1933, D.B.F.P., II, V, 790-791; Memorandum by Lyon, February 20, 1933, D.D.F., I, II, 666-667.

This paragraph is a brief abstract of prolonged negotiations all during the spring of 1933. See, for example, Lindsay to Vansittart, March 20, 24, 1933, D.B.F.P., II, V, 778-779, 781-783; Simon to Lindsay, April 10, 1933, ibid., 790-791; MacDonald to Roosevelt, May 8, 1933, Nixon, F.D.R., I, 98-101; Memorandum of conversation between Claudel and Phillips, March 14, 1933, 550.S1/547; Marriner to Hull, March 30, 1933, May 16, 1933, 800.51W89 France/872, 903; Davis to Hull, April 3, 1933, F.R., 1933, I, 481; Memorandum of
In light of the clear positions of the British and French and in light of the administration's stated desire to cooperate with foreign governments, it is not surprising that Roosevelt and his advisers considered various means to influence the public and to pressure the Congress to accept a new moratorium on debt payments. In fact, the administration's invitations to MacDonald and Hériton to come to Washington were based on the assumption that their visits might ignite a better public mood and might induce the Congress into more conciliatory action. Similarly, the decision to convene the Economic Conference in early June was premised on the expectation that if it were in session, Congress would be reluctant to demand payment on June 15. Interestingly enough, this suggestion was not conceived by the French or British, but by Moley himself. Furthermore, the French were told that if they paid the December installment, the American public would be so favorably impressed that the administration would have no reservations about asking Congress for permission to postpone the forthcoming installment. In conversation between Hull and French Ambassador André de Laboulaye, May 12, 1933, Box 58, Cordell Hull Papers (Manuscript Division, Library of Congress).

39 See, for example, Lindsay to Vansittart, March 24, 26, 1933, D.B.F.P., II, V, 781-784; Simon to Lindsay, April 1, 1933, ibid., 787-788; Claudel to Paul-Boncour, March 10, 1933, D.D.F., I, II, 770; Paul-Boncour to Claudel and de Fleuriau, April 3, 1933, ibid., I, III, 132-133.

40 Lindsay to Simon, March 7, 1933, March 31, 1933, D.B.F.P., II, V, 777, 786; MacDonald to Hull, April 17, 1933, ibid., 792-793.

41 Memorandum of conversation between Roosevelt and
addition to these efforts to circumvent an immediate crisis in June, the administration allowed Warburg to conduct negotiations with British and French officials on the possible means of permanently revising the existing accords. Warburg's plan was an ingenious effort to cancel all the interest and even part of the principal, but with appropriate disguises to forestall a public outburst in the United States.  

The French and British responded as best they could to the attempts of the Roosevelt administration to influence public sentiment. Despite their hesitations and reservations, both Hérriot and MacDonald agreed to come to Washington. Similarly, the British and French governments were pleased to accept an early convocation of the Economic Conference. With regard to long term considerations, the French told Roosevelt that though the Warburg Plan was far from satisfactory, it offered a basis for further negotiations.  

Furthermore, the controlled French response to the American departure from the gold standard and to the American proposal for a tariff truce no doubt was influenced by the hope that Roosevelt would be encouraged to seek discretionary powers  


43 Davis to Hull, March 30, 31, 1933, April 3, 1933, F.R., 1933, I, 474-482; Memorandum of conversation between Hérriot and Davis, April 13, 1933, Box 9, Davis Papers.  

to postpone and to revise the war debts. Unfortunately, however, the French government explained that it simply lacked the political power to get the Chamber to reverse its earlier position on the December installment without some positive indication that the United States planned to suspend the June installment and to negotiate new settlements. There was no question, however, of the sincerity of the Daladier government's desire to pay the December installment if provided with some "new fact" of this nature. 45

These joint efforts to impress Congress, however, reveal only part of the picture. While the administration was expressing its desire to accommodate the debtors and to influence the public, it also acted in contradictory ways. The banking crisis forced Roosevelt to abandon his previous idea of expressing his good will toward France in his Inaugural Address. The French understood this, but were confused and upset by administration statements that indicated a negative attitude on the debts. 46

45 For the position of the French government on the December installment, see Marriner to Hull, March 13, 15, 1933, 800.51W89 France/860, 885; Davis to Hull, April 7, 1933, 800.51W89 France/874; Paul-Boncour to Claudel, March 28, 1933, D.D.F., I, III, 98-100; Paul-Boncour to de Laboulaye, May 12, 1933, ibid., 472-474; Memorandum by Feis, April 4, 1933, 550.S1/623e. For the relation between the tariff truce and debt postponement, see, for example, Roger Cambon (French Chargé, London) to Paul-Boncour, May 13, 1933, D.D.F., I, III, 479-482; Hérriot to Paul-Boncour, April 19, 1933, ibid., 244-245.

also were dissatisfied with Roosevelt's warnings that debt suspension might be contingent upon French payment of the December installment. Had they not already reduced reparations? Had they not agreed to a moratorium on reparation payments as the first concrete act of the Lausanne Conference? And had not Roosevelt intimated a more conciliatory position in January and February?

What was even harder to understand was the way in which the Roosevelt administration proceeded to act both in its negotiations with the debtors and in its relations with the American public. Moley was made Assistant Secretary of State and put in charge of foreign economic policy, but had little interest in solving the debt issue. Overworked, tired, undisciplined, suspicious, and preoccupied with domestic matters, Moley never gave the necessary thought and consideration to foreign policy. In his talks with French officials during and after the Hériot mission, he was frequently crude and insensitive. Hull, who was ostensibly Moley's superior, had no more interest in the debt issue than his Assistant Secretary. As a result, this matter never received the attention it deserved and it is unlikely that Roosevelt was ever fully informed about developments with regard to it.47 Furthermore, officials throughout the

47 For the attitude of Hull and Moley, see Cordell Hull, The Memoirs of Cordell Hull (2 vols.; New York, 1948), I, 247; Warburg, Long Road Home, 120-121; Moley, First New Deal, 411-419.
administration showed little interest in educating public opinion or in systematically lobbying for congressional action. There are many indications that such efforts might have struck a sympathetic chord. Influential individuals, groups, and organizations throughout the nation, especially since the autumn of 1932, had been seeking the revision of the war debt agreements. Some of these offered their services to the administration, but received only vague responses. This manifestation of official indifference was surprising given the fact that public opinion seemed increasingly malleable and that Congress seemed increasingly submissive to presidential initiatives.

48 The most impressive of these groups was the Committee for the Consideration of Inter-Governmental Debts. This organization included prominent businessmen, lawyers, politicians, and academicians as well as farm and labor leaders. Some of the individuals most closely associated with the organization were Alfred P. Sloan, Nicholas Murray Butler, John W. Davis, Henry Fletcher, Henry A. Wallace, Alfred E. Smith, Frank O. Lowden, George Wickersham, Louis Taber, D.B. Robertson, Thomas J. Watson, and Frederick Coudert. See 800.51W89/703, 704, 706. But also see Lamar Fleming (Anderson, Clayton, and Company) to Castle, November 22, 1932, 800.51W89/605; Henry I. Harriman (President, Chamber of Commerce of the United States) to Hoover, November 18, 1932, February 1, 1933, 800.51W89/611, 679, 673; Report of the Sub-Committee on the Settlement of War Debts of the American Asiatic Association, January 18, 1933, 800.51W89/674; Resolution of the Chamber of Commerce of New York State, February 2, 1933, 800.51W89/869.

49 Frederick Coudert to Roosevelt, May 24, 1933, 800.51W89/737.
Thus, as May turned toward June, there remained considerable doubt over what Roosevelt would do. On May 31, however, Under Secretary of State Phillips began to clarify the situation. He told the French Ambassador that the administration would not consider the French in the same category as the British until they paid the December installment. Any proposition submitted by the British for adjusting the war debt accords would be considered carefully. But their June installment was not postponed. Meanwhile, the French could not even discuss revision until the debt in arrears was paid. In essence, Roosevelt had returned to Hoover's policy with regard to the December default, but six months later and after the French had been led to believe that a different course of action was possible.

It has been said that Roosevelt decided not to seek discretionary powers to deal with the war debts because he felt their economic importance had been greatly exaggerated and because he believed debt reduction was a bankers' idea. But if these had been his primary motivations, why did he defer his decision to late May? And

50 Memorandum, by Phillips, F.R. 1933, I, 873.

51 See, for example, Moley, First New Deal, 412-423; Tugwell, Democratic Roosevelt, 260; also see Press Conference, June 7, 1933, Nixon, F.D.R., I, 208.
why did he intimate for so long that conciliatory action was a distinct possibility? In retrospect, it seems that until the last minute Roosevelt did not know how he would decide. He then acted on the basis of expediency, not conviction. Having failed to educate the public and to cultivate a constituency in favor of revision, he was confronted with the likelihood of a struggle with Congress. An executive-legislative impasse at the time might have threatened the passage of certain domestic programs. During the spring, the momentum had gathered in favor of internal reforms and the President was compelled by the course of events to cast aside his concern with foreign economic issues. It seemed much easier to deal with Congress on internal matters than to move adroitly between the demands of foreign nations and the pressures of domestic interest groups on international issues. To reconcile legislation on internal and external matters and to develop support for action on both the national and international fronts demanded a type of self-discipline and long term planning that was inconsistent with the whole tenor of the first New Deal. This can be even better illustrated by examining Roosevelt's actions on trade and currency matters.

52There is good evidence that he did raise false hopes. See, for example, D.B.F.P., II, V, footnote 1, p. 793; Lindsay to Simon, May 10, 1933, ibid., 796-797: Claudel to Paul-Boncour, March 30, 1933, D.D.P., I, III, 113-115.
The Democratic victory in November, 1932, was interpreted in France as foreshadowing a change in American tariff policies. As a result, trade negotiations with the Hoover administration were suspended. During the interregnum Roosevelt encouraged the belief that his administration would act to liberalize the conditions of trade and to increase imports from France. He had long contended that American high tariffs had caused dislocations in the world economy and had made it extremely difficult for the war debtors to meet their obligations. Though he equivocated during the campaign, his appointment of Hull as Secretary of State seemed to signify that the President-elect was intent on reducing trade barriers. 53

Yet, paradoxically enough, one of the first acts of the Roosevelt administration was to suspend the convertibility of the dollar into gold. In so far as this was a prelude to the devaluation of the dollar, it foreshadowed a commensurate rise in the incidence of protection. The President, however, was quick to emphasize that in no way did this alter his commitment to reduce the impediments to

53 For Roosevelt's statements to the French during January and February, 1933, see Claudel to Paul-Boncour, January 11, 1933, February 23, 1933, D.D.F., I, II, 417, 686. For his view on the impact of high tariffs on debt payments and on the world economy, see Franklin D. Roosevelt, "Our Foreign Policy: A Democratic View," Foreign Affairs, 6 (July, 1928), 582-583. For the termination of trade negotiations in the autumn of 1932, see Chapter V, pp. 351-352.
world trade. As a matter of fact, in the Joint Statements issued to the press after his meeting with MacDonald, Hérriot, and other foreign leaders, Roosevelt stressed the need for "a constructive effort to moderate the network of restrictions of all sorts by which commerce is at present hampered, such as excessive tariffs, quotas, exchange restrictions, etc." And in order to demonstrate his own sincere interest in this matter and in order to create a better atmosphere for the forthcoming conference, Roosevelt personally asked Hérriot and MacDonald to agree to a tariff truce.  

The French were not altogether surprised by the American request for a tariff truce. Yet, they considered it rather curious, perhaps even hypocritical, given the recent departure of the United States from the gold standard. The inclination of the Daladier ministry was to oppose such a commercial détente while monetary instability persisted. Knowing, however, of Roosevelt's personal interest in this matter, the French government decided to accept the truce with certain reservations. Hérriot enumerated these to Roosevelt so that there would not be any misunderstanding of the French position. In order to mitigate the harmful impact of these qualifications, however, and in order to

\[54\text{Rosenman, Public Papers, II, 148, 150-152; Memorandum of conversation between Roosevelt and Hérriot, April 27, 1933, F.R., 1933, I, 497; Hull to Davis, April 28, 1933, 550.51/697.}\]
generally improve relations with the United States, the French decided not to impose any compensatory tariff increases on American goods to offset the effects of dollar depreciation. By so doing, the French were making an honest effort to meet the Americans half way.  

American diplomats, however, were irked by France's desire to exclude pending legislation from the domain of the tariff truce. These diplomats were blind to the vicissitudes of the Roosevelt administration's own policies. While demanding that other governments forego tariff increases that were incorporated in bills already before their legislatures, New Deal policy makers themselves introduced legislation that envisioned possible increases in American tariffs if necessary to protect internal price rises. Both the Agricultural Adjustment Act and the National Industrial Recovery Act had provisions of this nature.

Such proposals obviously conflicted with the concomitant effort to reduce trade barriers. Yet, key policy makers seemed unwilling to acknowledge these inconsistencies.

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55 Hériot to Paul-Boncour, April 19, 28, 1933, D.D.F., I, III, 244-245, 366; Paul-Boncour to Hériot, April 21, 27, 1933, ibid., 276-278, 331-332; Paul-Boncour to Cambon and de Laboulaye, May 15, 1933, ibid., 486-487; Marriner to Hull, May 15, 1933, 550.S1/774.

56 See, for example, Davis to Hull, May 13, 1933, 550.S1/769; Marriner to Hull, May 22, 1933, 550.S1/8502.

and to resolve the confusion. Just before the American
delegation left for London, the apparent paradox of trying
to raise internal prices and to reduce tariffs at the same
time was alluded to, but quickly passed over. Hull, the
Chairman of the American delegation, still believed Roosevelt
would ask Congress for authority to negotiate new commercial	treaties based on reciprocal concessions. In press confer-
ences on May 24 and May 31, the President did not exclude
the possibility of such a legislative proposal. But while
on the high seas, the Secretary of State was informed that
political circumstances precluded the introduction of the
Reciprocal Trade Agreements bill. Hull was heartbroken and
rightly believed that his major bargaining point had been
eliminated. 58

Moley subsequently claimed that Hull should have
realized in which direction the administration was heading.
But, in truth, the picture was muddled. The American dele-
gation to the Conference was split between low tariff and
high tariff advocates. Roosevelt did not make up his mind
until the very last minute. Even then, he prodded Hull to
do as best he could to secure tariff reductions. Yet, when
Feis introduced such a proposal to the Economic Conference,
he was viciously undercut by Key Pittman, the Chairman of

58Hull, Memoirs, I, 248-255; Nixon, F.D.R., I, 162-
165, 194.
the Senate Foreign Relations Committee and one of the members of the American delegation.\textsuperscript{59} In general, there was no cohesion of policy making and no coordination of personnel. There was no effort to see if the A.A.A. and the N.R.A. could be reconciled with the reciprocal trade principle into a comprehensive effort to raise prices at home and abroad. There was, in fact, no overall planning. Roosevelt gave the impression of moving in all directions at once, but when he had to make final decisions he abruptly discarded his international concerns. The results were calamitous, especially when it came to the issue of currency stability.

While Hoover was President, both the American and French governments looked upon the World Economic Conference as an opportunity to bring about exchange stability. In essence, this meant the stabilization of the British pound. During the winter of 1933, the French were gratified to learn that Roosevelt also believed exchange stability to be of the greatest importance. Daladier, Paul-Boncour, and Bonnet, however, closely observed the course of events in the United States during February and March. They were not unaware of the fact that the banking and credit crisis in America might compel Roosevelt to resort to temporary expedients. Accordingly, in mid-March, Finance Minister

\textsuperscript{59}For Moley's claim, see Moley, \textit{First New Deal}, 401-403; for the Feis incident, see Feis, \textit{1933}, 188-189.
Georges Bonnet met with Neville Chamberlain and emphasized the need to plan French and British action in case of an American devaluation.  

The French were apprehensive about the impact of dollar devaluation on French gold standard policies. They worried that they might be unable to meet the world's demand for gold and might be forced off the gold standard. The inflationary experience of the 1920's made this particularly repugnant to the French. All the more so, since internal prices in France had not fallen as much as prices in other western countries. The French recognized the need to increase world prices and to restore equilibrium in the international price structure, but they did not want this done through monetary measures. Instead, they supported efforts to regulate international production and distribution. The manipulation of currencies, the French believed, offered no prospect of effecting permanent solutions. Currency tampering, they argued, worsened matters by fostering increased commercial and exchange restrictions. This orientation, of course, was influenced by their own enormous holdings of gold.

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60 Memorandum of conversation between British and French officials, March 17, 1933, D.D.F., I, III, 8 ff.

61 For French views on monetary matters and on other approaches to solving the depression, see, for example, ibid., 1-12; Paul-Boncour to Claudel, February 27, 1933, ibid., I, II, 700-701; Cochran to Stimson, October 6, 1932, 550.S1/289; Marriner to Hull, May 15, 1933, 550.S1/775; Straus to Hull, June 13, 1933, 550.S1/1039.
Across the Atlantic, however, it was the export of gold that threatened to intensify the credit crisis in the United States and to undermine Roosevelt's efforts to raise prices. Congressional demands for inflationary policies were intense. These pressures compelled the President to seek discretionary authority to pursue various means of reversing the downward spiral of prices. In other words, both from an economic and political perspective it seemed imperative to rapidly raise commodity prices. By embargoing gold shipments and by allowing the dollar to depreciate, Roosevelt demonstrated his sincere commitment to accomplish this objective.  

The President emphasized, however, that he did not want this done at the expense of the world price level. In fact, he told a press conference that he was simply putting the United States "in the same position with nearly all the other Nations of the world. We start on the same footing; and because we are such a large Nation, it ought to emphasize the necessity for all Nations getting together on a more stable basis." He then went on to say that "one of the things we hope to do is to get the world as a whole back on some form of gold standard." It was this theme that

63Rosenman, Public Papers, II, 138, 140.
Roosevelt stressed throughout the remainder of April and all of May. For example, in his well publicized address (on May 16) to the leaders of the nations of the world, he emphasized that "The [Economic] Conference must establish order in place of the present chaos by a stabilization of currencies, by freeing the flow of world trade, and by international action to raise price levels." And in his instructions to the American delegation to the Economic Conference, he again enumerated the importance of a quick return to monetary stability.

Despite its preoccupation with exchange stability and the gold standard, the French government of the Cartel des Gauches did not react angrily to the American decision to leave the gold standard. Hériot, who was then voyaging across the Atlantic to meet with Roosevelt, may have panicked and the French press may have responded somewhat hysterically, but Premier Daladier reacted calmly. He told Norman Davis that he had predicted the American action and that he considered it a not unreasonable response to the fluctuating pound. Daladier hoped that the American initiative would culminate in a common monetary policy among the three great democracies. Apparently, the French Premier, like most of the French press, assumed that Roosevelt had been motivated

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64 Ibid., 186, 137-144, 148, 150, 151-152, 158-159; Roosevelt to Hull, May 30, 1933, F.R., 1933, I, 626.
by a desire to use monetary policy as a weapon to extract British and French concessions during the forthcoming economic negotiations. Though the French worried about the impact of American devaluation on the French balance of payments, they also were aware of the political and financial pressures in the United States that influenced Roosevelt's action. Their own concern was with the reality of exchange stability (and the restoration of the gold standard) rather than with the exact rates of stabilization. So they were probably reassured by Roosevelt's statements on the importance of exchange stability.65

There was good reason to assume that the President's declarations were not mere rhetoric. During his private talks with MacDonald, Roosevelt said that the United States was intent on avoiding instability between the dollar, the franc, and the pound. Even more significantly, while

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65 For Daladier's reaction, see Davis to Hull, April 21, 1933, 550.S1/676. For general French reaction, see Marriner to Hull, April 21, 25, 1933, May 1, 1933, 550.S1 Washington/159, 409, 410, 550.S1/685. For the interpretation of American monetary policy by French diplomats in the United States, see Monick to Bonnet, April 8, 1933, D.D.F., I, III, 192-194; Monick to Bonnet and Hériot, April 20, 1933, ibid., 261-262; Hériot to Paul-Boncour, April 24, 1933, ibid., 300-301. As indicated in some of the above documents (for example, Monick to Bonnet, April 8), the French were not unaware that the United States might devalue. What they wanted to know was whether the United States government planned to let the dollar "float" or whether it would quickly establish a new parity (given the hypothesis of pound stabilization). See Bonnet to Hériot, April 22, 1933, ibid., 288; Marriner to Hull, March 20, 1933, 550.S1/550.
Hérriot was in Washington, Warburg persuaded Roosevelt to suggest the creation of a three nation de facto stabilization fund to maintain the pound, the franc, and the dollar at agreed upon rates. The American experts were envisioning a 15 per cent devaluation of the dollar, but they insisted that the present proposal not be interpreted in any way as binding future United States policy. The French financial experts who had accompanied Hérriot discussed this proposal among themselves and communicated with their superiors in Paris. The French earnestly wanted the prompt stabilization of currencies. But they found themselves unable to accept the American proposal. They feared the losses that might be incurred in a common stabilization fund. These apprehensions were not illusory given the Roosevelt administration's refusal to commit itself on long-term internal monetary policy. The French, no doubt, worried that the United States might subsequently decide to devalue the dollar even further. They also seem to have been influenced by Britain's opposition to the American plan. They were not anxious to be caught in the middle of an Anglo-American controversy.

The French experts, however, did not outrightly reject the American proposal. They agreed to take it back

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66 D.B.F.P., II, V, footnote 1, p. 793; Feis, 1933, 144-146.

