

AFD Ep 368 Links and Notes - April 1921: The Economic Consequences of the Peace Finally Happen...Or Do They? [Bill/Rachel] - Recording April 25

- Calendar notes: April 27, 1921: "The Allied reparations commission announces that Germany has to pay 132 billion gold marks (\$33 trillion), in annual installments of 2.5 billion." This was despite the already globally famous 1919 book "The Economic Consequences of the Peace" against the severe reparations, written by John Maynard Keynes, which vaulted him to fame.
 - Criticism: *Étienne Mantoux, a French economist, was the harshest contemporaneous critic of Keynes. In his posthumously published book (post-1945), The Carthaginian Peace, or the Economic Consequences of Mr. Keynes, Mantoux said that Keynes "had been wrong on various counts, especially with respect to his predictions about Germany's coal, iron and steel production ... and its level of national saving"*
 - John Foster Dulles later reversed positions on the reparations clauses (which he wrote)
- Did Germany really bear the brunt of the economic costs of reparations? Or did they basically manage to avoid most of the planned reparations demanded in 1921, thus rebuilding their own economy (which hadn't been in the battle zone, although they had lost significant territory in the peace with France and Poland) while the European Allies struggled to rebuild in the absence of German payments & trade? Certainly the domestic political perception in Germany was that the reparations had been crushing & unfair, but even the German government's own very high estimates put their actual payments (including in-kind payments) at about half the amount set in 1921. Some outside estimates not only place the figure at a fraction of this but also suggest that Western (mostly US) financial assistance in the half-decade after the war was so great that Germany actually netted more money on balance than it sent away!
 - Other considerations: Germany had a bad fiscal situation due to wartime borrowing without tax hikes, not due to reparations
 - Germany cut its defense spending dramatically not just by ending the war but by shrinking its military to a token force, which should have saved a lot of money for use on reparations
 - Hyperinflation makes it difficult to assess reparations, which was kind of the point
 - Also, should we be evaluating the amount paid in reality or the amount demanded? In reality, there is a lot of evidence suggesting that there was not much economic damage (if any) to Germany from the reparations actually paid, but if they had indeed been forced to pay the rest expected, especially through 1988, was that even feasible or possible?
- Did the European Allies need reparations to pay off US debts? (Or just reconstruction & punishment?)
 - In September 1915, over a year into the war, the British & French governments jointly borrowed \$500 million without collateral from the private credit markets in the United States, led by JP Morgan & Co (newly under "Jack" Morgan Jr.) and numerous other investment bankers (including Charles Dawes, see below), bonded over 5 years (i.e. to late 1920) at 5%. It was the largest loan in world history at that point. Rail tycoon James J. Hill of the Great Northern Railway system said it was the official transition point of the rising US "from being a debtor to a creditor nation." (Side note: Russia had been excluded from the deal due to its Tsarist anti-Semitism.)
https://en.wikipedia.org/wiki/Anglo-French_Financial_Commission The money from that loan was mostly used by JP Morgan & Co itself to make material purchases within the United States for the Allied war effort in Europe. The British

government was trying to avoid converting pounds to dollars and moving pounds out of the country physically, so dollar to dollar transactions were better. John Maynard Keynes took over oversight of US purchases after JPM & Co made a major screwup in late 1916. [[Britain, America and the Sinews of War 1914-1918 \(RLE The First World War\) By Kathleen Burk, 1985](#)]

- The British had ended up for various reasons (private expat networks and just generally better finances) covering basically all the US purchases by the other major European Allies – Italy, Russia, and even France by 1916.
- https://en.wikipedia.org/wiki/World_War_I_reparations
 - France sought harsh reparations to suppress Germany permanently but also to repair huge damage to northeastern France from its occupation & entrenchments
 - Britain wanted some reparations but less than virtually anyone else was willing to accept. They wanted a strong German trade partner but also hadn't been occupied like parts of France or Belgium.
 - The US government was against reparations, but Wilson was largely out of the picture when decisions were made and by early 1921 he was out of office
 - Germany repeatedly defaulted (failed to deliver) in-kind reparations or gold reparations under both the preliminary figures from before April 1921 and through the end of 1922, prompting the UK, France, and Italy to occupy the Ruhr industrial area for more than 2.5 years until they were withdrawn under the Dawes Plan of 1924 (see below)
- Full text of the Reparations sections of the Treaty of Versailles:
https://en.wikisource.org/wiki/Treaty_of_Versailles/Part_VIII
 - Article 233: “The findings of the [Reparation] Commission as to the amount of damage defined as above shall be concluded and notified to the German Government on or before 1 May 1921, as representing the extent of that Government's obligations.”
 - Annex IV: 6. As an immediate advance on account of the animals referred to in paragraph 2(a) above, Germany undertakes to deliver in equal monthly installments in the three months following the coming into force of the present Treaty the following quantities of live stock:
 - (1) To the French Government:
 - 500 stallions (3 to 7 years);
 - 30,000 fillies and mares (18 months to 7 years), type: Ardennais, Boulonnais or Belgian;
 - 2,000 bulls (18 months to 3 years);
 - 90,000 milch cows (2 to 6 years);
 - 1,000 rams;
 - 100,000 sheep;
 - 10,000 goats.
 - (2) To the Belgian Government:
 - 200 stallions (3 to 7 years), large Belgian type;
 - 5,000 mares (3 to 7 years), large Belgian type;
 - 5,000 fillies (18 months to 3 years), large Belgian type;
 - 2,000 bulls (18 months to 3 years);
 - 50,000 milch cows (2 to 6 years);
 - 40,000 heifers;
 - 200 rams;
 - 20,000 Sheep;
 - 15,000 sows.
 - The animals delivered shall be of average health and condition.

