The Call for America:
German-American Relations and the European Crisis,
1921-1924/25

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A dissertation submitted to the faculty of the University of North Carolina in partial fulfillment of the requirements for the degree of Doctor of Philosophy in the Department of History.

Chapel Hill
2005

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Abstract

Mark Ellis Swartzburg: The Call for America: German-American Relations and the European Crisis, 1921-1924/25
(Under the direction of Konrad H. Jarausch)

This study examines German-American relations during the European general crisis of 1921-1924/5. After World War I, Germany’s primary foreign policy goal was to engage the United States, whose assistance was seen as essential for the economic and diplomatic rehabilitation of Germany. America recognized that the rehabilitation of Germany was necessary for its long range goal of aiding peaceful European reconstruction through private loans and investments. Having failed to ratify the Treaty of Versailles, America had to establish bilateral relations with Germany. However the complex interplay of domestic and international politics in each nation resulted in a relationship which proceeded in a series of steps characterized by expediency imposed by the domestic politics of the United States. Following this pattern were the Treaty of Berlin of 1921 (which established a separate peace with Germany), the Mixed Claims Agreement of 1922 (which was created to resolve war claims), and the Commercial Treaty of 1924.

The American–German relationship was also central to the resolution of the complex international problem of war debts and reparations. Political conflict in Germany over distribution of the war’s costs among various social and economic groups kept it from making credible reparations proposals and engaging the United States, which disengaged further in response to the January 1923 French/Belgian occupation of the Ruhr and
Germany’s reactive policy of passive resistance. Due to optimism over Germany’s ending of passive resistance and institution of domestic economic reforms together with concern about the chaos in Germany caused by the occupation, American opinion shifted and the Coolidge administration called for an inquiry into the reparation problem by a committee of experts. The resulting 1924 Dawes Plan and the London agreements established a reparations settlement and modification the Versailles Treaty on Anglo-American terms. This opened the way for American financial underwriting of German reconstruction and the resolution of the European crisis.
ACKNOWLEDGEMENTS

This study began as a seminar paper for Gerhard L. Weinberg during my first year at the
University of North Carolina at Chapel Hill and it is to him that I owe my first debt. As my
original Doktor Vater, Dr. Weinberg encouraged and guided me in my pursuit of
understanding the role played by the German-American relationship in the European
diplomatic relations of the 1920’s. He has always made himself available, opening his home
to me and has shown me extraordinary kindness and support throughout this long process.
Even with Emeritus status, he stood by this work and was always there with invaluable
insights and suggestions, reading draft chapters with exacting care which greatly
strengthened the final work. I am very grateful for his friendship.

Likewise, Dr. Konrad H. Jarausch has been tremendously helpful and supportive from the
very beginning of this undertaking. He took over as my doctoral advisor in the writing stage
and brought great energy and incisiveness to the project with his own insights into the
German-American relationship and keen intellect. Taking an active interest in my topic, he
provided the kind motivation which enabled this project to be brought to fruition. For this he
deserves my deepest thanks and I am proud to also call him Doktor Vater.

The other members of my dissertation committee provided thoughtful criticism and
useful suggestions. Professors Donald Reid and Michael Hunt were there from the beginning
and I thank them for their assistance and patience over the years. I would like to thank
Professor Christopher Browning for agreeing to join my committee when the writing was already well underway and providing his useful insights. Their comments have done much to strengthen the final work.

Several organizations and institutions have made this research possible. I would like to thank the staffs of the National Archives at College Park, Maryland, the Library of Congress in Washington D.C., and the Houghton Library, Harvard University. A special thanks goes to James R. Houghton for granting me access to the private papers Ambassador Alanson B. Houghton and to Michelle Cotton, archivist at the Corning Glass Archives, Corning, New York, where the papers are held. A grant from the Herbert Hoover Presidential Library Association allowed me to complete my research at the Presidential Library in West Branch, Iowa. I would like to thank Patricia A. Hand of the Library Association as well as Matthew Schaefer and Lynn Smith, the extremely knowledgeable and friendly archivists at the Presidential Library for making possible my very fruitful research in the William R. Castle papers.

My research experience in Germany was a pleasure and I would like to thank those institutions and individuals who helped make it so. Frau Dr. Maria Keipert and the staff and archivists of the Politisches Archiv des Auswärtigen Amtes, then in Bonn, helped make the archive like a second home during my time there and provided me with innumerable assistance. Jens Fleischer, in particular, helped make my work in the PA-AA so productive. I would like to thank Frau Dr. Köhne-Lindenlaub and Herr Mütther for making my visit to the Historische Archiv Krupp in Essen possible and making my time at Villa Hügel beneficial as well as enjoyable. The archival staff at the Bundesarchiv Koblenz, Bundesarchiv Berlin-Lichterfelde, Geheimes Staatsarchiv Preussischer Kulturbesitz and the Staatsarchiv in
Freiburg all deserve my heartfelt thanks. I would also like to thank Frau K. Weiss of the Europäische Akademie Berlin for providing me with such splendid accommodations while in Berlin and the Wissenschaftliche Katholische Studentenverein Unitas Bonn, Freiburg and Winfridia Münster for the comradeship and support while in Germany.

Numerous individuals have been very helpful to me over the years bring this project to conclusion. I would especially like to thank Paul and Susan Rozelle; Dr. June Nogle; Dr. Joseph and Marsha Caddell; Dr. Carolyn W. Pumphrey; Dan Shidlovsky; Matthew Peaple; Dr. Astrid Eckert; Kay Robin Alexander and Dr. Wendy Perry. Janet Weinberg deserves special mention for all the affection and moral support she has shown me over the years, as does Dr. Steve Chamberlin for his technical and formatting assistance. In Germany, I would like to acknowledge the following people for making my time there easier and productive- Philipp Hoppe; Brigitte Peine; Dr. Wolfgang Klein; Paul-Georg Garmer; Dr. Nicole Eversdijk; Dr. Birgit Ramscheid, Dr. Niels Joeres; Anton Niehoff and Bettina Mühlbauer. I also want to give special thanks to Gabriele Zimmermann for her patience, emotional support and for providing perspective, along with Sabrina Gerasch and all the Zimmermann family.

My family deserves the highest note of thanks, especially to my father, Dr. Marshall Swartzburg, whose tremendous support, humor and forbearing made this all possible. I am very grateful. To my late Mother, Susan G. Swartzburg who inspired me, I dedicate this work.
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Introduction

During the twentieth century the United States and Germany have twice been opponents in world wars. In both the United States played a decisive role in defeating Germany and following both, the United States was active in the reconstruction of Germany and Europe. The United States was crucial to Germany at the end of both wars, and the question of Germany was a major factor in the development of American policy towards Europe in both post war periods. The United States' engagement of Germany, was, however, significantly different in the two post war periods.

At the end of the First World War, Germany was a revisionist power which had not accepted its defeat and which looked to the United States for assistance in altering the Versailles settlement in its favor. The American rejection of the Treaty of Versailles in 1920 both slowed and limited its involvement with Germany and Europe. The difficulties surrounding the Peace created political constraints which needed to be worked through before America could re-engage with its former enemy and play the leading role in the post war stabilization. By contrast, at the Second World War ended, Germany was a thoroughly defeated nation and the United States fully engaged Germany politically, economically and militarily.

This study examines the German-American relationship between 1921 and 1924. This was a period of crisis for Germany, beginning in May 1921 with the Allied demand that it pay the
reparations required by the Versailles treaty and continuing through the separate peace treaty negotiated between the United States and Germany in August 1921, after persistent U.S. refusal to ratify the Treaty of Versailles. Successive German governments, burdened by the financial, political and social consequences of defeat and the nation’s reconstitution as a democratic republic, also struggled to find a way to reduce the reparation payments, culminating in a continental crisis in January 1923 when France and Belgium occupied the Ruhr after Germany failed to muster the political will to solve the reparations question.

From the beginning of its disputes with the Allies over its ability to pay reparations, Germany had appealed to America for aid and intervention. But Washington, although it sought a peaceful and reconstructed Europe, was reluctant to become directly involved in European crises. In December 1922, Secretary of State Charles Evans Hughes did propose a plan for a committee of experts to formulate a solution to the reparation crisis, but it was rejected by France. After the French and Belgian occupation of the Ruhr, the United States waited upon events, not becoming directly involved until late 1923, when, faced with the potential collapse of Germany, the U.S. and Britain pressured France into accepting the expert committee (led by an American, Charles E. Dawes).

The period of reparations-related crises ended in 1924, when the committee’s plan to stabilize Germany’s economy and also allow for reparation payments was accepted, with American participation, at the London Conference in July and August 1924; subsequently, France and Belgium agreed to withdraw from the Ruhr and the so-called “golden years” of the late 1920s began.

These years of crisis, when America and Germany were re-establishing relations, have been relatively neglected by scholars; few studies examine German-American engagement prior to
U.S. involvement in the Dawes Plan, which ushered in the more extensively studied period of stability. However, the nascent relationship between the new German republic and the United States was perhaps the most crucial relationship in the international system of the early 1920s. Following the First World War, Germany represented the greatest challenge to the international system while the United States, which had emerged as a dominant economic power, represented the logical solution to the problems of European security and reconstruction. Through analysis of the period of instability and crisis that existed between 1921 and 1924, motivations and priorities are revealed and the basis of both nations’ foreign policy goals can be seen.

There is a large literature on the general post world war problems of Europe and Germany itself. There are also a number of studies that focus on America’s relationship with Britain and France. There are few studies that focus on the evolution of the crucial American-German relationship during this entire period and those that exist are often limited by their interpretive and theoretical framework. This study, while paying attention to the economic issues, adopts the viewpoint that these issues play themselves out in the political realm and therefore adopts a political viewpoint throughout its analysis.

For many historians the thesis of William Appleman Williams, who argued that American policies were shaped by the structural requirements of a capitalistic political economy that demanded overseas markets, has provided a unifying conceptual model for American diplomacy in the 1920's. The older view, which focused on American isolationism, gave way to an emphasis on the centrality of economic diplomacy during the 1920's, and the debate has revolved around on the nature of American economic policy.¹

This so-called revisionist school, stressed the United State’s economic engagement with the rest of the world, regarding isolationism as a factor in American foreign relations as overstated by earlier historians. As a whole, the revisionist school views the 1920's as a period of American economic empire building.

Werner Link’s influential study of American stabilization policies towards Germany, Die amerikanische Stabilisierungspolitik in Deutschland, 1921-32, is one of the few works to study the German-American relationship of this period in depth. Link follows William Appleman Williams lead and argues that Germany was important to the United States both as a competitive market for goods and as an area for economic penetration through loans and investments. Link views Germany as becoming a cooperating partner in American efforts to establish a liberal world order. He argues that America was at the same time very concerned about German competition and the possibility of the creation of a Franco-German economic block. This, Link maintains, explains the reasons behind America’s periods of withdrawal and then sudden intervention. This hard line economic determinism at times diminishes the usefulness of the work as it obscures an understanding of the political determinants of American policy and the influence of the personalities involved. Link’s later works continued to examine America relations with Germany in this period, most notably in regard

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strongly influenced the revisionist interpretation. Carl P. Parrini also emphasizes the continuity of economic policy between the Wilson and Harding administrations, stressing the importance of Anglo-American economic and financial rivalry during the 1920s. Carl P. Parrini, Heir to Empire: United States Economic Diplomacy: 1916-1923 (Pittsburgh: University of Pittsburgh Press, 1969). Frank Costigliola argues that during the 1919-1933 period the United States relied upon economic intervention to foster peaceful change as a means of combating revolution and Bolshevism and also that American policy during the interwar years, while accepting right-wing forces in the interest of stability, nevertheless had the virtue of avoiding the combined use of military and economic. (Frank Costigliola, Awkward Dominion: American Political, Economic, and Cultural Relations with Europe, 1919-1933 (Ithaca: Cornell University Press, 1984).
to the Ruhr crisis of 1923, and retain the heavy emphasis on economic determinants. Despite
the limited focus, Link’s works remain very valuable studies of American relations with
Germany.²

This hard economic determinist line has been questioned by historians who argue for a
more complex relationship between government and business and have expanded to include
other special interest groups who may also play a role in setting the American foreign policy
agenda.³ A later version of this emphasis on the economic aspects of diplomacy is that of
what Michael Hogan terms “corporatism” and which softens the more strict determinism of
Williams’s approach. Hogan sees corporatism as being a political-economic system founded
organizationally on officially recognized economic or functional groups including organized
labor, business, and agriculture. Institutional regulating, coordinating, and planning
mechanisms integrate these groups into a consensus bloc that blurs boundaries between the
private and the public sectors. Elites from each sector collaborated as they engaged in a
search for stability and progress as American leaders sought to adapt the earlier liberal
institutions to the imperatives of organized capitalism. He argues that this model has an
international parallel as corporate liberals sought to apply a system of international planning

² Werner Link, Die amerikanische Stabilisierungspolitik in Deutschland 1921-32
(Düsseldorf: Droste Verlag, 1970); "Die Beziehungen zwischen der Weimarer Republik und
den USA," Die Weimarer Republik, ed. Michael Stümper (Königstein/Ts: Verlagsgruppe
39-51.

³ Joan Hoff Wilson, American Business and Foreign Policy, 1920-1933 (Lexington:
University Press of Kentucky, 1971); Emily S. Rosenberg, Spreading the American Dream:
that would decrease the competitive system of liberal capitalism. Hogan sees this corporatist pattern emerging in the 1920s.\footnote{4}

Michael Hogan, challenging the view that the United States sought a world economic order based on competitive free trade, calls attention to the cooperative and corporative aspects of Anglo-American relations after 1923 and argues that this Anglo-American cooperation, instrumental in the 1924 resolution of the Franco-German struggle, created a "cooperationalist" order that characterized the later 1920s. Hogan, however, has been criticized by John Lewis Gaddis for ignoring the geopolitical dimension of foreign policy and for underrating the role of distinctive personalities and the media.\footnote{5} The limitations of the corporatist analysis as it relates to American relations with Germany will be examined in the relevant chapters.

For German historians, corporatism is not a theoretical paradigm through which to view policy, but rather a real cultural institution itself worthy of study.\footnote{6} Werner Abelshauser notes that in its efforts to overcome economic backwardness, Germany "was almost predestined to become the first post-liberal nation through setting up modern interest group policies, market regulations and a framework for bargaining between state and interest groups." The corporatist nature of German policy development was a considerable factor in


German relations with the United States, and in the case of the negotiations over the commercial treaty could significantly impact those relations. The dismay and displeasure with which the State Department greeted its encounters with German institutionalized corporatism indicates the remoteness of such ideas to those charged with executing American foreign policy.

More recently, William C. McNeil has called attention to the importance of American capital in influencing political developments in Europe in the latter 1920s. Other scholars, however, have challenged this emphasis on economic imperatives in American diplomacy during the 1919-1933 period. Melvyn P. Leffler, seeking to bridge the gap between the revisionist and traditionalist studies of American foreign policy, cogently argues that American policy toward Europe and Germany was the product of compromises between competing branches of government which were internally divided by conflicting pressures and irreconcilable goals and states that the American desire for foreign markets was counterbalanced by fiscal and partisan political goals as well as strategic considerations.

Stephen A. Schuker also emphasizes the political dimension of American stabilization policy.7

While there are significant differences among scholarly interpretations of the 1919-1933 period as a whole, differences in viewpoints regarding the 1921-1924 period are less

pronounced due to a general agreement that economic ties between America and Germany
did not begin to flourish until the political conflicts of 1922-1923 were temporarily resolved
by the Dawes plan and London Conference of 1924. Nevertheless, many scholars of
American-German relations tend to view the 1921-1924 period primarily as a prelude to the
post-1924 period and stress the importance of the confluence of economic interests between
the United States and Germany. Manfred Jonas characterizes American-German relations
during this period as defined by "a mutuality of interests." Elisabeth Glaser-Schmidt, in her
examination of American-German relations in the early 1920s, recognizes the barriers to
American-German cooperation, but still emphasizes America's long-term interests in
establishing a liberal international order, observing that in order to gain the larger benefits of
a trade system based on equal treatment, Germany was consistently forced to accept
agreements on American terms as the United States strove to implement its economic goals.
But like other scholars of the period, Glaser-Schmidt acknowledges that the close
cooperation that Germany hoped for did not emerge until after 1924.