67 Hérriot to Paul-Bonjour, April 26, 27, 1933, D.D.F., I, III, 321-328, 332-333; Memorandum, May 9, 1933, ibid., 456-457, including footnote 2.
to France and to give it further consideration. And by the middle of May, the Daladier ministry decided to revive the possibility of a tripartite accord. The French urged both the United States and Britain to resume the talks begun in Washington. Bonnet told Norman Davis that he realized legal stabilization was unlikely, but he hoped some means might be devised to keep exchange fluctuations within narrow limits. The French aim was to have tripartite stabilization talks between representatives of the three governments and of the central banks take place prior to the Economic Conference. Their objective was to secure a provisional stabilization of the dollar and the pound at rates that would not differ substantially from eventual de jure stabilization rates. 68

68 Herriot to Paul-Boncour, April 27, 1933, ibid., 332-333; Memorandum, May 9, 1933, ibid., 456-457; Paul-Boncour to Cambon, May 14, 1933, ibid., 484-485; Paul-Boncour to de Laboulaye, May 14, 1933, ibid., 482-483; Cambon to Paul-Boncour, May 17, 1933, ibid., 500-501; Marriner to Hull, May 15, 1933, 550.S1/775; French Embassy to Department of State, May 16, 1933, F.R., 1933, I, 608-609; Davis to Hull, May 16, 1933, 550.S1 Monetary Stabilization/2.

This interpretation of the French reaction differs with the standard account. See Jeannette P. Nichols, "Roosevelt's Monetary Policy in 1933," American Historical Review, 56 (January, 1951), 295-318. Nichols depicts the French response to the April overtures as being a firm rejection. Not having the French documents and relying mostly on interviews with Bullitt, she has misjudged the French position and has fostered the image of total French intransigence. Such was not the case. To begin with, Hérriot was caught off guard by the American proposal. He had emphasized that his trip was a voyage d'information. (See memorandum of conversation between Hérriot and Davis, April 17, 1933, Box 9, Davis Papers.) Consequently, it was difficult for the French to quickly define their position on a matter that was technical in nature and that required
The Roosevelt administration responded affirmatively to the French initiative. Oliver Sprague, a financial expert and currently the Assistant to the Secretary of the Treasury, and George Harrison, Governor of the Federal Reserve Bank of New York, were selected to participate in the negotiations with British and French experts. Warburg was to act as liaison between them and the American delegation to the Economic Conference. The stabilization talks were scheduled to proceed concurrently with the conference consultation with Britain as well.

In addition, Nichols implies that Bonnet saw the American stabilization offer as a currency innovation of an inflationary nature. There is no evidence to confirm this. The French did not oppose American efforts to raise American prices. What the French objected to was the American refusal to commit itself on future internal monetary policy. Successive devaluations would have caused losses for France if she had joined in an equalization fund. And the French (and the British) resented the American demand for a joint stabilization fund when the American balance of payments position was relatively strong; much stronger, in fact, than either the British or French positions. For evidence of the above, see the documents listed in this and the preceding footnote as well as those enumerated in footnote 61.

In this regard, it is important to correct the notion that France opposed American price increases. In his account, Tugwell stated that Roosevelt "could not raise prices for all the world; he could do it only for a United States isolated from a world which would oppose such an effort with every means that could be devised." See Tugwell, Democratic Roosevelt, 314. There is little evidence that the French felt that way. The French seem to have been most afraid that successive dollar devaluations and concomitant exchange uncertainty might knock some of the gold nations off the gold standard, might stimulate competitive devaluations, and might foster additional exchange and commercial restrictions. Because of the experience of the 1920's, they also feared internal inflation. The latter, however, was only one of many factors influencing French behavior and the other well-grounded motivations should not be overlooked.
itself. But the French had stated many times that some accord on currency matters was indispensable for progress in related areas. They were fearful that delays or procrastination might force some of the remaining gold nations off the gold standard.

The French, however, were not intransigent. Though they desired permanent stabilization, they were willing to agree to a plan that was designed to limit currency fluctuations only during the lifetime of the conference itself. Surely, they hoped that one of the results of the conference would be an arrangement for permanent stabilization, but for the time being they were willing to settle for a very temporary accord. Sprague and Warburg were satisfied with the French position and believed they had accomplished what was expected of them. They cabled Roosevelt that the plan for limiting temporary exchange fluctuations is exceedingly vital in the sense that the work of the Conference to achieve the important permanent things . . . is unmeasurably [sic] hindered not only by the fluctuations but even more by the feeling on the part of the other nations that America is an entirely unknown, uncertain, and perhaps indifferent factor . . . .

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69 See, for example, Paul-Boncour to Cambon, May 14, 1933, D.D.F., I, III, 484-485; Coulondre to Paul-Boncour, June 30, 1933, ibid., 799; Marriner to Hull, May 15, 1933, 550.S1/775; Memorandum of conversation between Charles Rist (Vice-Governor of the Bank of France) and Nicholas Roosevelt, May 17, 1933, 550.S1/829.

70 Cox, Sprague, and Warburg to Roosevelt, June 18, 1933, F.R., 1933, I, 647-648; also see Sprague to Woodin, June 16, 1933, ibid., 642-645; Harrison to Eugene Black
On June 20, however, Roosevelt vetoed this plan. His action intensified the uncertainty that surrounded the conference and greatly exacerbated the financial problems of the gold bloc. During the next few days, there was great apprehension that Holland and perhaps several other gold nations might be forced to depart from the gold standard and devalue their currencies. This did not alarm Roosevelt, but it struck real fear in the French. The French delegates to the conference were furious at the arbitrary behavior of the United States and complained bitterly that it was possible to communicate with the Americans only through the British. Still, they remained quite reasonable. In fact, in a remarkable gesture of conciliation and in an effort to salvage the conference and preserve the gold bloc, the French agreed to settle for nothing more than a declaration that would have committed the United States and Britain to the principle of exchange stability and to the goal of eventual re-establishment of the gold standard. Yet this too Roosevelt rejected.

In his "bombshell" message on July 4, which for all practical purposes terminated the work of the Economic

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(Chairman of the Federal Reserve Board), July 8, 1933, Box 4, Emmanuel Goldenweiser Papers (Manuscript Division, Library of Congress); Harrison to Burgess, June 16, 1933, ibid.

Conference, Roosevelt condemned the emphasis on exchange stability. Rather than dissipate their energies on specious and temporary expedients to effect exchange stability, the President of the United States suggested that all nations focus greater attention on balancing their budgets and servicing their debts. What was of real importance, he said, was a sound internal economic system. And this could be achieved by developing national currencies with a constant purchasing power. Until other nations made some progress toward these goals, the United States was unwilling to obligate itself in any way to export gold. Accordingly, on July 5, the President told a press conference that for the time being, he was unwilling to go along with any schemes for the creation of equalization funds.\(^{72}\)

Roosevelt expected the French to be outraged by his policy statement. Anticipating their reaction, he cabled Under Secretary Phillips on June 30 that "If France seeks to break up conference just because we decline to accept her dictum we should take the sound position that economic conference was initiated and called to discuss and agree on permanent solutions of world economics and not to discuss domestic economic policy of one nation ... ."\(^{73}\) Such


\(^{73}\)Roosevelt to Phillips, June 30, 1933, Nixon, F.D.R., I, 265-266.
self-righteousness was a poor defense of his own unilateral decision to divorce American recovery efforts from the international struggle for stability. Though the French were too single-mindedly concerned with the problems of stability, they were not unwilling to make concessions. Nor were they terribly concerned with the rate at which the United States stabilized the dollar. In fact, they made no objection to American attempts to raise domestic prices through devaluation. What they wanted was a commitment to stabilize at the earliest possible time and they were more or less willing to leave the question of rates to the British and the Americans.

While criticizing the French, Roosevelt intimated that the nations should concentrate on more fundamental matters. The President explained to Hull that he made his message a bit harsh "because I felt . . . that conference was getting into stage of polite resolutions about temporary stabilization only and that it was time to be realistic and work towards main objectives." But what were Roosevelt's objectives? Did the advocate of a New Deal at home really believe that the solution of the international monetary crisis depended upon balanced budgets and conservative fiscal policies? Yet this was the theme he harped on time and again. In fact, what alternatives were still negotiable at the conference? By previous steps, Roosevelt had

\[74\text{Roosevelt to Hull, July 4, 1933, 550.S1/1097.}\]
foreclosed the possibility of engaging in constructive negotiations on the war debts and trade questions. Hull recognized that American foreign policies were bankrupt. He pleaded for more precise instructions and complained to Phillips that "Original instructions and more recent data . . . are almost entirely of a general nature and hence virtually without value." Not all of the President's advisers acted with such restraint. Warburg found the President's statements so incomprehensible that he resigned his position.75

Roosevelt, of course, was beginning a six-month flirtation with the theories of Charles Warren, economics professor at Cornell University. Warren believed that prices could be increased simply by depreciating the paper dollar in terms of gold.76 Recent events seemed to have confirmed

75For Roosevelt's constant emphasis on balanced budgets and governmental economy, see, for example, Roosevelt to Hull, June 24, 1933, July 2, 1933, F.R., 1933, I, 655, 673-674; Roosevelt to Phillips, June 30, 1933, Nixon, F.D.R., I, 265-266. For Hull's quest for precise instructions, see Hull to Phillips, July 6, 1933, F.R., 1933, I, 697. For Warburg's reaction, see Warburg, Long Road Home 137-138. It should be added that after the "bombshell" message, the American delegates did try to get the conference to take some action toward reducing tariff barriers. But in their efforts they were greatly hampered by the administration's failure to work out the problem of reconciling N.R.A. and A.A.A. legislation with reduced tariffs. It is obvious that not enough thought had been given to this problem. See the pertinent documents in F.R., 1933, I, 676-748.

76Wicker, "Monetary Experiment," 874 ff.
the validity of this hypothesis. During the stabilization talks in mid-June, whenever there were rumors of an imminent exchange rate truce, stock and commodity prices fell. Roosevelt, Louis Howe, and Henry Morgenthau (who were the only advisers with the President when he composed his "bombshell" message) were greatly influenced by this speculative reaction and believed it foreshadowed a setback to their efforts to raise internal prices. 77

Evidently, the internal price structure had become an obsession of the President. In his search for a financially simple and politically expedient means of setting in motion an upward spiral, Roosevelt overlooked the complexity of the problem before him. Sustained increases in the price structure had to result from structural improvements in the national and international economy. They could not be permanently effected by artificially manipulating the currency. Many of his most knowledgeable financial advisers, including Warburg, Harrison, William Woodin, Dean Acheson, Bernard Baruch, and Lewis Douglas explained this to him. After the Economic Conference, they warned that monetary depreciation and exchange instability might undermine his entire program. But even in late June, they had emphasized that the acceptance of a temporary stabilization accord and a commitment to an eventual return to the gold standard were

77 Moley, First New Deal, 425-426, 453.
necessary complements to his internal measures of generating recovery. Subsequent price movements confirmed this analysis. But the President rejected their advice and pursued the illusory hope of stimulating recovery through currency manipulation. This was a politically motivated decision based on a superficial understanding of economic theory. Not surprisingly, the results were positive in a political sense, but negative in an economic sense.

Roosevelt had little understanding of the impact of his monetary policies on American foreign policy. All through the spring of 1933, he had emphasized the importance of exchange stability. But when the time for decision came, he jettisoned this objective for the sake of internal price rises. He gave little heed to advice that exchange stability, especially if it were only temporary, and price increases could go hand in hand. He seemed unaware that after his decisions on war debt and trade policy, there was little room for international economic cooperation, except on currency matters. He disregarded the widely held belief that the greatest impediments to expanded world commerce—exchange restrictions, quotas, and import licenses—could not be eliminated until there was greater stability in exchange.

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78 Wicker, "Monetary Experiment," 872-879; Acheson to Roosevelt, June 27, 1933, Nixon, F.D.R., I, 253-254; Warburg to Roosevelt, July 24, 1933, ibid., 325-326; Acheson to Roosevelt, June 28, 1933, F.R., 1933, I, 661-663; Warburg, Long Road Home, 142-150; Dean Acheson, Morning and Noon (Boston, 1965), 165-182.
rates. And he had ignored the fact that the disequilibrium in the balance of payments would be exacerbated by his actions. Consequently, though he still occasionally engaged in the rhetoric of internationalism, his policies had in reality divorced the United States from the struggle for world economic stability and had intensified the march toward economic nationalism.  

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After his "bombshell" address, Roosevelt seems to have adopted the view that his program was internationalist in the sense that if all nations pursued similar policies, there would be a universal recovery. See, for example, Roosevelt to Hull, July 4, 1933, F.R., 1933, I, 685-687. But Roosevelt manifested little inclination to mold his internal policies to suit the needs of the international economy. Instead he claimed that his internal policies were not inimical to world economic recovery. See, for example, American Delegation to the Secretary General of the Monetary and Economic Conference, July 5, 1932, ibid., 692-694. But a fluctuating dollar did cause international economic and financial problems, did exacerbate balance of payments problems, and did foster the creation of new trade barriers.

On the other hand, there was validity to Roosevelt's fear that stabilization might tie American prices to the world price level. What would happen if American prices rose faster than world prices? Would the United States be able to devalue further? Those advisers who advocated a conciliatory approach felt that subsequent readjustments could be made if they were necessary. Roosevelt, however, chose to disregard their advice. Despite assurances to the contrary, he feared temporary stabilization might be misinterpreted by foreigners to mean permanent stabilization. See footnotes 70, 71, and 78. For some technical analyses of the problems of reconciling internal price rises, exchange stability, and increased trade, see John H. Williams to Woodin, June 19, 1933, Box 4, Goldenweiser Papers; "Reasons for a Plan of Temporary Stabilization," by W. Randolph Burgess, June 16, 1933, ibid.; "Stabilization with Reference to Relative Price Levels" [probably by Goldenweiser], June 27, 1933, ibid.

In all fairness, it must be stated that the problems facing the President with regard to harmonizing internal and external economic policies were immense. Yet Roosevelt tremendously complicated the decision making process by
Roosevelt's course of action could not have been predicted in the early spring. In April and May he repeated on many occasions that national and international recovery must proceed together. He and MacDonald had agreed that "The achievement of sound and lasting world recovery depends on coordinating domestic remedies and supplementing them by concurrent and simultaneous action in the international field." In his second Fireside Chat, he told the American people that "the domestic situation is inevitably and deeply tied in with the conditions in all the other Nations of the world. In other words, we can get, in all probability, a fair measure of prosperity to return in the United States, but it will not be permanent unless we get a return to prosperity all over the world." But Roosevelt's actions in 1933 on currency matters, on war debts, and even on commercial practices demonstrated that he had little desire or little ability to systematize his policies and to reconcile his programs into a comprehensive attack on the sources of national and international anarchy.

Roosevelt's reversal of Republican efforts to harmonize foreign and domestic economic policy was of course going on vacation during the Economic Conference and by isolating himself from most of his financial advisers. For this latter point, see Moley, First New Deal, 452 ff.

temporary. Within a year or two the Democratic administration was seeking a tri-stabilization accord and was exploring the possibility of trading war debts for concessions in other fields. But Roosevelt's 1933 decisions, brief as they were, came at an absolutely critical time and had a demoralizing impact both on France and Britain.

The French had welcomed Roosevelt's electoral victory with undisguised relief. From the day of his election to the day of his inauguration, he and his advisers intimated that a new era in Franco-American relations was about to begin. Much of this may have been said in a flippant or unthinking manner. The French, however, took it seriously. The Cartel des Gauches, in particular, had considered improved relations with the United States an indispensable part of their entire foreign policy. This, in part, explains Hérriot's and Paul-Boncour's efforts to accommodate American wishes on reparations, on war debts, and even on disarmament.

In general, the French never had been comfortable with Republican efforts to create a stable world based on a prosperous Germany. They much preferred the security of

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81 See, for example, statement by Hull, May 22, 1934, Box 63, Hull Papers; Hull to Roosevelt, May 22, 1934, 800.51W89/873.

82 For an account of the efforts of the Radical-Socialists' to reconcile French security demands with American disarmament proposals, see Chapter IX, p. 627 ff.
political commitments and military guarantees. Thus, they looked to Roosevelt for cooperation in both the economic and political realms. In March, Claudel wrote Paul-Boncour that he was convinced the new President would bring about a dramatic change in French-American relations. And in mid-May, after Hériot had reported upon his visit to the United States, Paul-Boncour concurred that there was a mutuality of interest in stimulating recovery and organizing peace with security. But then, in successive thrusts, Roosevelt crushed French hopes for cooperative action on the war debt, trade, and currency issues. French resentment was intense.83

The French government did not see how its own inflexibility and inability to compromise influenced Roosevelt's decision. The cycle of action, reaction, and interaction was vicious and mutually reinforcing. Where and how could it be broken? By the latter part of 1933, there was little reason to be optimistic. Negotiations between the United States and France on disarmament and security matters had closely paralleled developments in the international economic sphere. The overall effect was to cause mutual disillusion, American isolation, and French dissension.


84 For French anger and French policy after the "bombshell" address, see, for example, Hull to Roosevelt, July 4, 7, 1933, 550.S1/1089, 1125; Straus to Phillips, July 4, 1933, 550.S1/1094.
CHAPTER IX

DISARMAMENT, NEUTRALITY, AND
THE SEARCH FOR SECURITY

The objective of American policy makers from 1920 to 1933 was to help foster the emergence of a stable Europe. To accomplish this goal government officials and business leaders were prepared to participate in European economic settlements and to contribute to European economic progress. Motivating their efforts was the assumption that if economic satisfactions were enjoyed by the great European industrial powers, the chances for maintaining world peace would be greatly enhanced. During the depths of the depression, President Herbert Hoover explained that "the problem before the world today is to work together to prevent the dangers of developing economic conflict--to secure economic peace. . . . And who can say but the greatest act in prevention of war is to allay economic friction."^1

^1William Starr Myers (ed.), The State Papers and Other Public Writings of Herbert Hoover (2 vols.; New York, 1934), II, 595; also see, for example, the report of the Chairman of the American delegation to the International Economic Conference of 1927, in Department of State, Papers Relating to the Foreign Relations of the United States, 1927 (2 vols.; Washington, 1942), 1, 245. (Hereinafter, this source shall be cited as F.R., year, volume, page).
American policy makers believed that European economic stability would contribute to peace in Europe and in the world. They just as strongly maintained that peace was essential for economic progress. Peace, stability, and economic progress were mutually reinforcing phenomena. They were part of an interlocking progress. The world had become too economically interdependent to tolerate political upheaval and military turmoil. Not only war, but also international friction and political uncertainty, were anathema to the complex and intricate network of high finance and big business. Secretary of State Henry Stimson told the House Committee on Foreign Affairs in 1932:

The world has become very much dependent upon credit for the movement of its commerce, and credit is a very delicate matter. It simply will not live where there is an atmosphere of uncertainty, and this condition affects the United States, in my judgment very greatly. We have a very, very deep interest in having the credit structure of the world maintained. That is the only way we can get rid of our surplus goods and meet the unemployment question in this country.\(^2\)

Because of the mutually reinforcing impact of political tranquility on economic stability, the United States could not help but develop an abiding interest in the course of Franco-German relations and in the related issues of French security and German revisionism. American officials and businessmen hoped that French and German leaders would be able to reach some type of mutual accommodation with one another. In order to help foster such a rapprochement they were willing to participate in the settlement of European financial and economic questions. Even such a well known isolationist as Senator William E. Borah did not object in principle to such economic involvements. The situation, however, was quite different with regard to the American

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of the Department of State, File No. 711.00/400½, RG 59 (National Archives); (Hereinafter, a decimal number standing alone will indicate RG 59 in the State Department Files, National Archives); James T. Shotwell, War as an Instrument of National Policy (New York, 1929), 27-28, 30-31.

3See, for example, Special Committee of the Chamber of Commerce of the United States, "European Problems Affecting American Business," Nation's Business, 9 (October 5, 1921), 4-6; Special Committee of the N.F.T.C., "Report on European Conditions," in N.F.T.C., Official Report, 1923, 9, 23-25; "Increasing Recognition of Our Responsibilities to Europe," Bankers Magazine, 104 (March, 1922), 440; also see "Our Relations to European Affairs," ibid., 105 (November, 1922), 739-744; Hughes to Poincaré, August 23, 1922, 851.51/332; Hoover to Harding, January 4, 1922, Box 5, Folder 3, File 2, Presidential Case File (PCF), Warren Harding Papers (The Ohio Historical Society, Columbus, Ohio); speech by William E. Borah, in Congressional Record, 67 Cong., 2 Sess., January 25, 1922, 1684-1685.

4John Chalmers Vinson, William E. Borah and the Outlawry of War (Athens, Georgia, 1957), 56.
participation in Europe's post-war political developments. In order not to become entangled in European strategic or political questions, the United States government assiduously guarded its political independence and protected its freedom of maneuver. In particular, American officials resisted political and military commitments and rejected all appeals to guarantee French security.  

Rejecting political commitments, however, did not mean that the United States remained indifferent to European political affairs. In fact, it was the assumption of American policy makers that if the frictions emanating from economic and financial controversies were eliminated, an improved political atmosphere in Europe would automatically develop. Thus, American officials, businessmen, and bankers played a key role in settling the reparations enigma, in stabilizing European currencies, and in reducing war debt payments. But Americans used their financial resources not only to influence European financial and economic developments. They also played a significant role in fostering the Locarno spirit. For example, during 1925, they informed both the Germans and the French that unless political 

5For traditional references to this political aloofness, see, for example, Dexter Perkins, "The State Department and Public Opinion," in Gordon A. Craig and Felix Gilbert (eds.), The Diplomats: 1919-1939 (Princeton, 1953), 299-301; L. Ethan Ellis, Republican Foreign Policy, 1921-1933 (New Brunswick, New Jersey, 1968), 189-190.

