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

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

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1922</td>
<td>1 trillion</td>
</tr>
<tr>
<td>1923, first half</td>
<td>17 trillion</td>
</tr>
</tbody>
</table>

Hyperinflation and Currency Depreciation

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

* Reichsmark replaced by Rentenmark. 1 Renten = 1 trillion Reichs
100 trillion Reichsbank note
Feb. 15, 1924

1 Rentenbank note
Jan. 30, 1937


"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
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

[Graph showing the consumer price index for France, Japan, UK, and US, 1914 to 1918.]
Gold Reserves: 1913–23
($ million)

1913

1923

GERMANY
UK
FRANCE
U.S.

7000
6000
5000
4000
3000
2000
1000
0
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

Index, 1914=100

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

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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
THE END