8 Costigliola dates the formation of a loose alliance between "government officials,
central bankers, and top private businessmen" to the 1923-1924 period (Heir to Empire,
p.19). Hogan sees the Anglo-American accord reached between 1923 and 1925 as the
beginning of what he terms the "Anglo-American Creditor Entente" (Informal Entente, pp.
38-9). Link notes that American capital could not begin to flow into Germany until Germany
had resolved its twin problems of reparations and inflation (Die amerikanische
Stabilisierungspolitik in Deutschland, 1921-32, p. 63).


10 Elizabeth Glaser-Schmidt, "Von Versailles nach Berlin. Überlegungen zur
Neugestaltung der deutsch-amerikanischen Beziehungen in der Ära Harding," Liberalitas:
Festschrift für Erich Angermann zum 65. Geburtstag, ed. Norbert Finzsch and Hermann
Wellenreuther, (Stuttgart: Franz Steiner Verlag, 1992), pp. 319-342; see also by the same
author, "German and American Concepts to Restore a Liberal World Trading System after
World War I," Confrontation and Cooperation: Germany and the United States in the Era of
A greater emphasis on the political dimension of American-German relations can be found in Klaus Schwabe's study of the 1918-1919 period, which provides a detailed examination of American-German relations during the Paris Peace Conference, whereas Peter Grupp emphasizes the role the United States played in the thinking of the German foreign office during the same time. Following the period of instability and crisis over the reparations problem and the Ruhr occupation, Stephen A. Schuker provides a comprehensive account of the economic and political factors involved in the formation of the Dawes Plan and the settlement created by the London Conference of 1924. For the period following America’s re-engagement with Germany and Europe, Manfred Berg’s study of Gustav Stresemann and the United States of America does an excellent job of explaining how the German Foreign Minister used stabilized relations with America to further his revisionist policies.11

Michael H. Hunt warns that the complexity of international history does not lend itself well to overarching theoretical frameworks, noting that international history is “a highly dynamic and interactive process.” He suggests the useful approach of recognizing that policy makers’ narratives accounting for the behavior of others seldom converge but rather intertwine as they interact, resulting in a web of evolving narratives that creates complexity

in and of itself. For an examination of German-American relations and multilateral
American interactions with Europe at a period of crisis, Hunt’s approach is valuable.\textsuperscript{12}

Any study of this period necessitates opening the Pandora's box of German reparations.
Traditional historiography of the question views the 1921 London Schedule of reparations as
beyond Germany’s capacity to pay.\textsuperscript{13} France is also blamed for an intransigent policy that
frustrated British attempts to find a solution and led to the occupation of the Ruhr. In
reaction, spurred by the opening of the French archives, a revisionist historiography
developed in the 1970s that finds French policy more reasonable and argues it was the
Germans who, aided and abetted by Britain, undermined French efforts to find a reasonable
solution. While acknowledging that it is unknown to what extent the transfer of purchasing
power between Germany and its creditors could have been possible without significant
damage to the European economy, revisionist scholarship argues that Germany could have
found a way to pay reparations had it been willing to accept its responsibility. In this view,
the fundamental issue is the lack of German political will to accept responsibility for the
payment of reparations.\textsuperscript{14}

\begin{itemize}
\item \textsuperscript{12} Michael H. Hunt, “Internationalizing U.S. Diplomatic History: A Practical Agenda,”
\item \textsuperscript{13} The London Conference of 1921 set the total sum as 132 billion gold marks, of which
50 billion in A and B bonds were to be paid in fixed annuities. The remaining 82 billion
marks, the C Bonds, were only to be issued if Germany grew more prosperous. This
traditional view is most pronounced in the Anglo-American literature, but also appears in the
German literature. See Ludwig Zimmermann, \textit{Franreichs Ruhrpolitik von Versailles bis
zum Dawesplan}, (Göttingen: Musterschmidt, 1971).
\item \textsuperscript{14} Sally Marks sees the C bonds as chimerical, arguing that Germany could have paid the
50 billion gold marks that it was actually obliged to pay but did not have the will to do so.
Sally Marks, “The Myth of Reparations,” \textit{Central European History} 11 (September 1978),
pp. 231-55). Mark Trachtenberg also agrees that Germany could have paid reparations but
did not have the political will do so. Mark Trachtenberg, \textit{Reparations in World Politics} (New
York: Columbia University Press, 1980) pp. 337-42. See also Walter A. McDougall,
Other scholars, German specialists in particular, argue that political capacity was not solely limited by German unwillingness to pay but by domestic political and social constraints as well.\textsuperscript{15} German political willingness to pay reparations was also very much influenced by German perceptions that both the United States and Britain wanted to revise the payment schedule. Since both Britain and France were prepared to reduce German reparations if the United States would in turn reduce Allied war debts, American policy regarding war debts became a major factor in the reparation crisis of 1922. A major task of this study is to explore the interactions between Germany and the United States regarding the reparation question and to demonstrate that it impacted almost all aspects of American-German relations.

While recognizing that America had important economic and financial interests in European recovery from the war, this study emphasizes the political determinants of American policy at both domestic and international levels. Consistent with this approach, the study will attend to how policy formation was influenced by the perceptions and misperceptions that each nation held regarding the other. For Germany as well, domestic politics were the essential determinants of foreign policy; it was Berlin’s inability to resolve

its internal political, economic and social conflicts as well as its international problems that made it so desperate to secure aid from America. This focus on the political departs from the recent trend among scholars of American foreign policy of the 1920s of emphasizing economic motives. Close examination of the 1921-1924 period of instability reveals that economic explanations alone are insufficient to explain the nature of German-American relations.

Focusing on the political dimension, this study analyzes the nascent German-American relationship, from both the American and German perspectives, in the relatively neglected yet vitally important years of instability, seeking to do more than fill the gap between studies of German-American relations in the Versailles era and studies of the post-1924 era of stabilization. Consideration of the 1921-1924 period provides the opportunity to examine basic motivations and determinants of German and American policy toward each other, as well as the effects of these relationships and policies during their critical early stages on other European nations. Also, because these core policies would carry over into later years, the insights gained facilitate the evaluation of hypotheses about motivations when the relationship had developed more fully.

Interaction between the desperate German need for both reconstruction at home and support for its revisionist foreign policy and American domestic constraints on its foreign policy, resulting from American rejection of the Versailles treaty and a desire to avoid foreign entanglements, is the central theme of this study. For both Germany and America, policy was often driven by expediency, resulting in a series of political intersections and divergences that account for the pattern of urgent diplomatic activity erupting from periods
of relative diplomatic inactivity. Examination of this ebb and flow, based on the expediencies of those years, allows for the analysis of underlying motivations.

This dissertation postulates that Germany’s relationship with the United States was the fundamental element that shaped German foreign policy in the early Weimar period. From the armistice of November 1918 to the 1924 settlement of the reparation crisis, Germany continually looked to the United States for help in revising the political and economic consequences of its defeat. This view of America became the *idée fixe* of German diplomacy as it sought a revision of the Versailles framework and was originally fostered by Woodrow Wilson’s pre-Versailles rhetoric. Despite German resentment that America had not produced a more lenient peace treaty, Germany continued to see America as the answer to its problems, a view reinforced both by the American rejection of the Versailles treaty and the election of Warren G. Harding, which offered hope for new American policies. This study will trace this dynamic throughout the slow re-establishment of full relations, a period during which German optimism about America rose with American initiatives, only to be replaced by frustration at times when America demonstrated little inclination to become involved with international affairs on Germany’s behalf.

This study will pay particular attention to constraints on American interaction with Germany imposed by domestic political considerations resulting from America’s residual feelings about Germany following the war and from the political consequences of the failure of the Republican Senate to ratify the Versailles treaty. The reaction of Wilson, a Democrat, to the treaty’s defeat was to personally block any attempt to establish official relations with Germany, which allowed a condition of the state of war to continue; albeit the United States did have a mission in Berlin, relations were minimal and mostly confined to private
initiatives. Harding’s election in November 1920 led to an increase of expectations in Germany for what relations with America might hold, but in America Wilson’s lack of action left the new Republican administration with pressing problems regarding the establishment of peaceful relations with Germany. These included ending of the state of war by concluding a separate formal peace treaty, establishing a means for the settlement of American war claims against Germany and regulating trade through a commercial treaty.

The American diplomatic response to Germany and the crisis in Europe was determined by very definite domestic political constraints. The fight over the Versailles treaty divided angry Democrats and Republicans into isolationist and administration wings which hindered the formulation and conduction of Harding’s new Republican administration. In particular, the Senate fight over the Versailles treaty redefined the American political landscape and especially affected the freedom of action for U.S. foreign policy. Having lost both the fight for the treaty and the election, the Democratic Party refused to hand the new Republican administration any foreign policy victory, but especially in Germany and Europe. Although the new Harding administration was dominated by internationalists, it had to contend with very real isolationist opposition in Congress; having defeated the wartime president and his peace plans, the postwar Congress was particularly activist and assertive of its prerogatives. This work will demonstrate that the need to conform foreign policy and diplomatic action to congressional constraints and demands, a crucial determinant in the formulation and operation of American foreign policy toward Germany and Europe during this period, would continue through all the bilateral negotiations, from the Berlin peace treaty (1921) and the Mixed-Claims Agreement (1922) to the commercial treaty (1923), and also limit how America could engage problems of Europe as a whole. No domestic consensus existed in the
United States, nor was there a cooperative body of elites that demonstrated a single-minded policy towards Europe and Germany, economic or otherwise. Political determinants, rather than expansionist economic aspirations of American liberal capitalism, provided the basis for U.S. diplomacy during this period.

For Germany, cooperation with the United States was essential for both economic and political reasons. Germany needed American capital for economic stabilization and reconstruction, but economic reconstruction through economic involvement with America was also a political goal. Relations with America were seen as the prime vehicle for achieving revisionist aims against the Versailles settlement. Unlike in the United States, there was broad consensus among elites, parties and interests groups on this point; indeed, it was one of the very few points of agreement among the factions in the early Weimar Republic. Germany, however, was unable to pursue consistent long-term goals: conflict over domestic distribution of war costs, unwillingness to come to grips with inflation, and refusal to accept the verdict of Versailles necessitated a focus on short-term policy goals. American-German relations during the 1921-1925 period are best understood in this context.

This engagement of American with German would develop within the growing European crisis that began after the Versailles settlement. The cost of the war made Britain and France look to Germany’s required reparations to rebuild their societies and help finance the war debts that the United States had refused to cancel. For France, which had not only failed to obtain a security guarantee from the United States and Britain following American rejection of the Versailles treaty but also feared that it would be left alone to face the potential threat of the emergence of a strong Germany, reparations represented both an economic and a security
issue. The London Ultimatum, with its threat of sanctions against Germany if it failed to pay reparations, greeted the new Harding administration as it took office.

While the Harding administration believed (as the Coolidge administration would also) that European stabilization and peaceful reconstruction would significantly serve American interests and that the reconstruction of Germany was essential for European recovery, there was not a consensus in the United States that Europe was of such vital importance to America that it should intervene. Even with the attainment of a peace treaty, a mixed-claims agreement for the settlement of American claims against Germany and a commercial treaty, the United States could not fully engage Germany without resolution of the complex and interrelated questions of German reparations, Allied war debts, French security demands and German efforts for a revision of the Versailles settlement. These issues dominated the American-European diplomatic agenda during the turbulent years of the early 1920s, climaxing in 1923 with the occupation of the Ruhr—a situation that required bilateral American-German engagement and multilateral negotiations as well wherein America and Germany had to come to terms with the concerns of Britain and France. This study will explore how the German-American relationship affected the policies of other nations and how both the United States and Germany used Britain to leverage their diplomatic objectives.

The interaction among these effects demonstrates the importance of the German-American relationship in the European crisis. How America responded to Germany would affect Britain and France, as German hopes for American assistance affected its responses to Britain and France, whose relations with each other in turn grew more tense with British disapproval of France’s actions in the Ruhr. These consequences all arose from Germany’s position as the “problem of Europe.”
It would not be until France’s hold on the Ruhr threatened the unity of the German nation that American opinion about U.S. intervention became favorable and, together with international recognition that the United States was essential to the solution of the European crisis, provided a diplomatic opening for American intervention. At the same time, Germany showed that it was willing to make the tough but necessary economic reforms required for the Coolidge administration to believe that intervention would serve American interests. (In addition, if America failed to intervene and the European crisis became more chaotic, the Republican Coolidge administration would face the 1924 election with the Democrats eager to blame it for the situation.) Therefore, the United States joined Britain in pressuring France into accepting an experts committee, dominated by an American, Charles E. Dawes. Between his insistence and the necessity for an American loan to make the plan work, the United States was able to obtain consensus on a plan that satisfied its own view of how the Ruhr occupation should be resolved: the Dawes Plan would stabilize Germany’s monetary system on terms favorable to the United States’ economic interest in Europe, at the expense of British interests, provide Germany with a modified reparations-payment structure, and sufficiently satisfy France’s interests to gain French acceptance.

At the London Conference, the United States and Britain, together with their bankers, forced France to withdraw its economic presence from the Ruhr and to evacuate its troops one year later. France was also forced to accept a protocol that reduced the likelihood of future sanctions against Germany, whereas German diplomacy successfully avoided making economic and commercial concessions in exchange for the French evacuation. Consequently, France became unable to strictly enforce the Versailles treaty by means of sanctions; it was the beginning of the end of French predominance in Europe. For Germany, the conference
marked the beginning of a return to Great Power status and set the stage for its economic engagement with America in the second half of the decade.

Most centrally, this dissertation is constructed around the question of how, given so many domestic and international constraints, misperceptions and mistrust, Germany and the United States managed to eventually engage one another and revise the international European system. Although the answer is a complicated story involving many steps and missteps, its crucial element remains the evolution of the German-American relationship. It was not until America engaged Germany—diplomatically, economically, and politically—that the post-World War I crises in Europe could be resolved. Because Germany was and remains central to the European system, German-American relations were and even now are still the key factor in American relations with Europe as a whole. Therefore, examination of the nature and development of the German-American relationship, and in particular the rebuilding of that relationship, is important.

This study is largely based on State and private papers found in archives both in the United States and Germany. The broad outline of the United States diplomacy has been discerned through examination of State Department files regarding Germany and Europe held by the National Archives within Record Group 59. Likewise in Germany, the Politisches Archiv des Auswärtigen Amtes holds the German files regarding relations with the United States. The files of Abteilung III (the Foreign Office section covering America and Britain), the files of the Reichsminister, and the Washington Embassy files, which contain the major diplomatic correspondence dealing with political relations with the U.S., served as the essential sources for this work.
Much relevant material has been published in document collections, either in the State Department’s *Foreign Relations of the United States* or in the Auswärtige Amt’s *Akten zur deutschen auswärtigen Politik, 1918-1925* (Serie A). As these collections are readily available to the researcher, published documents are cited whenever possible, most notably the German cabinet minutes and papers.

As this study emphasizes the important roles played by individuals in the political relations among Germany, America and Europe, perusal of the private papers of the leading actors has been particularly rewarding. The papers of Alanson B. Houghton and Otto Wiedfeldt, the two ambassadors who played a decisive role in re-establishing the German-American relationship, are an especially valuable resource. Because both ambassadors were businessmen, with strong political influence but nonetheless outsiders to the diplomatic service, their papers are privately held by the archives of their firms: Houghton’s at the archives of Corning Inc. in Corning, New York, and Wiedfeldt’s by the Historisches Archiv der Fried. Krupp GmbH Essen. The loss of some of Wiedfeldt’s papers during World War II, particularly those of the period just as he was being tapped for the Washington post, required much investigation in the papers of Wiedfeldt’s associates to reconstruct his correspondence.

