

World War I Economic Aftermath and Legacy

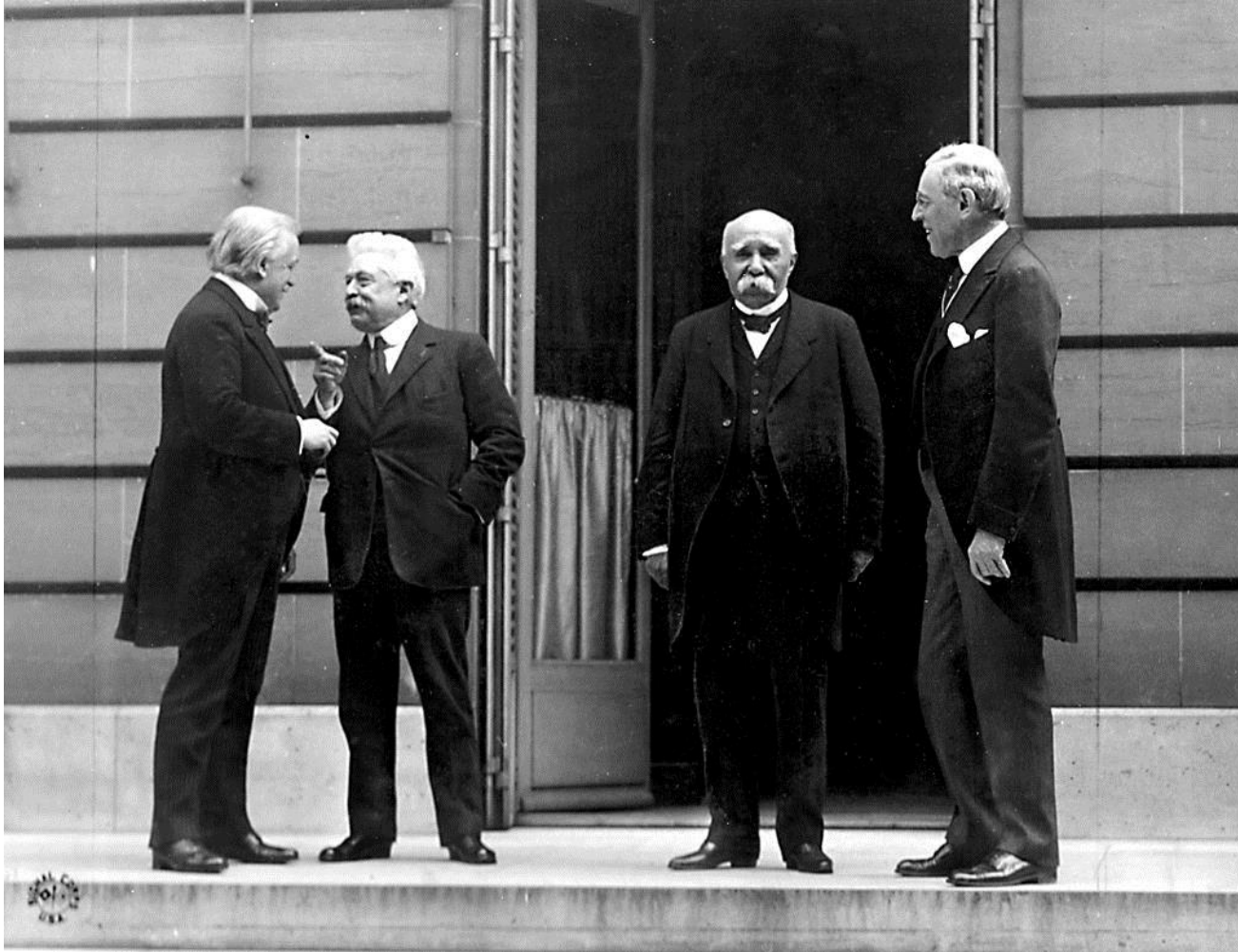
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Paris Peace Conference, May 1919: “The Big Four”



Left to right: David Lloyd George, Vittorio Orlando, Georges Clemenceau, Woodrow Wilson.

Chronology of German Reparations

Background

Prussia paid \$80m in “tribute” and “contributions” to France in 1808

France paid \$1b indemnity to Prussia after Franco-Prussian War of 1870-71

Controversy surrounding reparations

Pre-Paris

Wilson’s economic planks for peace

Lord Cunliffe suggests \$100b, perhaps even \$200b!!!

At Paris, Jan.-June, 1919

British will agree to nothing less than \$55b

Americans suggest \$10-12b, not more than \$24b

French waffle, reparations seen as bargaining chip with Americans

Compromise

Reparations Commission to decide by May 1921

Interim payment of \$5b by Germans – but only \$2b paid

Nov. 1919, Keynes publishes blistering critique of Versailles Treaty

Wilson's Economic Planks for Peace

From his Fourteen Points, Jan. 8, 1918:

Absolute freedom of navigation of the seas in peace and war

Removal of all economic barriers and the establishment of an equality of trade conditions among all the nations

From his Fifth Annual Address to Congress, Dec. 4, 1917

The war shall not end in vindictive action of any kind. No nation or people shall be robbed or punished because the irresponsible rulers have done deep and abominable wrong. "No annexations, no contributions, no indemnities."