6See Chapters II, III, and V.
stability was restored, American loans would cease.7

During most of the 1920's, especially before the stabilization of the franc, American financial leverage often served as an alternative to political guarantees as a means of fostering political stability in the Old World.8 When the depression came and emasculated American financial power, however, it became more difficult to exert a salutary influence in European affairs. Since the United States was the champion of a "commercial and non-military stabilization of the world," the depression greatly complicated the implementation of American foreign policy.9 More than ever before the United States was compelled to rely upon disarmament proposals and purely political arrangements to restore confidence and eliminate uncertainty.

Throughout the years of the Republican ascendency, however, government officials looked upon arms limitation accords as an important panacea to Europe's political and

7See, for example, Gaiffier to Vandervelde (Minister of Foreign Affairs), September 26, 1925, Ministère des Affaires Étrangères, Documents Diplomatiques Belges, 1920-1940 (3 vols.; Brussels, 1964), II, 334; Jacques Seydoux, De Versailles au Plan Young (Paris, 1932), 313-314.

8It should be recalled, for example, that during the London Conference of 1924 American financial interests played a key role in getting the French both to agree to an early evacuation of the Ruhr and to forsake the application of future sanctions except in cases of purposeful default. See Chapter II, pp. 113-119.

9Henry L. Stimson, "Bases of American Foreign Policy During the Past Four Years," Foreign Affairs, 11 (April, 1953), 385-386.
financial troubles. Whenever the French clamored for additional guarantees of French security, American officials retorted that increased disarmament meant increased security. By limiting armaments, especially by reducing offensive weapons, Americans claimed that tensions would be alleviated and French security insured. Herbert Hoover was the policy maker who most consistently and most forcefully denounced the illusion of safeguarding peace through the force of arms. In May, 1931, he told the International Chamber of Commerce:

"International confidence cannot be builded [sic] upon fear--it must be builded upon good will. The whole history of the world is filled with chapter after chapter of the failure to secure peace through either competitive arms or intimidation."

Actually, it is not surprising that the advocacy of disarmament became a peculiarly American phenomenon in the post-World War I era. This was because arms limitation promised not only political benefits in the form of reduced tensions but also economic benefits in the form of government economies and balanced budgets. In large part, disarmament became a key objective of American policy makers because it was an economic tactic of peace. The cost of armaments not

10 For the American thesis that increased disarmament meant increased security, see, for example, Kellogg to Porter, January 11, 1927, F.R., 1927, I, 164-165; Cotton to Stimson (Hoover to Tardieu), March 31, 1930, ibid., 1930, I, 97; Gibson to Stimson, June 25, 1932, ibid., 1932, I, 235.

11 Myers, State Papers, I, 560.
only imposed an insuperable strain on government budgets, but also contributed to inflation, to unstable exchange rates, to depreciating currencies, and to a more restricted world trade. Disarmament, therefore, was an integral part of the whole interlocking system through which American policy makers, especially Hoover, hoped to stabilize the world economically and financially.¹²

In contrast to the Americans, the French were quite skeptical of the long term benefits of arms limitation accords unless they were linked to security guarantees. They knew that eventual equality in disarmament with Germany meant military inferiority for themselves. They were painfully well aware of their own strategic vulnerability. Unlike the United States, France was susceptible to attack from the land and the air as well as from the sea. In addition, France was confronted with two potentially hostile neighbors, Italy and Germany. The latter was especially ominous because of her industrial might and population growth.

¹²For just a few statements of policy makers regarding the deleterious financial and political impact of arms expenditures and for the efficacy of disarmament accords, see, for example, Hoover's message to Congress, December 19, 1932, in F.R., 1932, I, xxii; Calvin Coolidge, "Promoting Peace Through the Limitation of Armaments," Ladies' Home Journal, 48 (May, 1929), 3-4, 93; Charles Evans Hughes, The Pathway of Peace (New York, 1925), 24-25; Henry Stimson, "Our Foreign Relations," May, 1932, p. 21, 711.00/400â; Ogden Mills, "Our Foreign Policy: A Republican View," Foreign Affairs, 6 (July, 1928), 559 ff.; Alanson B. Houghton (former Ambassador to Germany and Britain), "Disarmanent and Depression," The Nation, 133 (December, 1931), 695.
To cope with all possible contingencies France had to rely on ferrying troops from her colonies in North Africa to the homeland. This meant she needed a relatively strong navy or at least naval superiority in the western Mediterranean. But the financial strain of maintaining a strong army and navy was great indeed. Consequently, arms limitation accords did have a certain appeal, but only if they were coupled with guarantees of French security.¹³

Security, the key to the dilemma, was a word often used, but only infrequently defined. Even in France there was discord on what constituted French security. Did it mean French hegemony on the European continent? Did it mean the status quo as instituted by the Treaty of Versailles? Or did it mean a reconciliation with Germany as preached at times by Loucheur, Caillaux, Briand, Hériot, Laval, and Berthelot? For the most part the French identified their security, at least in the short run, with the preservation of the status quo. French concessions usually were made reluctantly as a result of Anglo-Saxon financial pressure, French financial weakness, skillful German diplomacy, or the

apparent failure of independent French action in the Ruhr. The slowness of these concessions, however, coupled with indisputably punitive nature of some of the provisions of the Peace Treaty were constant sources of friction in French-German relations. The depression eventually magnified German grievances, exacerbated German discontent, and intensified German demands for revision especially with regard to the reparation, disarmament, and eastern boundary issues.\footnote{For the course of Franco-German relations in the inter-war period, see, for example, W. M. Jordan, Great Britain, France, and the German Problem (London, 1943); Arnold Wolfers, Britain and France Between Two Wars (New York, 1940); Arthur H. Furnia, The Diplomacy of Appeasement: Anglo-French Relations and the Prelude to World War II, 1931-1938 (Washington, D.C., 1960); Henry Bretton, Stresemann and the Revision of Versailles (Stanford, 1953); Hans Gatzke, Stresemann and the Rearmament of Germany (Baltimore, 1954).} Faced with these demands, the French continued to reiterate their willingness to reduce their arms but only if they first received additional guarantees of their security.

If American policy makers attached so much importance to the issue of disarmament, why, then, did they not choose to make more binding political commitments? If reducing expenditures on arms was believed to be one of the keys to the economic stabilization and political pacification of Europe, what caused American officials to reject French pleas for guarantees of French security? Unquestionably public opinion set certain parameters on what elected officials could do. A sense of disillusionment with the results
of the past conflict, a belief that Europe would forever remain incorrigible, and a feeling of revulsion at the horrors and excesses of war all merged into a pervasive public sentiment that opposed entanglement in European political affairs. But to say this is not to explain adequately the behavior of American policy makers. For the most part, they, too, despite their concern with European economic stability and despite their desire for European disarmament, maintained a real antipathy to political and strategic commitments.

This attitude was the result of several factors. Most importantly, American officials did not want to guarantee French security because they disagreed with the French on what constituted French security. This critical problem, often not precisely defined but always of major importance, clearly emerged during an all day conference of top American decision makers in October, 1931. They agreed that France was entitled to security as a prerequisite to her disarmament. But,

the rub came in the definition of the word "security." If the French meant the perpetual freezing of the post-war status quo, including the maintenance of unjust and bitterly resented treaty solutions, and a preponderant military force to guarantee it, then we could not agree with them. Our idea was a tranquilized Europe, which meant the solution, one by one, and by peaceful means, of the problems that were preventing it from settling down.\(^{15}\)

\(^{15}\) Memorandum of conversation between Stimson and Morrow, October 2, 1931, 033.5111 Laval/257. Also present were Castle, Klots, Feis, Boal, and Moffat.
The real problem then was the fact that American policy makers did not feel that American security and American interests were reconcilable with the French vision of French security. American officials were not unaware that in a broad sense American self-interest extended to the Rhine, but their conception of this self-interest was linked to a concept of European stability and not French hegemony. In other words, American officials were basically sympathetic to German revisionism. They understood that in the long run Germany could not be held down. To try to do so was inane and would be counter-effective. Real European stability, they maintained, depended on a satisfied and contented Germany.

Though many influential Americans were well aware that French actions were motivated by fear and not by a desire for aggrandizement, they believed the harmful effect

16 For the American belief that Germany could not be held down under the Treaty of Versailles and for the related assumption that revisions were necessary in order to secure a satisfied and peaceful Germany, see, for example, Dwight Morrow to Hughes, July 12, 1924, Box 56 (Dawes Plan), Charles E. Hughes Papers (Manuscript Division, Library of Congress); memoranda of conversations between Hughes and Jules Jusserand (French Ambassador), November 5, 9, 1923, Box 174 (France), ibid.; Fletcher to Kellogg, May 19, 1925, Box 12, Henry Fletcher Papers (Manuscript Division, Library of Congress); memorandum of conversation between Stimson and Jules Henry (French Chargé), September 10, 1931, F.R., 1931, I, 524-525; memorandum by Moffat, October 5, 1931, 033.5111 Laval/98 1/8. Senator William E. Borah always believed that the Treaty of Versailles had instituted an unnatural and dangerous status quo. See, for example, his speech in the Senate on January 25, 1922, in Cong. Record, 67 Cong., 2 Sess., 1684-1685.
of French actions would be the same whether their motives were justifiable or not. They suspected that the French would never feel secure unless Germany was crushed, militarily and economically. Hoover, for example, assumed that the French would use a military alliance with the United States to maintain the status quo, to stifle progress, and to prevent the righting of wrongs. There seemed to be little feeling that if French security were guaranteed the French would act very differently. Roland Boyden, the unofficial American observer on the Reparations Commission in the early 1920's, emphasized that "This state of mind [French fear of German military and economic power] cannot be eradicated by the ratification of a treaty or any other guarantee of safety to France." 17

Consequently, many Americans feared that until French actions and attitudes changed, political commitments might only envelop the United States in a European conflict that in the context of the 1920's and early 1930's had little relation to American security in any direct sense. Such a conflict might have occurred as a result of a Franco-German dispute over the payment of reparations, over the stationing of French troops in Germany, or over the demilitarization

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of the Rhineland. It is not surprising, then, that Stimson maintained:

The key to disarmament, and the key to the political adjustments from which disarmament might come, lay less in Germany than in France, and it was the French attitudes that were most difficult and distressing to Americans in 1931 and 1932.19

American policy makers' distrust for an alliance with France in the post-war period seemingly stemmed from a healthy skepticism about the efficacy of such guarantees in stabilizing European affairs. Hugh Wilson, the American diplomat well acquainted with the security problems of Western Europe, proclaimed that with the one exception of the Hériot government, "I could not escape the conviction that no other government of France had the faintest intention of surrendering or impairing its power to dictate to Germany."20 For probably similar reasons, many American friends of France, as well as many Americans who were concerned with European stability, opposed military guarantees but recognized that in certain contingencies the United States would go to the aid of France.21 The question facing

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18 See, for example, the scenario for a European war that was in the mind of the isolationist Senator James Reed in Senate, Committee on Foreign Relations, General Pact for the Renunciation of War, Part I (Washington, 1928), 20.


20 Hugh Wilson, Diplomat Between Wars (New York, 1941), 266.

21 See, for example, the survey of American press sentiment in "What Will We Do if France is Attacked Again," Literary Digest, 71 (December 31, 1921), 5 ff.
American policy makers was whether they would maximize their influence by making commitments or by withholding their commitments. Many decision makers, including Secretary of State Stimson, believed that American influence was increased by maintaining American independence and freedom of maneuver. 22

To fully understand the American attitude it is vital to realize that Americans had no illusions about the omnipotence of American power. In Europe, in particular, the United States was dealing with major powers whose national security in the most immediate sense was at stake in the discussions over disarmament and mutual assistance. Therefore, it seemed imperative that these nations themselves settle their outstanding differences and come to terms with one another. Lasting peace depended on mutual accommodation. The United States, it was believed, could not alone resolve the incendiary issues that separated France and Germany. Senator Irvine Lenroot (Republican, Wisconsin) articulated the sentiments of many Americans who were concerned with world stability when he said:

Most of the problems of war and peace arise in Europe and they must be settled by the peoples most directly concerned, for while it is true that the United States is profoundly affected by war in any

22 See, for example, Klotz to Castle, October 2, 1931, 033.5111 Laval/2561; memorandum of conversation between Stimson and Grandi, July 9, 11, 12, 1931, F.R., 1931, I, 544-545.
part of the world, it is also true that we cannot settle questions giving rise to such wars.\textsuperscript{23}

American policy makers had reason to be skeptical of the influence of guarantees on French policy. There was evidence to support the assumption that France would continue to act in a defensive (and therefore belligerent) manner regardless of an American commitment. Clemenceau never was happy over the concessions he had to make at Versailles in order to secure the Anglo-American guarantee. During the Chamber debate in France on the ratification of the Peace Treaty, and before the American Senate's rejection of it, there was much expressed dissatisfaction with the safeguards afforded France.\textsuperscript{24} Fundamentally, the French knew there was a basic discord between themselves and the Anglo-Saxons on what constituted French security. This disagreement emerged repeatedly during the inter-war period. Any change in the Treaty of Versailles structure was

\textsuperscript{23} Irvine L. Lenroot, "Disarmament and the Present Outlook for Peace," Annals of the American Academy of Political and Social Science, 126 (July, 1926), 145. For similar expressions, see Hughes to Trumbull White, November 22, 1923, Box 48, Hughes Papers; Harding to Child, October 9, 1922, Presidential Personal File (PPF) 60, Harding Papers; statement by Coolidge, in Robert Ferrell and Howard J. Quint (eds.), The Talkative President (Amherst, Massachusetts, 1964), 208.

interpreted by the French as a threat to French security. To the British and Americans only a flagrant violation of that system, that is, only a direct assault against France herself, constituted a threat to French security.²⁵ As a result, the French army, the French right, and a substantial part of the French center always distrusted the efficacy and the reliability of existing or contemplated Anglo-Saxon commitments. These Frenchmen feared both an economically strong Germany and the military threat that latent German industrial power presented. They worried that British and American aid might be slow in organizing, even if there were greater guarantees. Therefore, they maintained that the surest protection for France, in the absence of a firm alliance, was a powerful French army and an economically weak Germany.²⁶ Thus, there would have been considerable


opposition in France, the exact extent of which is indeterminate, to additional concessions to Germany even if the United States had been willing to accept a commitment to guarantee French borders.

During the 1920's, and perhaps even during the early 1930's, American policy makers had reason to look askance upon requests to guarantee French security. Having obtained an American commitment, would the French have felt more or less inclined to make concessions? Would American influence and leverage in European affairs have been maximized by committing itself to French security, especially if this meant the status quo? And if it did not mean the status quo, would the French have been satisfied? These questions cannot, of course, be answered with precision, but they must be considered before dismissing American policy during the Republican ascendancy as naive or moralistic. The course of American diplomacy in the Far East since World War II has provided new insights into the problems of collective security, into the hazards of blanket commitments, and into the problems of stabilizing an unnatural status quo. Republican policy makers and State Department officials in the 1920's and early 1930's seem to have been aware of some of these. And it should not be forgotten that for the most part they were dealing with Stresemann and Bruening, with a republican and relatively disarmed Germany; not with Hitler and the Nazis, and not with a militaristic and
bellicose Germany.

Though American officials refused to guarantee French security and though they preached disarmament and talked of the efficacy of public opinion and the impact of moral force, they considered this a pragmatic and not an idealistic approach to European political affairs. As already indicated, Hoover, Hughes, Coolidge, and others considered arms limitation accords essential for the return of fiscal orthodoxy, financial stability, and economic progress. In so far as these developments in turn would contribute to political stability, there was a direct relation between disarmament and political tranquility. Moreover, by the early 1930's, American officials were convinced that some French disarmament would contribute directly to a healthier political atmosphere in Europe by removing a legitimate cause for German complaint. Stimson, for example, told the House Committee on Foreign Affairs that Germany's disarmament in the midst of well armed neighbors had produced an instability of attitude in the center of Europe, which attitude had produced repercussions of a political and financial nature which extend far beyond Europe itself, and has produced an instability in the whole world, because, naturally, the nations that have been disarmed are restless under the inequality of their situation with respect to the others.

27See references in footnote 12.

28See statement by Stimson, Committee on Foreign Affairs, Disarmament Conference, 24.
When American policy makers talked of disarmament, however, they were not indulging in idealistic or utopian rhetoric. In the context of the times, they accurately perceived armaments as a source of political unrest and financial strain. But they never contemplated the reduction of armaments to the point where American defenses might be adversely affected. In fact, in the late 1920's and early 1930's the United States was spending more money on armaments than any other nation in the world. It was even spending more money on its land forces and equipment than was France! Moreover, during the 1920's, American policy makers always were careful to oppose any accord regulating trade in arms that might impair their ability to influence political affairs in Latin America or that might

29 For the financial strain caused by armaments, see, for example, "The Burden of Armaments," The Index, 12 (August, 1932), 153-159.

30 If the United States reduced its navy to the point where it was difficult to maintain the open door in China or to the point where it was difficult to halt Japanese expansionism in Manchuria, this may have been because American objectives in these areas, important as they were economically, were not equated with the protection of the national defense.

31 "The Burden of Armaments," 157-159. This overstates the case since the cost of weapons and the pay of military personnel were considerably higher in the United States than elsewhere. Nevertheless, in mid-1929, Hoover publicly stated that "The American people should understand that current expenditure on strictly military activities of the army and navy constitutes the largest military budget of any nation in the world today." Quoted in Arthur A. Ekirch, jr., The Civilian and the Military (New York, 1956), 215.
undermine American preparedness. In a similar manner, American diplomats scrutinized developments at Geneva to insure that American strategic interests were not compromised. And it was no coincidence that Stimson's interest in the Geneva Disarmament Conference somewhat abated as events in the Far East escalated. Even Hoover was not unmindful of tailoring his disarmament proposals in June, 1932, to accommodate possible future contingencies in Asia. Disarmament was an American policy in the post-World War I era. But Republican officials and their business supporters tried to formulate and implement disarmament proposals in a pragmatic and hard-headed way that would leave American defenses unimpaired.

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32 See, for example, Hughes to Harding, August 2, 1922, Box 119, File 74, Folder 2, PCF, Harding Papers; Weeks to Hughes, October 25, 1924, F.R., 1924, I, 79.

33 Any careful reader of the appropriate sections of Volume I of the Foreign Relations series from 1926 to 1933 will see that American diplomats were entirely conscientious about protecting American strategic interests.

34 See, for example, Nancy Hooker (ed.), The Moffat Papers (Cambridge, Massachusetts, 1956), 68-71; F.R., 1932, I, 182-186; Stimson to Gibson, June 7, 1932, ibid., 153-156. Likewise, Norman Davis' recommendations to President Franklin Roosevelt in the spring of 1933 were very much influenced by the Far East situation. See, for example, the unsigned memorandum on disarmament and security, 1933-1936, pp. 12-14, Box 23, Norman Davis Papers (Manuscript Division, Library of Congress).

35 See, for example, Calvin Coolidge, "Promoting Peace Through Preparation for Defense," Ladies' Home Journal, 48 (April, 1929), 3-4, 65. In her informative dissertation on American business opinion, Joan Hoff Wilson writes that "Organized business groups did not support disarmament at
Much the same can be said about the outlawry of war movement and the Kellogg-Briand Pact. The latter is usually portrayed as the most striking illustration of American naivete in world affairs in the 1920's. To outlaw war, it is often said, without providing for sanctions in case of violations, was to indulge in nothing more than an international kiss.36 But was it? In the context of the 1920's, the Kellogg-Briand Pact was an important step toward increasing American participation in European affairs.37 Though it was also a sop to the public and though some may have been taken in by the absence of sanctions, most policy makers were not. Coolidge, Hoover, Stimson, and most senators, including Borah, were perfectly well aware of its weaknesses and realized the need to use the Pact as a foundation for additional initiatives.38

36 See the standard work on the subject: Robert H. Ferrell, Peace in Their Time (New Haven, 1952).

37 Roland Stromberg has correctly emphasized this in his excellent study on collective security. See Roland Stromberg, Collective Security and American Foreign Policy (New York, 1963), 58 ff.

38 See, for example, Calvin Coolidge, "Promoting Peace Through Renunciation of War," Ladies' Home Journal, 48 (June, 1929), 161; Hoover, Memoirs, II, 336, 343-344; Stimson, "Bases of American Foreign Policy," 390-391; Vinson, Borah, 133-135, 171-177. The business community also was very skeptical of the efficacy of the Kellogg-Briand Pact. See Wilson, "Role of the Business Community," 180-181.
Those who were interested in stabilizing affairs in Europe recognized that the Pact might have profound implications for American neutrality policy and for the ability of European nations (including Britain) to organize regional security pacts and to provide for collective security. For this reason, European statesmen themselves, even if they viewed it rather cynically, still considered it a hopeful omen of future American involvement in European affairs. Walter Lippmann, the well informed American journalist, accurately noted that the Pact

alters the expectation of Europe as to what the United States will do in the event of a breach of the Covenant or of the Locarno treaties. I have no doubt that European opinion will hold that since a breach of the Covenant or of Locarno is also a breach of the Pact of Paris, the United States as one of the parties injured by a breach of its own treaty, will be in honor bound in some respect to modify its traditional policy of neutrality toward the offending power . . . in European eyes it [Kellogg-Briand] alters radically the implications of American neutrality in any future war.\(^{39}\)

The full significance of Kellogg-Briand, therefore, must be understood in the context of Franco-British negotiations over the responsibility of Britain to participate in sanctions against an aggressor nation. Since the early 1920's, the British had tried to avoid such a commitment.