The papers of other key participants proved indispensable in constructing a more detailed picture of events and motivations than diplomatic files alone could provide, although, for the years before the reestablishment of relations, very little material exists. The papers of the head of the American mission to Berlin, and later *Chargé*, Ellis Loring Dresel, located at Harvard’s Houghton Library, are a valuable exception; these were heavily consulted for the period through the Treaty of Berlin to the exchange of ambassadors. In the United States the
papers of Charles Evan Hughes, Herbert Hoover and Henry P. Fletcher were consulted. Of most use, and vital to an understanding of the attitudes and motivations of the State Department, are the papers of William R. Castle, located in the Herbert Hoover Presidential Library. These papers, particularly Castle’s correspondence with the Berlin Embassy, provided a wealth of material and Castle himself can always be depended upon to provide a striking quotation.

In Germany, the Auswärtige Amt holds the working papers of the Foreign Ministers and top officials who were prominent in formulating political policy toward the United States. These include the working papers of Carl von Schubert, Ago von Maltzan and Edgar Haniel Haimhausen. The recent splitting of the German Bundesarchiv between Koblenz and Berlin left Koblenz with the major portion of the Nachlässe [private papers]. Many collections were consulted, particularly in regard to reconstructing Wiedfeldt’s correspondence, but of particular value to this study were the papers of Walther Rathenau, Joseph Wirth, Wilhelm Solf and Moritz Bonn. These private papers, which greatly enhance the main diplomatic files in the National Archives and Politischen Archivs des Auswärtigen Amts, led to a fuller view of and deeper insight into the motivations and actions of those determining and implementing the foreign relations of Germany and the United States.

Prologue

Important to this study is an understanding of how the effect of the Treaty of Versailles, and its rejection by the United States Senate, set the political context for the postwar engagement of America with Germany and the accompanying limitations on American-German interactions. At the Paris Peace Conference, President Woodrow Wilson faced a
major dilemma regarding Germany’s future role in Europe and the nature of its relations with the United States. Some of the goals of the conference were contradictory: to enhance French security, rehabilitate a reformed Germany into the new liberal economic order envisioned by Wilson, and promote American economic interests in Europe while limiting America's strategic commitments there. However, granting Germany a liberal, lenient peace increased the danger of the resurgent country again becoming a threat to Europe. Such a peace would have been unacceptable, not only to France but also to important elements of American opinion which recognized that a liberal peace would require the U.S. to increase its commitment to Europe, because if Germany again became a military threat the United States would have to protect Europe. Wilson, who was personally skeptical about Germany's commitment to liberal democracy, was willing to compromise although the United States was not prepared to accept that level of responsibility.

The economic clauses of the Treaty of Versailles blatantly contradicted the "Open Door" trade principles advocated by the United States, but their economic discrimination against Germany was time-limited. Germany emerged from the Versailles Conference an undivided nation that, after a probationary period, could be reintegrated into the world economy, thereby retaining its potential to become a major economic power--a possibility that also gave Germany potential military strength. Consequently, French hopes to create, at a minimum, a lasting economic balance of power between France and Germany were frustrated. Germany’s reparations obligation remained the primary long-term check on its ability to achieve economic dominance in Europe; however, at the same time, many thought that German reparations could be a major impediment to the reconstruction of Europe.
American policy at Versailles regarding reparations reflected the contradictions inherent in America's ambivalence toward making any postwar commitment to Europe. Wilson's economic advisors argued for a fixed reparations settlement, calculated on Germany's capacity to pay within thirty years, reasoning that a fixed and limited sum would allow Germany to reestablish its credit and issue bonds. Mobilization of the German debt would in turn help the Allies reestablish their credit and fund their war debt to America (approximately $10 billion). Wilson's advisors believed that too great a reparation burden would cripple the German economy and frustrate mobilization of the German debt. Even so, Wilson was forced to accept the Allied plan for a reparation commission to determine Germany's reparation requirements.

Wilson's concessions to the Allies reflected the necessity to accommodate their political needs. His ability to negotiate with them was also hampered by the United States Treasury's refusal of the Allies' suggestion that the use of German reparations bonds should be allowed to satisfy inter-Allied debts. Such linkage would have not only entailed a high credit risk, it also would have signaled acceptance of the idea that the American and European economies were interdependent, not to mention acceptance of certain responsibilities toward Europe the United States would be expected to bear as a result. In 1919, this idea was unacceptable to both the American public and Congress.\textsuperscript{16}

Wilson's advisors entertained some hopes that an American presence on the Reparation Commission would eventually result in a reparation program based on Germany's capacity to pay. The difficulty of achieving this goal became apparent in June 1919 when the Allies rejected Wilson's proposal to limit Germany's reparations to a fixed, interest-free amount,

\textsuperscript{16} Schwabe, Woodrow Wilson, Revolutionary Germany, and Peacemaking, 1918-1919, pp. 364-65, 373.
and the United States rejected a British plan for the reestablishment of international credit that would have allowed German reparation bonds to be used for payment of war debts. The United States would not accept an international clearing procedure for war debts as long as the reparation terms, which America considered excessive, remained in the treaty. For their part, the Allies refused to change those terms unless the United States agreed to actively participate in restoring credit in the world economy. This conflict over the relationship between war debts and reparations would dominate the international agenda in the early 1920s and remain a significant issue throughout the decade.\textsuperscript{17}

The domestic political constraints which limited Wilson's ability to foster German recovery were also evident in his failed attempt to persuade Britain and France to relinquish a portion of the German merchant fleet. Lloyd George, the British prime minister, was willing to release some of the German ships allotted to Britain if the United States would release some of the German ships it had confiscated. Such an action, however, was politically impossible for Wilson in the face of Congressional opposition. The problem of confiscated German property would complicate American-German relations until the Mixed Claims Agreement of 1922 and indeed well beyond that.\textsuperscript{18}

In the United States, the contradictory elements of the Treaty of Versailles exposed Wilson to attacks from multiple directions. Progressives denounced the treaty as vindictive and a betrayal of the Fourteen Points. Moderate Republicans agreed with Wilson that the

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\textsuperscript{17} Ibid.
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United States should take the lead in promoting disarmament and an Open Door trade policy, but they would only endorse the League of Nations without enforcement powers. Wilson's refusal to compromise with Republican senators who would only accept the treaty with reservations led to its defeat in the Senate. Congress' fight over the ratification of the Treaty of Versailles and establishment of the League of Nations would have political ramifications for how American foreign policy was conducted during the 1921-1924 period.

The conflict began in February 1919, when Wilson first presented the Covenant of the League of Nations at the Paris Peace Conference, and would continue for a little more than a full year. Drawing immediate Republican opposition was Article X of the covenant, which guaranteed the political independence and territorial integrity of league members against external aggression and required league members to take action against violators, even to the extent of using military force. Henry Cabot Lodge of Massachusetts led the immediate attack of Senate Republicans against both the league and Article X; his colleagues were already furious that Wilson had not included any prominent Republicans in the peace conference delegation.¹⁹

But Wilson and his followers, seeking a strong League of Nations with the power to punish aggressors through collective security, were opposed by a formidable ideological spectrum. At one end were senators who favored the idea of the United States joining a community of nations to promote and preserve peace and at the other were isolationists who

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totally opposed ratification of the treaty when presented in final form—the so-called
“Irreconcilables” led by Republicans William Borah of Idaho and Hiram Johnson of
California. The isolationists appealed to a long-standing policy of avoiding any foreign
entanglements and any international arrangement that might encroach the sovereignty of the
United States. Included in this group were many progressives who denounced the treaty as
vindictive and a betrayal of Wilson’s Fourteen Points, which promised a liberal peace, and
who favored disarmament and the formation of a world court for settling disputes. Some of
these progressives hoped to gain political advantage by courting votes (of liberals
disillusioned by the treaty and ethnic groups, such as the anti-British Irish and German-
Americans who felt the treaty was too harsh on Germany).

In the wide middle were moderate Republican senators, joined by a few Democrats who
were more or less willing to accept the treaty with reservations. The most important of these,
requiring congressional approval, was acceptance of the American obligation to action under
Article X. Opinions varied on other aspects of the treaty; some felt it lenient in its treatment
of Germany but were willing to accept its terms. Among the Republicans, some moderates
agreed with Wilson that the United States should take the lead in promoting disarmament and
an Open Door trade policy, but they would only endorse the League of Nations with
reservations. Wilson, however, stubbornly refused to accept any limitation on the treaty, and
in March 1920, Lodge failed to gain the Senate’s consent for a treaty with reservations: the
treaty was returned to the President without ratification.\(^\text{20}\)

\(^{20}\) John Milton Cooper, Jr., Breaking the Heart of the World, p. 5 for ethnic groups;
William C. Widenor, Henry Cabot Lodge and the Search for an American Foreign Policy
(Berkeley: University of California Press, 1980), pp. 300-48; Lloyd E. Ambrosius,
Woodrow Wilson and the American Diplomatic Tradition (Cambridge: Cambridge
The prolonged, bitter fight over the treaty exacerbated tensions between Congress, particularly the Senate, and the executive branch. Congress acted to reassert its powers and to gain a greater voice in foreign policy through criticism of executive policy, obstructions of initiatives, and limiting amendments and reservations in the area of treaty making. Partisanship and ill-will increased too, as did the importance of individual personalities. In this atmosphere, both the executive and legislative branch feared any initiative that could result in another such divisive conflict.\textsuperscript{21}

Because of these dynamics little was accomplished in the last months of the Wilson administration, which had been effectively destroyed by the treaty fight. The United States' international economic program depended upon the development and implementation of coherent policies toward German reparations, Allied war debts, private loans to Europe, and exchange controls, but these matters affected domestic issues such as inflationary concerns, levels of taxation, balancing of the budget, reduction of the national debt, and tariff policy. The fight over ratification made American relations with Europe and Germany a matter of intense and often bitter partisan political debates; relations with Germany were largely put on hold during the treaty fight and the presidential campaign of 1920. Although defeat of the treaty had wiped the slate clean for the Republican Party, when the Harding administration took office in early 1921 and the reparations bill was presented to German representatives in London, the political atmosphere created by the treaty fight would severely complicate American efforts to help with reconstruction of Germany and Europe.

Immediately after the collapse of Germany in November 1918, forward-thinking Germans saw relations with the United States as the key to the new republic’s future. They

\textsuperscript{21} John Milton Cooper, Jr., \textit{Breaking the Heart of the World}, pp. 1-11.
understood that the role of the United States, with its financial and productive might, had decided the outcome of the war and now only the United States would be able to rebuild Germany and Europe. How best to achieve this engagement would be a central question for successive German governments and foreign ministers. Wilhelm Solf, the last Foreign Minister of Imperial Germany, had directed that German foreign policy should focus on fostering relations with the United States; his successor, Count Ulrich von Brockdorff-Rantzau, also attempted to carry this idea forward into the Versailles conference. Germany would place its hope on Wilson and the United States.\textsuperscript{22}

From the German perspective, the Treaty of Versailles represented a failure of its diplomacy at Paris. Germany had offered what it considered concessions on economic issues, which by their very nature could never be final, in the hope of limiting the loss of territory and thereby preserving as much economic potential as possible. It had mistakenly believed that by becoming a democracy and adopting Wilson's liberal program it could achieve a lenient peace based on Wilson's Fourteen Points, interpreted in a manner maximally advantageous to Germany.\textsuperscript{23} When this strategy failed, many Germans condemned Wilson for deceiving and betraying Germany. This reaction to the treaty dealt a blow to Germany’s liberal elements from which they never recovered. Nevertheless, many in Germany continued to believe that close relations with the United States represented the only way to improve the German economic and political position and that a mutual interest in


\textsuperscript{23} Schwabe, Woodrow Wilson, Revolutionary Germany, and Peacemaking, 1918-1919, p. 404.
trade provided the basis for that cooperation. Indeed, this became the *idée fixe* of German foreign policy of the early Weimar Republic.

The German representatives at Paris were unprepared for the terms of Versailles treaty, the German people even less so. Wartime censorship within Germany and the national fixation on Wilson’s political rhetoric had created a “dreamland” of public opinion, which transformed into deep resentment over the shock of the Versailles treaty and not only established revisionism as the guiding principle of Weimar Germany’s foreign policy but also precluded an objective view of the actual treaty terms.

The Versailles treaty returned Alsace-Lorraine to France, but against French desires the Rhineland was not separated from Germany. In a compromise the treaty allowed for an Allied occupation of the German Rhineland, with a staged withdrawal over fifteen years to provide France time to recover from the impact of the war. The treaty also required Germany to provide Britain, and especially France, with commercial concessions for a five-year period. In the East, it recreated the nation of Poland from former Russian and German territories, in doing so separating German East Prussia from the rest of Germany by a Polish corridor that gave Poland access to the Baltic and the port city of Danzig, which was severed from Germany and made a free city. (In 1921 Germany was able to negotiate provisions for plebiscites in ethnically and nationally disputed areas, such as Upper Silesia.)

Although Germany had lost its colonies, the Treaty of Versailles preserved it as a viable nation, the second most populous in Europe with a dominant position in Central Europe. The treaty also provided for German reparations payments to the Allies, the total sum of which was to be fixed later by the Allies and included the so-called “War Guilt” clause (Article 231), which pinned moral responsibility for the war on Germany and its allies. This clause
was designed on American initiative, to justify reparations but also limit them so that the total cost of the war would not be imposed on Germany. The treaty also provided for a security guarantee to France, by the United States and Britain, which would ultimately depend on American ratification. At Wilson’s insistence, the treaty contained a provision for a league of nations as well, intended to be a formal vehicle for collective security and conflict resolution.24

Despite the hopes of many in the German foreign office and the various governments of the new German republic, relations with the United States would be based on pragmatic considerations and not on shared political, cultural, and social values. The nationalistic reaction to the treaty resulted in a discrediting of Western political and social values which would damage German understanding of American politics and thereby impair German

24 The Versailles treaty has undergone an abundance of interpretations, most of them varying between too lenient and too strict to be workable. Discussion of its voluminous and complex historiography lies outside the scope of this study but the pillars of the traditional debate were set by John Maynard Keynes’s The Economic Consequences of the Peace, which emphasized the treaty’s unworkable aspects and the vindictiveness of its construction, and Étienne Mantoux’s The Carthaginian Peace or the Economic Consequences of Mr. Keynes, which points out its strengths and its actual benefits for Germany. The recent debate tends to focus on why the Versailles treaty failed. Margaret MacMillan views the treaty positively, suggesting that its failure was due to later mistakes rather than its actual terms in Paris 1919: Six Months that Changed the World (New York: Random House, 2001). Zara Steiner, while acknowledging the possibilities of the Versailles treaty, emphasizes its ultimate failure in The Lights That Failed (Oxford: Oxford University Press, 2005). This study’s viewpoint is that it was a workable treaty, given good will on the part of those involved, and could have been peacefully revised if developments so dictated. Most in the German government failed to see that an American participation in the Versailles system would have been of the greatest benefit to Germany as a voting American member on the Reparations Commission would have provided immediate and substantive relief for Germany. Although Germany did get a major revision at the London Conference, it paid a terrible price through the trauma of the Ruhr occupation—a trauma that could have been avoided, and other desirable results achieved, had the U.S. signed the treaty. That is the great paradox of Germany’s revisionist foreign policy.
diplomacy as well.25 German behavior would in turn strengthen American stereotypes about German stubbornness and self-serving advocacy, reinforcing the idea that agreements between the United States and Germany had to be virtually dictated to Germany.

At the same time, American disinclination to assist Germany on anything other than American terms would limit the help Germany could receive from America as the crisis over reparations moved steadily toward a French occupation of the Ruhr. With the stalemate of the French-German conflict over the Ruhr, the United States withdrew to let Europe have, in the words of Secretary of State Hughes, its “bit of chaos.”26 Although German diplomatic reactions to the Ruhr occupation were directed toward achieving American mediation on its behalf, German diplomatic missteps resulted in confirming Hughes’s decision to remain aloof. American economic and commercial interests in Germany did provide a mutuality of interests, but there were significant limits to that mutuality. As Germany took action to improve its credibility with the United States, the German domestic situation was rapidly reaching the point of collapse. The efforts of Gustav Stresemann to adjust German policy to the wishes and needs of the United States, while holding Germany together to prevent total collapse, created the opportunity for the United States to decisively engage both Germany and Europe.