British Treasury Representative
Paris Peace Talks

Author of “Economic Consequences
of the Peace,” Nov. 1919



John Maynard Keynes

Keynes's Proposed Revisions of the Versailles Treaty

Fix German reparations at \$10b

Credit of \$2.5 for surrender of merchant ships and other property

\$7.5b balance paid in 30 installments of \$250m beginning 1923

No reparations required of Austria

Enlarge Coal Commission to include Germany, Central/East European states

Establish a European Free Trade Union

UK should waive all reparations in favor of invaded nations

Cancellation of all Inter-Allied government indebtedness

International loans to Europe to aid rebuilding, monetary reorganization

Resume trade with Russia for much needed grain

Inter-Allied Government Debts at Time of Armistice

Millions of dollars
Percent of 1913 GDP in parentheses

Debtors	----- Creditors -----			Total Gross Debt	Total Net Debt
	US	UK	France		
UK	3,696	--	--	3,696 (35)	-3,318 (-31)
France	1,970	1,683	--	3,653 (35)	1,416 (21)
Russia	188	2,472	955	3,615	3,615
Italy	1,031	1,855	75	2,961 (79)	2,961 (79)
Belgium	172	434	535	1,141 (70)	1,141 (70)
Others	21	570	672	1,263	1,263
Total	7,078	7,014	2,237	16,329	7,078

Total US credit to Europe, 7,078, is 18% of 1913 GDP, 9% of 1919 GDP.

Source; G. Hardach, *The First World War 1914-1918*, 1977, p.148.

Chronology of German Reparations

Reparations Commission

May 1920, \$33b proposed; Germans “adjust” to \$7.5b

May 1921, British Treasury proposal accepted -- \$12.5b

Germany to pay \$600-800 annually

Economic situation in Germany greatly worsens

Early 1923, Germany misses payments, French occupy Ruhr

International frustration with ongoing German/French tension, fiscal issues

Nov. 1923, Reparations Commission appoints new group of experts

US delegation (unofficial) led by Charles Gates Dawes and Owen Young

France facing large postwar expenses, deficits, borrowing, depreciation

Morgan agrees to loan \$100m to France, but France must accept Dawes plan

Reichsbank Prints Money to Finance Budget Deficits

	Marks printed
1922	1 trillion
1923, first half	17 trillion

Hyperinflation and Currency Depreciation

	CPI 1914=100	Exchange rate Marks/dollar
1914	100	4.2
...
1920	990	65
1921	1,301	190
1922	14,602	7,600
1923, Aug.
1923, Sept.	15,437,000m	630b
1924*	128	4.2

* Reichsmark replaced by Rentenmark. 1 Renten = 1 trillion Reichs



100 trillion Reichsbank note
Feb. 15, 1924



1 Rentenbank note
Jan. 30, 1937

"GER-140-Reichsbanknote-100 Trillion Mark (1924)" by Reichsbankdirektorium Berlin - Image by Godot13. Licensed under Public Domain via Commons - [https://commons.wikimedia.org/wiki/File:GER-140-Reichsbanknote-100_Trillion_Mark_\(1924\).jpg#/media/File:GER-140-Reichsbanknote-100_Trillion_Mark_\(1924\).jpg](https://commons.wikimedia.org/wiki/File:GER-140-Reichsbanknote-100_Trillion_Mark_(1924).jpg#/media/File:GER-140-Reichsbanknote-100_Trillion_Mark_(1924).jpg)

"Rentenmark (front)" by Drrcs15 - Own work. Licensed under CC BY-SA 4.0 via Commons - [https://commons.wikimedia.org/wiki/File:Rentenmark_\(front\).jpg#/media/File:Rentenmark_\(front\).jpg](https://commons.wikimedia.org/wiki/File:Rentenmark_(front).jpg#/media/File:Rentenmark_(front).jpg)

Chronology of German Reparations (cont.)

Dawes Plan, 1924

Germany to pay \$250m first year, rising to \$600m

Germany to place funds in escrow in Reichsbank with American trustee

\$200m loan to Germany to assist with reparations and bank capitalization

But France must withdraw from Ruhr

“Transfer protection” – private lenders have priority

Sets off lending boom to Germany, refueling its economy

BUT financial “musical chairs”