- Nominally the other Central Powers were supposed to pay reparations too, but Austria and Hungary (now separate) were rump states, Bulgaria was very poor, and the Ottoman Empire had now collapsed and its successor state was at war with the Allies (plus the Ottomans had ceded huge areas of territory south of Anatolia)
- American intervention to sort out reparations
 - The Dawes Plan of 1924, brokered by Chicago-based American banker and the first US Budget Bureau Director Charles G. Dawes, who would be elected Vice President of the United States later that year, would reorganize German central banking and government finances, backload the reparations schedule instead of front-loading it, and provide Germany with \$200 million in bridge loan financing from Wall Street. The bridge loans allowed Germany to rebuild its economy faster and thus build more capacity to pay reparations. Unfortunately the plan also cut off German in-kind coal reparations to France, which had experienced significant destruction of its coalfields during the occupation, and this slowed the regrowth of France's steel industry relative to Germany's, which became important for WWII. https://en.wikipedia.org/wiki/Dawes_Plan
 - The Young Plan of 1929 created a more permanent plan for handling German reparations, mapping out payments through 1988, but it triggered a political crisis in Germany that collapsed the plan (and the economy was running into problems again after a good period under the Dawes Plan years and with the arrival of the Great Depression's ripple effects in many financial markets). President Hoover put a moratorium for one year on reparations. A final modest lump sum payment was agreed to (and made??) in mid-1932, ending German reparations less than half a year before Hitler came to power. West Germany in the mid-20th century made some further payments on some outstanding debt obligations resulting from Hitler's refusal to repay Allied bridge loans to help with the reparations and reconstruction (and reunified Germany made some payments beyond that in the 1990s).
- Don't forget comparison to 150th anniversary of Franco-Prussian War and the war reparations costs paid in gold with help from 55 major banks across Europe plus the then-private Bank of France: https://en.wikipedia.org/wiki/Adolphe_Thiers The following passages are quotes from Wikipedia's article on Adolphe Thiers but are sourced in turn to the exhaustive 1983 biography of Adolphe Thiers by French historian René de La Croix de Castries
 - *When he arrived at the hotel, he met the Prussian Field Marshal Moltke, who told him, "You are lucky to be negotiating with Bismarck. If it were me, I would occupy your country for thirty years and in that time there would be no more France." At the first meeting, Bismarck demanded the province of Alsace and eight billion francs. Thiers insisted that France could pay no more than five billion francs, and Bismarck reduced the payment, but insisted that Germany must have part of Lorraine and Metz as well. The talks were long and stressful; at one point Thiers, exhausted, broke down and wept. Bismarck helped him to a sofa, covered him with his overcoat, and told him, "Ah, my poor Monsieur Thiers, there is no one but you and I who really love France." The negotiations resumed, and Thiers conceded Alsace and part of Lorraine, in exchange for a reduction in the payment. He told the other French delegates, "If we lose one or two provinces it is not of great importance. There will be another war when France will be victorious, and we will get them back. But the billions we give to Germany now we will never recover."*
 - *Once the Commune had fallen to the French Army, Thiers turned his attention to liberating French soil from German occupation. He had lost Alsace and part of*

Lorraine, with a total population of 1.6 million of the 36.1 million inhabitants of France; the government had a deficit of nearly three billion francs, France owed Germany five billion francs under the terms of peace, which had to be paid largely in gold; and the destruction during the Paris Commune required 232 million francs to repair. Thiers used his considerable financial skills to find the money. He borrowed money from the Bank of France and the Morgan bank in London, and in June 1871 he issued bonds, which brought in over 4 billion francs. In July 1871, Thiers was able to pay the first five hundred million francs of the payment to Germany. In exchange, as they had promised, the Germans withdrew their troops from three departments

- *His [...] priority was to rid the country entirely of the German occupation of the east and north of France. By the end of September 1871, after the payment of 1.5 billion francs, six more departments were liberated, but twelve were still occupied, until the debt could entirely be paid off. The sum amounted to one sixth of the entire budget of the Republic.*
- *The primary goal of Thiers in 1873 was to pay off the debt to Germany, to liberate the last French territory occupied by the Germans. France still owed three billion francs, more than the national budget, with final payment due in August 1875. He made agreements with the major fifty-five banks of Europe, and issued bonds which, based on the good credit of France, brought in more than the amount required. Thiers signed a new convention with Germany on 15 March 1873, calling for the Germans to leave the last four French departments they held, [...] by July 1873, two years ahead of schedule.*