The resultant Dawes Plan and its implementation by the London Conference in 1924 brought the United States back into a leading role in European affairs, on its own terms,


26 Hughes’s famous remark can be found in Memorandum by the Secretary of State of a Conversation with the British Ambassador (Geddes), 23 Feb 1923, Papers Relating to the Foreign Relations of the United States 1923, II (Washington, D.C.: Government Printing Office, 1938), p. 56 (heretafter cited as FRUS).
provided the Republican administration with a foreign policy success in Europe which had
eulded them since 1921, and formed the basis for a viable Republican foreign policy
alternative to Wilson’s more direct engagement with Europe. For Germany, the successful
engagement with America represented a victory for its foreign policy that it also had
struggled for since 1921. After American intervention, a decisive step toward the revision of
the Versailles treaty system, Germany once again felt itself an equal partner in international
affairs, although it remained very clearly the junior partner in the German-American
relationship. Despite the false starts and bungling, the emphasis placed on the United States
by German foreign policy would bear fruit. After 1924, the goals of German revisionism
with regard to the Versailles system would be underwritten by the financial and moral
authority of the United States.
Chapter I
The Separate Peace:
The Making of the Treaty of Berlin

In contrast to the Treaty of Versailles, the 1921 Treaty of Berlin that ended the state of war between the United States and Germany has by and large been treated as a footnote in the diplomatic history of the era. When discussed from the perspective of American history, it has been generally characterized as a treaty in which the United States "assumed all the rights of the Treaty of Versailles and none of its obligations" or as some variant of "the best that could be done under the circumstance." \(^1\) From the perspective of German history, it has been termed the "first significant success of German foreign policy." It has also been seen as the beginning of a "special relationship" and reflection of "a mutuality of interests" between Germany and the United States.\(^2\) Those who have given significant attention to the treaty


have predominately focused on the Congressional political battles that accompanied its ratification and have often neglected the German perspective.

Such brief characterizations often fail to appreciate the context of the interactions between Germany and the United States. The Treaty of Berlin illustrates the foreign policy agendas that were evolving in the Weimar Republic and the changing directions in the United States. The meeting ground was the economic expectations of the two nations. But the political agendas were very divergent. Germany sought to escape from the confines of Versailles, while the United States wished to minimize political issues and looked forward to an era of economic diplomacy that would foster American economic expansion and European stability. The negotiations regarding the treaty would reflect the clash between these agendas. It is in the broad context of these issues, implicitly revolving around the reparations problem, that the Treaty of Berlin can best be understood.

The Harding Administration and the Problem of Peace with Germany

When President Warren G. Harding took office on 4 March 1921, more than two years after the Armistice of 1918, the United States was still technically at war with Germany. In March 1920, the Republican controlled Senate had defeated Woodrow Wilson's final effort to obtain ratification of the Treaty. Wilson, in turn, had vetoed a Republican effort in May 1920 to end the state of war through a congressional resolution. In January 1921, Wilson

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also rejected German offers of a separate treaty following a declared peace. During the
campaign President-Elect Warren Harding had been non-committal regarding peace plans. But having been strongly supported by the more internationalist wing of the Republican party in the fight for the nomination, Harding was not opposed to the ratification of the Versailles treaty with reservations and American entrance into the League of Nations, if such a solution were politically possible.

Harding's Secretary of State, Charles Evans Hughes, a prominent member of the business oriented internationalist wing of the Republican Party, favored ratification of the Treaty of Versailles and an American entrance into the League of Nations. Hughes, however, believed that the League should be separated from the treaty and transformed into an international forum for the promotion of peace and prosperity rather than an organization charged with the enforcement of the Versailles system. In February and March 1921, Hughes sounded out the French regarding these ideas but was firmly rebuffed. Hughes was left with the problem

4 The Commissioner at Berlin (Dresel) to Secretary of State (Colby), 15 Jan 1921, and Colby to Dresel, Washington, 16 Feb 1921, Department of State: Political Relations between Germany and the United States, Record Group 59, #711.62199/-, National Archives, Microcopy #335 (hereafter cited as Dept. of State, RG 59), Roll 1.

5 Beerits Memorandum, "The Separate Peace with Germany, the League of Nations, and the Permanent Court of International Justice," in Charles Evans Hughes Papers, box 172, folder 25, Library of Congress, Manuscript Division (hereafter cited as Beerits Memorandum). Henry Beerits was hired by Hughes in 1933 to arrange his papers and write a series of essays on his life and career; the Beerits memoranda were written between 1933 and 1934. See Peter H. Buckingham, International Normalcy: The Open Door Peace with the Former Central Powers, 1921-29 (Wilmington: Scholarly Resources Inc., 1983), p. 13, n. 1.

6 Hughes met first with the French ambassador in February while still secretary-designate. In late March, French Premier Aristide Briand, concerned that the new administration would ignore French security and sign a separate peace treaty, dispatched René Viviani to urge the new Republican administration to seek ratification of the Versailles treaty. Viviani told Hughes that France was "extremely apprehensive" about the possibility of a separate peace. Such a peace would make it "extremely difficult" for the Allies to exact
of bridging the gap between the internationalist Republicans and the Irreconcilables, those Republicans who were irreconcilably opposed to both the treaty and the League, as well as fending off partisan attacks from Democrats.

Following Harding's inauguration, the battle between Republican internationalists and Irreconcilables for Harding's support intensified. On 2 April, Senator Philander Knox, who objected to Wilsonian idealism and favored traditional military alliances as the foundation of national security, informed Harding that he intended to renew the effort to make peace with the Central Powers through a resolution similar to the one that Wilson had vetoed in 1920. A few days later a delegation of Irreconcilables who were concerned over Hughes's intentions bluntly informed Harding that if Hughes attempted to introduce ratification of the Treaty they would block Harding's legislative domestic program. Harding, who did not have a strong commitment either to the Versailles treaty or the League, capitulated to the political realities. Hughes wanted to salvage as much as possible of the Versailles Treaty but had little room to maneuver. Both Harding and Hughes realized that it was imperative to avoid a replay of Wilson's disastrous battle with the Senate.

German compliance with Versailles, and Viviani predicted "disastrous consequences." France, however, would have no problem if the United States sought an exemption from the general international peace guarantee responsibilities provided by Article X of the Covenant before joining the League. Hughes replied that the problem lay in "the difficulties which had been created as a consequence of making the League of Nations an instrument for the enforcement of the Treaty and of the difficulties which would confront the United States in entering it." On that matter Viviani could not compromise. Beerit's memorandum, "The League of Nation and the World Court," box 172, folder 24, Hughes Papers; Department of State, Papers Relating to the Foreign Relations of the United States 1921, I (Washington, D.C.: Government Printing Office, 1936), pp. 964-67 (hereafter cited as FRUS).


On 12 April Harding informed the Senate Foreign Relations Committee that he unequivocally opposed American participation in the League of Nations and that he supported Congressional passage of a declaratory resolution establishing a state of peace. He also suggested that the United States should then safeguard its rights by accepting the existing Versailles Treaty with explicit reservations and modifications. The following day Knox introduced Senate Joint Resolution 16 repealing the declarations of war against the Central Powers and calling for the retention of all seized enemy alien properties until war claims against Germany by American nationals were settled. The Knox resolution also provided that the United States, although it had not ratified the Treaty of Versailles, "reserves all the rights, powers, claims, privileges, indemnities, reparations, or advantages to which it and its nationals have become entitled . . . "both under the Armistice agreement and the Treaty." The resolution thus claimed for the United States all of the advantages of victors while explicitly avoiding the associated responsibilities. Republicans, having rejected the Versailles treaty over strong Democratic protests, considered it a political necessity to claim for the United States every right that the Versailles treaty provided. The Republican priority was to negotiate a treaty as quickly as possible and move on to the domestic political agenda.


10 U.S., Congress, Senate, Congressional Record, Senate Joint Resolution 16, 67th Cong., 1st sess., pp. 188-89.

11 Henry Cabot Lodge, the Republican Majority Leader in the Senate, wrote Ellis Dresel, the American Commissioner in Germany in reference to American claims under the Versailles treaty: "As a matter of fact, we have hardly an interest in the treaty of any kind except in regard to a few ships, as I recall it, but that will undoubtedly be the condition of any resolution repealing the declaration of war." Lodge to Dresel (personal), 4 Feb 1921, box 263, Ellis Loring Dresel Papers, Houghton Library, Harvard University, Cambridge, MA
The Senate passed Knox's resolution, and a similar resolution was introduced in the House by Stephen G. Porter, the Republican Chairman of the House Committee on Foreign Affairs. Wilsonian Democrats immediately served notice that any peace treaty would continue to be a matter of domestic partisan politics. Charging that a repeal of the declaration of war could be interpreted as a disavowal of the war effort, Democrats forced Porter to change the language of the resolution to a simple declaration that war between the United States and both Germany and Austria-Hungary was over. But before this dispute over wording could be resolved, events in Europe intervened. Following the March 1921 London Conference on reparations which precipitated a European crisis, Germany had asked the United States to mediate a solution to the reparations problem. Harding, at Hughes's request, asked Porter in early May to delay action on the resolution. Hughes wanted to send the message both to Germany and to the Allies that the separate peace proposal did not indicate that the United States was shifting away from Britain and France and towards Germany.

German Expectations

(hereafter cited as Dresel Papers).


14 New York Times, 8 May 1921, p. 1; Keith L. Nelson, Victors Divided: America and the Allies in Germany, 1918-1923 (Berkeley: University of California Press, 1975), pp. 182-
To understand the context in which the Treaty of Berlin would be negotiated, it is necessary to review German reaction to the election of Harding and Germany's anticipation of normalized relations. Germany had noted the election of Harding with keen interest and anticipation. On November 6, American specialists in the German foreign ministry [Auswärtige Amt] immediately and correctly predicted that Harding would be caught between the Internationalists and Irreconcilables. The United States would then either accept a revised Versailles Treaty or negotiate a separate peace. Germany hoped for, and somewhat expected, the latter.  

There was also a general expectation in both Germany and the United States that the pro-business Harding administration would pursue policies more favorable to Germany than had its predecessor. Indeed, rumors that the United States might return German property that had been sequestered during the war drove the value of the mark on the New York exchange upward from eighty-eight to sixty-three marks to the dollar between November 12 and 18. 

By December 1920, Germany was already looking forward to the possibilities of a separate peace. The German Foreign Ministry believed that Germany's economic importance to the United States, then in a post-war depression, would provide Germany with negotiating strength. They expected that support from American business interests would allow Germany to negotiate on an equal basis a commercial treaty which would be free from the restrictions

83; Buckingham, International Normalcy, p. 19.


of Versailles. Beyond serving as a precedent for future negotiations, this would also provide Germany with access to American raw materials and investment funds, allowing Germany to achieve the economic growth that Germany believed the Versailles Treaty sought to restrict.\(^{17}\)

Germany's primary goals for a treaty with the United States were defined as the establishment of full diplomatic relations, the return of German property seized during the war, and the renewal of commercial relations on a reciprocal basis. Germany also hoped for American assistance in halting its inflation and expected the United States to make indemnification for claims arising out of the post war occupation.\(^{18}\) Germany's most immediate priority was the release of at least part of the German property that had been sequestered upon the United States entry into the war and held in the Alien Property Fund. Released assets could be used to obtain credits for the export of American foodstuffs to Germany, thus relieving pressure on the mark.\(^{19}\)

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\(^{17}\) Aufzeichnung des Wirklichen Legationsrat Bücher, Bemerkungen zur Frage eines amerikanischen Rohstoffkredits für Deutschland, 18 Dec 1920, Nr. 88, ADAP IV, pp. 167-70. German expectations were also buoyed the December visit to Berlin of Senator Joseph McCormick of Illinois. McCormick, owner of the Chicago Tribune, also had large financial interests in newspapers in Ohio, Harding's home state. Max Warburg appears to have set up meetings between McCormick and leading Germans. McCormick, who had two confidential meetings with Foreign Minister Walter Simons, was known to be sympathetic toward Germany and was considered by Germany to be Harding's authorized spokesman (Dresel to Castle, 29 Dec 1920, box 68, Dresel Papers). For German Foreign Office interest in McCormick’s visit, see Politisches Archiv des Auswärtiges Amt, Abt. III, Po. 2, Politische Beziehungen Vereinigte Staaten v. Amerika zu Deutschland (hereafter PA AA Abt.III), R80131 and R80132.

\(^{18}\) Ergebnis der Besprechung über die künftige Gestaltung unserer Beziehungen zu den Vereinigten Staaten, 24 Jan 1921, Nr. 143, ADAP IV, pp. 295-98.

\(^{19}\) A prominent German-Jewish banker, Paul v. Schwabach was sent to the United States with the hope of forming a corporation to take over part of the Alien Property Custodian for the purpose of furnishing credits. Schwabach, a consultant to Germany's Foreign Exchange
German Foreign Minister Walter Simons recommended that Germany wait for the new Harding administration to take the initiative, believing that Germany's bargaining position would be even better if the United States initiated the negotiations. Simons, however, saw no harm in informal lobbying. In January 1921, he told the American Commissioner in Berlin, Ellis Loring Dresel, that a separate declaration of peace would be "greeted with joy by the German people," American efforts to ratify the Versailles Treaty with reservations, however, would be met by Germany with "endless discussion." As an added incentive, Simons reminded Dresel that although the Versailles treaty gave reparations claims a first mortgage on all state property in Germany, because the United States had few reparation claims to make, ratification of Versailles would impede other claims the United States did have against Germany. Finally, Simons's warned Dresel was that while the German people might forgive Wilson's abandonment of the Fourteen Points at Versailles, an American ratification of the Versailles Treaty after its devastating effects upon Germany had been evident for two years would be unforgivable by the German people. Dresel clearly recognized Germany's underlying agenda. He wrote Senator Henry Cabot Lodge, the Republican Senate Majority Leader, "The farther they can get away from the peace of Versailles in negotiating with us, the less difficulty they believe they will meet in eventually

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21 The Commissioner at Berlin (Dresel) to the Acting Secretary of State (Colby), 15 Jan 1921, FRUS 1921 II, pp.1-2.
obtaining modifications of the peace."

Simons, misreading the political situation in the United States, was premature in his lobbying efforts. Harding would not take office until March 1921 and in the last months of Wilson's administration neither Wilson nor his Secretary of State Bainbridge Colby had any interest in furthering German efforts to make a separate peace with an incoming Republican administration. When German officials leaked the conversations to the press, Secretary of State Bainbridge Colby, angrily ordered Dresel to halt any discussions on the matter. An embittered Wilson, over the objections of the State Department, also ordered the removal of the American representatives on the Council of Ambassadors and the Reparation Commission, in order, as William Castle, Chief of the West European Division in the State Department wrote Dresel "to make things for the Republicans just as difficult as he jolly well can."

It was assumed in Germany that the incoming Harding administration would move quickly to end the state of war and reestablish diplomatic relations on a basis other than Versailles. Noting the importance of relations with the United States, Simons called for the immediate collection of material regarding Germany’s economic situation. The material would form a guideline regarding future German economic and political policy toward the U.S. to be used by diplomats and consular official soon to be sent to the United States.

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22 Dresel to Lodge, 14 January 1921, box 263, Dresel Papers.

23 Colby chastised Dresel that he had no business discussing delicate matters that might be misconstrued by the Allies as "allowing ourselves to become an entering wedge between them and Germany." Colby to Dresel, Washington, 16 Feb 1921; Dresel to Colby, 19 Feb 1921, FRUS 1921 II, pp. 2-3.