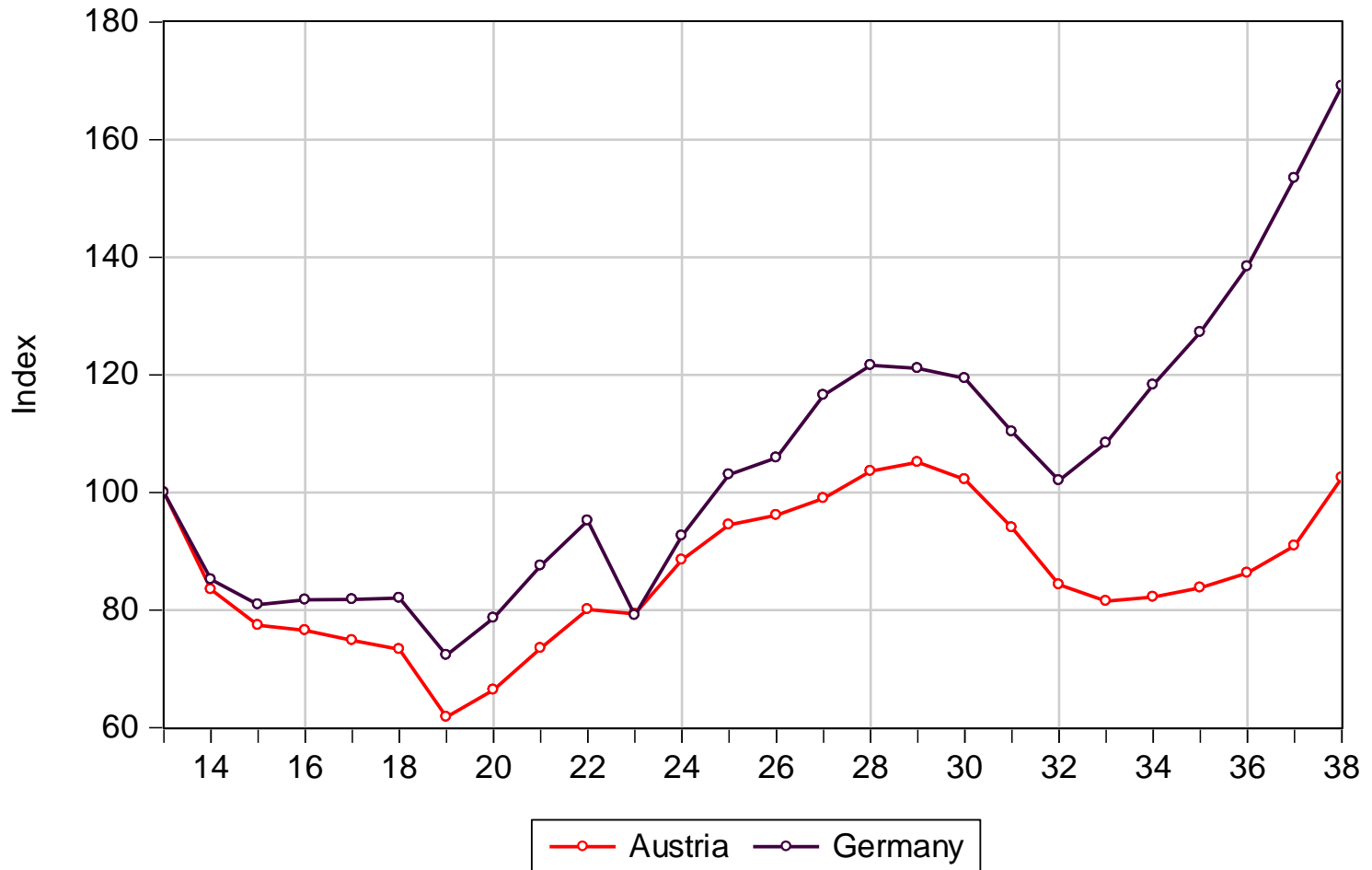
Young Plan, 1929

Total reduced to \$8b, smaller annual payments

“Transfer protection” eliminated

Real GDP: Central Powers, 1913-1938

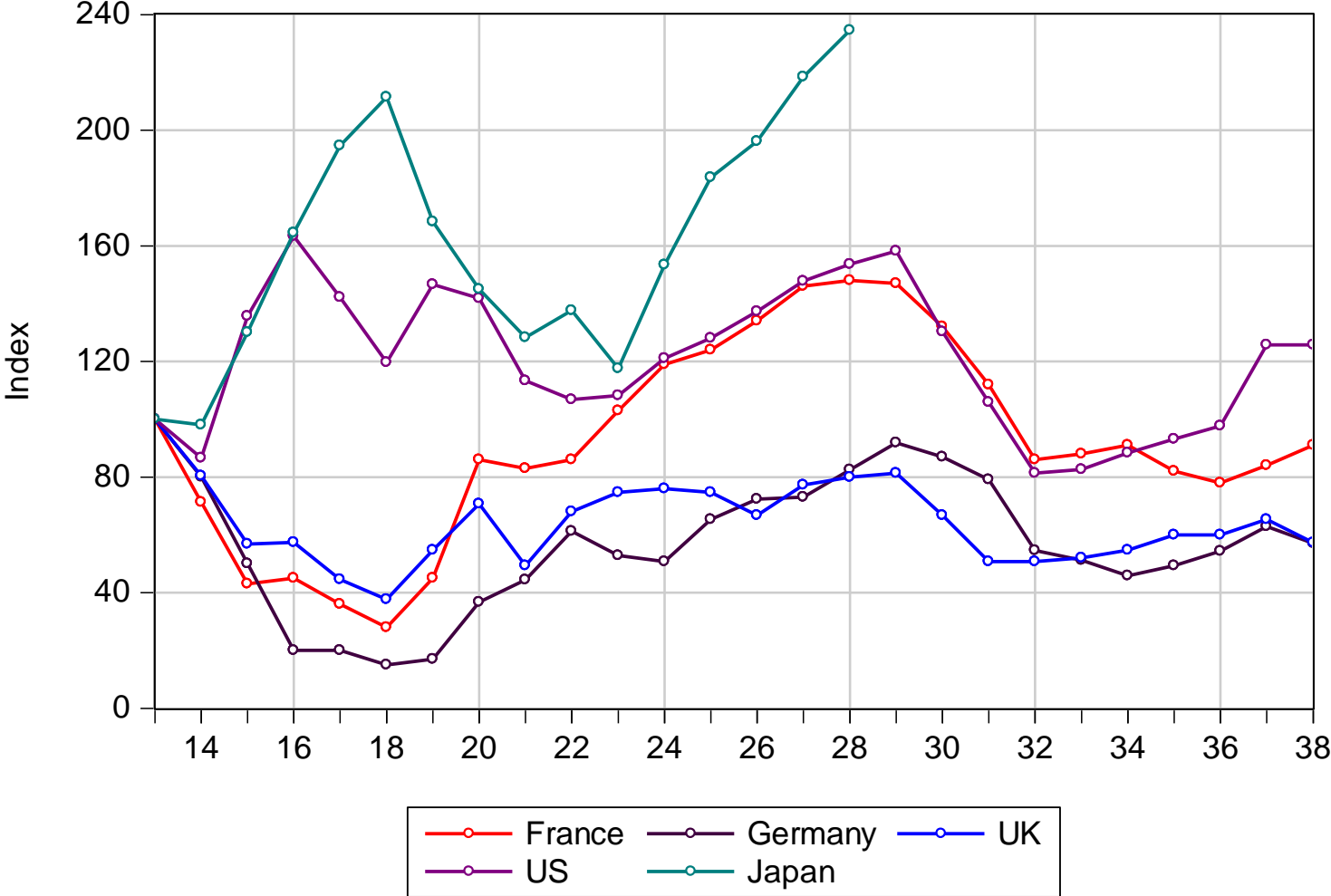
Index, 1913=100



Source: Angus Maddison, "Dynamic Forces in Capitalist Development"