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They explained that if the British navy was called upon to enforce an economic embargo and if the American government insisted on respect for its neutral rights, an Anglo-American confrontation might ensue. This claim was not unfounded since Secretary of State Hughes had refused to modify the traditional American stand on neutrality during the debate over the Geneva Protocol in 1924.\(^4\) Once the Kellogg-Briand Pact declared aggressive war a crime, however, there was increasing justification for changing the whole concept of neutrality. Stimson intimated such a change in outlook in a major address in August, 1932. But indications of this change in thinking began to appear after the London Naval Conference of 1930.\(^4\)

This gradual transformation of attitudes was of real importance because in the late 1920's and early 1930's, French statesmen no longer expected or solicited American guarantees of French security. Instead they wished to secure American assurances that the United States would not interfere with or undermine the application of sanctions if they were instituted by other nations. In other words, the


\(^4\)See Stimson's address before the Council on Foreign Relations, August 8, 1932, F.R., 1932, I, 575-583; also see, for example, memoranda of conversations between Stimson and Mac Donald, August 7, 1931, F.R., 1931, I, 515-516; memorandum of conversation between Stimson and Henry, September 10, 1931, ibid., 524-525.
French wanted a change in American neutrality policy that would facilitate the consummation of regional assistance pacts in Europe that would include Britain. Lord Tyrrell, the British Ambassador to France, explained to Foreign Secretary John Simon in June, 1933, that "It was always believed in France that the key to action by Great Britain was the abandonment of neutrality by the United States . . . ."

On numerous occasions, French leaders, including Briand, Laval, Hériot, and Tardieu made it perfectly clear that they were not asking the United States to join in the application of sanctions, but were seeking only a revision in American views on neutrality.  

Such requests were not as moderate as they may now seem. Arthur Capper, the Senator from Kansas and a leading advocate of a discretionary arms embargo, understood that "To give up our rule of neutrality, our right to trade in time of war, seems [to most Americans] like abandoning patriotism itself." The problem before American policy makers, then, was to convince the American public that such changes in neutrality were imperative. But Hoover felt this was a political impossibility. Confronted with a hostile

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44For Hoover's reaction to Laval's inquiries about American policies regarding consultation and neutrality, see
Congress, overwhelmed by the intensity of the depression, and engulfed by his own anti-French feelings, the President confined his interests to disarmament and left the matter of neutrality to the State Department.

This, however, did not mean that the administration's position on neutrality and on consultation remained rigid. In fact, the Secretary of State himself in various private conversations and in a major public address explicated some noteworthy changes in American policy. But because of their fear of an unsympathetic public and senatorial reaction, Republican policy makers were for the most part reluctant to sign a treaty or to endorse specific legislation incorporating such alterations.

During the first months of the Roosevelt administration Democratic officials continued building upon the Republican initiatives. But when the Senate Foreign Relations Committee rejected a discretionary arms embargo, Roosevelt did not fight for the type of neutrality legislation he

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45 See references in footnote 41.

46 See, for example, the exchange of letters between Claude Swanson and Joseph T. Robinson, March 7, 15, 1932, Box 20, Davis Papers; also Stimson to Swanson, March 15, 1932, ibid. But in January, 1933, Stimson convinced the President to ask Congress for discretionary arms legislation. See Hooker, Moffat Papers, 81.
wanted and the French expected.\footnote{For Roosevelt's policy in the spring of 1933, see Robert Divine, "F.D.R. and Collective Security, 1933," Mississippi Valley Historical Review, 48 (June, 1961), 42-58.} Even more significantly, when the Germans left the Geneva Disarmament Conference in October, 1933, the administration capitulated to public pressure and instructed Norman Davis, the Chairman of the American Delegation, to publicly dissociate the United States from Europe's political affairs.\footnote{Memorandum of trans-Atlantic telephone conversation, October 16, 1933, F.R., 1933, I, 273-276; Hooker, Moffat Papers, 106-108.} So ended, at least for four or five years, the American effort to contribute to Europe's political as well as economic stability. By tracing in greater depth American policy toward the French security-disarmament dilemma during the years 1921-1933, it will be possible to add another dimension to the history of American efforts to help stabilize post-World War I Europe.

There were many factors that influenced the Harding administration's decision to convene a disarmament conference soon after taking office. The Republicans naturally were committed to the tasks of reducing government expenditures and of lowering taxes. These objectives seemed threatened by the likelihood of a naval arms race with Britain. Moreover, by the spring of 1921, there was a ground swell of public and senatorial enthusiasm for measures that would
promote peace while curtailing expenditures. Furthermore, with events in East Asia unsettled and with the Anglo-Japanese alliance about to expire, it seemed like a propitious moment to link the disarmament question to the East Asia imbroglio. By so doing, American officials hoped to stabilize relations in the Far East, to maintain the open door in China, and to limit the expansion of Japanese influence. 49

In calling for a disarmament conference, however, policy makers also were thinking about affairs in Europe and about the imperatives of European economic and political stability. During the winter of 1920-1921, as the world recession deepened, prominent bankers, businessmen, and government officials (past and future) gave increasing thought to the relationships between disarmament and post-war economic reconstruction. Treasury Department spokesmen, such as Russell Leffingwell and Parker Gilbert, as well as cabinet officials such as Hughes and Hoover, deplored the dissipation of scarce capital resources on weapons when the monetary requirements of European reconstruction were so

great and so urgent. In May, 1921, Hoover wrote to Harding:

There is nothing that would give such hope of recovery in life and living as to have this terrible burden and menace [arms expenditures] taken from the minds and backs of men. As Secretary of Commerce, if I were to review in order of importance those things of the world that would best restore commerce, I would inevitably arrive at the removal of this, the first and primary obstruction.50

Secretary of State Hughes also was aware of the economic ramifications of the entire disarmament problem. Therefore, he would have preferred the conference to be as wide-ranging as possible and not to have been limited exclusively to naval armaments. As events unfolded, however, the question of land disarmament was generally disregarded as it became clear that there was not much likelihood of extracting French concessions on this issue.51 Nevertheless,

50 Robert H. Van Meter, "The United States and European Recovery, 1918-1923: A Study of Public Policy and Private Finance" (unpublished Ph.D. dissertation, University of Wisconsin, 1971), 295-305. The quote is on p. 299. Also see Wilson, "Role of the Business Community," 153-168. Wilson argues that business organizations were not in the vanguard of the disarmament movement, though she does show that prominent bankers and businessmen were early advocates of disarmament because of its economic ramifications. She fails to realize that many key individuals in the government, other than Hoover, felt as he did. Hughes is a good example. Parker Gilbert was Under Secretary of the Treasury under Harding. Russell Leffingwell had been Assistant Secretary of the Treasury under Wilson. These people did not have to be influenced by business groups because they shared similar assumptions about the economic benefits of disarmament.

in so far as the conference deterred a naval race in offensive weaponry and in so far as it established a world constituency in favor of arms limitations, it was a successful effort to channel capital into more constructive outlets and to create an essential ingredient of international financial stability. In March, 1922, Hughes praised the results of the conference in terms of their salutary impact on world peace and national budgets.  

While American policy makers looked at the conference as a great opportunity to limit armaments, to reduce international tensions, and to eliminate a source of international financial uncertainty, the French viewed the conference with both trepidation and anticipation. The French feared that pressure might be exerted upon them to reduce their land armaments. In order to remove any American misconceptions on this point, French Ambassador Jules Jusserand informed the American government in July, 1921, that the French army would be reduced only in proportion to the increase in foreign guarantees of French security. At the conference itself French Premier Aristide Briand defended the armed might of France as an essential bulwark about Bolshevik expansionism and as an indispensable means of protecting his homeland against the latent war making capacity of an unrepentant

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52 Van Meter, "United States and European Recovery," 304-305.
Germany. He succeeded in getting Hughes not to raise the issue of land disarmament. 53

In addition to safeguarding France's strategic interests on the land, Briand hoped the conference would provide an opportunity for drawing the United States into European affairs. He had no illusions about securing an actual American endorsement of French security. But by fostering a better public image of France in America, he expected to revive American interest in French security and European peace. He believed he might be successful in accomplishing this limited objective because he assumed that the United States and Britain would reach an impasse over naval reductions. If this occurred, he hoped to achieve some bargaining power by acting as a mediator between the two great naval rivals. 54

53 Theodore Dawson Wyly, "Foreign Relations of the United States with France from 1919 to 1929" (unpublished Ph.D. dissertation, Fletcher School of Law and Diplomacy, 1964), 85; George Suarez, Briand (5 vols.; Paris, 1938-1941), V, 267, 280. In the Harding Papers there is a compilation of speeches delivered by Briand during his visit to the United States. See Box 193, File 203, Folder 3, PCF, Harding Papers. Also see Buckley, Washington Conference, 105-106.

54 Suarez, Briand, V, 251-252, 267 ff.; Raymond Escholier, Souvenirs Parlé de Briand (Paris, 1932), 172-178. Suarez intimates that Briand might have hoped to secure an American guarantee, but Escholier reveals his aims were more limited. Escholier was probably right. See, for example, Harvey to Harding, November 8, 1921, PPF 60, Harding Papers. Also see Buckley, Washington Conference, 104-105; Donald S. Birn, "Open Diplomacy at the Washington Conference of 1921-1922: The British and French Experience," Comparative Studies in Society and History, 12 (July, 1970), 300-301.
In effect, events unfolded in a way totally unanticipated by Briand. The United States, Britain, and Japan worked out a naval accord virtually without consulting the French. Not only were the French deprived of the opportunity to arbitrate Anglo-American differences, but their own naval requirements were sacrificed by the great naval powers in order to secure an accord among themselves. The French wanted equality with Japan in capital ships, but were compelled to accept parity with Italy instead. When the French delegation threatened to reject the Anglo-Japanese-American proposal, Hughes appealed directly to Briand who had returned to France. Coupled with this appeal was a concealed threat that unless France cooperated, American efforts to aid in the economic reconstruction of France might cease. Briand submitted to the American pressure. The French accepted the 5:5:3:1.67:1.67 ratio on capital ships, but resisted similar Anglo-American efforts to reduce auxiliary craft proportionately. This French position, together with the incipient Anglo-American rivalry on the cruiser question, set limits on what the conference could achieve in terms of naval

55 Suarez, Briand, V, 296-308; Buckley, Washington Conference, 107-118; Hughes to Briand, December 16, 1921, F.R., 1922, I, 130-133. It is also revealing that in late December, 1921, Hoover urged the State Department to warn bankers against making additional loans to France so long as the French insisted on allocating large sums for military expenditures. See Dearing to Fletcher and Hughes, December 30, 1921, 851.51/233.
limitation.  

The conference revealed certain patterns in American behavior that were to become commonplace during the ensuing decade. Assuming that arms reductions would ease political tensions and contribute to financial stability, American policy makers advocated disarmament as a means of stabilizing international affairs. But it was a special type of disarmament, a type that afforded the United States equality with the world's greatest naval power and that restricted the offensive naval capacity of Japan. By accomplishing the latter objective, the disarmament accords did conform to the strategic imperatives of American defenses. Moreover, the conference illustrated that American officials, in their attempts to insure the strategic interests of the United States and in their efforts to stabilize the world financially, would not hesitate to sacrifice the strategic interests of France. Leverage could be obtained through

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56 Herrick to Hughes, December 17, 1921, F.R., 1921, I, 135; Briand to Hughes, December 18, 1921, ibid., 135-136; Suarez, Briand, V, 308-309; Buckley, Washington Conference, 113-126; Birn, "Open Diplomacy at the Washington Conference," 314-316.

57 See, for example, Buckley's conclusions in Buckley, Washington Conference, 89, 187.

58 Hughes argued that the French naval position would not be weakened as a result of the capital ship ratio. He maintained that over the next ten years, France's relative naval strength would not be less than it had been in 1914. See ibid., 110. But by giving Italy parity with France in capital ships, the United States and Britain were sacrificing French interests and were establishing a precedent that subsequently would cause incalculable problems.
the exercise of financial power. France only had the ability to act as a spoiler and to prevent the consummation of accords (for example, on auxiliary craft). But she did not have the power to extract security commitments from the United States.

The Washington conference embittered the French and contributed to the deterioration of French relations with her former Allies. In early 1923, Assistant Secretary of State William Castle acknowledged "that wittingly or unwittingly the Americans had played the English game at her [France's] expense. Franco-American relations have never been quite the same since." The new French Premier Raymond Poincaré, however, did not want to torpedo the laboriously negotiated results of the conference. Instead, his aim was to delay French ratification and to use this as a lever to secure American support of the French position on reparations and security. 59

Try as he might, there was little chance of ever convincing American policy makers that European stability rested in French military hegemony and German financial enslavement. Hughes and Hoover both concurred that "the only way to obtain real security is by taking Germany into camp."

59 For French feelings about the Washington treaties and Poincaré's effort to use the ratification issue as a trump card, see A. [William Castle], "Two Years of American Foreign Policy," Foreign Affairs, I (March, 1923), 11-12.
In their eyes the road to European prosperity and stability lay not only in the reduction of reparations, but also in the dismantling of excessive armaments. Not surprisingly, then, the gap between French and American officialdom widened as the French prepared to implement their own version of security through enforced reparation payments.

The reparations crisis and Ruhr occupation intensified the American conviction that the United States should remain politically unentangled. But at the same time there was a commensurate increase in the feeling that the United States should use its financial prowess to help stabilize European affairs in a way that accorded with American self-interest. This could be done by regulating and directing the flow of American loans or by negotiating debt settlement in a way that rewarded those nations that accepted American objectives. During the 1922-1923 crisis, some officials in the State and Commerce Departments wanted to use the war debts as a lever to stabilize Europe.

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60 The quote appears in a letter from Harvey to Harding, October 3, 1921, PPF 60, Harding Papers. Hughes entirely agreed with Harvey on what should be French policy. See Hughes to Harding, October 25, 1921, ibid. Hoover was feeling the same way. See Hoover to Harding, January 4, 1922, Box 5, File 3, Folder 2, PCF, ibid.

61 See, for example, Frederick H. Gillett (Speaker of the House) to Herrick, December 26, 1922, Box 11, Myron T. Herrick Papers (Western Reserve Historical Society, Cleveland, Ohio). American fears of becoming politically involved also generated sentiment in support of withdrawing all American troops from the Rhine. See Chapter II, pp. 67-68.
economically and to pacify Europe politically. When domestic politics and other policy considerations precluded this, there was a concerted effort to use private American capital as a means to solve the reparations enigma and to deter future French military action against Germany.

Having succeeded in doing this, Hoover (and others) wanted to continue to exercise financial pressure in order to compel France to reduce military expenditures. This was a major reason for his support of a government embargo on private loans to France in the mid-1920's. This also accounts, at least in part, for his reluctance to accept Caillaux' final debt offer in September, 1925. Hoover wanted a debt settlement that would provide the United States with sufficient leverage so that someday we could trade some portion of these debts for a reduction of armament in such form as would enable us to diminish American armament and save at least a corresponding expense in our own taxation.

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62 See, for example, Hoover to Harding, January 4, 1922, Box 5, File 3, Folder 2, PCF, Harding Papers; memorandum by Hoover, February 4, 1923, Commerce Manuscripts, Personal-Hughes, Herbert Hoover Papers (Herbert Hoover Library, West Branch, Iowa); Houghton to Hughes, October 23, 1922, F.R., 1922, II, 171-175; Castle to Hughes, October 24, 1922, I, 176.

63 See Chapter II, pp. 73-121.

64 See, for example, memorandum of conversation between Harrison and Hoover, November 20, 1924, 851.51/506; also see memorandum by A. N. Young, April 2, 1925, 800.51/509½.

65 See memorandum by Hoover, September 23, 1925, Commerce-1-J/20 (French Debts), Hoover Papers; also see memorandum by Hoover, September 30, 1925, I, 176.
Once the reparations crisis was resolved, American policy makers assumed additional steps would be taken to restore confidence. During 1924, both Coolidge and Hughes hoped that the Dawes Plan might facilitate further arms reductions and thus reinforce the progress made toward European economic and political stability. They understood, however, that disarmament could not occur in a financial and political vacuum. Therefore, when informed that France would not participate in any further disarmament talks until her security was assured, they deferred the convocation of another conference.

Meanwhile, both American bankers and American officials increasingly supported European efforts to work out a solution to the security dilemma. Though Hughes and Kellogg were reluctant to compromise the traditional neutrality policy of the United States and were unwilling to incur any political commitments, American financial power once again influenced European political developments. German Foreign Minister Gustav Stresemann believed that without a security pact American credits and loans might no longer be

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66 Ferrell and Quint, Talkative President, 160-161; also see ibid., 149-151; memorandum of conversation between Hughes and Jusserand, May 9, 1924, Box 174, Hughes Papers; Wyly, "Foreign Relations of the United States with France," 122-124.

67 For French feelings, see Sterling (Charge, London) to Kellogg, March 16, 1925, F.R., 1925, I, 22; Gaiffier to Hymans, March 10, 1925, Ministère des Affaires Étrangères, Documents Diplomatiques Belges, II, 121.
forthcoming. This realization increased his determination to bring the negotiations to a successful conclusion. Likewise, the conviction that "The establishment of security was essential to economic and financial recovery" and the belief that a European security pact would have a salutary impact on the United States impelled British Foreign Secretary Austen Chamberlain to patiently mediate Franco-German differences. The result was Locarno.68

The Dawes Plan, the Locarno Treaty, and the related political accords that provided for the withdrawal of French troops from the Ruhr and eventually from the first occupied zone of the Rhineland transformed the political environment of Europe. These developments, at least in part, resulted from the judicious use of American financial power. Even when pressure was not directly exerted, European statesmen always had to consider how American capital would react to

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68 For Hughes' view on neutrality and the Geneva Protocol, see Burks, "The United States and the Geneva Protocol," 891-905; memoranda of conversations between Hughes and Sir Esme Howard (British Ambassador), January 5, 8, 1925, F.R., 1925, I, 16-20. At first, the United States refused to comment on the European security talks. But by July, American officials were working for their success. See, for example, memorandum of conversation between Maltzan (German Ambassador) and Kellogg, March 16, 1925, ibid., 20-21; Quint and Ferrell, Talkative President, 207; Chamberlain to Howard, October 21, 1925, D.B.F.P., IA, I, 35. For Stresemann's attitudes and the impact of American financial power (latent and actual), see, for example, the references in footnote 7 above; also see Eric Sutton (ed.), Gustav Stresemann: His Diaries, Letters, and Papers (3 vols.; London, 1937), II, 137, 142, 148. For the British attitude, also see memorandum, January 10, 1926, D.B.F.P., IA, I, 8 ff., 16.
their initiatives and actions. To say all this, however, is not to assert that American financial power was exercised consistently in behalf of European political stability. Indeed, the lukewarm reaction of American officials and bankers to the talks between Stresemann and Briand at Thoiry in September, 1926, may have resulted in the loss of a great opportunity to improve Franco-German relations. But to explicate the role of American capital in European affairs in the mid-1920's is to reveal that the United States was greatly influencing the climate of European politics even without agreeing to political commitments.

With the Dawes Plan and Locarno Treaties finalized, Coolidge felt that the time was propitious to convene another disarmament conference. In January, 1926, he told Congress:

The conviction that competitive armaments constitute a powerful factor in the promotion of war is more widely and justifiably held than ever before, and the necessity for lifting the burden of taxation from the peoples of the world by limiting armaments is becoming daily more imperative.

The President had hoped to host another conference in Washington. Knowing, however, that the French were adamantly opposed to any meeting under American auspices, he decided to accept an invitation to participate in the work of the

69See Chapter IV, pp. 250-255.
Preparatory Commission in Geneva.

During the ensuing years, it was in the Preparatory Commission that a total impasse was reached between the conflicting Franco-American views of security. The French, having acquiesced to the Anglo-American policy of reviving Germany economically, were all the more determined to obtain additional security guarantees before relinquishing their overwhelming superiority in armaments. Consequently, they insisted that any disarmament agreements be contingent upon the establishment of adequate machinery both for inspection and enforcement.

It was Germany's economic revival that also impelled the French to become increasingly inflexible on many of the technical aspects of disarmament. At Geneva, the French insisted that in defining armed strength, the raw material resources, industrial capacity, railroad network, human population, budgetary expenditures, and geographical situation of each nation be taken into consideration. The French aim, of course, was to equalize their own long term ability

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70 See message of Coolidge to Congress, January 4, 1926, F.R., 1926, I, 42-44; Quint and Ferrell, Talkative President, 161, 207-208. For French feelings, see Whitehouse to Kellogg, October 23, 1925, F.R., 1925, I, 11; also see Houghton to Kellogg, October 24, 1925, ibid., 12-13; Wyly, "Foreign Relations of the United States with France," 129-132.

71 See, for example, Gibson to Kellogg, September 16, 1926, F.R., 1926, I, 110-111; Kellogg to Porter, January 11, 1927, ibid., 1927, I, 163-164; also see ibid., 179-203.
to wage war with Germany. The French also maintained that there was a complete interdependence of armaments. In other words, land, sea, and air armaments could not be treated in isolation from one another. Plagued by the reality of their manpower shortage, the French realized that the viability of their army on the Continent depended in part on the ability of the French navy to transport troops from North Africa across the Mediterranean. Consequently, troop reductions in Europe had to be related to the relative strength of the French navy. Likewise, in order to compensate for their limited manpower, the French demanded that the men in the reserves not be counted as military personnel in any agreement limiting effective.

At Geneva, the American representatives found themselves in disagreement with the French, both on substantive and technical questions. Though the United States was interested in land disarmament, American policy makers were not prepared to make the necessary sacrifices to bring it about. They were especially determined to avoid strategic commitments and economic sanctions. Secretary of State Kellogg instructed Ambassador Hugh Gibson that the United States could not partake in any accord that envisioned the severing of commercial or financial relations with any state.