24 The planned withdrawal from the Reparations Commission was still held secret in January 1921. Castle to Dresel, 17 Jan 1921, box 68, Dresel Papers.
Expecting quick movement of the questions of peace negotiations, the release of German property, and a new commercial treaty, Simons wanted the material ready before Harding took office.\(^\text{25}\)

The London Ultimatum and German Hopes for U.S. Intervention

Germany's misguided hopes for a rapid American involvement significantly influenced its strategy regarding reparations. Confronted with French proposals for a provisional solution under which Germany would accept five years of substantial annuities that would be satisfied in part through payments in kind, Germany, unaware of Wilson's plans, adopted a policy of stalling until, as Foreign Minister Walter Simons informed the cabinet, "its impossibility could become obvious during the negotiations and the Americans can come to help us in the meantime."\(^\text{26}\)

Germany was not alone in hoping for greater American involvement in the economic reconstruction of Europe. The United States had emerged from the war as the primary creditor nation, and both Britain and France believed that any long term solution inevitably must involve the United States. Both nations were under pressure from the United States to


\(^{26}\) Simon believed that Germany could not afford to reject outright the French proposals which had the support of the British Ambassador, Lord D'Abernon. Simons also argued that by appearing to engage in negotiations Germany could prevent a Poincaré government from coming into power in France. Kabinettsitzung, 15 Jan 1921, Nr. 156, Das Kabinett Fehrenbach, ed. Peter Wulf (Boppard am Rhein: Harald Bolt Verlag, 1972), pp. 416-17. For a detailed account of the French proposal designed by Jacques Seydoux see Marc Trachtenberg, Reparations in World Politics: France and European Economic Diplomacy, 1916-1923 (New York: Columbia University Press, 1980), pp. 155-91.
establish debt refunding schedules before the moratorium on Allied war debt interest payments ended in October 1922. Both nations hoped that the new administration might inaugurate a reconstruction program that would alleviate the problem of reparations and war-debts.\footnote{27} In Germany, Walter Rathenau, at that time an advisor to the government on reparations matters, flatly stated that "the task of reparations cannot be discharged without American involvement."\footnote{28} Rathenau insisted that Germany required American loans or, even more preferable, a solution involving German assumption of Allied war debts since they carried lower interest rates.\footnote{29}

Confident that Germany could bring the new Harding administration into reparation negotiations, Simons confidentially told Dresel just prior to the London Conference of March 1921 that he intended to submit an unacceptable proposal for reparations in the hope that after its rejection Lloyd George would support the German recommendation that the question


\footnote{29}Rathenau's proposal for German assumption of part of the Allied war debts as a partial solution to reparations reflected his impatience with immediate political practicality that stood in the way of his visionary solutions. His proposal was rejected by the German cabinet which recognized that the United States was hardly likely to prefer Germany with its multitude of financial problems as its debtor over the Allies. In addition, the United States had yet to conclude a peace treaty with Germany. Any such proposal would have placed Harding in an impossible position. Moritz Bonn, a reparations advisor to the Fehrenbach government, commented that the Allies would consider it as the "usual German swindle . . . and rightly so." Quoted in Feldman, The Great Disorder, p. 333; Ministeratssitzung, 10 March 1921, Das Kabinett Fehrenbach, p. 544.
of reparations be referred to a committee of experts.\textsuperscript{30} Simons's gamble failed when Lloyd George joined France and Belgium in rejecting the German offer and presenting Germany with an ultimatum demanding some immediate payments and German acceptance of the total indemnity that would be set by the Reparations Commission. To insure the immediate payments, the towns of Düsseldorf, Duisburg, and Ruhrort, the principal ports of the Rhine, were occupied on 8 March and plans were made for the establishment of a custom frontier along the Rhine.\textsuperscript{31}

These actions immediately involved the United States. The success of a customs regime in the Rhineland depended upon American consent since American occupation troops controlled the important bridgehead across the Rhine from Coblenz. Hughes, who believed that Germany had both a moral and legal obligation to pay reparations, readily approved the application of sanctions but insisted that the Allies bear the total responsibility for enforcing them. This passive stance lowered the likelihood of any incident that might provoke Congress into the total withdrawal of American forces. It also allowed the Allies to accomplish their aims without the United States appearing to side with the Allies against Germany.\textsuperscript{32}

\textsuperscript{30} Dresel to Hughes, Berlin, 7 March 1921 Dept. of State, RG 59, #462.00R29/589; Ambrosius, The United States and the Weimar Republic, 1919-1923, p. 308.

\textsuperscript{31} Resolution of the Supreme Council of the Allied Powers, 5 May 1921, FRUS 1921 II, pp. 51-52; Carl Bergmann, The History of Reparations (London: Ernest Benn Limited, 1927), pp. 66-68.

\textsuperscript{32} On 21 March, Hughes informed General Henry T. Allen, Commander of the American Army of Occupation in Germany, that "although this government will take no part in the enforcement of penalties decided on by the Allies, it does not wish to put unnecessary obstacles in the way of such enforcement." Hughes to Wallace (for Allen), Washington, 23 March 1921, FRUS 1921 II, p. 37.
The reparations crisis forced Germany to turn to the United States for help despite its intentions to let the United States make the first major diplomatic move in German-American relations. On 21 March 1921, Simons, in the hope that the United States might be persuaded to mediate the conflict, gave Dresel a carefully worded note stating that Germany intended to pay reparations to the best of its ability. Although urged by Castle and other advisors to reject the implied request for mediation immediately, Hughes reserved judgment and simply sent a reply making it clear that the United States, like the Allies, held Germany morally responsible for reparations. Castle whose advice reflected the growing irritation at Germany within the State Department, privately wrote Dresel that Germany had to be disabused of its belief "that this country would in the end, for trade reasons take its side on reparations as against England and France." Castle also informed Dresel that sympathy for Germany had evaporated over the previous year partly through "the shameless propaganda campaigns" of German-American activists, partly through Simons's "thoroughly stupid proposal" at the March London Conference, and partly through reports of American businessmen of a "tremendous economic revival" in Germany. Castle's exasperated conclusion was that "the Germans are more expert in misunderstanding the psychology of other people than anybody in the world." 

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33 Dresel to Hughes, Berlin, 23 March 1921, FRUS 1921 II, pp. 37-39; Castle to Dresel, 30 March 1921, box 68, Dresel Papers.

34 Castle to Dresel, 30 March 1921, box 68, Dresel Papers. Castle's letter to Dresel was also part of a debate between two personal friends. Dresel viewed Castle as being anti-German, and Castle considered Dresel too sympathetic to the German viewpoint. Dresel, while often exasperated by the German mentality and what he considered diplomatic clumsiness, was generally sympathetic toward the German people. Convinced that an orderly and stable Germany was essential to world peace, he favored the German position on the Upper Silesia question and sympathized with France's predicament, believing that Germany had a moral responsibility to pay "every cent it could afford to pay" of reparations, but he
The April Initiative

Simons, now depressed and desperate, insisted on making a confidential but formal request for America to serve as an umpire and to fix the sum for German reparations, despite Dresel's strong discouragement of such a request. This initiative had been prompted by the advice of a small group of German-American businessmen. It was a naive and misconceived plea for America intervention that reflected not only desperation but also a deeply held German conviction that trade with Germany was essential to the United States, a belief that was reinforced by a continuous parade through Germany of American

was convinced that the proposed sums were well beyond Germany's ability to pay and that France was exaggerating the German economic recovery. Dresel saw Germany's first proposals at London as an "amazing blunder" and another example of Germany making things worse for itself. His greatest fear was a French military occupation of the Ruhr, which he felt might collapse Germany into anarchy. Dresel's sympathies lay with the left-center in German politics; he feared that the burden of reparations would ultimately fall not on the wealthy but rather on the ordinary German worker and bourgeoisie, whom he considered the ultimate support for German democracy. Castle, although worried about French designs on the Ruhr and Communist activity in Germany, considered Dresel's views so out of touch with opinion in Washington, which was less certain about Germany's inability to pay, that he suggested that should Dresel ever be appointed ambassador he should spend a few months in the United States to get a better sense of American opinion. Dresel to Castle correspondence, November 1920 - May 1921, see especially Castle to Dresel, 9 May 1921, box 68, Dresel Papers.

35 Dresel to Hughes, 20 Apr 1921, FRUS 1921 II, pp. 41-42; Aufzeichnung des Reichminister des Auswärtigen Simons, Berlin, 20 Apr 1921, Nr. 250, ADAP IV, p. 512; Draft of Appeal, Apr 1921, R28189k, Büro Reichminister (hereafter Büro RM) Reparation, Bd. 1, D736085, Politisches Archiv Auswärtiges Amt (hereafter PA-AA).

36 The initiative stemmed from German-American businessmen hoping to obtain American credits for Germany that could support large cotton orders. They were informed by Hugo Stinnes and other major industrialists that reparations would preclude such credits. In an effort to remove the impediment of the reparations issue from their commercial schemes, they convinced Simons to attempt his initiative. The source of the initiative was known to Allied diplomats and served further to discredit German diplomacy. Dresel to Lodge, 7 May 1921, box 263, Dresel Papers.
businessmen and speculators looking for opportunities in Germany's inflationary economy and by German confidence that German-American propagandists in the United States were swaying American opinion in Germany's favor. It also was a reflection of the inadequate expertise that existed at the German Foreign Ministry which had been undergoing major reorganization since 1919 and did not have strong leadership. Germany mistakenly believed that the United States followed the German pattern of close consultation between government and business. The Foreign Office also had little familiarity with who the influential voices in American business and politics actually were.\(^{37}\)

Hughes believed that the United States had a vital interest in a reparation settlement and wanted the crisis resolved. It significantly complicated his immediate problem of obtaining a peace treaty from the Senate. It also hampered European recovery and his plans to foster free trade by extending the “open door” into Europe. Castle and other State Department advisors counseled Hughes to refuse the German request for mediation and argued that the best vehicle for American participation would be resumption of involvement in the Reparation Commission which had been ended by Wilson.\(^{38}\) Harding had given Hughes wide latitude within the administration to develop foreign policy, but Hughes's freedom of action was limited by the Senate.\(^{39}\) The role of umpire would have been unacceptable to both the Allies


and the United States Senate, and Hughes could not resume formal American participation in the Reparations Commission since American involvement was anathema to the Irreconcilables in the Senate. 40 His immediate situation was further complicated when Germany published its reparation proposals. 41 Hughes could, however, engage in confidential informal mediation, and he was willing to explore that option.

Hughes informed Simons confidentially that the administration "would be willing with the concurrence of the Allies to participate in the negotiations if Germany seeks to resume them on a sound basis." 42 Wary of being maneuvered into appearing to favor one side or the other in the reparations dispute, Hughes cautiously attempted to see if such informal mediation was possible. On 25 April Hughes informally presented new German proposals to the British and French Ambassadors, reiterating American support for the principle that Germany should be made to pay for its aggression. At the same time Hughes pointed out that the world economy needed German productive power and that what Germany could pay was a matter for experts to decide. 43 The Allies informed Hughes that the German proposals were entirely unsatisfactory and could not be accepted as a basis for further negotiation. 44

40 Senators William Borah and Hiram Johnson were obsessed with avoiding American involvement with the Reparation Commission. They were convinced that participation would lead to political entanglement with Europe and serve as a "backdoor" entry into the League of Nations. Robert J. Maddox, William Borah and American Foreign Policy (Baton Rouge: Louisiana State University Press, 1969), p. 121.

41 Castle to Dresel, 9 May 1921, box 68, Dresel Papers.

42 Hughes to Dresel, Washington, 21 Apr 1921 - 6 p.m., FRUS 1921 II, p. 45.

43 Memorandum by the Undersecretary of State (Fletcher) of a Conversation between the Secretary of State and the British and French Ambassadors (Geddes, Jusserand), 25 Apr 1921, FRUS 1921 II, pp. 48-50.

44 Memorandum by the Secretary of State of Conversations with the British and Belgian Ambassadors and the Counselor of the French Embassy, 28 Apr 1921, FRUS 1921 II, p. 52-
Unwilling to exert pressure on the Allies, Hughes notified Simons of the bad news and suggested that the German government should make a better offer directly to the Allies.\textsuperscript{45}

A perturbed Simons replied that this appeared to make an end of all intervention by the United States and indicated that America had placed itself "definitely on the Allies' side." The German initiative had ended in failure.\textsuperscript{46} Simons's idea of placing the fate of Germany in the hands of an American President only a relatively short time after what Germany considered a betrayal by Wilson reflected Germany's conviction that German and American interests were inevitably linked. It was an especially risky political gamble since Simons had consulted neither the parties nor the Reichstag. Given the political realities that existed in Britain, France and the United States, Simons’s move was well characterized by Dresel as "ludicrous in the extreme if the seriousness of the situation had not also made it pathetic."\textsuperscript{47}

A few days later the Reparation Commission fixed the German indemnity at 132 billion gold

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\textsuperscript{45} Hughes's timing of the response to Germany is illustrative of the caution he took to maintain a stance of American impartiality in the reparations dispute. The British Ambassador requested that Hughes delay informing Germany that mediation would not be possible until the ambassador received further instruction from the Supreme Council, then meeting in London. Knowing that an ultimatum would be sent to Germany and concerned that it might be "fantastic" in its terms, Hughes feared that if the American response to Germany took place after the ultimatum, the United States might be forced to take a position that could appear as approval or disapproval of the ultimatum's terms. When no response from London arrived by the evening of 2 May, Hughes suspected that the Allies as well as Germany were attempting to maneuver the United States into supporting their position. Hughes immediately cabled the American response to Germany just ahead of the announcement of the ultimatum. Castle to Dresel, 9 May 1921, box 68, Dresel Papers.

\textsuperscript{46} Hughes to Dresel, Washington, 2 May 1921; Dresel to Hughes, Berlin, 3 May 1921, \textit{FRUS} 1921 II, pp. 54-55.

\textsuperscript{47} Dresel to Lodge, 7 May 1921, box 263, Dresel Papers. Simon saw U.S. intervention as Germany’s last hope. With the failure of the April initiative, Simon thought that his effectiveness as foreign minister was at an end and wished to resign. Simon to Bergmann, 27
marks, and on 5 May the Allies declared Germany in default and threatened occupation of the Ruhr in one week. The Fehrenbach government capitulated to the Allies' demands and resigned.  

Germany's April initiative revealed many of the basic parameters of the German-American relationship that would structure the peace treaty negotiations and later relations. Hughes believed that as the world's largest economic power, the United States had a vital interest in a general European recovery; that the reconstruction of Germany, while an important element in that recovery, was only one element; and that Germany, because of its overarching problem of reparations, needed the United States more than the United States needed Germany. While Hughes personally believed that the Allies' reparation demands were excessive, he was unwilling to pressure the Allies to reduce them because doing so would risk raising the question of reducing Allied war debts as well. The German misreading of American political realities resulted in bringing America closer to the Allies and increasing Hughes’s sensitivity to Allied concerns regarding a separate peace. The best Hughes could do was obtain Harding's permission to resume formal American participation on the Supreme Council and send unofficial observers to the politically sensitive Reparations Commission.

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48 Resolution of the Supreme Council of the Allied Powers, 5 May 1921, FRUS 1921 II, pp. 56-57. The failure of the April initiative ended all chances for the survival of the Fehrenbach government, which had already been abandoned by the German People Party even prior to the London ultimatum. Trachtenberg, Reparations in World Politics, p. 213.

Domestic Developments in the U.S. and Germany

The reparations crisis of March and Germany’s April initiative, in which it had attempted to draw in the United States, had immediate and dramatic effects on the politics of the Knox-Porter peace resolution. To the Republican Irreconcilables, Harding's approval of Hughes's actions during the crisis indicated that the President was deserting his former Senate colleagues. Lodge had to forestall open rebellion among Senate Republicans. After Germany's acceptance of the London ultimatum, Porter quickly pushed his resolution through the House. Lodge was then able to force acceptance of the House version in the Senate, and on 2 July 1921, President Harding, pausing between two rounds of golf in Raritan, New Jersey, signed the resolution ending the state of war with Germany. Senators Borah and Johnson, however, remained determined to block any treaty with Germany that involved the United States in Europe. The German April initiative thus served to limit Hughes's flexibility in negotiating a treaty with Germany even further.