Real Exports: Allied Powers and Germany, 1913-1938

Index, 1913=100



Source: Angus Maddison, "Dynamic Forces in Capitalist Development"

Gold Standard in Trouble

During war:

European allies experience declines in exports, rise in imports, loss of gold
US the reverse

All countries print money as part of war finance

Europeans more than they should, the US less than it could

All suspend pledge to redeem currency for gold

Europeans because they are running out of gold

US because it would result in huge growth of currency and inflation

At war's end:

Prices have risen sharply in all nations

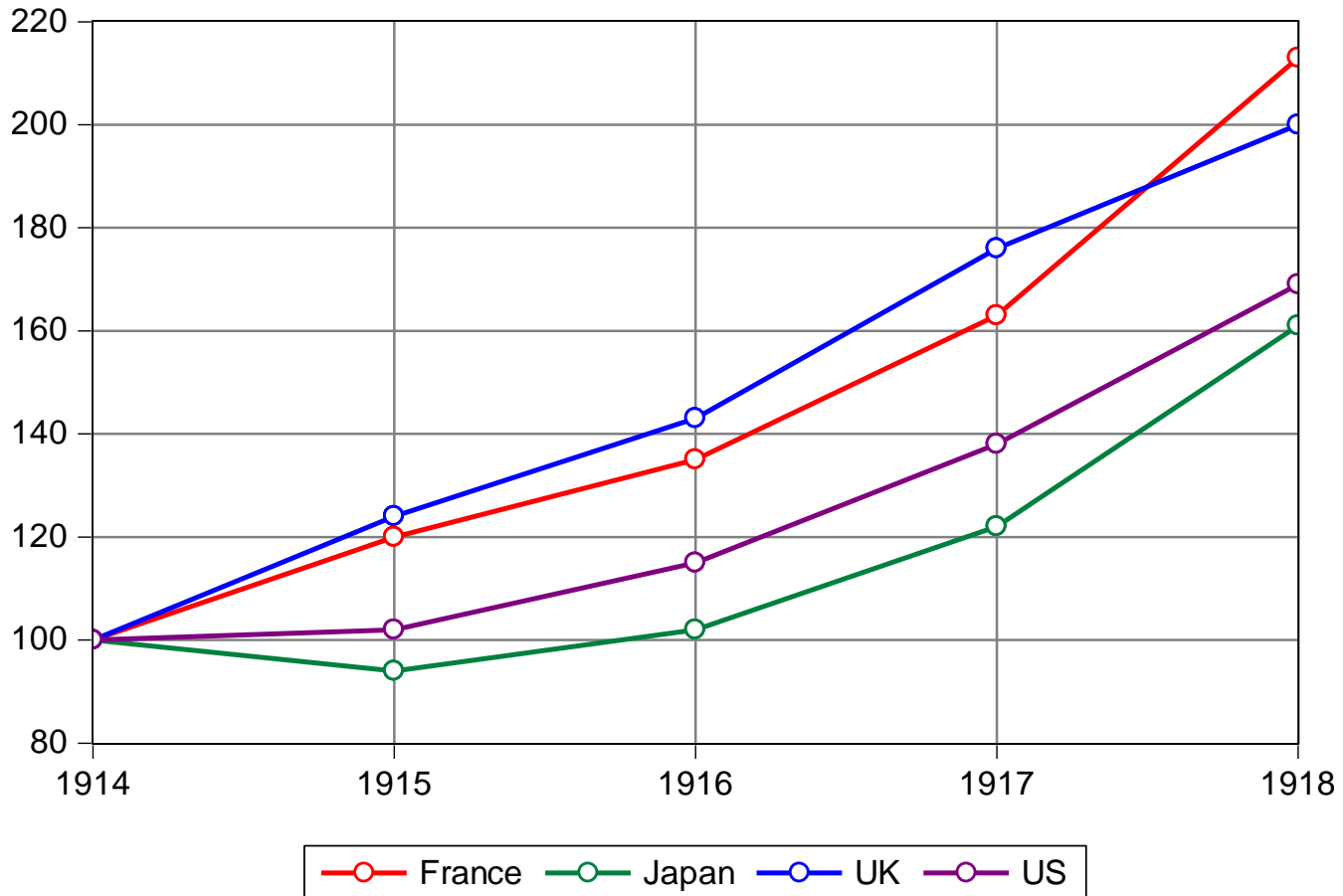
European currencies falling in value, dollar rising