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72 For references to the French viewpoint on the definition of armaments and the interdependence of armaments, see, for example, ibid., 1927, I, 163-175; also see Houghton to Kellogg, February 27, 1926, ibid., 1926, I, 57.
in any contingency. Nor would this nation participate in any blockade inspired by the League of Nations. In the eyes of American officials land disarmament and European security were regional matters that were unaffected by the limited strength of the American army. Therefore, it was up to the European nations themselves to solve these complex problems. Americans would only mediate in case an impasse was reached.  

Ironically, however, by objecting to all provisions for the inspection and enforcement of disarmament treaties, the United States complicated European efforts to reach agreement.

But it is wrong to portray the Franco-American impasse strictly in terms of the security-disarmament dilemma. Differences were more wide-reaching. Whereas France insisted on the interdependence of armaments, the United States was eager to treat naval issues separately. Whereas France wanted to circumscribe the war making potential of a nation, the United States desired to deal only with visible armaments at peace strength. Whereas France wished to impose

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73 See, for example, Kellogg to Houghton, February 11, 1926, ibid., 1926, I, 52-53; Kellogg to Gibson, April 23, 1926, ibid., 80-85; Kellogg to Gibson, March 22, 1927, ibid., 1927, I, 177; Kellogg to Gibson, November 8, 1927, ibid., 208.

74 For the United States position on inspection, see, for example, Kellogg to Gibson, April 23, 1926, ibid., 1926, I, 87-88; memorandum containing American observations on the Report of the Joint Commission, February 10, 1927, ibid., 1927, I, 167-171.
budgetary limitations on arms expenditures, the United States favored direct limitations of weapons. Whereas France wanted to limit navies by restricting total naval tonnage, the United States desired to do it by limiting specific naval categories. These differences reflected more fundamental disparities in the geographic and economic conditions of the two nations. American policy makers, however, worried that French efforts to limit Germany's economic (and therefore military) potential might indirectly harm America's strategic capabilities. Consequently, Kellogg was determined to resist all attempts to limit the war making capacity of a nation. He instructed Gibson:

The factors which enter into potential war strength of a nation are in many respects the same as those which form an essential part of the normal activities of a State in time of peace. No country would agree to curtail or limit its natural resources or its capacity to prepare for a national emergency.\footnote{Kellogg to Gibson, April 23, 1926, \textit{ibid.}, 1926, I, 87; for differences in French and American disarmament policies, also see Kellogg to Porter, January 11, 1927, \textit{ibid.}, 1927, I, 163-166; Allen W. Dulles, "Some Misconceptions about Disarmament," \textit{Foreign Affairs}, 5 (April, 1927), 415-417.}

With the American viewpoint on this matter so clear-cut, the French were all the more intent on extracting security guarantees.

The deadlock over these substantive and technical problems when combined with the failure of the Geneva Naval Conference of 1927 virtually brought the disarmament talks
to a standstill. American officials were exasperated. They believed that the British were trying to outsmart them on naval matters and that the French were trying to avoid reductions altogether. They decided not to depart from the Geneva discussions only because they did not want to incur the blame for breaking up the whole disarmament movement. Rather than do this, the Coolidge administration supported and the Congress passed a large naval appropriations bill. 

In the short run, this marked a turning point. The apparent determination of the United States to embark upon a large naval building program influenced the British. In May, 1929, Ramsay MacDonald again became Prime Minister and immediately demonstrated his desire to reach an accord with the United States. He found a willing counterpart in Herbert Hoover, the newly elected American President. Moreover, as the Young Plan negotiations got underway, as the maturity date on the war stocks debt approached, and as the Germans intensified their demands for real progress on the disarmament front, the French became more conciliatory.

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76 For references to American irritation over the progress of the Preparatory Commission, see F.R., 1928, I, 259-264; for the Geneva Naval Conference of 1927, see L. Ethan Ellis, Frank B. Kellogg and American Foreign Relations (New Brunswick, New Jersey, 1961), 184-184; Raymond O'Connor, Perilous Equilibrium (New York, 1969), 15 ff. The naval appropriations bill was passed in February, 1929. See Ellis, Kellogg, 184.

During the spring of 1929, the logjam on disarmament, or at least on the technical questions related thereto, appeared to be breaking up. The Americans indicated their willingness to make some concessions on the trained reserves issue, on the tonnage by category principle, and on the publicity of war stocks question. In addition, the Hoover administration introduced the "yardstick" formula as a means of resolving Anglo-American differences on the cruiser dispute. The French, in turn, withdrew their demand for international supervision and control. Instead they promised to submit new proposals with regard both to the exchange of information and to the status of nations not belonging to the League of Nations. As a result of these developments, plans were laid for the convocation of the London Naval Conference in 1930 and subsequently for the Geneva Disarmament Conference in 1932. Contributing to this progression of events was the consummation of the Kellogg-Briand Pact in 1928.

In early 1927 French Foreign Minister Aristide Briand was anxious both to improve the image of France in America, and to link the United States, however indirectly, to the French security system. In an effort to accomplish this dual

78 For American, British, and French efforts to conciliate one another, see, for example, F.R., 1929, I, 72-96, 104-105; Wilson, Diplomat Between Wars, 256-257; Wyly, "Foreign Relations of the United States with France," 145-146. For the introduction of the yardstick formula, see O'Connor, Perilous Equilibrium, 24 ff.
objective, he proposed that the two nations sign a bilateral accord renouncing the use of war. By outlawing war between the two nations Briand hoped to assure American neutrality in any future continental conflict and to increase the ability of France's allies (perhaps even England) to respond collectively to aggressive action. 79

TheCoolidge administration received the Briand proposal coolly. The State Department suspected that it would make the neutral position of the United States during any European war in which France might be engaged extremely difficult, since France might deem it necessary to infringe upon our rights as a neutral nation under this guaranty of non-aggression.

The American peace movement, however, picked up the Briand proposal and exerted tremendous pressure in behalf of some concrete action to outlaw war and to stabilize international relations. By the fall of 1927, Coolidge and Kellogg succumbed to public pressure and decided to seek a multilateral pact outlawing war. Senator Borah, the powerful Chairman of the Foreign Relations Committee, supported this approach, but vigorously objected to any accord providing for the use of force to maintain peace. Kellogg accepted Borah's advice and proceeded to solicit foreign approval. As public enthusiasm increased, the Secretary of State's personal commitment to the outlawry movement intensified. By patiently

negotiating outstanding differences with the major powers, he secured their adherence. The result was the Kellogg-Briand Pact. \(^{80}\)

The Kellogg-Briand Treaty, as it was molded by the Secretary of State and the Chairman of the Senate Foreign Relations Committee, reflected certain significant aspects of American policy in the 1920's. Borah's insistence on the absence of sanctions revealed his skepticism about the utility of force, his fear of unknown commitments, and his emphasis on attacking the sources, not the manifestations, of discontent. He and Kellogg were both anxious to maintain America's independence of action and America's distance from the French alliance system. Rather than use alliances to guarantee the existing status quo, they hoped to see the emergence of a stable community of great nations adjusting peacefully to necessary changes. Borah spoke frequently of finding alternative means of adjudicating disputes. But he was skeptical of the inclination of European nations to renounce force. He suspected Briand's motives, and like other American officials, he saw no reason why France should be singled out for special treatment. With Europe never far from war, he was determined to keep the United States out of any conflict that did not affect its vital interests. \(^{81}\)

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\(^{80}\) Ferrell, Peace in Their Time, 66-192; Duroselle, Wilson to Roosevelt, 174-181; Ellis, Kellogg, 193-208.

\(^{81}\) For Borah's views, see Vinson, Borah, especially pages 16, 24, 61-66, 97, 100, 102-103, 122-131, 161. For
While desiring to maintain America's independence of action and while eschewing the utility of force, Borah and Kellogg were neither idealists nor moralists. Indeed, there was an acute streak of realism, perhaps even cynicism, that characterized their thinking. Though they were opposed to using force to maintain peace wherever it was threatened and consequently excluded enforcement machinery from the Pact, they were not adverse to using force to safeguard the national self-interest. And they understood that such

Kellogg's dislike for alliances in general and for the French alliances in particular, see, for example, Kellogg to Herrick, April 28, 1928, F.R., 1928, I, 36. For American policy makers' objection to renouncing war with only one nation, see "The Security Question," by Noel Field (Division of Western European Affairs), December, 1931, Box 17, Davis Papers.

It is absolutely essential to realize that by excluding sanctions, Borah and Kellogg were foreclosing the use of force to insure peace, but they were not renouncing the use of force to defend the nation's interests. They understood that promoting peace anywhere and at anytime may or may not be vital to a nation's self-interest. They did not wish to become obligated to promoting peace and deterring aggression in all contingencies since it was not in the national self-interest to do so.

Likewise, it might be well to point out at this time that when the United States refused to commit itself to use force to protect French "security," this did not necessarily mean that the United States would never use force to defend France. It simply meant that the United States would reserve to itself the right to determine when a threat to French "security" was also a threat to American "security." In the context of the 1920's it was no doubt difficult to envision such a situation. But if policy makers could agree on such a situation, there was nothing in the Kellogg-Briand Pact or in their general framework of thought that would have deterred the application of armed might. The great problem was to determine what constituted such a threat. Certainly, at least until 1933, German revisionism
terms as "national self-defense" and "national self-interest" could be interpreted in diverse ways. Borah told the Senate Foreign Relations Committee:

It is perfectly clear that every nation, when the time arrives, will construe this treaty in the way it regards as justifying self-defense. Every nation will construe the treaty for itself, as to what constitutes self-defense, and it does not make any difference what you said and what was stated afterwards, when the time comes, what she regards as self-defense she will construe as self-defense.

Likewise, Kellogg emphasized:

Self-defense . . . is not limited to the mere defense when attacked of continental United States. It covers all our possessions, all our rights; the right to take such steps as will prevent danger to the United States.

Accordingly, the Secretary of State reiterated time and again that "any nation has the right [under the Pact] to defend its interests anywhere in the world." Such assurances were necessary to placate senatorial apprehensions that the United States might be relinquishing its own right to act in the national self-interest. 83

The crux of the matter, then, was the ensuing debate did not constitute any threat to American "security." But it is easy to understand why the French felt it constituted a threat to French "security." It was up to American policy makers in the mid and late 1930's to determine when the interests of American and French "security" merged together. Then it was time to take action.

83 For the statements of Borah and Kellogg, see Senate, Foreign Relations, Renunciation of War, 16, 5-6, 26. For other statements by Borah that reveal his insights into the world of realpolitik, see, for example, Vinson, Borah, 145, 161.
over what constituted national defense and over what means should be taken to protect the national self-interest. This was not a debate between idealists and realists, but a controversy between practical men who disagreed on vital issues. Borah, Kellogg, Hoover, and others, while concerned with European stability, were skeptical whether the benefits of an increased political involvement would outweigh the dangers inherent in political commitments. They seem to have suspected that changes in French behavior would not be commensurate with the risks assumed by the United States. Consequently, they opposed efforts to define "aggression" and to insert sanctions into the proposed pact. \(^{84}\) They did not wish to become embroiled in disputes, perhaps even military ones, that they considered unrelated to vital American interests. They felt little sympathy for the French quest for "security." Indeed, Borah, in particular, believed the French commitment to the Treaty of Versailles was an inherently de-stabilizing influence. \(^{85}\)

On the other hand, prominent individuals like Norman Davis, James Shotwell, Arthur Capper, and subsequently Henry Stimson and Dwight Morrow felt that the United States could play a more constructive role in stabilizing European

\(^{84}\) For Borah's and Kellogg's opposition to sanctions, see, for example, Vinson, Borah, 137 ff.; Senate, Foreign Relations, Renunciation of War, 7, 21.

\(^{85}\) For Borah's feelings about the Treaty of Versailles, see, for example, Vinson, Borah, 99-100, 179.
affairs without incurring dangerous obligations. They were more sympathetic to the French preoccupation with security and they believed that the French were likely to act in the interests of long-term European stability if they felt more secure. Consequently, many of these more "internationally-oriented" individuals wished not only to define "aggression," but to alter American neutrality policy when aggression occurred. This was not an effort to involve the United States in European political affairs in a large way. Ironically, it was an attempt to act constructively by taking negative action, that is, by not insisting upon respect for American neutral rights when aggression occurred and when other nations were acting collectively to punish an aggressor. 86 There are some indications that such a policy, even in 1928, would have found favor with a larger segment of the American population than is usually realized. The Coolidge administration, however, deferred to Borah on this matter. And the Senator from Idaho had no desire to define aggression or to immediately modify American neutrality policy. 87


87 It must be recalled that in 1927-1928, a large segment of the "peace movement" was not unsympathetic to the application of at least negative sanctions. It was Borah
Nevertheless, the Kellogg-Briand Treaty did constitute a foundation from which additional initiatives to build a stable international order could be unleashed. Influential Americans, through in disagreement on what should be the next step, recognized that additional action to preserve a peaceful world was imperative. During the Senate debate, even Borah made no attempt to argue that outlawry in and of itself was an effective way of maintaining the peace. He had long acknowledged the need for a new code of international law and an independent court to interpret it.88 Shotwell, Capper, and others, while not opposed to the code and the court, insisted that since the Kellogg-Briand Pact made war illegal, legislation should be passed to modify American neutrality policy. Their aim was to facilitate European efforts to deter aggression.89 Those who opposed such legislation argued that revising neutrality policy might be equivalent to the imposition of economic sanction. This, they feared, might lead to war or to the stockpiling of armaments in anticipation of war.90 Rather than discuss

who turned the scales by supporting the Levinson forces against the Shotwell-Capper forces. Interestingly enough, Kellogg was originally sympathetic to Capper's position, but was influenced by Borah. Even the National Grange favored some variation of the Capper resolution. See Vinson, Borah, 102-103, 134-137, 143.

88Ibid., 166, 60, 66, 75-76.
89See references in footnote 86 above.
90See, for example, Edith Nourse Rogers, "How the Kellogg Pact Can be Made Effective," Annals of the American
the problems of security, they often chose to advocate the advantages of disarmament.

President Hoover and Secretary of State Stimson picked up various elements of these diverse proposals and tried to mold them to the requirements of a rapidly changing world. Shortly after his inauguration, Hoover suggested amending the Kellogg-Briand Pact in order "to strengthen measures against the outbreak of war and reenforce the machinery of pacific settlement of controversies." Stimson subsequently tried to interpret the Pact in such a way as to lay "the foundations of a constructive policy of world stabilization." He believed the United States could build upon the Pact and play an effective role in world affairs by consulting with other governments, by avoiding clashes with the League of Nations (over the question of American neutral rights), and by mobilizing world opinion. Most significantly, both Hoover and Stimson felt that the Pact of Paris provided the essential framework for continuing and extending the process of arms limitation.91

The French quest for security, however, had not been satisfied by the Kellogg-Briand Treaty. The French Foreign

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91 Hoover, Memoirs, II, 343-344, 336; Stimson, "Bases of American Foreign Policy," 389-391; also see Gibson's address to the Preparatory Commission, April 22, 1929, F.R., 1929, I, 93.
Minister was far from happy with a multilateral pact that outlawed war as an instrument of national policy. Such an agreement failed to place France in a special position vis-a-vis the United States. Similarly, it did not guarantee that the United States would remain neutral in any future French conflict. Therefore, Briand signed the agreement reluctantly and only after being assured that the Treaty would be universal, that a breach would release the signatories, that the obligations of nations under previous agreements would not be affected, and that the right of self-defense would not be compromised.92

The Pact did provide some comfort, however, by leaving out the hope that the United States gradually would assume a more constructive political role in European affairs.93 This was important to the French since in 1928-1929 German requests for Allied disarmament and for the evacuation of the Rhineland were becoming more intense. At the same time, Franco-British divisions over reparations were hardening. And the French suspected that the British, especially under the Labor Party, might be planning to withdraw even further from the Continent.94 These

92Ferrell, Peace in Their Time, 169-189; Ellis, Kellogg, 200-208.

93See, for example, memorandum of conversation between Hymans and Briand, August 25, 1928, Ministère des Affaires Étrangères, Documents Diplomatiques Belges, II, 527.

94For French fears about British policy, see O'Connor, Perilous Equilibrium, 95; Walter Lippmann, "The London Naval
developments, together with American assurances that a naval treaty would not be imposed upon them, must have influenced the French to modify their stand on some of the technical questions of disarmament and to attend a separate conference in London on naval matters.

At London, the French were determined not to make any concessions on naval matters unless provided with additional security guarantees. They were especially concerned about the deterioration of their relations with Italy in North Africa, Abyssinia, and the Adriatic, and they charged that Italy's demand for naval equality actually meant inferiority for France in the Mediterranean. The French also were alarmed by the onset of German pocket-battleship construction. As a result, French naval authorities insisted that their security depended upon naval equality with Germany in the Atlantic, parity with Italy in the Mediterranean, and a few additional ships for the protection of the colonies. They were prepared to embark upon a large building program to satisfy these needs. The French were willing to alter their plans only if they received additional...

Conference: An American View," Foreign Affairs, 8 (July, 1930), 514.

Wyly, "Foreign Relations of the United States with France," 159.
commitments from England to guarantee their maritime security. 96

French bargaining power at the naval conference stemmed from their ability to upset any accord that the three great sea powers might agree upon. This was because the United States demanded parity with Great Britain while the latter insisted upon maintaining the two-navy formula for Europe. Consequently, any large French naval program, or a competitive arms race between Italy and France, might force Britain into new construction and thus undermine any accord reached between herself, Japan, and the United States. In order to insure that this would not happen, Britain had either to accept a Mediterranean Locarno or convince Italy to abandon her demand for parity.

Before the conference began the French suspected that the United States and Britain had conspired once again to sacrifice French interests for the sake of a great power accord. French Premier André Tardieu told American Ambassador Walter Edge that "You Anglo-Saxons are trying to disarm France to the advantage of Germany and Italy." Having been assured that this was not the case, the French tried hard

96 For French naval strategy and her rivalry with Italy, see the lecture by Joseph C. Green (Division of Western European Affairs) at the Naval War College on December 12, 1930, 740.0011 Mutual Guarantee--Mediterranean/36; Géraud, "London Naval Conference," 525-526; also see O'Connor, Perilous Equilibrium, 54-56, 66, 89; Walter E. Edge, A Jerseyman's Journal (Princeton, 1948), 152.
to participate constructively. But they could not compromise their demand for either a large navy or additional security. Edge understood the French position. He noted in his diary:

After Locarno, especially, [France] views with concern Great Britain's attitude against a security pact, and feels if, in the future, she must rely upon herself, that it is not unreasonable to decline to agree not to build the navy she feels adequate to her own protection.

Though Tardieu and Briand demanded a security commitment from Britain in return for a French agreement on a naval accord, they did not expect the United States to assume any direct obligations in the Mediterranean. Negotiations between the Quai d'Orsay and the State Department over an amendment to the Kellogg-Briand Pact providing for consultation in times of emergency had been going on intermittently since the spring of 1929. At London, the French continued to press for some type of agreement on consultation, but they never considered this a matter of urgent importance in and of itself. Americans at the conference realized that the French were demanding a security guarantee from Britain and not one from the United States.

97Edge, Journal, 156-160; Charles G. Dawes, Journal as Ambassador to Great Britain (New York, 1939), 107, 119; O'Connor, Perilous Equilibrium, 47, 63.

98Edge, Journal, 170.

99See, for example, ibid., 164; Dawes, Journal as Ambassador, 160-161; memorandum of conversation between Stimson and Henry, September 10, 1931, F.R., 1931, I, 524.
Consultation with the United States was only important in so far as it would facilitate an Anglo-French understanding. This was because the British insisted that they could not assume new commitments lest they become involved in a serious controversy with the United States over neutral rights. Dwight Morrow, one of the American representatives at the conference, emphasized to Stimson that the French were not asking the United States "to enter into any entangling alliances in Europe, but merely to assure Great Britain that America would not impede her in the performance of her continental obligations." The object of a consultative pact, then, was to provide a framework for discussions between Britain and the United States over the latter's attitude toward measures recommended by the League Council in cases of aggression. If the League urged the application of sanctions, the United States would advise Britain on whether American neutrality rights would be enforced.

Stimson's attitude toward a consultative pact wavered. In early March, he dismissed the possibility of the United States entering into such an accord. Like Hoover, he did not object to consultation in principle. But he

100 Harold Nicolson, Dwight Morrow (New York, 1935), 368.

feared that if consultation were accepted as a quid pro quo for French disarmament, it might be interpreted as implying an American commitment to offer real assistance in case of a war. However, when the conference came to an impasse over the issue of French security and when the American Secretary of State realized that America's willingness to consult might influence British behavior, he reversed his position. On March 25, he announced that if some other nation provided the tangible security France demanded, the United States would consider a consultative pact. 102

Hoover was upset by Stimson's proposal. He feared a negative Senate reaction and he continued to worry how such a commitment would be interpreted. Nevertheless, the President considered accepting a modified pact if it specifically foreclosed the use of American military force. He preferred, though, to defer the question of consultation to a subsequent date. 103

Stimson's aim, however, was not so much to engage the United States as to push the British toward a closer understanding with the French. In this objective, he achieved a substantial degree of success. Following his

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102 For Stimson's and Hoover's attitudes and behavior, see O'Connor, Perilous Equilibrium, 90-99, also footnote 1, p. 162; Stimson and Bundy, On Active Service, 170-171; Hoover, Memoirs, II, 348.