Congress' unilateral declaration of peace presented Hughes with an acute dilemma. The Congressional declaration alone did not guarantee American rights. Such rights had to be confirmed by a formal German acceptance in a treaty. Hughes, therefore, had to negotiate a treaty acceptable to Germany, the administration, and the Senate. At the same time any

50 The Irreconcilables' anger intensified when Harding indicated a preference for Porter's resolution declaring an end to the state of war. Harding's decision was seen in political terms as a further movement away from the isolationist conception of the Senate Irreconcilables and toward the more internationalist position of the House, where residual sentiment for the Treaty of Versailles was stronger. "Admirable Consistency," New York Times, 9 Jun 1921, p. 14; Ibid., 12 Jun 1921, p. 1.

complications with the Allies had to be avoided, since the postwar European system was based on the Versailles treaty. Hughes tried to use the complexity of the task as justification to resubmit the Treaty of Versailles, with reservations and without the League. His plan was blocked by the Irreconcilables, who had long suspected such intentions, and regular Republicans who saw little political gain in passing Wilson's treaty. Hughes' solution was to create a new treaty by grafting the parts of the Versailles treaty which specified American rights and privileges onto the Knox-Porter Resolution. It was as much of the Versailles treaty as Hughes believed he could get through the Senate.52

The American domestic political situation demanded a rapid conclusion of negotiations with Germany and the signing of a treaty. The first step was to inquire informally whether Germany intended to raise questions regarding the Knox-Porter Resolution's claim to all the rights and privileges accorded the United States under the Armistice and Versailles treaty. Hughes was especially concerned with three specific rights: He wanted an American voice in the disposition of German colonies; he wanted to make certain that reimbursement for costs of the American Army of Occupation would be a first lien on German property; and he wanted the opportunity to utilize the Versailles system of tribunals for the settlement of American war claims against Germany. Hughes made it clear that the American government would not agree to any treaty that did not retain those rights. "Have it clearly understood," he instructed, "that resumption of diplomatic relations which is in the discretion of President and further steps with regard to relations between the United States and Germany, will

largely depend on the attitude of German government in this matter.\textsuperscript{53}

In Germany, a new minority Weimar Coalition cabinet led by Dr. Josef Wirth, which had taken office on 10 May 1921, accepted responsibility for fulfilling the conditions of the London Ultimatum. The new government's publicly avowed policy was one of fostering economic recovery through cooperation with the Allies. Its "fulfillment" reparation policy was based on appearing to cooperate while demonstrating that economic conditions demanded that reparations be reduced. Dresel expected that the United States would hold a strong hand in negotiations with Germany. Germany wanted a separate peace "as part of its constant policy to get herself loose from all Versailles obligations without absolutely repudiating the Treaty," and Dresel believed that the German policy would collapse if the United States withheld a separate peace.\textsuperscript{54} Hughes's proposal offered Germany its separate peace, including the tantalizing possibility that "further steps" might also include American involvement in the reparation question, but the price was that American terms had to be quickly accepted.

Germany wanted the rapid reestablishment of commercial relations with the United States.\textsuperscript{55} It was believed that once American and business interests were involved with

\textsuperscript{53} Beerits Memorandum, "The Separate Peace with Germany," p. 21; Hughes to Dresel, Washington, 5 July 1921, Dept. of State, RG 59, 711.62119/9a, Microcopy #355, Roll 1.

\textsuperscript{54} Dresel to John Foster Dulles, 30 Apr 1921, Dresel Papers. Dresel expected that Germany would start with "impossible propositions but surrender almost completely at the end." Dresel to Lodge 7 May 1921, Ibid.

\textsuperscript{55} In anticipation of a treaty, the new German Foreign Minister, Friedrich Rosen, informed Dresel on 6 July that Germany intended to send a commission to America as soon as possible for the special purpose of investigating the resumption of active commercial relations between the two countries. Recognizing the Allies' sensitivity to German-American relations, Rosen asked for Dresel's cooperation and assured him that members of the commission would "be kept as quiet as possible" so as not to "excite comment" (Dresel to
Germany, they would serve as an invaluable lobby for American intervention in the reparation question on Germany's behalf. Germany also looked to the United States as the primary source of investments, loans, and foreign exchange both for reparation payments and for stabilization of the German economy.\textsuperscript{56}

The Negotiations

Negotiations for a separate treaty between the United States and Germany began on 7 July 1921. Dresel presented Hughes's proposal to the German Foreign Minister Friedrich Rosen, whose only initial responses were to inquire whether commercial matters would be taken up in the proposed protocol and to promise Dresel an early response to the "rights and

\textsuperscript{56} Germany's need for American dollars was especially pressing since the London ultimatum's requirement that the first billion gold-mark payment be made by 31 August 1921 had ended almost a year of relative stabilization of the mark and had driven the value of the German mark down from 62.30 to the dollar at the end of May 1921 to 76.76 in July. The relative stabilization of the German economy that Germany enjoyed during 1920 and the first half of 1921 was based on large flows of foreign speculative capital, much of it American. It was estimated that in October 1920 as much as $130 million in German industrial securities and municipal loans had been sold on the American market. In addition the holding of millions of marks by American exporters who hoped for appreciation had the effect of providing Germany with a massive interest-free loan. Germany's great fear was that speculation in favor of the mark would stop, with a resulting monetary and economic collapse. A closer relationship with the United States offered the possibility of averting this danger by converting short-term speculations into long-term American investments and loans. During the early summer of 1921 Germany also had the immediate concern of obtaining foreign exchange following the commencement of reparation payments. These payments had diminished the Reichsbank's foreign exchange, leaving it in no position to intervene on behalf of the mark. Feldman, The Great Disorder, pp. 256, 346.
From the American perspective, Hughes's proposal was straightforward and in Germany's own interest. When Rosen kept Dresel waiting until 13 July for an answer, Dresel, irritated by the delay and suspecting that Germany would ask for concessions, complained that German mentality did not have the sense "to meet us more than half way... it is no time for quibbling." 

Rosen, who had to defend German acceptance before the cabinet, had specific concerns that from the German perspective were far from quibbles. In regard to the issue of sequestered German property, Germany wanted the language of the Knox-Porter Resolution to take precedence over the Versailles treaty provisions regarding seized German property. The Knox-Porter resolution implied the return of this property after Germany satisfied American claims and granted most-favored-nation privileges to the United States, whereas the Versailles treaty provision would only return property after Germany fulfilled all reparations requirements. Second, Germany wanted reciprocity in regard to rights and privileges so that it might reserve any rights and privileges provided by the Versailles treaty that were of benefit to Germany.

While the proposed protocol fell far short of fulfilling Germany's expectations and hopes, Wirth and Rosen strongly advocated its acceptance. Rosen, looking forward to diplomatic relations as well as a commercial and friendship treaty, argued to the German cabinet that the

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57 Dresel to Hughes, Berlin, 26 Jul 1921, Memorandum of Interviews with Chancellor Wirth and Dr. Rosen on subjects of Peace Negotiations, Notes of 7 July, Dept. of State, RG 59, 71162119/32, Microcopy #355, Roll 1, (hereafter cited as Dresel Memorandum Notes).

58 Dresel to Castle, 13 Jul 1921, box 68, Dresel Papers.

59 Dresel Memorandum Notes, notes of 13 and 14 July, Dept. of State, RG 59, 711.62199/32, Microcopy #355, Roll 1.
treaty offered tangible benefits despite its limitations. Additionally, if acceptable to the other Great Powers, he hoped for a possible American entry into the commissions established by Versailles, including the all-important Reparations Commission. Last, Rosen told the cabinet that he viewed the American proposal as only a preliminary protocol that would serve as the basis for further negotiation. The Auswärtige Amt hoped to talk the United States into a reduction of its claims against the German government by asking it to limit the rights assigned to the United States by virtue of the Versailles treaty. 

Hughes's proposed protocol did, however, pose some political risks for the Wirth government, a minority government under heavy criticism both for its program of raising taxes and for the situation in Upper Silesia. Opponents of the government's policy of fulfillment complained that concessions to France were only resulting in renewed demands. The London Ultimatum had been perceived in Germany as another Diktat and had rekindled German anger over the Versailles treaty. The Wirth government desperately wanted to avoid any appearance that a treaty with the United States would be yet another Diktat and not a bilaterally negotiated agreement.

By 22 July the Wirth government was ready to declare that it did not have the intention "to bring into question the rights, interests, and advantages which the American government

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60 Dresel to Castle, 26 Jul 1921, Dresel Papers; Kabinettssitzung, 19 Jul 1921, Nr. 51; and Ministerrat, 20 Jul 1921, Nr. 52; Die Kabinette Wirth I und II, ed. Ingrid Schultze-Bildingmaier, 2 vols. (Boppard am Rhein: Harald Boldt Verlag, 1973), vol. 1, pp. 140-46.

61 After a plebiscite of 21 March 1921, held to determine the German-Polish border, resulted in a majority voting to remain in Germany, fighting broke out between German and Polish volunteers. Disagreements between France, which favored Poland, and Britain, which favored Germany, deadlocked the Allied Supreme Council's attempts to resolve the issue. F. Gregory Campbell, "The Struggle for Upper Silesia," Journal of Modern History 42 (June 1970), pp. 361-85.
wishes to claim by the treaty of Versailles in connection with the Congressional resolution.\textsuperscript{62} Germany, however, had no clear understanding of American intentions in regard to the rights claimed, and wanted assurances that German rights under the Versailles treaty would be respected by the United States.\textsuperscript{63} Rosen also wanted some concessions that could help shore up the Wirth government politically before Germany gave its final acceptance. He noted the Harding administration had an interest in the continued existence of the Wirth government, but that it could fall without some success to show for his policies, at least in the matter of the “American question.” Germany wanted a declaration from the Harding administration of its intention to release German property held by the Alien Property Custodian. In addition Rosen wanted some movement on the question of a commercial treaty and some assurance that the German government would not be confronted with an unalterable document.\textsuperscript{64}

\textsuperscript{62} Dresel to Hughes, Berlin, 22 Jul 1921, \textit{FRUS} 1921 II, pp. 7-8.

\textsuperscript{63} Rosen specifically referred to question of the Saar Valley. The Knox-Porter formulation, which omitted any reference to the League of Nations, left American recognition of some provisions of the Treaty of Versailles ambiguous. Rosen wanted reassurance that the United States accepted the provision in which the ultimate disposition of the Saar Valley would be decided by the League of Nations. Dresel Memorandum Notes, Notes of 22 July, \textit{Dept. of State}, RG 59, 711.62119/32, Microcopy #355, Roll 1.

\textsuperscript{64} It was an article of faith of German foreign policy that nothing could be worse then the Versailles treaty, which was perceived as a \textit{Diktat}. Rosen was anxious to use a separate treaty with the United States as a means of discrediting negotiations at Versailles and thereby securing a presumed diplomatic success. In fact, the Germans obtained numerous concessions at Versailles, especially in regard to the territorial settlement. Rosen attempted to convince Dresel that the Wirth government, which had little in the way of solid achievements, was in danger of falling. Because this government had refrained from consulting with the heads of German's political parties regarding the peace negotiations, the cabinet feared that when it announced acceptance of Hughes' conditions, it would be criticized for not consulting the Reichstag and for giving everything away without getting anything in exchange. \textit{Ibid}, See also Dresel to Hughes, Berlin, 22 Jul 1921, \textit{FRUS} 1921 II, p. 8; \textit{Aufzeichung des Geheimen Legationsrats von Schubert}, 22 Jul 1921, Nr. 89, \textit{ADAP} V,
The question of how to deal with German property seized in the United States under the requirements of both the Versailles treaty and the Knox-Porter Resolution raised complex policy and legal issues. The Treaty of Versailles deprived Germany of the right to reimburse German nationals for property claimed by the Allies without specific approval by the Allies, since such compensation would reduce German ability to pay reparations. While the Knox-Porter Resolution provided for the release of property after war claims had been paid, it was in one respect more restrictive than the Versailles treaty as it also required Germany to provide the United States certain commercial rights before the property could be released. (In addition, the Wilson administration had sold off some of the sequestered property for artificially low prices, an abuse halted by Hughes.) If the United States released the German assets, these problems would be solved for Germany: German nationals would regain their property, any United States war claims against Germany government would be in competition with reparations demands, and German property would no longer be held hostage in any commercial-relations negotiations. Furthermore, after seized German companies in the United States were returned to German ownership, they could serve as a source of foreign exchange and provide a base for the expansion of German-American commercial relations, an important element in Wirth's "fulfillment" policy. The release of German property in the United States would also serve as a counterexample to Versailles and represent a political victory for the Wirth government.65 But Hughes, facing his own

65 St. John Serret, Unofficial American Delegation - Reparation Commission, Paris to Van Merle-Smith, Assistant Secretary of State, Paris, 7 Jan 1921, Dept. of State, RG 59, 711.62119/1, Microcopy #355, Roll 1; Solicitor's Memorandum, Section V of the Peace Resolution, Washington, 15 Jul 1921, Dept. of State, RG 59, 711.62119/-, Microcopy #355, Roll 1.
domestic problems, was in no position to provide Germany with a reward for its acceptance of his terms. Germany was told on 25 July that "Congress alone has the power to deal with that matter."\(^6\)

Rosen temporarily dropped the question of sequestered German property and turned his attention to opening up any formal treaty for negotiation. Rosen noted that the proposed protocol included some provisions of the Versailles treaty while excluding others, but that the Versailles treaty contained a series of important provisions that were intimately and inseparably connected with other provisions. He was particularly concerned about the linkage between the reparations clauses and the evacuation of the Rhineland. This point went to the question as to whether the United States would later be able to resist German or domestic pressure for an early evacuation of American forces from the Rhineland on the grounds that Germany had not fulfilled the reparation requirements. Rosen's proposed solution was to include in the treaty protocol "specific enumeration of the rights, privileges, and advantages claimed by the United States together with their conditions or limitations claimed by Germany."\(^7\) The broader significance of this issue was that restrictive language could serve as a counter-example to French claims that the Versailles treaty gave the Allies the right to remain in the Rhineland until each and every provision had been satisfied.

Dresel was willing to provide only a memorandum of understanding stating that if the United States claimed a right under the Versailles treaty that also provided Germany a right,

\(^6\) Hughes to Dresel, Washington, 23 Jul 1921, FRUS 1921 II, p. 9; Dresel Memorandum Notes, notes of 25 Jul 1921, Dept. of State, RG 59, 711.62119/32, Microcopy #355, Roll 1; Kabinettssitzung vom 25 Juli 1921, Nr. 54, Die Kabinette Wirth I, p. 151.

\(^7\) Dresel to Hughes, Berlin, 27 Jul 1921, FRUS 1921 II, pp. 9-10; Dresel Memorandum Notes, note of 25 Jul 1921, Dept. of State, RG 59, 711.62119/32, Microcopy #355, Roll 1.
the United States would recognize "such condition or limitation."\textsuperscript{68} Hughes had no intention of allowing any protocol specifically spelling out American rights and limitations. Correctly viewing the German effort as an attempt "to insert a commentary upon the Treaty of Versailles into the proposed treaty," he was determined to minimize the extent to which a separate peace could be seen as a criticism of the Versailles treaty or as creating a gap between the United States and its Allies.\textsuperscript{69} Washington had an additional reason to avoid the issue of German rights: Hughes's proposed treaty was an imperfect solution and the State Department did not want Germany raising awkward and potentially politically embarrassing questions regarding conflicts between the proposed treaty and the Treaty of Versailles.\textsuperscript{70}

The State Department took the position that the question of German rights was simply a "sentimental demand" and that Germany should simply sign the short treaty and trust that the United States "is going to treat them perfectly fairly." From Hughes's perspective, all that was needed was an agreement granting the rights specified in the Congressional peace resolution and a series of cross references to the treaty clauses that contained American privileges. The problem of linked provisions could be solved by adopting the German suggestion that each provision be construed in light of its context, an idea to which Hughes had no objection. In order to maintain the pressure on Germany for rapid agreement, Hughes instructed Dresel that Germany be told that discussions related to the resumption of diplomatic and commercial relations could proceed only after the new treaty came into

\textsuperscript{68} Ibid.

\textsuperscript{69} Hughes to Dresel, Washington, 28 Jul 1921, \textit{FRUS} 1921 II, pp. 10-11.

\textsuperscript{70} This point is also noted in Sally Marks and Denis Dulude, "German American Relations, 1918-1921," \textit{Mid-America} 4 (October 1971), pp. 221-226, esp. 234.
force.71 Hughes quickly forwarded the draft to Dresel along with authorization to negotiate on behalf of the United States.72 The designation of Dresel as the negotiator, rather than sending a high-level delegation, reflected Washington's decision to keep any negotiation regarding the new treaty to a minimum. Dresel's task was to get the Germans to sign it quickly.