Pound had fallen from \$4.86 to \$3.20

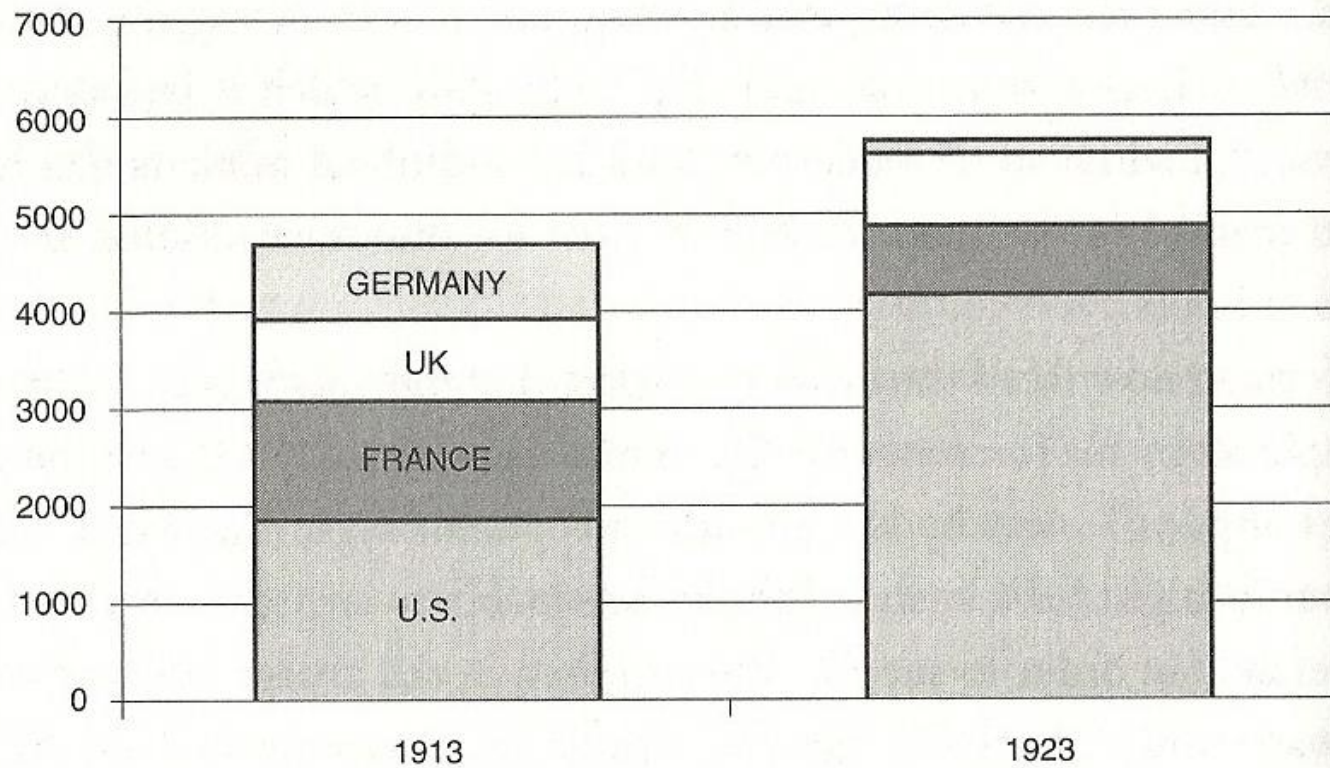
Vast redistribution of world gold supply

Consumer Price Index: Allied Powers, 1914-1918

Index, 1914=100



Gold Reserves: 1913-23
(\$ million)



Gold Standard in Trouble

What can Europeans do?

Two choices:

1. Allow currency to depreciate relative to gold (and other currencies)
2. Try restore prewar parity to gold by increasing gold/currency ratio
 - Reduce money supply to reduce prices
 - Increase gold supply (balance of payments surplus)
 - Raise interest rates
 - Budget austerity, raise taxes, cut spending

France chooses 1; Britain chooses 2

Britain drives down its price level; France inflates

France's exports become cheaper and grow; France prospers

Britain's exports become more expensive; Britain stagnates

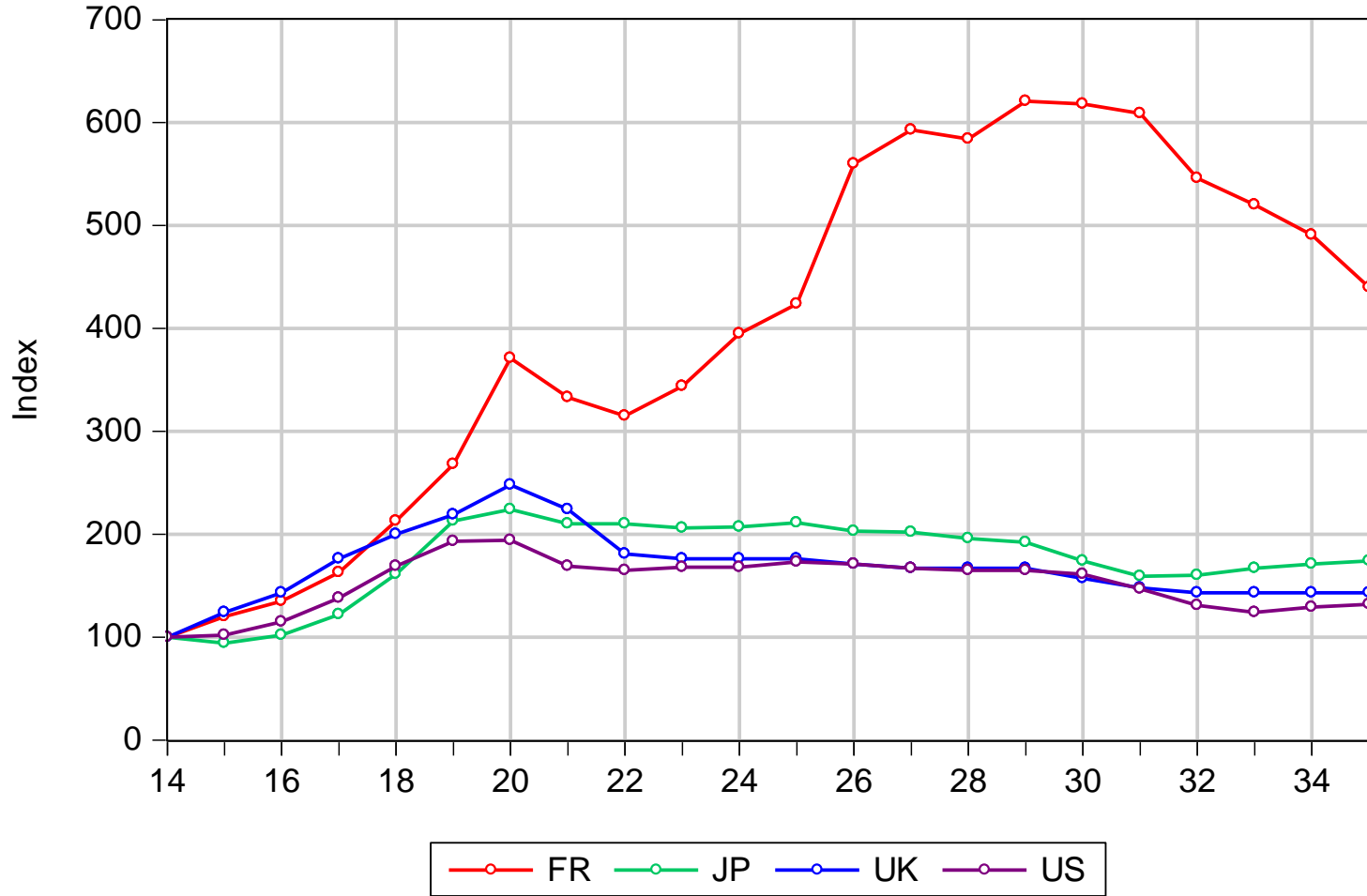
Britain pressures US to keep interest rates low to help strengthen pound