103 O'Connor, Perilous Equilibrium, 97-100; Cotton to Stimson (Hoover to Tardieu), March 31, 1930, F.R., 1930, I, 96-97.
initiative, substantive negotiations between the French and the British took place. The French quest for security was not satisfied by these talks. But there was a greatly improved feeling of solidarity between France and Britain. As a result, the French decided to sign four of the five sections of the final agreement. This, of course, was only a symbolic gesture of cooperation since at any time Franco-Italian naval rivalry, which was left unresolved, might force the British to call into being the escalator clause and thus upset the entire accord.

The London Conference revealed that there was a means of reconciling the Franco-American impasse over security and disarmament. The French wanted a security guarantee from Britain, not from the United States. The British increasingly circumvented such obligations by referring to the neutrality policy of the United States. In a revealing article in Foreign Affairs, André Géraud, the influential French journalist, explained:

It had long been well known that no conceivable British Government would jump at the throat of an aggressor, on the League's request, unless it had ascertained beforehand that America was not determined to uphold her neutral rights upon the seas. But what was merely understood had now . . . become a fixed principle of British policy.

The United States therefore had a significant opportunity

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to contribute to French security by revising her neutrality policy. 105

This would have been an appropriate American contribution to European stability. For the United States to have gone further than this, when even England was reluctant to involve herself in Franco-Italian and Franco-German disputes, would have been to assume responsibilities and to incur risks that European nations themselves were avoiding. Stimson had reason to feel that the settlement of political problems in the Mediterranean was not within the scope of American diplomacy. He therefore helped to mediate the Franco-Italian dispute, but he pressured neither side to compromise their respective views of their national self-interest. He rightly assumed that the English had a much greater interest in this matter than the Americans. "If there were to be political guarantees in a settlement," he claimed, "they would have to come from Great Britain." 106


106 For Stimson's feelings, see Stimson and Bundy, On Active Service, 170; Stimson, "Bases of American Foreign Policy," 387-388. At the London Conference, Stimson interfered little in the Franco-Italian dispute. See O'Connor, Perilous Equilibrium, 62, 89. In the autumn of 1930, however, when an outbreak in Franco-Italian naval competition threatened to upset the agreements reached at London, the United States intervened more actively. The object was to get France and Italy to reach an understanding, in fact any understanding between themselves, that would not undermine the precarious balance between the United States, Britain, and Japan. See F.R., 1930, I, 135-180; memorandum by Pierre de L. Boal, May 9, 1931, ibid., 1931, I, 414-417.
The great failing of American policy, however, was that nothing was done for almost a year and a half after the London Naval Conference. Hoover and Stimson, though increasingly interested in disarmament, on the land and the seas, made little effort to convince the American public of the need to revise the nation's neutrality policy. Bills before the appropriate Senate and House Committees were not pushed. The administration's negligence on this matter can only be explained in terms of the more pressing domestic economic issues and international financial questions posed by the depression. Consequently, while the President and Secretary of State continued to urge the European nations to disarm and to resolve their political differences among themselves, they ignored the implications of American neutrality policy. This was all the more important since it came at a time when the United States no longer had the financial leverage to coerce France into pursuing a more moderate political and strategic policy vis-a-vis Germany.

By the summer of 1931, the extent of the financial crisis had increased Stimson's and Hoover's interest in the

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107 For the President's interest in disarmament, see, for example, the address by Hoover to the International Chamber of Commerce, May 4, 1931, F.R., 1931, I, 493-495; statement to the press, July 6, 1931, ibid., 163. In mid-April, Stimson decided to plan a vacation in the European capitals. His purpose, at least in part, was to discuss financial and disarmament problems. See 033.1140 Stimson/1.
forthcoming Geneva Disarmament Conference. The aim of the Secretary of State was to encourage other nations to grapple realistically with the problems before them and to exert America's influence in behalf of constructive settlements. Accordingly, while in Germany and Italy, Stimson emphasized the critical importance of arms reductions and political stability. Fearful that German leaders might use the disarmament conference as an opportunity to jettison the restraints imposed upon Germany in 1919, Stimson warned Bruening not to compromise Germany's moral position by increasing her armaments. He argued that Germany's defenselessness eventually would bring the other nations to reason and lead to general disarmament.

American policy makers, however, had no illusions about the difficult task ahead. A French Foreign Office memorandum of July 22 had revealed that France intended to resist further disarmament unless her security and the status quo were guaranteed. During his visit to the United States in October, French Premier Pierre Laval more or less

108 See, for example, memorandum of conversation between Stimson and Henderson, July 30, 1931, F.R., 1931, I, 508-509; also see Stimson to Wilson, September 10, 1931, ibid., 523; memorandum of conversation between Castle and Hoover, August 28, 1931, ibid., 520.

109 Memorandum of conversation between Stimson and Bruening, 1931, ibid., 548; also see ibid., 321-322, 542-548, 552, 561.
reiterated this thesis to Hoover and Stimson. Though American officials understood the French position, they were exasperated by it. With Germany financially bankrupt, with her economy tottering on the brink of disaster, with her political system in disarray, and with her military capacity still limited, she hardly seemed like a potent threat. Stimson therefore felt that when France talked about peace guaranteed by military action, "she was also seeking by this to freeze into permanency the extreme oscillation in her favor and against Germany which had resulted from the last war . . . . In other words, while she was ready to accept cooperation she wanted this cooperation to secure her hegemony as against Germany." In the eyes of Stimson and his advisers, French security did not rest in this direction. In fact, the real question was whether France would agree to a modification of the Peace Treaties.

While many American policy makers prodded the French to agree to revisions in the Treaty structure, they were not indifferent to France's "obsession" with security. "The feeling is there and cannot be ignored, however unreasonable it may seem to us," commented Pierrepont Moffat, chief of

110 Howell to Castle, July 24, 1931, ibid., 507; Warner, Laval, 44-47.

111 Memorandum of conversation between Stimson and MacDonald, August 7, 1931, F.R., 1931, I, 515; memorandum by Moffat, October 2, 1931, 711.0012 Anti-War/11893; Stimson and Bundy, On Active Service, 273-274.
the Division of Western European Affairs. Rather than guarantee a vision of security which they found unacceptable, officials in the State Department proceeded to reexamine the efficacy of revising American neutrality policy. Their aim was to alleviate the French fear "that the United States might interfere in its own interest against some common action against an aggressor . . . and thus set the present structure on which [France's] security is based at naught." Even before Stimson returned to the United States in late August, he told the British Prime Minister that the American navy would never be used to enforce an extreme doctrine of neutrality. On September 10, he reiterated this point to the French Chargé with unusual clarity.

Nevertheless, when Laval visited Washington in October, Hoover said he could not sign a consultative pact. Nor would he declare a change in American neutrality policy. The President claimed these were political impossibilities. Instead, he simply told Laval that the United States would

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112 See memorandum by Moffat, October 5, 1931, 711.0012 Anti-War/1189; Klotz to Castle, October 2, 1931, 033.511 Laval/256; also see memorandum by Moffat, October 5, 1931, 711.0012 Anti-War/1189.

113 Klotz to Castle, October 2, 1931, 033.511 Laval/256; also see memorandum by Moffat, October 5, 1931, 711.0012 Anti-War/1189.

114 Memorandum of conversation between Stimson and MacDonald, August 7, 1931, F.R., 1931, I, 514-516; memorandum of conversation between Stimson and Henry, September 10, 1931, ibid., 524-525.
never be found on the side of an aggressor. Such private assurances, however, were not sufficient to convince the French Premier of the wisdom of agreeing to further arms limitations. 115

Hoover might have been more flexible if he did not feel that the French were purposefully withdrawing gold from the United States and thus exacerbating the domestic financial crisis. This infuriated him, as it came not long after the acrimonious dispute over the debt moratorium. To Hoover, France seemed not only intransigent, but totally irresponsible. He confided to Stimson that "France always goes through this cycle after she is done and begins to recuperate . . . she gets rich, militaristic, and cocky; and nobody can get on with her until she has to be thrashed again." 116

As France's resistance to revising the Treaty structure intensified, Hoover became increasingly upset. He was well aware of the interaction between European political unrest and international financial chaos. Nevertheless, he began toying with the possibility of divorcing the American economy from the world economy. He knew such a course was

115 For accounts of the Hoover-Laval conversations, see memorandum of conversation between Stimson and Lindsay, October 26, 1931, 033.5111 Laval/168; Lindsay to Reading, October 26, 1931, D.B.F.P., II, II, 307-308; Tyrrell to Reading, November 5, 1931, ibid., 317-318; Stimson and Bundy, On Active Service, 274-276; Warner, Laval, 46-47.

116 Warner, Laval, 47, 45; Hooker, Moffat Papers, 47.
hazardous and under normal conditions undesirable, but he had to decide whether it was wiser than becoming immersed in a maze of European political questions that seemed insoluble given the distrust that characterized Franco-German relations. There must have been considerable question in his mind whether changes in American neutrality policy would in fact influence either Britain's inclination to assume new commitments or France's willingness to alter the reparation and eastern boundary provisions of the Treaty of Versailles.

So once again American policy drifted. During the months between Laval's visit and the opening of the Geneva Disarmament Conference, the administration's attention was focused on the internal financial crisis and the outbreak of hostilities in Manchuria. The events in the Far East especially diverted the State Department's interest from Europe to Asia. Moffat noted in his diary that "There is no question but that it [the Far East crisis] is the Secretary's real interest." With the American navy limited by former accords and with the American army reduced to an insignificant

117 Hooker, Moffat Papers, 47, 60; Myers, State Papers, II, 591-595. For Hoover's view that European nations had to solve their own political problems, see, for example, memorandum of conversation at the White House, January 5, 1932, Box 20, Davis Papers.

118 Hooker, Moffat Papers, 48-51, footnote 20, p. 57.
size, American officials felt little inclination to assume the initiative at Geneva. Moreover, France's renewed determination to keep Germany within the legal confines of the Treaty of Versailles and her truculent insistence on establishing an international force did little to entice a greater American participation during the opening sessions of the disarmament conference. As a result, Stimson's instructions to Hugh Gibson, the Chairman of the American Delegation, and the latter's initial address to the conference, demonstrated no substantive changes in American policies. Though there was a new emphasis on limiting offensive weapons and on reducing land effectives, there was no alteration of the American position on inspection and control. Nor did Gibson mention any possibility of the United States government entering into a consultative pact or revising its neutrality practices. 119

Rather quickly, however, Gibson and Norman Davis, the other influential American delegate, ascertained that the French were not nearly as inflexible as they seemed. French Premier André Tardieu and French delegate Louis Aubert emphasized to the Americans that they did not expect security guarantees from the United States. Tardieu told Gibson that

119 Stimson to Gibson, January 19, 1932, F.R., 1932, I, 1-11; Gibson's address, February 9, 1932, ibid., 27-30. For France's insistence on keeping Germany within the legal confines of the Treaty of Versailles, see Wilson, Diplomat Between Wars, 257-258; unsigned memorandum on Article 53, late 1931, Box 17, Davis Papers.
"if any way could be devised by which they [the French] would know that we [the Americans] would refrain from cutting across the course of action determined on by the League, that would be a maximum which could be hoped from America . . . ."

Davis gradually became convinced that Tardieu now realized that France could not dominate the Continent by military force. Instead, he wanted to insure French security through a policy of cooperation with Britain and Italy and through a policy of eventual rapprochement with Germany.  

During March, the American delegation grew increasingly optimistic about the possibilities of the United States seizing the initiative and pushing through an agreement. Davis and Gibson felt that all nations were waiting for the United States to intervene constructively and to assert its "moral leadership." In late March, Davis returned to Washington to present the viewpoint of the American delegates. For several days, he argued in favor of the United States assuming a larger role and presenting a concrete program for the limitation of effectives and for the reduction of aggressive weapons. He also insisted that the nation reverse its positions and agree both to a global budgetary cut in arms expenditures and to the abolition of all military and

120 See, for example, memorandum by Davis, February 12, 1932, F.R., 1932, I, 34-39; Gibson to Stimson, March 17, 1932, ibid., 54-59; memorandum of conversation in the Office of the Assistant Secretary of State, March 30, 1932, ibid., 62-63; Aubert to Davis, March 16, 1932, Box 20, Davis Papers; Hooker, Moffat Papers, 59-60.
The response in Washington was mixed. Stimson was not enthusiastic. He feared that American military power, especially the American navy, might be frozen into a position of inferiority. Moreover, he and his colleagues in the State Department were skeptical whether the American people would support an increased involvement. Hoover, on the other hand, was eager to endorse a program along the lines suggested by Gibson and Davis provided that it did not mean an increase in strategic commitments. The President believed an American initiative in this direction would be politically appealing and fiscally sound. He agreed, however, that any disarmament program should not undermine the navy's ability to uphold American interests in the Far East. 122

As a result of the deliberations in Washington between Davis, Stimson, Hoover, and others, the administration authorized Gibson to deliver a major address to the Conference on April 11. In this speech, the American delegate emphasized the vital importance of abolishing offensive weapons. This, he maintained, would increase the European

121 Memorandum of conversation in the Office of the Assistant Secretary of State, March 30, 1932, F.R., 1932, I, 62-67; Gibson to Stimson, March 26, 1932, ibid., 59-61; unsigned memoranda for Mr. Davis, numbers 2, 5, March, 1932, Box 20, Davis Papers; Hooker, Moffat Papers, 59-61; Jeannette Marks, Life and Letters of Mary Emma Woolley (Washington, D.C., 1955), 141.

sense of security by eliminating fears of invasion. He specifically recommended the rapid destruction of tanks, heavy mobile guns, and poisonous gases. Gibson intimated that additional steps to reduce other offensive arms might also be possible. The proposal revealed that a temporary compromise had been reached between Davis' desire for bold action (in light of the European impasse) and Stimson's inclination to be cautious (in light of the Far East dilemma). In order to further enhance the prospects of the disarmament talks, Stimson also consented to go to Geneva in late April to conduct high level negotiations. 123

Neither Gibson's speech or Stimson's visit, however, had a particularly favorable impact on the French. While Gibson was presenting his proposals, one of the other American delegates noted that "Our French friends are about to expire from wrath." Shortly thereafter Tardieu decided not to attend the high level talks between MacDonald, Stimson, and Bruening at Geneva. This led another American delegate to comment that "the French are enough to try the patience of Job." But the French, in truth, had real grounds for complaint. Tardieu and Paul-Boncour argued that offensive weapons could not easily be defined, that all arms were

123 For Gibson's address on April 11, 1932, see F.R., 1932, I, 76-83. For the discussions in Washington leading up to the speech, see ibid., 54-84; Thomas Casey Irvin, "Norman H. Davis and the Quest for Arms Control, 1931-1938" (unpublished Ph.D. dissertation, Ohio State University, 1963), 68-71.
interdependent, and that Gibson's proposal lacked effective enforcement machinery. The French feared that once they destroyed their offensive armaments, the Germans would gain a great advantage because of their ability to out-produce the French in any future arms race. Moreover, Tardieu was perfectly well aware that the American proposal provided for qualitative disarmament on the land but not on the seas. Were not capital ships offensive weapons, inquired the French. Once again, there was a pervasive suspicion that the Anglo-Saxons were conspiring to disarm France for the benefit of Germany. 124

Stimson believed that the crux of the impasse was the unchanging French demand for security, a demand that grew more shrill as the Nazis came closer to gaining power. It was up to the British, the Secretary maintained, to provide this security. He told MacDonald that the British had no reason to justify their policies on the grounds of American neutrality. At the same time, the Secretary maintained that the major objective of American policy should be to encourage constructive and meaningful talks between France and Germany. Gibson concurred. 125

124 Marks, Woolley, 143-144; Gibson to Castle, April 11, 12, 21, 22, 1932, F.R., 1932, I, 85-87, 98-103; Drummond to Davis, April 20, 1932, Box 18, Davis Papers.

Despite these superficial similarities, during the spring of 1932 the rift between the American delegation in Geneva and policy makers in Washington widened. Gibson and Davis insisted that the United States should assume a still larger role. Gibson reminded Stimson that despite all the American rhetoric about the benefits of disarmament, the United States was in fact well behind most of the other powers when it came to concrete proposals for arms limitations. Moreover, with the electoral victory of the Radical-Socialists in France, the American delegates felt it might be a particularly auspicious moment to launch a new disarmament offensive. This was especially true since the British were preparing a plan of their own. 126

Once again, in the nation's capital, American policy makers agonized over what should be done. Professionals in the State Department felt that American public opinion was crumbling behind the American delegation. Stimson was terribly preoccupied with the Far East situation and opposed any attempts to weaken the American navy. Hoover, on the other hand, once again emphasized that a comprehensive disarmament accord might help restore confidence and generate prosperity. Moreover, the President was increasingly intent

126 Hooker, Moffat Papers, 67; Marks, Woolley, 146-148; Gibson to Stimson, May 28, 1932, F.R., 1932, I, 145-150; memorandum of conversation between Davis and Hériot, May 22, 1932, ibid., 133-139; Davis to Stimson, May 24, 1932, ibid., 142-143.
on reaping some political advantage by identifying himself as the originator of a great disarmament plan. 127

In late May and early June, policy makers scrutinized the alternatives and tried to reconcile various plans. Stimson agreed to move forward in some areas because he realized that Japanese troops might be limited by an accord on land armaments and military effectives. He stressed, however, that the American position at Geneva was circumscribed by American responsibilities in the Pacific. 128 Hoover, in turn, agreed to modify his proposals so as not to weaken the strategic strength of the United States in the Pacific. But he insisted on publicly presenting his own proposals despite many warnings that such unilateral action might be interpreted as an ultimatum and therefore might antagonize the former Allies and upset the private talks that had just been inaugurated. 129 Hoover ignored this advice

129 Hooker, Moffat Papers, 72-75; Klotz to Davis, June 13, 1932, Box 18, Davis Papers; memorandum of trans-Atlantic phone conversation, June 21, 1932, Box 20, ibid.; memorandum of trans-Atlantic phone conversation, June 21, 1932, F.R., 1932, I, 201-207. While negotiations were proceeding at Lausanne over reparations, high level discussions were being conducted at Geneva on disarmament. For these private but constructive talks between officials from France, England, and the United States, see D.B.F.P., II, III, 527-553.
because he was worried about the possible reaction of the American public to the constant rumors emanating from Lausanne about the cancellation of war debts. Politically speaking, his aim was to focus public attention on armaments rather than on debts as the principal cause of international financial chaos.\textsuperscript{130} The President's proposals of June 22 provided for the abolition of all tanks, chemical warfare, and large mobile guns, for the reduction of land armies (above a certain minimum size) by one-third, for the abolition of bombing plans and the prohibition of air bombardment, and for the further reduction of naval tonnage (even in the capital ship category).\textsuperscript{131}

The Hoover Plan was a serious effort to inject life into the disarmament talks. The initial response at Geneva, at least on the surface, was much more favorable than either Gibson or Davis anticipated. Excitedly, the American delegates told Stimson and Hoover that "It has been without doubt the biggest day we have ever had at Geneva."\textsuperscript{132} The French Premier Edouard Hérriot acknowledged that Hoover had tried to accommodate France on several issues, for example,

\textsuperscript{130}Stimson to Gibson, June 18, 1932, F.R., 1932, I, 186-187; memorandum by Stimson, June 19, 1932, \textit{ibid.}, 189-190; memorandum of trans-Atlantic phone conversation, June 21, 1932, \textit{ibid.}, 197-201.

\textsuperscript{131}\textit{Ibid.}, 212-214.

\textsuperscript{132}Memorandum of trans-Atlantic phone conversation, June 22, 1932, \textit{ibid.}, 215; Wilson, \textit{Diplomat Between Wars}, 273; Hooker, \textit{Moffat Papers}, 74-75.
the interdependence of armaments and the legitimacy of expenditures on fortifications. Even Joseph Paul-Boncour, the French Minister of War, emphasized that the only major flaw was the absence of a provision for consultation in cases of aggression.133

Beneath the surface, however, the French (and British) were not nearly so cooperative. They were upset by the fact that they were not more closely consulted before the Hoover Plan was introduced. They were confused because it came at a time when their private talks seemed to be making some headway. Paul-Boncour felt the ground rules for these confidential discussions had been upset by the Hoover Plan. Arms limitation on the scale envisioned by the American president, he stressed, called for additional security commitments. On more specific matters, the French disliked the absence of budgetary limitations, and objected to Hoover's proposal on land effective which would have meant substantial French reductions. Furthermore, the French felt that the Hoover Plan discriminated in favor of Italy on naval matters. Nevertheless, French objections were somewhat muted, because of the realization that the Hoover Plan had a strong general appeal.134

133 Armour to Stimson, June 25, 1932, F.R., 1932, I, 222-223; memorandum of trans-Atlantic phone conversation, June 22, 1932, ibid., 217; Gibson to Stimson, June 29, 1932, ibid., 243-244; Marks, Woolley, 150.