The draft treaty appended three articles to the Knox-Porter Resolution. Article I provided for German acceptance of the rights specified by that resolution. Article II stated "That the rights and advantages stipulated in that [Versailles] treaty for the benefit of the United States, which is intended that the United States shall have and enjoy embrace those defined in Section I, of Part IV, and Parts V, VI, VIII, IX, X, XI, XII, XIV, and XV." These rights included special trade and transportation rights, reparations, and army occupation-cost reimbursements, as well as the right to take part in the disposition of German colonies.

Article II of the draft treaty also specifically excluded the United States from any responsibilities arising from those parts of the Versailles treaty relating to the League of Nations (Part 1), the boundaries of Germany (Part II), the political clauses for Europe (Part III), all provisions relating to German rights and interests outside Germany with the exception of those sections relating to German colonies (Part IV) and Labor provisions (Part XIII). The United States reserved the right to participate in the Reparation Commission and any other commissions established by the treaty, but only by its own discretion. Finally, Article II also stipulated that all time limits specified by the Versailles treaty would begin, by

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71 Castle to Dresel, 2 Aug 1921, box 68, Dresel Papers; Hughes to Dresel, Washington, 28 Jul 1921, FRUS 1921 II, pp. 10-11.

decision of the United States, from the date of the German-American treaty. Article III provided that the exchanges of ratification would take place in Berlin.\textsuperscript{73}

When the draft treaty was presented on 1 August 1921, Rosen immediately complained that its omission of provisions securing German rights and "peremptory language" would anger the public and endanger the government. Rosen's fears had little credibility with Dresel, who recognized that the "burning questions" in German politics were the issues of Upper Silesia and tax reform. American politics defined the framework for negotiations, and Dresel was being prodded by Washington to move negotiations as rapidly as possible since the State Department was being criticized for inaction and the Senate was getting restless. Germany would have to be satisfied with Hughes's assurances that German rights would be respected and that any problems could be worked out after the treaty was signed.\textsuperscript{74}

Both the draft treaty and Dresel's insistence on rapid German acceptance raised serious concerns in the German foreign ministry, which had no reliable information regarding American intentions. German consent to the treaty could be seen as a renewed sanctioning of the demands of Versailles and making a later revision of those demands impossible. It also opened the possibility of an expansion of demands to include payment for American military pensions. This viewpoint was challenged by Friedrich Gaus, the legal advisor to the

\textsuperscript{73} Ibid.

\textsuperscript{74} Dresel believed that the Wirth government would survive any crisis regarding Upper Silesia since it had the support of the "inarticulate masses." He was less sure that it would survive the scheduled Reichstag debate over tax reform in the autumn. Dresel to Lodge, 26 Jul 1921 and Dresel to Castle, 26 Jul 1921, box 63; Castle to Dresel, 2 Aug 1921, box 68, Dresel Papers; Dresel to Hughes, Berlin, 6 Aug 1921, Continuation of Memorandum of Interviews with Chancellor Wirth and Dr. Rosen on Subject of Peace Negotiations, Notes of 1 August, Dept. of State, RG 59, 71162119/60, Microcopy #355, Roll 1 (hereafter cited as Dresel Memorandum Notes, Part 2); Dresel to Hughes, Berlin, 1 Aug 1921, FRUS 1921 II, p. 12.
German foreign ministry, who argued against the idea that this treaty was worse than Versailles. He cogently noted that the Armistice agreement alone committed Germany to far-reaching compensation to America. Accepting Gaus's argument, the ministry assumed that the negotiations were not about American interest in the general Versailles settlement; they were about the United States' particular claims against Germany. The German negotiating strategy would be aimed at limiting those claims.\(^5\)

When Rosen presented the draft treaty to the cabinet on 5 August, other concerns were raised to be addressed with Dresel. Wirth asked only if the treaty would indeed lead to diplomatic relations with America, as that was of an “importance not to be underestimated,” Rosen replied that it would.\(^6\)

On 6 August, Rosen presented five specific points of concern. First, he wanted language in the treaty recognizing German rights. Second, at the request of the German Social Democrats, he asked that the United States' accept Part XIII of the Versailles treaty, which related to the International Labour Organization. Third, with respect to German property, Rosen wanted the Knox-Porter Resolution to take precedence over the Versailles treaty. His fourth request was for the inclusion of a statement that negotiations would later be initiated on points not covered and that diplomatic and consular relations would be resumed as soon


\(^{6}\) Ministerratssitzung vom 5 Aug 1921, Nr. 64, Die Kabinette Wirth I, pp. 190-93; Undatierte Aufzeichnung des Geheimen Legationstrats von Schubert, Kabinettssitzung vom 5 Aug 1921, Nr. 98, ADAP V, pp. 201-3. Frustration with the unclarity and tone of the draft treaty can be seen in this meeting by Rathenau’s comments regarding Dresel. Rathenau confesses a great mistrust of Dresel, whom Rathenau described as simply “a postbox” in negotiations with the U.S. He wished that German diplomats could be sent directly to Hughes in Washington to conclude the treaty and perhaps find the opportunity to open discussion on the whole Treaty of Versailles.
as the treaty was ratified. The fifth point related to the possible delay by two additional years of those parts of the treaty that had fixed time periods. Germany was specifically concerned that the United States might be able to claim a longer occupation of the Rhineland than the other Allies. Dresel strongly discouraged any negotiation on points two, three and four, but agreed to raise the first and fifth points.\footnote{Dresel Memorandum Notes, Part 2, \textit{Dept. of State}, RG 59, 711/62119/60, Microcopy #355, Roll 1; Dresel to Hughes, Berlin, 6 Aug 1921, 6 p.m. and 7 p.m., \textit{FRUS} 1921 II, pp. 12-14. For a German view of the negotiations and Rosen’s 5 points, see Amerikanisches Angebot eines Friedensvertrag, Undatierte Aufzeichnung ohne Unterschrift (11 Aug 1921), Nr. 104, \textit{ADAP} V, pp. 210-24.}

Hughes was willing to make symbolic concessions to satisfy German \textit{amour propre}, but refusing any substantive concessions. Hughes was willing to add to Article I the provision that the United States, in exercising its rights under the Versailles treaty, "will do so in a manner consistent with the rights accorded to Germany under such provisions." Hughes was also willing to provide a collateral formal declaration that the United States would not claim the right to occupy the Rhineland for two extra years. Since Hughes was struggling to maintain some American presence in the Rhineland against a Congressional push for the total and immediate withdrawal of American troops, a concession not to maintain American troops in the Rhineland two years after the theoretical withdrawal of British and French troops was easily made. Hughes, however, would neither reconsider the substantive question of German property nor give up the leverage of withholding negotiations regarding diplomatic and consular relations until after the treaty was ratified.\footnote{Hughes to Dresel, Washington, 8 Aug 1921, \textit{FRUS} 1921 II, pp. 14-15.}
Acceptance of the Treaty

The Wirth cabinet was reluctant to make any decision regarding the proposed treaty until the imminent determination by the Allied Supreme Council on the fate of Upper Silesia was announced. An adverse decision was likely to precipitate a political crisis and the Wirth cabinet would have to weigh the domestic political advantages and disadvantages of signing the treaty. Rosen used the delay to press for a concession on Germany's primary concern, the issue of the German property held in the United States. Accepting the reality that the State Department could not override Congress, Rosen now asked that President Harding make an explicit recommendation for the return of the sequestered property, a concession which would assure acceptance of the treaty. Dresel, while warning Rosen that he had no direct knowledge, indicated his belief that the Alien Property Fund question would be taken up by Congress after peace was made but that the President was unlikely to provide any assurances in advance.

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79 Dresel to Castle, 8 Aug 1921, box 68, Dresel Papers.

80 Rosen maintained that such an announcement would not only have an extraordinarily beneficial effect on German opinion, which had been bitterly disappointed by what was seen as Wilson's abandonment of the Fourteen Points, but would also "obviate any further question of form or substance in regard to the proposed treaty and would make ratification a matter of course," a point he reiterated after receiving Hughes' response to the five points. Dresel to Hughes, Berlin, 15 Aug 1921, Continuation of Memorandum of Interviews with Chancellor Wirth and Dr. Rosen on Subject of Peace Negotiations, Notes of 9 Aug, Dept. of State, RG 59, 71162119/58, Microcopy #355, Roll 1 (hereafter cited as Dresel Memorandum Notes, Part 3).

81 Rosen had little comment regarding the response to points two, four, and five, but wanted to know if the word "embrace" in Article II Section I of the proposed treaty fully indicated that general rights under the Versailles treaty claimed under Knox-Porter Resolution were limited by the specific rights claimed in Article II and suggested "are" as a preferable phraseology. Dresel Memorandum Notes, note of 10 Aug 1921, Dept. of State, RG 59, 711.62119/58, Microcopy #355, Roll 1; Dresel to Hughes, Berlin, 10 Aug 1921, noon and 3 p.m., FRUS 1921 II, pp. 15-16.
In Washington, the political pressure for a rapid conclusion of negotiations intensified as Senate Democrats opened an attack on Republican peacemaking efforts. Denouncing Majority Leader Lodge as a hypocrite, they pointed out that Lodge had attacked Wilson in 1919 for not providing information to the Senate regarding progress of the Paris Peace Conference, but was now allowing a Republican administration to follow a similar policy of secrecy.\footnote{New York Times, 11 Aug 1921, p. 1.} Hughes was ready to make minor concessions in language to speed German acceptance but was unable to offer any concession on the Alien Property Fund question, since to interfere with Congressional prerogatives when already under attack in Congress would have been political folly. What Hughes wanted was a rapid conclusion of the negotiations, on American terms.\footnote{Hughes instructed Dresel to allow Germany to have the "consistent with Germany's rights" phraseology included in the text. If necessary, Germany could even have "are" instead of "embrace." Hughes to Dresel, 11 Aug 1921, FRUS 1921 II, p. 16.}

In the German cabinet, opposition to the treaty was led by Walter Rathenau, the Minister of Reconstruction, who bore the primary responsibility for the government's policy of fulfillment. Both that policy and Rathenau himself were under heavy and constant attack from the Nationalists. While Rathenau looked to the United States for the eventual solution to Germany’s problems, there was little in the proposed treaty that promised immediate political help. Echoing the earlier concerns of the Foreign Ministry, Rathenau claimed that rather than limiting the rights granted under the hated Versailles \textit{Diktat}, the draft treaty appeared to extend those rights and represented "complete surrender to America" that was "worse than Versailles" since it provided no specificity. He maintained that Dresel's negotiating stance was "a bluff" and that Germany should not accept the terms. Believing in
the importance of German markets to America, then suffering from severe economic
depression, and encouraged by visiting pro-German Americans, Rathenau expressed
confidence that resistance would not cause difficulties, and that the United States would
continue to negotiate.\(^8\)

Matters came to a head on the evening of 12 August, when news reached Germany that
despite the German victory in the Upper Silesia plebiscite, the Allied Supreme Council had
decided to refer the Upper Silesia issue to the League of Nations. When Rosen informed
Dresel of considerable opposition to the treaty in the cabinet and general concern about
attacks from the Nationalists, Dresel became alarmed that the adverse decision on Upper
Silesia could shift opinion in the cabinet against the treaty or, even more likely, lead to
procrastination out of political timidity.\(^5\) Dresel immediately began to apply pressure on

\(^8\) Notes of Chefbesprechung of 12 Aug 1921, Nr. 66, Die Kabinette Wirth I, pp. 195-197. During the height of the negotiations an American banker visiting Germany was shown a copy of the proposed treaty by a German banker who had been consulted by the German government. The visiting banker met with Rathenau and other members of the cabinet and gave multiple public interviews stating that the Versailles treaty was unworkable and suggesting that America distance itself from it. Viewing the incident as similar to what had occurred during the April initiative, Dresel expressed his disappointment that "the Germans take as authorized preachers of the gospel men who either never had any standing in the United States or have lost what they had." Dresel to Castle, 23 Aug 1921, Dresel Papers. See also Schwabach to Rosen, Berlin, 16 Aug 1921, PA-AA, Büro Reichsminister, Vereinigte Staaten von Nordamerika, Bd.1, R28487:172 (D 618510).

\(^5\) Under the original draft of the Versailles treaty, the entire region was to become part of the new Polish state, but as a result of German protests and the support of Lloyd George the final treaty included a provision for a plebiscite in Upper Silesia. In the voting, of 20 March 1921, Germany carried 55 percent of the communes. Official German policy was to claim the entire province based on the result of the plebiscite, the supposed economic indivisibility of the region and the necessity of the region to Germany for the fulfillment of reparation payments. The decision to refer the issue to the League was regarded by the Germans as a major diplomatic defeat, despite the distinct possibility of Germany receiving the larger share of the province, as indicated by the plebiscite. The League’s decision left Germany with 70 percent of the territory, although most of the mines and industries were left to Poland. See Piotr S. Wandycz, France and Her Eastern Allies, 1919-1925 (Minneapolis: University of
the German government. His first step was to keep the primary advocates of the treaty, Wirth and Rosen, from weakening their support. He warned them that the consequences of rejecting the treaty would be "disastrous." America would respond with "indignation" and Germany would be charged with "trying to evade her obligations." He reminded them that American financial and diplomatic support was essential if Germany hoped to achieve reparation reduction and reconstruction, cautioning that he did "not see how relations could be taken up for a long time" unless the treaty was signed.86

Having reassured himself of Wirth's and Rosen's support, Dresel next confronted Rathenau, who had been the primary source of opposition to the treaty in the cabinet. Rathenau retreated under Dresel's threats of an American withdrawal. With the mark falling at a rate of ten percent per month, Germany's pressing need for dollars was greater than America's need for German markets. Rathenau claimed that his position had been misunderstood and offered to support the treaty in exchange for written assurances that America would not only establish diplomatic relations as soon as it was ratified but also grant opportunities for discussion regarding the proper construction of the parts of the Versailles treaty accepted by America. Dresel provided Rathenau with an informal letter of understanding on both points. The next day, President Friedrich Ebert assured Dresel that there was every prospect for an agreement.87

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86 Dresel Memorandum Notes, Part 3, note of 12 and 13 Aug 1921, Dept. of State, RG59, 711/62119/58, Microcopy #355, Roll 1.

87 Dresel Memorandum Notes, notes of 12, 13, 14, 15 Aug 1921, Dept. of State, RG 59, 711.62119/58. The only accounts of the meeting between Rathenau and Dresel appear to be provided by Dresel's notes and letters. Dresel believed it was his forceful stance that "backed
Germany made one last try on the issue of the Alien Property Fund. Rosen informed Dresel that Germany would sign the treaty if it could obtain language that would limit the effect of the Knox-Porter Resolution to the specified rights retained under the Versailles treaty. In addition, Rosen wanted written assurances that the promised later negotiations would include reciprocal economic relations.

Rosen's efforts merely succeeded in irritating Hughes, who recognized that the only practical and significant consequence of Rosen's proposed limitation would be to override the Alien-Property provisions of the Knox-Porter Resolution. Knowing he could not alter language related to that resolution without jeopardizing Senate passage, Hughes nonetheless pointedly reminded the German down" Rathenau since Rathenau had been continually opposed to the treaty from the start. Dresel recounts that, acting on his belief that "sometimes it is of use in dealing with the German mentality to blow up occasionally," he took Rathenau to task for his questioning of the "straightforwardness of the American government" (Dresel to Castle, 23 August 1921, Dresel Papers). The image portrayed by Dresel of a blustering German who would back down when faced with a straightforward American was typical of the conceptions held about Germans by American officials, even those who, like Dresel, had a generally sympathetic view of Germany's problems. Disdain for the German mentality and diplomacy was widely held in official Washington circles. Lodge felt that "the trouble with the Germans is that they seem to be stupid as well as not fair and open in their dealings" (Lodge to Dresel, 8 Aug 1921, Dresel Papers).

For his part, Rathenau also had disdain for Dresel and his methods, which Rathenau felt were far from straightforward. There was a great deal of frustration on the part of the German cabinet and with Rathenau in particular over how the treaty was being negotiated. Rathenau saw Dresel as simply a "postbox" to Washington without the authority to negotiate on the issues Germany wished to address. Despite Dresel’s threats and informal assurances, Rathenau remained skeptical of the treaty. As Minister of Reconstruction, Rathenau had a strong interest in keeping the pressure on Wirth and Rosen to obtain as much as possible from the United States. See Ministerratssitzung, 5 Aug 1921, Nr. 64, Die Kabinette Wirth I, pp. 190-93; Aufzeichnung von Schubert, Kabinettsitzung, 5 Aug 1921, Nr. 98, ADAP V, pp. 201-3.