Main effect of low US interest rates is to fuel stock speculation in US

By 1931, Britain gives up hope of returning to prewar parity

Consumer Price Index: Allied Powers, 1914-1935

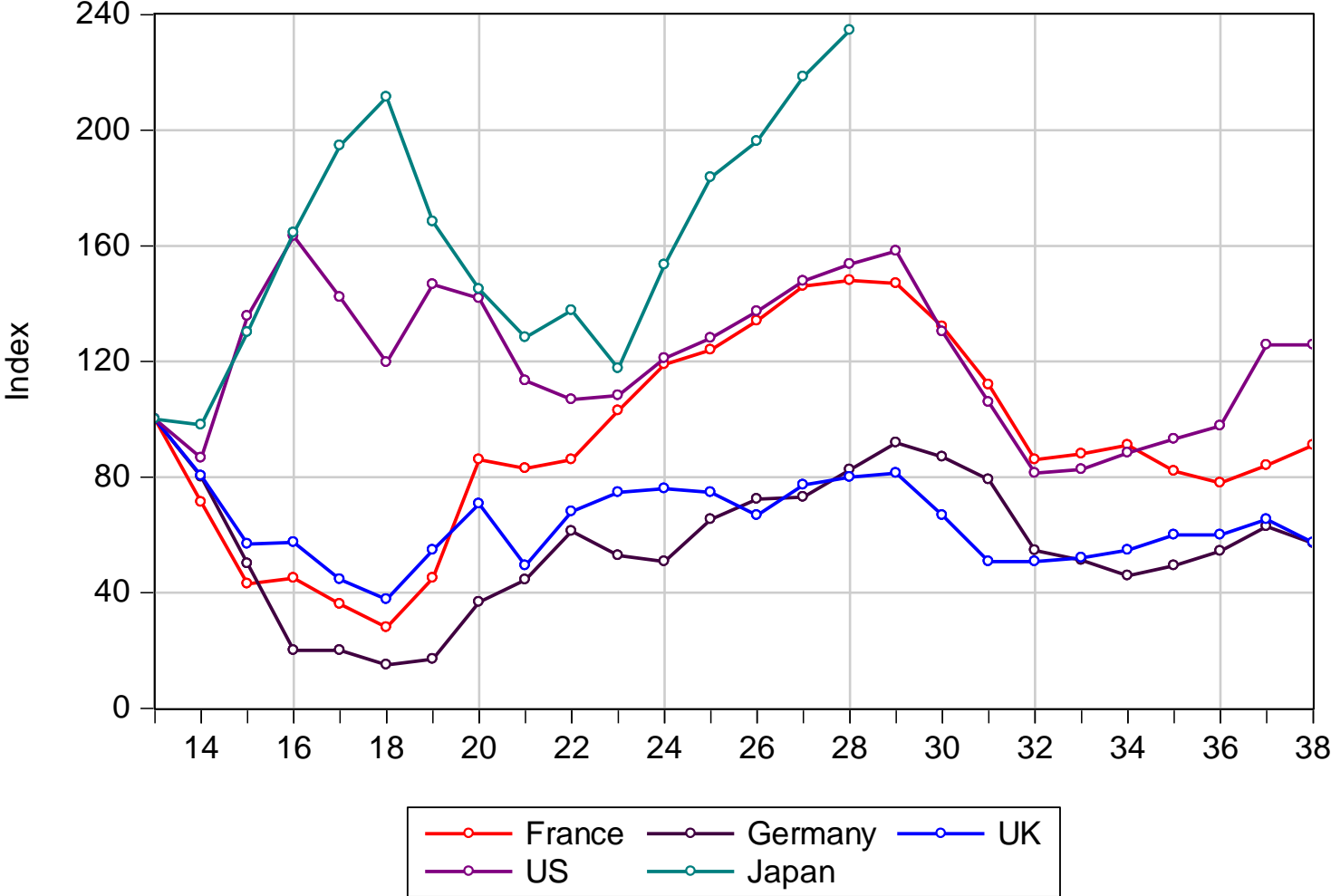
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Source: Angus Maddison, "Dynamic Forces of Capitalist Development"