134 For French and British reaction, see, for example, record of a meeting held at Geneva, June 23, 1932, D.B.F.P.
Though nothing concrete emerged from the ensuing negotiations at Geneva, the events of June, 1932, revealed that the United States definitely had moved from a passive to an active role. Before the conference adjourned in July, Stimson indicated that he was also ready to reverse the traditional American position on inspection. He was now willing to accept the principle of inspection along French lines. Similarly, he was ready to consider budgetary limitations as a complementary method of arms limitation, but not as a substitute for direct limitation. As a result of compromises by both sides, the outstanding difference between the two nations once again centered around the related questions of consultation and neutrality. 135

Since March, Stimson had considered the possibility of asking Congress to pass legislation authorizing the United States government to consult with other governments

135 For the issue of inspection, see Stimson to Gibson, June 30, 1932, F.R., 1932, I, 249; Claudel to Hériot, July 29, 1932, D.D.F., I, I, 136. For the discussions over budgetary limitations, see F.R., 1932, I, 295 ff. For important French concessions, see Gibson to Stimson, July 21, 1932, ibid., 309; also see Hooker, Moffat Papers, 75; Irvin, "Davis and the Quest for Arms Control," 78 ff.
when the Kellogg-Briand Pact was violated. But he had decided against this course of action because he feared an acrimonious debate in the Senate and because he was skeptical whether such legislation was in fact necessary for the Executive to play a constructive role in foreign affairs. Nevertheless, the administration succeeded in having a plank favoring consultation inserted into the Republican platform. With the help of Norman Davis and Senator Claude Swanson, Stimson also was able to get the Democratic Party to endorse the principle of consultation.¹³⁶

Even then, however, the Secretary of State was uncertain how far the administration should go in proclaiming its willingness to consult. He told the French Ambassador that he feared that "the French people would be led to believe that a consultative pact involved a promise of armed assistance and that would make future trouble between the two nations." Consequently, he preferred a unilateral declaration of America's willingness to confer. This declaration should be, he felt, sufficiently vague so that the United States could retain full power to interpret when and how the consultation should take place. Accordingly,

¹³⁶ See, for example, Swanson to Joseph T. Robinson, March 7, 1932, Box 20, Davis Papers; Robinson to Swanson, March 15, 1932, ibid.; Stimson to Swanson, March 15, 1932, ibid.; memorandum of trans-Atlantic conversation, June 22, 1932, F.R., 1932, I, 217-218; Stimson to Swanson, June 22, 1932, 711.0012 Anti-War/1261; Davis to Hull, June 23, 1932, 711.0012 Anti-War/1269.
on August 8, 1932, in a major public address to the Council on Foreign Relations, the Secretary of State proclaimed that the Kellogg-Briand Pact altered many legal precedents and made consultation inevitable. This new interpretation of the Treaty would enable the United States "to cooperate for peace and justice" without compromising "the independence of judgment and the flexibility of action" upon which Americans always had insisted.\(^{137}\)

Hériot made every effort to respond positively to Hoover's disarmament proposals and to Stimson's address. Though he knew the United States alone could not satisfy France's security needs, he also realized that significant progress had been made in reconciling the differences between the two nations. Therefore, he made a concerted effort to influence the French press and to mold French public opinion in favor of a positive reaction to the American initiatives.\(^{138}\)

\(^{137}\) Stimson to Gibson, June 29, 1932, F.R., 1932, I, 244-245; memorandum by Stimson, June 30, 1932, ibid., 249-251; address by Stimson, August 8, 1932, ibid., 575-583.

\(^{138}\) For Hériot's efforts, see, for example, Armour to Stimson, August 12, 1932, 711.0012 Anti-War/1284; Edge to Stimson, August 19, 1932, 711.0012 Anti-War/1320; also see Edge to Stimson, July 29, 1932, Box 17, Davis Papers; memorandum of conversation between Hériot and Davis, Box 20, ibid.; Davis to Hoover, July 13, 1932, Box 27, ibid.; Gibson to Stimson, July 21, 1932, F.R., 1932, I, 309. Hériot also was pleased by Stimson's opposition to any German rearmament. See Edge to Stimson, September 19, 1932, F.R., 1932, I, 437. Furthermore, the Quai d'Orsay recognized that Stimson's non-recognition doctrine could be a real asset if applied to Europe. It could be used to prevent forceful revisions of the Treaty of Versailles. See Armour to Stimson, August 10, 1932, 711.0012 Anti-War/1301.
Hérriot realized that the crisis facing France stemmed from Germany's ill-defined demand for "equality" of armaments and from the Anglo-Saxon's emphasis on disarmament. His own aim was to insure French security by effecting a common policy between the three great democracies and by insisting upon absolute respect for treaties. Within the highest councils of the French government, Hérriot and Paul-Boncour argued that France had to make a greater effort to accommodate the Americans and the British. This could be done by agreeing to some arms reductions along the lines envisioned in the Hoover Plan and by molding France's security requirements to complement America's revised stand on consultation (and perhaps on neutrality). French civilian leaders pleaded with Generals Weygand and Pétain to relax their opposition to disarmament and to accept the proposition that security accompany disarmament, not precede it. This was the only sure means of precluding France's isolation from her former Allies. Hérriot had no faith in Germany's good intentions. Moreover, he was aware of Germany's superior ability to raise an army and to prepare for war. This was all the more reason, he emphasized, for supporting the Hoover Plan (which envisioned no substantive change in Germany's armed strength) and for winning good will abroad. Certainly, there were risks inherent in such a course of action. Hérriot acknowledged them. But he maintained that there was no alternative. If France did nothing, Germany
would rearm and France would find herself isolated.139

As a result of these considerations and after much deliberation, the Hérrriot ministry decided to try to reconcile French security requirements with the American disarmament thesis. This was a complicated task since civilian leaders were constantly hounded by the French military and by the French right. Because of these conflicting pressures, the French Plan that was submitted to the disarmament conference in November, 1932, was a compromise proposal. On the one hand, it tried to satisfy the French right by providing for the establishment of an international force, for the disposal of weapons to the League of Nations, and for the conclusion of mutual assistance treaties. On the other hand, it tried to placate the Americans by calling for the standardization and reduction of continental armies, by acquiescing to the eventual reduction of armaments, and, most importantly, by providing for a ring of concentric circles to guarantee French security. With regard to this last proposal, the French objective was to insure French security without demanding action from the United States that was beyond the realm of possibility, that is, without asking the United States to promise to use force to deter aggression.

What the French wanted was a triple American commitment to

consult, to refuse to recognize the fruits of aggression,
and to refrain from trading with and/or financing an
aggressor nation. 140

On the whole the American delegates were disappointed
with the French Plan. Nevertheless, they recognized that
some progress had been made. For example, the French were
now ready to undertake real arms reductions under certain
conditions. They also were carefully differentiating between
the contributions that they expected from various nations to
French security. Furthermore, they seemed prepared to con­
template some notion of equal status for Germany. What
troubled Americans, however, was that "everything France
wants is set out with exceeding clarity, while everything
that is simple disarmament is put in the vaguest form and
fails to be in any case a definite offer." Hugh Wilson, one
of the American delegates, however, more emphatically
denounced the French Plan as an attempt to link the United
States and Britain to the European status quo. 141

Despite their dissatisfaction, American officials

140 For the French Plan, see Wilson to Stimson,
November 15, 1932, F.R., 1932, I, 180-186. For some comments
on the French Plan by the American delegates, see Davis to
Stimson, October 29, 1932, ibid., 348-350; Wilson to Stimson,

141 For the criticism, see Davis and Wilson to
Stimson, November 16, 1932, ibid., 389-390; Wilson to
Stimson, November 21, 1932, ibid., 399-401; also see Davis
to Stimson, January 16, 1933, Box 23, Davis Papers; Marriner
to Davis, November 21, 1932, Box 17, ibid.
kept trying to participate constructively in the disarmament negotiations, but within the bounds set by American public opinion and American strategic interests. In fact, Stimson emphasized to visiting Frenchmen that the United States would never interfere with League action against an aggressor. But American policy makers insisted on the right to determine for themselves who was the aggressor and when aggression had occurred. Similarly, while Stimson and Davis told Claudel and Hérriot that the United States government now felt obligated to consult, they also stressed that this could not be put in treaty form. The most the French could expect was a unilateral declaration of American policy.

By late November, 1932, however, Davis realized that the French Plan offered little prospect for immediate results. Rather than attack the difficult questions of security, neutrality, and large-scale disarmament, he recommended that the nations sign a preliminary convention registering some limited progress and creating a Disarmament Commission to facilitate future arms reductions. Hérriot,

142 Memorandum of conversation between Stimson and Stanisla De La Rochefoucauld, November 15, 1932, 800.51 W89/587; memorandum by Stimson, November 15, 1932, F.R., 1932, I, 387-388; also see Davis and Wilson to Stimson, November 16, 1932, 711.0012 Anti-War/1348.

143 Memorandum of conversation between Davis and Hérriot, November 18, 1932, Box 17, Davis Papers; memorandum by Stimson, November 4, 1932, F.R., 1932, I, 359-360; also see memorandum by Massigli, November 23, 1932, D.D.F., I, II, 51-52.
however, refused to agree to any accord until Germany returned to the conference. 144 Thus, during the first days of December, five-power talks were held in Geneva. Davis played a large role in these discussions and helped to mediate the differences between the French demand for "security" and the German demand for "equality." The result was a harmless compromise recognizing the legitimacy of both parties' claims for "security" and "equality." Though Germany agreed to return to the conference, the Hérrriot government was toppled on the question of the war debts before any progress was made toward consummating the limited convention. 145

During the winter and early spring of 1933, American diplomats grew increasingly certain that the United States could make a major contribution to the proceedings at Geneva by announcing a change in American neutrality policies. The

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144 Germany left the disarmament conference in September, 1932, and refused to return until her right to "equality" in armaments was recognized. Theoretically, this meant that the Germans wanted the other powers to begin moving toward the German level of armaments. The French, however, were reluctant to recognize this right because they were increasingly uncertain what the Germans meant by it. At first, it seemed as if Germany wanted only equality of status in a strictly legal sense. As time went on, however, "equality" seemed increasingly to mean the right to possess those armaments that were not going to be eventually relinquished by the other powers.

145 For the above, see memorandum of the five-power conversation at Geneva, December 2-12, 1932, F.R., 1932, I, 489-508; also see ibid., 401-405, 473-488; D.D.F., I, II, 43-44, 78-79, 81-82, 97-98, 116-127.
French security system still depended on Britain's adherence to Article XVI. But MacDonald had made clear that British commitments would remain circumscribed so long as the United States might insist upon its rights to supply aggressor nations. Gibson cogently reported to the new Secretary of State, Cordell Hull, that the European states "are convinced that any possibility of concerted European action is dependent on British participation which in turn they believe is dependent on our attitude." Given these facts, Gibson, Wilson, and Davis all recommended that the State Department announce that if the United States agreed on whom was the aggressor no action would be taken to defeat collective measures of mutual assistance. In return for this contribution, American diplomats maintained that the United States would be justified in demanding substantive steps toward disarmament.146

Developments in Europe during March and April, 1933, impelled American diplomats to press these recommendations

146 For the recommendations of American diplomats, see, for example, Gibson to Hull, March 12, 1933, F.R., 1933, I, 31-33; Davis to Hull, April 16, 1933, ibid., 89-97; Wilson to Moffat, March 29, 1933, Box 43, Davis Papers; Wilson to Davis, December 15, 1932, in Hugh Wilson, Disarmament and the Cold War in the 1930's (New York, 1963), 26-27. For a few French and British references to American neutrality and British obligations under Article XVI, see Hériot's speech to the Chamber, December 12 and 13, 1932, in 800.51 W89 France/808; de Fleuriau to Hériot, November 14, 1932, D.D.F., I, II, 709-710; memorandum of conversation, December 6, 1932, ibid., I, II, 162-163; memorandum, April 20, 1933, ibid., I, III, 262-264.
upon the new Democratic administration with considerable vigor. Hitler's acquisition of power, Nazi violations of the disarmament provisions of the Treaty of Versailles, and renewed German demands not only for equality of status, but also for increased weapons, convinced Davis, the recently appointed Chairman of the American delegation, that action was imperative if European stability was to be preserved. At the same time, the introduction of the MacDonald Plan for disarmament presented a program around which both the Americans and the British could rally. Furthermore, Americans were pleased by the initiation of Anglo-Italian discussions over a proposed Four-Power Pact. The aim of such an accord, at least on the surface, was to institute closer collaboration between Britain, Italy, France, and Germany in order to maintain European peace. Though the French were upset

147 See Davis to Hull, April 16, 1933, F.R., 1933, I, 91; memorandum of conversation between Paul-Boncour and Davis, April 4, 1933, 500.S1 Washington/359. For the impact of Nazi demands and actions on the French and British, see, for example, memorandum of conversation, March 10, 1933, D.D.F., I, II, 779-785.

148 Davis was sympathetic to the thrust of the MacDonald Plan and to the intent of the Four-Power Pact. See, for example, Davis to Roosevelt, April 7, 1933, Edgar G. Nixon (ed.), Franklin D. Roosevelt and Foreign Affairs (3 vols.; more in progress; Cambridge, Massachusetts, 1969), I, 47-48; Davis to Hull, April 28, 1933, F.R., 1933, I, 117; memorandum of conversation between Daladier and Davis, April 5, 1933, 550.S1 Washington/359; memorandum of conversation between Hériot and Davis, April 6, 1933, Box 9, Davis Papers. For the MacDonald Plan, see ibid., 1933, I, 43 ff.; for the Four-Power Pact, see ibid., 396 ff.
by both the MacDonald Plan and the Four-Power proposal, Premier Edouard Daladier began stressing the importance of control and inspection rather than security and guarantees. Given the character of the new German government, its demands for immediate French arms reductions, and its readiness to undertake substantial rearmament, Daladier must have felt that the primary task of French policy should be to confine the German arms build-up within specific limits. This could only be done by establishing effective enforcement machinery. This change of French emphasis from security to control especially heartened Davis.  

The movement of events in Europe and the pressures exerted by American diplomats captured the attention of policy makers in Washington. Though preoccupied with domestic matters and with the preparations for the World Economic Conference, President Franklin D. Roosevelt himself reassured the French Ambassador that he was alarmed by developments in Germany. He expressed sympathy for the plight of France and acknowledged that Hitler seemed like a madman ("un fou"). Like his predecessor, however, the President still believed that disarmament was "one of the

149 For the increasing French emphasis on control, see, for example, Marriner to Hull, April 7, 1933, Box 17, Davis Papers; memorandum of conversation between Davis and Pierre Cot (Minister of Air), April 19, 1933, Box 9, ibid.; memorandum of conversation between Davis and Daladier, April 21, 1933, ibid.; memorandum by Massigli, April 21, 1933, D.D.F., I, III, 185-186.
principle keys to the world situation."^150

But Roosevelt did not demand that France disarm in a vacuum. In fact, during the course of his conversations with Hérriot in late April, he emphasized the critical importance of maintaining automatic and continuous inspection to insure that violations of a disarmament accord did not take place. Moreover, the President told Hérriot that in return for substantial French disarmament he would be willing to make a unilateral declaration revising American neutrality policies so as not to interfere with League action when the United States agreed on whom was the aggressor. Finally, Roosevelt reaffirmed his opposition to any German rearma-

Roosevelt's presentation of American policies impressed the French. Hérriot felt that the President's willingness to renounce American neutrality in certain situations was of historical importance. Louis Aubert maintained that the newly stated American policy might have an important

^150 For Roosevelt's talks with Claudel and de Laboulaye, the French ambassadors, see Claudel to Paul-Boncour, March 16, 1933, D.D.F., I, II, 823; Claudel to Paul-Boncour, April 5, 1933, ibid., I, III, 148-149; de Laboulaye to Paul-Boncour, April 19, 1933, ibid., 245-246. For the quote, see Nixon, F.D.R., I, 25-26.

influence on Britain and thereby contribute considerably to French security. He also was aware of the significance of the United States government's new position on inspection. When Roosevelt bluntly told Hjalmar Schacht, Hitler's emissary for economic matters, that Germany must not rearm, the French were even more delighted. In recounting this episode to Paul-Boncour, French Ambassador André de Laboulaye emphasized that this signified a reversal in American post-war policies. For twelve years, he explained, the United States had supported German demands. But now Roosevelt's orientation was entirely different.152

De Laboulaye, however, was somewhat mistaken. The new American policy on disarmament and neutrality remained ambiguous and imprecise. By the beginning of May, Roosevelt had taken entire charge of these matters. But despite his good intentions, he did not have the time, the discipline, or the knowledge to mold a consistent policy. Aware of the domestic opposition, he was reluctant to boldly proclaim his new policies on neutrality. Consequently, though his address to world leaders on May 16 had a moderating impact on Hitler's intent to embark upon a policy of immediate and

overt rearmament, it was a disappointment to the French.
In this speech, Roosevelt stressed the importance of consum­
mating agreements on disarmament and non-aggression. Nothing,
however, was said about consultation or American neutrality.
On May 21, in Geneva, Davis did announce the new American
position on these matters. But the President himself failed
to assert his leadership. His reluctance to systematically
pressure the Senate Foreign Relations Committee to endorse
legislation providing for a discretionary arms embargo
further illustrated Roosevelt's lack of resolve. Such legis­
lation would have been a tangible demonstration of the
nation's intent to honor the President's pledge not to inter­
fere with collective action to deter aggression. 153

By early June, French and American policies still
were inching toward one another, but the prospects for a

153 For Roosevelt's address on May 16 and Davis' speech on May 21, see F.R., 1933, I, 143-145, 154-158. On May 10, Senator Key Pittmann informed Hull that the Foreign Relations Committee opposed a discretionary arms embargo. See ibid., 365-366. On the very same day, Roosevelt down­played the significance of his policy changes in a press conference. He no doubt wanted to quell fears about radical alteration in American foreign policy. But it is signifi­cant that he said nothing at all about neutrality. See Nixon, F.D.R., I, 108-111. For Roosevelt's vacillation and refusal to push the neutrality issue, see Divine, "F.D.R. and Collective Security," 42-58; for Roosevelt's poor grasp of the disarmament-security imbroglio, see Hooker, Moffat Papers, 92-94. For French reaction to Roosevelt's address of May 16, see Marriner to Hull, May 17, 1933, F.R., 1933, I, 147-148; memorandum of conversation between Phillips and de Laboulaye, May 17, 1933, Box 21, Davis Papers; de Laboulaye to Paul-Boncour, May 17, 1933, D.D.F., I, III, 499-500; Tyrrell to Simon, May 17, 1933, D.B.F.P., II, IV, 246-247.
successful conclusion to the disarmament conference were increasingly dim. For this, all nations bore some responsibility. Roosevelt, though agreeing to changes in American neutrality practices, had deferred action on neutrality legislation. The French, though no longer looking to the United States for mutual assistance, still were intensely preoccupied with the problems of enforcing a disarmament accord. The British, in turn, had failed to respond affirmatively to the American neutrality initiative and thus had done nothing to alleviate French fears about their security. Meanwhile, the Germans had not stopped insisting that the French immediately reduce their own armaments and agree to Germany's right to possess sample weapons prohibited under the Treaty of Versailles. 154

Davis' address to the conference on May 21 marked the high point of the American involvement in the disarmament-security imbroglio. By June, policy makers in Washington were intimating their intent to withdraw from European affairs. Concerned with domestic legislation, preoccupied

154 For the problems that plagued the conference during the last week of May, see, for example, memorandum on disarmament and security, 1933-1936, Box 23, Davis Papers; also see F.R., 1933, I, 172-182. For the administration's decision not to press the neutrality issue, see Nixon, F.D.R., I, 198. For French policies on inspection and enforcement, see, for example, General Instructions of the Council of Ministers, May 2, 20, 1933, D.D.F., I, III, 401-402. For Britain's failure to respond constructively to Davis' proposal, see memorandum by A. W. A. Leeper, May 29, 1933, D.B.F.P., II, V, 282-284.
with internal recovery efforts, upset by Europe's failure to react gratefully to American initiatives, and sensitive to public opinion, they were not inclined to attack systematically the sources of European instability. Such sentiments were intensified by the pervasive discord over international economic issues and by the acrimonious developments at the London Economic Conference. 155

By early June, Davis recognized that the administration was deferring to public opinion and retreating from its advanced position. He argued against such a course of action and he urged Hull to launch a publicity campaign to educate the American public. He emphasized that the nation's willingness to consult and to reinterpret its neutrality policies would not lead to war. 156 Amongst his European colleagues, Davis stressed that the Senate's refusal to endorse a discretionary arms embargo did not undermine the impact of his previous statements. While unable to convince the French to participate in five-power talks including Germany, he did persuade Daladier to join the British and

155 For indications and intimations of the American intent to withdraw, see, for example, de Laboulaye to Paul-Boncour, May 10, 1933, June 1, 1933, D.D.F., I, III, 465-466, 616-621; Bullitt to Roosevelt, July 8, 1933, Nixon, F.D.R., I, 291-294; also see Divine, "F.D.R. and Collective Security," 57-59. For the discord over economic issues, see Chapter VIII, pp. 517-548.

156 Davis to Roosevelt, no date [June, 1933], Box 43, Davis Papers; Davis to Hull, June 15, 1933, ibid.; also see Allen Dulles (one of Davis' key assistants) to Walter Lippmann, May 30, 1933, ibid.
himself in a comprehensive review of their respective positions.157

In an all day conference at the Quai d'Orsay on June 8, Daladier presented French policy. He explained that France was willing to disarm and for the first time he explicitly enumerated the type of reductions he envisaged. Before beginning to disarm, however, he insisted on a trial period during which the German Reichswehr had to be transformed and established on a uniform militia basis. During this same probationary period, Daladier emphasized, effective regulatory machinery would have to be created. If at the end of the trial period—approximately three years—it was found that Germany had respected her commitments and had not rearmed, then France would be willing to make some actual reductions. During the trial period, however, France would agree to reduce only the number of her military effectives and to stay within her existing arms limits. The French Premier also stressed that as a result of Germany's great industrial capacity, it was essential to institute an effective supervision of the manufacture of and trade in arms. 158

157 Paul-Boncour to de Laboulaye, June 1, 1933, D.D.F., I, III, 611-612. For Davis' efforts to convene five-power talks, see Eden to Simon, May 26, 27, 1933, D.B.F.P., II, V, 276-278; Davis to Hull, May 27, 1933, June 2, 1933, F.R., 1933, I, 165-166, 182; also see Davis to Hull, June 5, 1933, ibid., 183-184.

