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LOANS OF DISASTER:

AMERICA'S WORLD WAR I LOANS

AND

THE DISASTER THEY CREATED

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Loans of Disaster: America's World War I Loans and the Disaster They Created

America emerged from World War I with the potential of becoming the dominant power in the world. However, it was reluctant to fill the leadership void in the international community, desiring instead to return to an isolationist existence. Historian William E. Leuchtenburg explains that up to the 1920s, America had only intervened in foreign affairs "when national security or extensive economic interests were involved."[1] However, as Leuchtenburg further notes, with the United States having the best economy in the world, it was unavoidable and inevitable that America had to deal with other nations.[2] This was especially true because the economies of all of the war-torn nations in Europe were in shambles. As a result, the United States was forced to deal with them warily in order to collect about ten billion dollars that it loaned to Allied nations for the war effort and for their reconstruction costs afterwards.

While America worked to recover its loans, its leaders did not wish to deal with Europe in any manner, even refusing to import more European goods in order to improve the economies of European nations so that they could pay their loans faster. Instead, the United States, which was not heavily dependent on foreign trade, consistently increased protective tariffs, designed to foster the sale of American products and also to prevent a flood of foreign goods from entering the American marketplace. Americanism remained the priority of America, at the expense of Europe. In part, America refused to help Europe's economy to recover because many of the Allied nations, whose citizens were drowning from deflation, were trying to renege on their loan payments to the U.S. The

[1] William E. Leuchtenburg, *The Perils of Prosperity: 1914-32,* 2d ed. (Chicago: University of Chicago Press, 1993), 106

U.S. began hearing assertions that the wartime loans should be seen as its contribution to the war effort, since it played a role in the war. But, America refused to budge on this issue.[3]

Not until the French invasion of the German Ruhr region in 1923 did America feel a need to help Europe recover. France had invaded the Ruhr because German obstructionists refused to send part of a reparations payment to France, in accordance with the terms of the Versailles Treaty. For the most part, Germany refused to pay because they could not afford to pay. France was relentless nonetheless, in seeking money from Germany because it had to repay its own wartime loans to the United States, loans that America refused to absorb. Notwithstanding America's negative image of Europe in the 1920s, America realized that it had to intervene in European fiscal matters in order to recover its World War I loans.

America's new willingness to help Europe recover resulted in the creation of the Dawes Plan in 1924. This plan reduced reparation payments that Germany was forced to make for its coerced admission of guilt in having started World War I. Payments were put on a "sliding scale," with the payment amount depending on Germany's realistic ability to pay.[4] To further ease Germany's ability to pay reparations, America further advanced its own status as a creditor nation, by giving new loans to Germany so that they could meet their commitments. Historian Ellis Hawley explains that the Dawes plan,

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[2] Ibid., 108.
[3] Ibid., 110
[4] Ellis W. Hawley, *The Great War and the Search for a Modern Order*, 2d ed. (Prospect Heights: Waveland Press, 1997), 52.

which lowered Germany's reparations payments "laid the foundation for the American-financed German [economic] boom of the middle and late 1920s."[5]

However, by 1928, many American investors, who helped to stabilize Germany's economy from the brink of collapse, lost interest in the investment possibilities Germany had to offer. Instead, they diverted their money back to their homeland.[6] With the Great Depression that began the following year, all overseas investments stopped, Germans loans were called in, followed by the collapse of the international economy. Repayment of loans to America had become impossible for the international community, since it required America's leadership role for the repayment system to function, a role America was no longer in a shape to play.[7]

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[5] Ibid.
[6] William E. Leuchtenburg, *The Perils of Prosperity*, 112.
[7] Ibid.

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