Real Exports: Allied Powers and Germany, 1913-1938

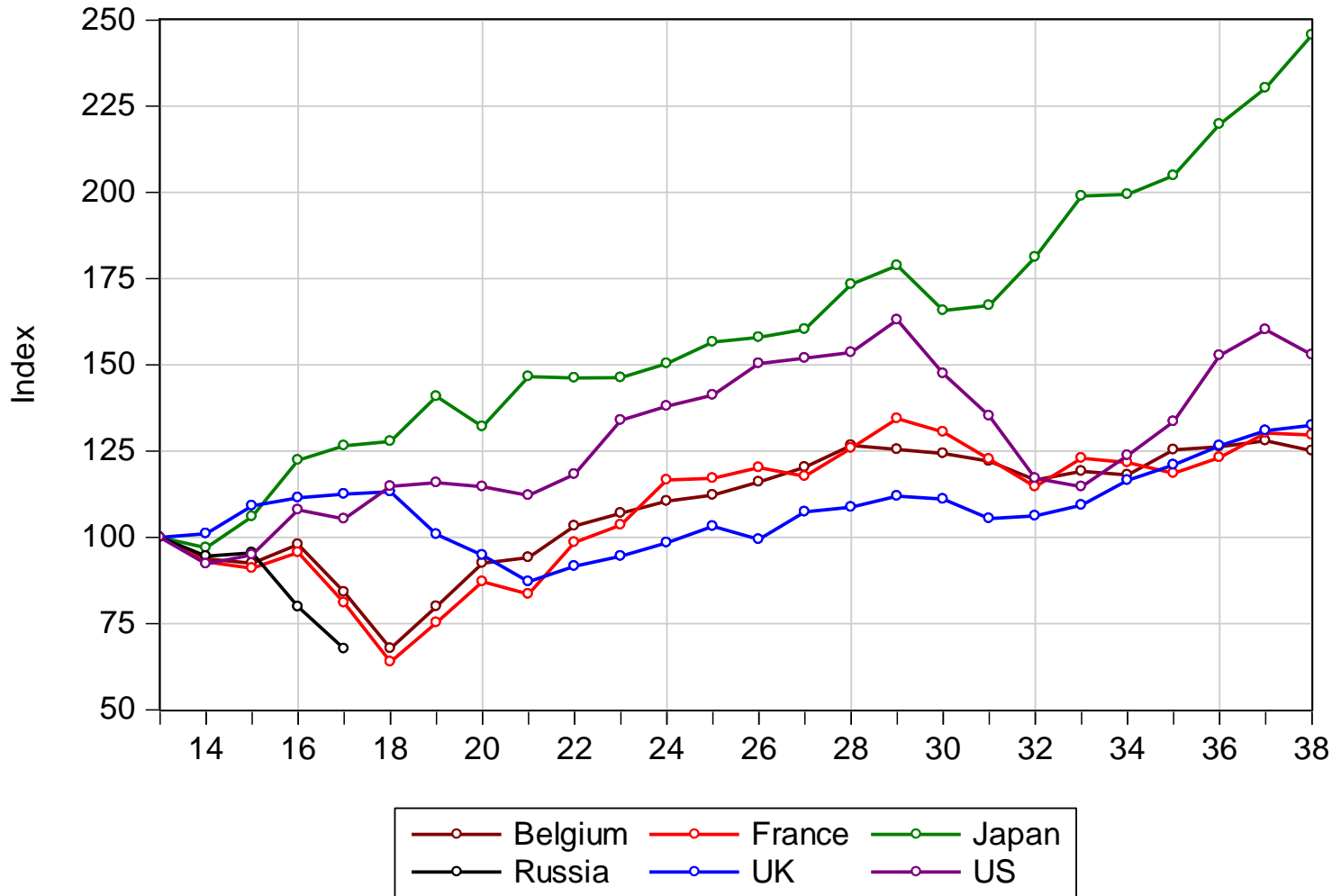
Index, 1913=100



Source: Angus Maddison, "Dynamic Forces in Capitalist Development"

Real GDP: Allied Powers, 1913-1938

Index, 1913=100



Source: Angus Maddison, "Dynamic Forces in Capitalist Development"

Major Economic Impacts of the War

Hastened the demise of the gold standard

Accelerated Britain's decline as world financial-economic leader

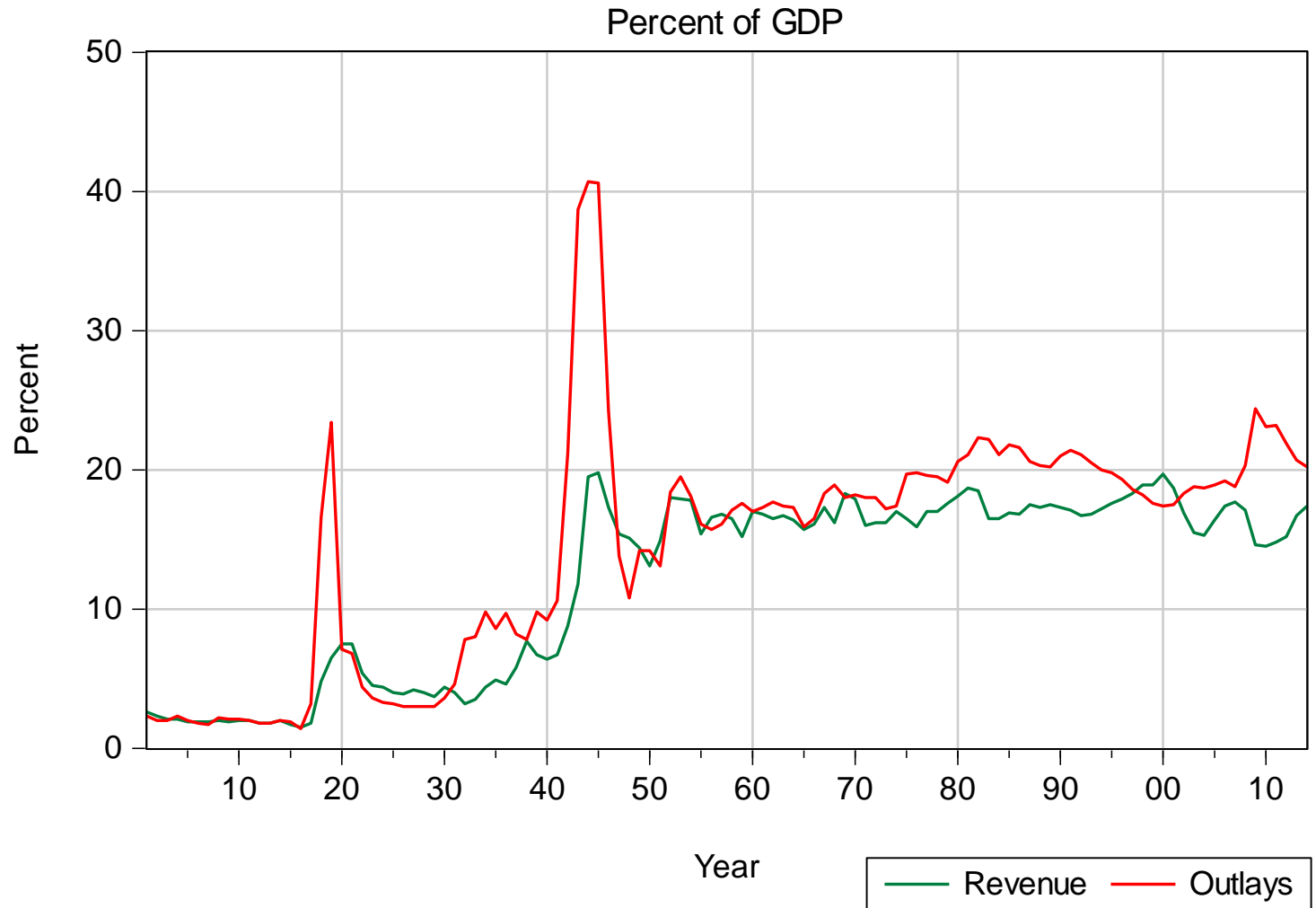
Accelerated Japanese emergence as world economic power