158 See memoranda of conversations at Quai d'Orsay, June 8, 1933, Box 9, Davis Papers; record of a conversation held at the Quai d'Orsay, June 8, 1933, D.B.F.P., II, V,
For the most part, Davis was encouraged by his talks with the French. On June 15, he informed the State Department that he was "more hopeful than ever as to the ultimate success of the Disarmament Conference." What heartened Davis was the French emphasis on supervision and control rather than on security and guarantees. This coincided with Roosevelt's inclination to establish effective enough controls to prevent all clandestine rearmament. Davis also found France's readiness to reconcile differences with Italy most satisfying. Thus, there still seemed to be some basis for optimism, especially since the French, for the first time, appeared ready to specify their future reductions.  

But this did not obscure the many problems that still had to be solved. The administration still opposed French demands for the regulation of the manufacture of arms and were upset by France's renewed stress on budgetary limitations. Furthermore, Daladier's references to the need for sanctions in case of violations was a matter still to be resolved if the French made this a prerequisite for an accord. Finally, Davis recognized that unless Daladier

337-348; memoranda of conversations at the Quai, June 8, 1933, D.D.F., I, III, 676-691.

159 See Davis to Secretary, June 15, 1933, F.R., 1933, I, 192-193; also Davis to Secretary, June 5, 8, 1933, ibid., 183-184, 191. Roosevelt restated his attitudes on control to de Laboulaye on June 7. See de Laboulaye to Paul-Boncour, June 8, 1933, D.D.F., I, III, 670-671. For Davis' expressed satisfaction (in June) with the French emphasis on controls, see record of a meeting at the Quai d'Orsay, September 22, 1933, D.B.F.P., II, V, 624.
acquiesced to some substantive disarmament during the trial period, there was likely to be an impasse between French and German demands.

For the most part, matters were left in abeyance during the summer of 1933. Davis returned to the States to discuss future plans. In September, he travelled to Europe for one last effort to solve the complex issue. Before his departure Roosevelt emphasized that "Controlled disarmament and international supervision form the only answer." At press conferences, the President reiterated his opposition to German rearmament and expressed sympathy for France's determination not to disarm unless assured that other nations were not moving in the opposite direction. Accordingly, Davis told the British that despite considerable opposition in the United States, the President was prepared to accept, in principle, French proposals for supervision.

Back in the mainstream of European politics, Davis worked hard to reconcile the differences between France, Britain, Italy, and Germany. During the late summer, the French position had become somewhat more flexible; but, by September, it was again hardening in response to developments.

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160 See the various memoranda of the conversations at the Quai d'Orsay, June 8, 1933, listed in footnote 158. Also see Davis to Secretary, June 16, 1933, F.R., I, 194-195; Phillips to Davis, June 17, 1933, ibid., 195-196.

161 Roosevelt to Davis, August 30, 1933, ibid., 209-210; Nixon, F.D.R., I, 374-376; Simon to Osborne, September 6, 1933, D.B.F.P., II, V, 574.
in Germany. Both the British and the Americans recognized, nonetheless, that Daladier was extremely conciliatory and desirous of an accord. The French no longer talked of mutual assistance treaties even to the British. Instead they discussed the problems of supervising a disarmament accord and of enforcing its provisions. Though Daladier, Paul-Boncour, and Massigli often raised the issue of sanctions in case of German violations of a disarmament treaty, they seemed anxious to moderate their demands so as not to antagonize the British. Consequently, their requests were usually imprecise and they frequently acknowledged that they would be satisfied with some general formula obligating the signatories to enforce the execution of an accord. The French remained exasperated by Britain's reluctance to endorse the need for strict supervisory machinery. On this issue, Britain was dragging her feet behind the United States. In fact, the French do not seem to have expected anything concrete from the Americans in the way of sanctions. They realized that Roosevelt had tried to satisfy French needs

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163 For Britain's reluctance to make specific commitments with regard to supervision, see, for example, D.B.F.P., II, V, 376-377, 602-603, 608-610, 614; memorandum of conversation between Daladier and Davis, September 19, 1933, F.R., 1933, I, 223-224.
on neutrality and control. 164

But Davis persisted in trying to get the French to come to terms with Germany. He especially wanted them to accept some arms reductions during the first phase of the accord, that is, during the so-called trial period. His efforts to mediate the differences failed, however, when the Germans began demanding some sample weapons during the first period and when they began objecting to a trial period in principle. Though the French were not unwilling to make some additional concessions, they were unalterably opposed to eliminating a trial period and to allowing immediate German rearmament. As a result of Daladier's refusal to accept Hitler's escalating demands, Germany left the conference. 165

This marked an important turning point in American policies toward France and toward European stability. American officials increasingly came to believe that the American public was opposed to any involvement in European political affairs. Accordingly, Roosevelt instructed Davis to issue a statement disclaiming his participation in

164 Memoranda of conversations between Davis and Daladier and between Davis and Paul-Boncour, September 19, 1933, F.R., 1933, I, 220, 223; also see memorandum by Eden, September 19, 1933, D.B.F.P., II, V, 600.

165 For Davis' efforts to mediate a solution, see F.R., 1933, I, 205-273; also see appropriate memoranda in Boxes 9, 23, Davis Papers. For developments at Geneva, also see D.B.F.P., II, V, 566-682.
Europe's political problems. In the weeks that followed, the major aim of American policy was to dissociate the United States from any responsibility, however indirect, to support French policies vis-a-vis Germany. In particular, policy makers did not wish to be linked to a French disarmament ultimatum that might be a prelude to a preventive attack. Not surprisingly, then, there was much relief in the State Department when Davis decided to return home in November.

By the middle of October it was evident that Roosevelt had decided to focus his energies on domestic reform and reconstruction. With the countryside in a state of unrest, with unemployment widespread, with the bankers in disrepute, and businessmen in despair, the administration probably did not wish to risk a divisive debate over foreign policy. Assuming that the nation's security was not threatened by developments in Europe, the President decided to acquiesce to the isolationist sentiment overrunning the country. He was no longer interested in trying to reconcile the imperatives of domestic recovery with the exigencies of European

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166 For Roosevelt's instructions, see memorandum of trans-Atlantic telephone conversation, October 16, 1933, F.R., 1933, I, 173-174; for the aims and fears of policy makers, see Dulles to Wilson, November 8, 1933, in Wilson, Disarmament and the Cold War, 43-44; memorandum by Dulles, October 14, 1933, ibid., 40; memorandum by Dulles, October 27, 1933, Box 23, Davis Papers; Hooker, Moffat Papers, 106-108; Wilson, Diplomat Between Wars, 295-296; Hull to Davis, October 21, 1933, F.R., 1933, I, 296; Davis to Hull, October 22, 1933, ibid., 197.
stability. He had come to believe, at least temporarily, that it was possible to bring about internal economic recovery regardless of political and economic conditions in Europe. It was no coincidence that shortly after Davis' statement of disinterest in Europe's political affairs, Roosevelt embarked upon his full fledged experiment in manipulating the gold content of the dollar. 167

By the end of 1933, the struggle for European stability, as far as American officials were concerned, was a thing of the past. With the nation's financial power emasculated by the depression, policy makers could find no alternative means of exerting a stabilizing influence in European affairs. The new object of American policy was to insure America's isolation from a European war. Consequently, all attempts to exert pressure in behalf of a moderate disarmament accord ceased. 168

Ironically, American efforts to participate constructively in the struggle for European stability came to an end when that struggle had greater ramifications for American security than ever before. There was relatively little recognition that German rearmament, Nazi aims, and French internal

167 See, for example, Herbert Feis, 1933: Characters in Crisis (Boston, 1966), 279-306.

168 See, for example, Hull to Davis, October 28, 1933, F.R., 1933, I, 299-300; Phillips to Dodd, December 11, 1933, ibid., 331.
dissension had created an entirely new situation in Europe. There was little understanding that the decision to withdraw totally from Europe's political affairs when linked with other decisions on the war debts, on the gold standard, and on currency stability had wrecked Hérriot's and Daladier's efforts to establish a common front of the three great democracies. In France, "Even elements trustful of the United States concluded that there would be no common front against German aggression . . . ." As a result, the French began a futile and divisive search for a new foreign policy. With the United States isolated and France divided, a vacuum was created that invited Hitler to introduce a new concept of European stability based on German hegemony. Belatedly, in the late 1930's, both the French and Americans realized that their own security was irreconcilable with Nazi objectives. A new struggle to build a new and more stable Europe was then inevitable.

169 Feis, 1933, 304-305.
CHAPTER X

CONCLUSION

Upon taking office in 1921, Republican officials rejected the League of Nations as an institutional means of fostering stability in Europe. But they did not discount the importance of European political tranquility and economic stability to American well-being. Their objective was to contribute to European reconstruction without sacrificing the nation's freedom of action and without embroiling the United States government in Europe's chronic political squabbles. The strategy of Republican policy makers and their allies in the big business and banking community was to exert America's influence through the application of economic and financial power. By so doing, they hoped to be able to exert a stabilizing influence in Europe without incurring strategic commitments and without offering political guarantees.

They understood that as a result of American financial intervention the United States would be influencing, at least indirectly, the political climate of Europe. They realized that international financial questions were too
closely intertwined with political issues for fine distinctions to be made between the economic and political spheres. In fact, the recognition that international politics and international economics were inseparable gave rise to the assumption that political tranquility would in part follow and in part reinforce the establishment of sound financial and economic conditions.

Significantly, there was a fairly widespread understanding of the economic and financial prerequisites of European stability. The German economy had to be reintegrated into the world economy and the inflationary spiral had to be terminated. To accomplish this, Germany's reparation obligations had to be scaled down and the mark had to be stabilized. Furthermore, American capital had to be mobilized for the stabilization of all European currencies and for the reconstruction of devastated industries. War debts had to be reduced, if not cancelled. Some type of equilibrium had to be maintained in the balance of international payments. And finally, arms limitation accords had to be negotiated in order to relieve budgetary problems, to foster exchange stability, to relax political tensions, and to promote confidence.

Though many business leaders, bankers, and government officials recognized many of the essential ingredients of European stability, a gap emerged between the conceptuali-
zation of diplomatic objectives and the implementation of foreign policies. Both internal and external factors were responsible for this. On the internal side, there was a whole matrix of variables related to partisan politics, domestic economics, ideological considerations, and institutional prerogatives that infringed upon the foreign policy making process and that caused chronic inconsistencies between means and ends. In other words, fostering a stable Europe was an important diplomatic objective, but it was just one of many objectives of Republican officials. They were just as deeply interested in maintaining a balanced budget, preventing inflation, lowering taxes, winning elections, and preserving a private market economy. When there was a clash between those policies necessary to bring about a stable Europe and those policies considered essential for the achievement of one or another of these other internal goals compromises had to be made. This often meant the postponement or subordination of foreign policy objectives.

Thus, the formulation of American policies on such issues as war debts, loans, trade, reparations, and disarmament must be understood in the context of the domestic as well as the international scene. American war debt policy was influenced not only by foreign policy considerations but also by fiscal imperatives and political expedients. Loan
policy was motivated by a desire to finance European reconstruction; but ideological considerations, quarrels between exporters and bankers, and political factors also influenced the attitudes and actions of American officials who were guiding the outflow of American capital. Likewise, commercial and tariff policies were affected by local politics, sectional logrolling, parochial interests, and export-oriented businessmen. The commercial practices of the United States were not simply molded by those who understood the necessity of maintaining an equilibrium between in-payments and out-payments. Reparations policy, too, was influenced not only by a desire to reconstruct Germany, but also by a desire to remain officially aloof from European political settlements. Finally, monetary policy was aimed at fostering foreign exchange stability and at facilitating the success of foreign currency stabilization plans, but it could not escape the impact of inflationary and speculative tendencies in the United States.

The diversity and complexity of internal factors influencing decision making generated many blatant inconsistencies in American foreign policies. For example, policy makers exerted great pressure in behalf of reparation reductions. But they were reluctant to make commensurate concessions on the war debts. Similarly, American officials were anxious for European nations to adopt the unconditional most-favored-nation clause as a prerequisite for the peaceful
and orderly expansion of American and world commerce. But they failed to reduce American tariff barriers. As a result, the customers and debtors of the United States found it increasingly difficult to buy American goods and to pay their debts. Likewise, American loans resuscitated the German economy. But at the same time, the informal American loan embargo impeded the stabilization of the franc. These inconsistencies often made foreigners as well as internationally-oriented Americans wonder to what extent the United States really was interested in European stability.

On the external side, France presented the major impediments to the creation of a stable Europe according to American criteria. France equated European stability with German economic weakness and military impotence. Most Frenchmen desired to extract enormous reparation payments and to maintain France's huge superiority in armaments. Moreover, they opposed the unconditional most-favored-nation clause as practiced by the United States. To justify their own policies the French exploited the contradictions in American policies. Why reduce reparations when war debts still had to be paid? Why disarm without sufficient guarantees? Why eliminate the two column tariff when American tariff walls remained insurmountable?

The task of American policy makers was to iron out the inconsistencies in American policies in such a way as to best induce the French to accept the American vision of
European and international stability. This was no easy process given the multiplicity of political and economic pressures at stake. Nevertheless, during the 1920's considerable energy was expended on devising appropriate means to accomplish the elusive objective. Secretary of State Charles Evans Hughes recommended the expert committees as an effective instrument for settling the reparations controversy. In these committees, American financial influence could be brought to bear without directly involving the United States government and without generating a caustic internal debate regarding the nation's participation in European affairs. Likewise, the bipartisan war debt commission and the capacity formula were efforts to depoliticize the war debts issue. By so doing, Treasury officials hoped to convince the American people and the United States Senate that the Allied obligations were being treated in a scientific manner to accommodate both the domestic fiscal needs and the foreign market requirements of the United States. Similar efforts were made to devise "productive" criteria for American foreign loans that would be accepted by bankers but that would not impose any new responsibilities on the policy makers themselves. Furthermore, exporters, bankers, economists, and some government officials spent considerable time trying to figure out how capital exports, invisible imports, open market operations, and the scientific-flexible
tariff all might be utilized to maintain enough equilibrium in the balance of international payments so that currencies would remain stable and the international economy viable.

Partly as a result of these efforts to reconcile domestic American pressures with international imperatives, a precarious stability returned to Europe during the 1920's. Currencies were stabilized. Reparation and war debt agreements were signed. European industries were revitalized. Armament expenditures were reduced somewhat. And French anxieties over security were partially mollified by the consummation of the Locarno treaties.

Beneath the surface, however, there remained nagging problems and ominous signs. The Dawes Plan annuities were beyond Germany's capacity. The pound was overvalued and the franc undervalued. The flexible provisions of the Fordney-McCumber Tariff Act were not used to lower American tariffs. Arms expenditures began mounting after 1926. Incendiary political questions regarding the Rhineland occupation, the eastern borders of Germany, and Allied disarmament were left unsettled.

American officials were not unaware of these portentous problems. Upon assuming office in 1929, Hoover and his colleagues did not intend to disregard these questions. They hoped that the reparation and war debt issues eventually would be resolved by the commercialization of Allied and
German bonds in the world's financial centers, especially in the United States. In the meantime, the discharge of World War I obligations was to be left in the hands of the directors of the Bank for International Settlements with whom private American bankers would cooperate. Though agricultural tariffs were to be increased, the scientific provisions of the tariff act were to be reinvigorated, thereby insuring a better balance in the nation's merchandise trade. Moreover, equilibrium in the international balance of payments would be maintained through the continued increment in tourist expenditures and the expansion of credit facilities. In addition, new disarmament accords would relieve budgetary problems, generate capital for productive uses, and promote better political relations. Finally, some strengthening of the Kellogg Pact would confirm America's interest in preserving world peace and thus help to insure world stability.

Unfortunately, two imponderables intervened to upset the calculations and expectations of Republican policy makers, American businessmen, and international bankers. First, the worsening of the depression undermined America's financial leverage. Second, the breakdown of political stability inside Germany, the growth of Naziism, and the commensurate increase in French demands for security transformed the political climate of Europe and reinforced Hoover's inclination to remain free of political commitments in the
Old World. Given the distress in rural America, the widespread unemployment in urban America, and the accompanying demands for federal relief, it became more difficult than ever before to reduce the war debts and thereby juxtapose an increased burden of taxation onto the American people. Moreover, with the American banking system on the brink of disaster, neither government officials nor Wall Street financiers were anxious to incur new commitments to solve Europe's financial problems. Finally, with the deterioration of business conditions, the precipitous decline in prices, and the multiplication of bankruptcies, it was more and more difficult for the Hoover administration to resist protectionist demands or to apply the flexible provisions of the Smoot-Hawley tariff.

Despite the intensity and diversity of internal pressures, Hoover and his advisers struggled to reconcile domestic and foreign objectives. The flotation of the Young bonds, the moratorium on inter-governmental debts, the establishment of the standstill agreements, the pre-occupation with the gold standard and currency stability, the emphasis on arms limitation accords, and the slow changes in American consultation and neutrality policies demonstrated the concern of Republican officials with the European situation. This concern, of course, did not stem from altruistic considerations. It was motivated by the realization that
domestic recovery might be promoted by the restoration of European stability. It was limited, however, by the reluctance to incur obligations and assume sacrifices that might prove self-defeating. Thus, policy makers had to weigh carefully the value of European stability to American self-interest and they had to devise policies that were commensurate with their estimation of the importance of this relationship. Two nagging questions remain: Could they have done more economically and financially to promote European stability? Should they have done more politically and strategically?

During the early and middle 1920's, American officials, bankers, and businessmen played a fairly constructive role in facilitating a temporary reparations settlement, in scaling down war debts, in limiting expenditures on armaments, and in fostering the stabilization of European currencies. Unfortunately, however, after having contributed to the temporary resolution of some of the most pressing post-war European problems, little was done in the late 1920's to lay the foundations for future growth and permanent stability. In retrospect, at least, it seems that the Coolidge administration could have made greater concessions in the areas of tariff adjustments and war debt reductions to accommodate the needs of the European economy. With domestic taxes substantially reduced, with the public debt declining, and with the appearance of prosperity, a
greater effort could have been made to educate the American public about the possible dislocating impact of American tariff and debt policies.

The great failure of Republican officials, then, rested in their reluctance to initiate and to proceed with additional readjustments in the years 1927, 1928, and 1929. Naturally, there were inhibiting factors. Political considerations, senatorial objections, protectionist inclinations, and the speculative mania made constructive cooperation difficult. But further progress might have been made if there had been courageous and farsighted leadership.

Once the depression intervened and transformed the domestic financial and political environment, Hoover had much less freedom to maneuver. He confronted real dilemmas in trying to reconcile domestic and foreign objectives, in trying to find adequate means to accomplish diplomatic goals. He realized, for example, that the Smoot-Hawley tariff had serious shortcomings; but he accepted it for fear that a veto might prolong the congressional debate and exacerbate the terrible uncertainty that already prevailed. Subsequently, though the nation accepted the announcement of the debt moratorium with real enthusiasm, Hoover was unable to get Congress to recreate the War Debt Commission. Moreover, as European political instability increased, the American public became more and more reluctant to support the efforts of the administration, and especially those of the American delegation, to play an active role in the negotiations at
the Geneva Disarmament Conference. Given the circumstances, internal and external, political and economic, Hoover went about as far as could have been expected to contribute to European economic and financial stability.

Yet Hoover was very reluctant to intervene in the worsening European political situation. He and many officials in the State Department agreed that at least some of Germany's grievances were justified and therefore needed to be redressed. Given France's intransigence, Hoover believed it wise to remain uninvolved, at least politically, in disputes over matters that apparently had no direct bearing on American national security. In the early 1930's it was possible to envision a European war erupting over such issues as reparations, disarmament, and Germany's eastern borders. The President obviously felt that American self-interest would not be served by becoming embroiled in a conflict over such matters.

Though European peace and stability were important to American economic well-being, they were not so important as to justify official and strategic involvement, especially when no threat to America's vital interests was being posed. In the incendiary atmosphere of the early 1930's, it was not French security in the geographic sense that was in question, but France's financial and political predominance on the European continent. Hoover's antipathy toward French requests for American support stemmed, at least in part, from
his belief that he was being called upon to bolster an inherently unstable Treaty system and from his conviction that the French conception of French security meant chronic European instability. Why link America's armed might to such a conception? Why guarantee an unstable order, especially when the rectification of real abuses might actually contribute to stability?

But as European conditions deteriorated further it should have become clear that France could not make additional concessions without assurances of support from her former Allies should Germany overstep her legitimate demands. In fact, at this point in time, a basic contradiction emerged in American diplomatic goals. By 1932-1933, it was no longer possible for the United States to contribute to European stability while remaining politically aloof. Policy makers had to decide which of the two goals was the most important. Hoover and Stimson, however, refused to make a clear cut decision. They still grappled to find means of reconciling the two objectives.

Roosevelt assumed office at a critical moment. He perceived the alternatives before him. He led the French to believe that he was about to embark upon a course of collaboration. He even showed signs of moving in this direction. But then he pulled the rug out from under them. He chose to defer to the nationalistic sentiments of the American people,
to accede to the demands of the American Senate, and to concentrate on domestic recovery. As a result, American policy was no longer to contribute to European stability.

Roosevelt, of course, was not alone responsible for this course of action. He both acquiesced to and reinforced the "isolationist impulse." His decisions, however, foreshadowed a critical turning point in American and world history. By allowing the United States to become divorced, at least temporarily, from the struggle for European stability, he reversed twelve years of Republican efforts to maintain a viable equilibrium on the European continent.
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