Ended Germany's aspiration of unseating Britain's sea power

Reversed economic integration of the world economy

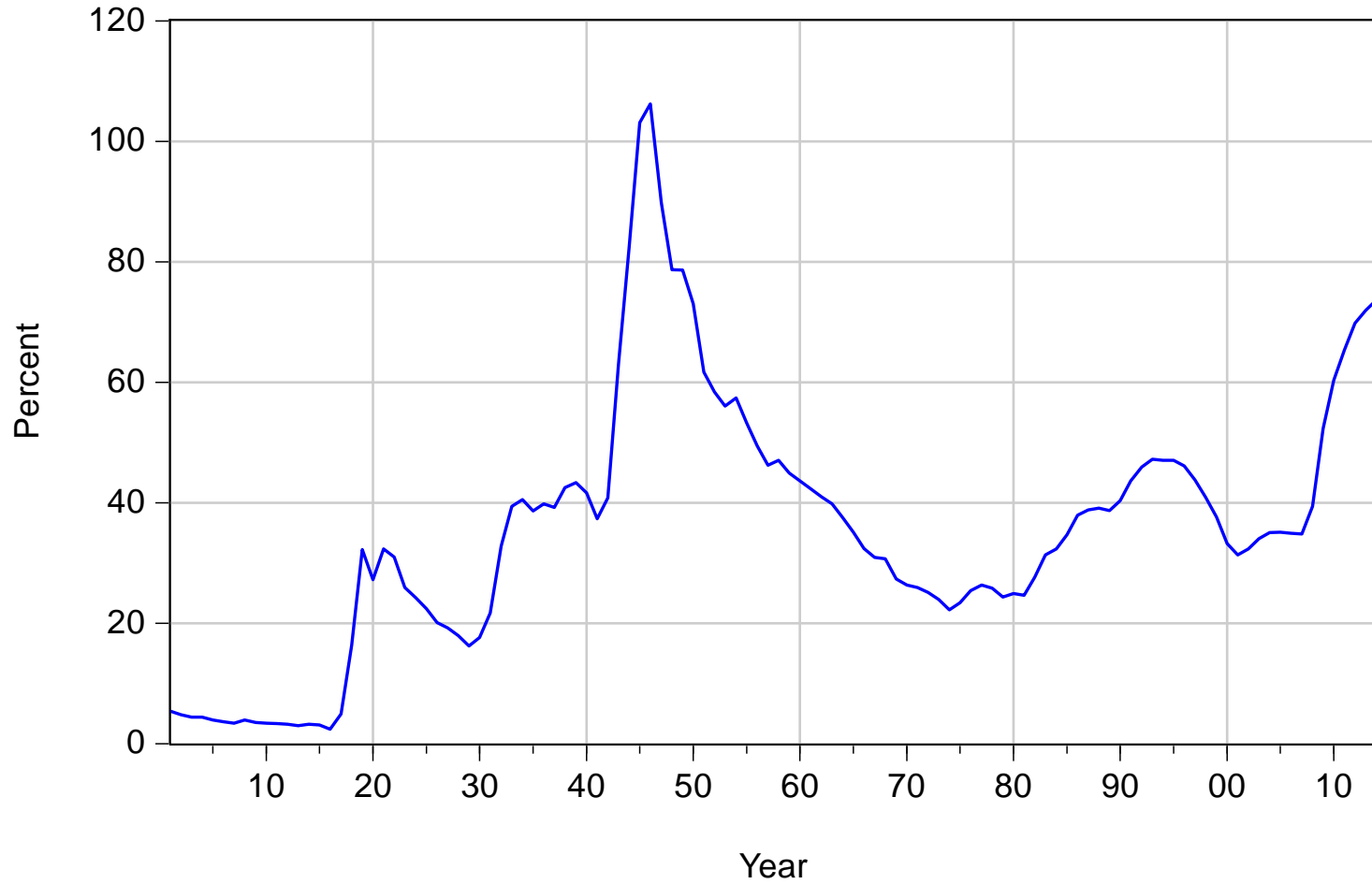
Gave US experience with command and control economy

US Federal Revenue and Outlays, 1901-2014



US Federal Debt, Publicly Held

Percent of GDP



THE END