88 Dresel to Hughes, Berlin, 22 Aug 1921, Continuation of Memorandum of Interviews with Chancellor Wirth and Dr. Rosen on Subject of Peace Negotiations, notes of 14, 15, 19 Aug, Dept. of State, RG 59, 71162119/67, Microcopy #355, Roll 1 (hereafter cited as Dresel Memorandum Notes, Part 4); Dresel to Hughes, Berlin, 19 Aug 1921, FRUS 1921 II, pp. 17-18; Kabinettsitzung von 20 Aug 1921, Nr. 71 Die Kabinette Wirth I, pp. 207-8.
government German property could be held by the United States under the reparation provisions of the Versailles treaty. All he could offer was the promise that if Germany accepted the new treaty, the United States would not claim any rights beyond those given by the Versailles treaty and that the alien-property question would be dealt with "upon the most fair and righteous basis." Hughes was also willing to state that the United States looked forward to negotiations regarding the fostering of commercial relations, but instructed Dresel to warn Germany again that any controversy resulting from German insistence on limiting the Knox-Porter Resolution "would be a serious obstacle to the resumption of diplomatic and economic relations." 89

Hughes's assurances reached Germany two days after the Wirth cabinet had already decided in principle to accept the treaty. Still, Rathenau had objections and recommended ratification only if further clarity could be obtained regarding interpretation. Despite Dresel’s informal letter of assurance, Rathenau, continually suspicious, told the cabinet that it would be extremely desirable to obtain further assurance that the United States would not use the treaty to raise the German reparation bill above that set by the London Conference and saddle Germany with American occupation costs of $235 million. Wirth and Rosen both felt it unwise to raise further objections at this late date and argued for immediate acceptance. In the last analysis Rathenau, as the minister responsible for reparation policy, could not afford a break with the United States. In addition, Wirth had been able to achieve the support of the major German political parties. Even the Nationalists were not expected to offer serious opposition and the general consensus of German political leadership was that

89 Hughes to Dresel, Washington, 20 Aug 1921, FRUS 1921 II, pp. 19-20; Memorandum des amerikanischen Unterhändlers Dresel betreffend den Frieden mit den Vereinigten Staaten, 22 Aug 1921, Nr. 72, Die Kabinette Wirth I, pp. 208-11.
there was no practical alternative for Germany. The cabinet agreed to leave the final negotiations to Wirth and Rosen and accept whatever concessions Hughes might see fit to make.\footnote{Kabinettsitzung, 20 Aug 1921, Nr. 71, Die Kabinette Wirth I, pp. 207-8; Aufzeichnung des Generalkonsuls Grunow, 20 Aug 1921, Nr. 112, ADAP V, pp. 243-44. Apart from renewed assurances, Hughes agreed that the treaty would not lengthen American occupation of Germany longer than provided by the Versailles treaty and acceded to wording in the preamble to fit German constitutional requirements. These “concessions” naturally did not interfere with any U.S. interests.}

On 25 August, the treaty was signed in Berlin without any ceremony, a deliberate contrast to Versailles. On 30 September it was ratified by the Reichstag with an overwhelming majority, the only significant opposition coming from the Communists.\footnote{Dresel to Hughes, Berlin, 29 Aug 1921, Continuation of Memorandum of Interviews with Chancellor Wirth and Dr. Rosen on Subject of Peace Negotiations, notes of 22, 23, 24, 25 Aug 1921. Dept. of State, RG 59, 711621119/72, Microcopy #355, Roll 1 (hereafter cited as Dresel Memorandum Notes, Part 5); Treaty between the United States of America and Germany, Signed at Berlin, August 25, 1921, FRUS 1921 II, pp. 29-33.}

Reactions and Ratification

Few in Germany were very enthusiastic about the Berlin treaty. Germany had failed to achieve either the release of sequestered German property or a commercial treaty. All that had been obtained were American promises of eventual action on these issues and the promises made by the executive branch would have to be fulfilled by Congress, where their fate and timing were uncertain. Germany had hoped that America's desire for trade with Germany would provide significant leverage for Germany in the negotiations and that successful treaty negotiations would politically strengthen the weak Wirth government.\footnote{Otto Wiedfeldt, director of Krupp and soon to be German ambassador to Washington, was particularly dissatisfied with the Berlin treaty and argued against signing it. Despite the}
But instead, the nature of the Berlin treaty and its negotiations were governed and defined by American domestic politics. There was very little public interest in the treaty, which was taken as "a matter of course" by the general public. Its immediate political importance was overshadowed by the assassination on 26 August 1921 of Matthias Erzberger, the former Minister of Finance and a signer of the Versailles treaty, and the resulting political crisis.\footnote{Dresel to Castle, 6 Sep 1921, box 68, Dresel Papers. For Erzberger, see Klaus Epstein, Matthias Erzberger and the Dilemma of German Democracy (Princeton: Princeton University Press, 1959).}

In official Washington, the Berlin treaty was considered a great success. Hughes's personal judgment was that "It was as well as we could have done, for we secured every right and privilege that we wanted, and assumed no obligation that we did not want."\footnote{Beerits Memorandum, "The Separate Peace with Germany," p. 24.} The treaty also accomplished its domestic political purpose. Within the State Department, Hughes' strategy was deemed "a clever move" since it would be "almost impossible" for the Senate to refuse to ratify it and its success would have the effect of uniting the Republican factions.\footnote{Dresel to Castle, 6 Sep 1921, box 68, Dresel Papers.} Hughes, who was concerned that an unfavorable Allied reaction to the Berlin treaty might have an adverse effect on American public opinion, cabled the Allies reassuring them that it did not "place the United States in a position superior to that of the Allied Powers." The treaty was, Hughes explained, as close to Versailles as he could get. Hughes requested that

cheerful face the Foreign Office attempted to put on the treaty, Wiedfeldt pointed out that concessions won from the Americans were minuscule. Especially objectionable was the inclusion of so-called “War Guilt” sections of the Versailles treaty, although the Foreign Office claimed that no declaration of guilt was explicitly recognized in the treaty. In regards to the return of German property and commercial policy, Wiedfeldt saw the treaty as delivering Germany completely into the hands of the Americans. Wiedfeldt to Simson, 25 and 30 Aug 1921; Simson to Haniel, no date, PA-AA, Handakten Simson 62, R25987: K584973.
the Allies refrain from criticism and that "an approval be expressed as soon as possible" to create a favorable influence "while public opinion is being formed." The Allies cooperated with informal expressions of general approval, as a step taken towards a final restoration of normal conditions.

Hughes had an easier time with the Allies than he would have with the United States Senate, to whom Harding submitted the treaty on 21 September 1921. Senator Borah, Chairman of the Senate Foreign Relations Committee, feared that Hughes would pressure Harding to utilize American rights under the treaty and to appoint representatives to the various commissions established by the Versailles treaty, most particularly the Reparations Commission. Borah was convinced that such action would inevitably entangle America in European politics. He succeeded in attaching a reservation to the treaty stipulating that the United States could not take part in any commission or body connected with the Versailles treaty without congressional approval. In addition, if approval were to be given, all representatives would have to be confirmed by the Senate.

This was almost identical to the reservation Lodge had appended to the Versailles treaty. By giving Congress powers usually associated with the executive branch, the Irreconcilable Republicans hoped to keep the administration from involvement in European affairs. Lodge was able to hold off committee action demanding the end of American participation in the

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95 Castle to Dresel, 30 Aug 1921, box 68, Dresel Papers.

96 Hughes to the Ambassador in Great Britain (Harvey), Washington, 26 Aug 1921, FRUS 1921 II, pp. 24-25.


98 New York Times, 21 Sep 1921, p. 3.
occupation only with the assurance that Harding would begin the withdrawal of all 15,000 American troops as soon as the treaty was ratified. Out of more parochial interests, the committee also added a reservation designed to make certain that American citizens could press claims against the former Central Powers.\(^9\)

Once out of committee, the treaty met opposition from Democrats organized by Woodrow Wilson, acting behind the scenes, and three Republican Irreconcilables led by Borah. The opposition emphasized that the Berlin treaty gave the United States the rights of the Treaty of Versailles without any of the obligations and responsibilities those rights morally implied. The Wilsonians sought the assumption of the responsibilities, whereas the isolationists feared that acceptance of the rights would invariably enmesh the United States in Europe. But final passage was never in doubt since Lodge had commitments of support to break any attempted filibuster from a sufficient number of Democrats who had concluded that there was no practical alternative. On 18 October 1921 the Senate voted to ratify the separate peace with Germany.\(^10\) The treaty was ratified by President Harding on 21 October and by President Ebert on 2 November. Ratifications were exchanged at Berlin on 11 November 1921, the third anniversary of the 1918 Armistice.\(^11\)

The Wirth government's claim that the Berlin treaty was bilaterally negotiated, not a \textit{Diktat}, was true more in form than in substance. The politics of the Senate had left Hughes


no alternative but to insist that if Germany wanted relations with America, it would be strictly on American terms. But from the German perspective the greatest importance of the Treaty of Berlin was simply that it was not the Treaty of Versailles. While Article 231 of the Treaty of Versailles, the so-called war guilt clause, was implicitly included in the Berlin treaty among the retained rights, there was no explicit mention of German guilt or responsibility in the treaty itself.\footnote{In a rosy speech outlining the benefits of the U.S. treaty, Rosen emphasized the differences from Versailles. Negotiations were between equal parties with U.S. rights closely defined and German rights acknowledged. That the Berlin treaty was based on the Treaty of Versailles and did not address the issue of sequestered German property was explained by the constraints of the Knox-Porter Resolution and the all-important need to restore relations with the U.S. as quickly as possible. Rosen was at pains to point out that the inclusion of Article 231 in no way implied German recognition of war guilt and was without legal significance to the U.S. Undated, PA-AA, Buro Reichsminister, Vereinigte Staaten von Nordamerika, Bd.1, R28487: 200 (D618524). Rosen, in his later memoirs, considered the inclusion of Article 231 as one of the major deficiencies in the treaty. Friedrich Rosen, \textit{Aus einem diplomatischen Wanderleben} (Wiesbaden: Limes Verlag, 1959), p. 385.} It was form and not substance that determined German perception.

The Treaty of Berlin established that bilateral relations between the United States and Germany would take place outside the context of the Versailles system. Germany valued the treaty for what it was believed it would make possible over time. But while the Berlin treaty was built around the hope of a "mutuality of interests," it was a limited mutuality based on American needs and expediency. The United States, particularly American elites, did not have the cultural and affective affinity with Germany that they had with Britain and France. American negative preconceptions regarding Germany had been reinforced during the negotiations and American negotiating tactics had heightened German mistrust of American policy toward Germany. The treaty had only defined the framework for policy and not the policy itself. In regard to the open bilateral issues of American war claims and commercial
relations, Germany could only hope that the direction and logic of American policy would result in actions favorable to Germany.

In signing a separate treaty, the United States, out of the Senate's desire to avoid involvement in the politics of Europe, had taken a step backward from the Versailles system. In so doing it laid the groundwork for the partial revision of the Versailles system that would come in 1924. But the same political dynamics in the United States that Germany celebrated when they led to a rejection of Versailles and the signing of a separate peace were also the dynamics that resulted in the end of formal American participation in the Reparation Commission. The full benefits of American economic participation in Germany could only take place after some resolution of the reparations problem; it would be that issue that would dominate American-German relations in the ensuing years.
America Turns Away

By solving its immediate problem of concluding a peace treaty with Germany, the Treaty of Berlin ended America’s bitter domestic struggle over the Versailles treaty. However, there remained much partisan ill-will and highly charged divisions over how America should conduct foreign policy. Although the Berlin treaty established a framework for relations between the United States and Germany, it did not define an American policy toward Germany nor immediately stimulate closer relations. This was a great disappointment for the German government, as the terms of the Berlin treaty were accepted precisely because the Germans were anxious to begin close relations and American intervention on Germany’s behalf.

The overriding issues in international politics of European reconstruction were the questions of inter-Allied war debts and reparations. German policy toward the United States was determined by the vicissitudes of those linked questions and Germany's efforts to escape the constraints of Versailles while also avoiding the domestic reforms its inflationary economy demanded. The Harding administration, however, faced the complex task of finding ways to constructively engage these issues without compromising domestic priorities.
or making political commitments unacceptable to the American public. The United States looked forward to the recovery of Germany, but only in the context of a general European reconstruction in which America considered Germany the key element.

Rather than being grounded in an overarching mutualism, the system in which American-German relations would develop contained self-contradictory elements such as both nation's policies about reparations, war debts and reconstruction\(^1\). The initial uncertainty of American policy toward Germany immediately after the Treaty of Berlin, demonstrated by subsequent aloofness, forced Germany to seek other means of achieving its goals. Nevertheless, by the late spring of 1922 Germany would find itself crucially dependent on an America that had become both the center of gravity in international politics and committed to a peaceful revision of the Versailles system.

The United States had emerged from war the major international creditor; the $10 billion it had borrowed domestically and lent to the Allies constituted two-fifths of the federal government’s $25.3 billion total gross domestic debt. Nevertheless, American policy makers at the Treasury and at the State Department in both the Wilson and Harding administrations recognized that it was in the United States's ultimate interest to reduce or even cancel Allied war debts. This position was supported by a significant segment of the business, banking and agricultural communities whose sensitivities to the interdependence of European and American prosperity had been heightened by the economic downturn of 1920-21. Many business and financial interests argued that trade with a stable and reconstructed Europe would more than compensate for any reduction in debt payments. Others, however, were

\(^1\) Manfred Jonas defines American-German relations during this period as “a mutuality of interests.” Manfred Jonas, The United States and Germany: A Diplomatic History (Ithaca N.Y.: Cornell University Press, 1984), pp. 161-75.
concerned that the American taxpayer would have to make up any reduction in the debt at a
time when business taxes were historically high. Nor were many business leaders eager to
see British industry and commerce gain at the expense of the United States. But overriding
all such policy considerations was the political reality that neither public opinion nor
Congress were not yet ready to accept any significant reduction.

The Harding administration’s belief that the recovery of Germany was the key to
European reconstruction, along with the desire to respond to the needs of business, led it to

\[2\] For a sampling of American opinion on this issue see Melvyn Leffler, "The Origins of
Republican War Debt Policy, 1921-1923: A Case Study in the Applicability of the Open
595. Leffler questions the applicability of the Open Door, originally outlined in William A.
Williams's The Tragedy of American Diplomacy, to Republican war-debt policy. Williams’s
thesis is that United States diplomacy has been primarily driven by the American
establishment's need to find external markets to resolve the chronic domestic problems of
overproduction and unemployment created by the American capitalistic system, but Leffler
argues that while the search for markets was an important consideration of American debt
policy, other considerations--electoral, fiscal, bureaucratic, and strategic--were the major
factors determining war-debt policy in 1921 and 1922. This focus on the political
complexity of American debt policy can also be found in Steven Schuker's "American Policy
Towards Debts and Reconstruction at Genoa, 1922," pp. 95-122. This discussion of
American war debt and reparation policy, which focuses on a period when debt policy was
primarily controlled by Congress, follows the line of analysis suggested by Leffler and
Schuker.

\[3\] In 1917 the Treasury had solved the problem of financing the war through a
nationalistic appeal to the American public, for whom the war-debts question was a highly
emotional issue. Millions of Americans bought their first security of any type by purchasing
Liberty Bonds through local saving banks or wage check-off plans in a patriotic effort to
whip Kaiser Bill. Although proud and self-congratulatory regarding the American war
effort, Americans were dissatisfied with the postwar settlement and disappointed with both
their former allies and enemies. Not only could cancellation of war debts be seen as asking
the public to pay a second time through higher taxes, it ran the risk of being perceived on an
emotional level as somehow invalidating America's patriotic war efforts for the benefit of
squabbling Europeans. See David M. Kennedy, "American Political Culture in a Time of
Crisis: Mobilization in World War I," Confrontation and Cooperation: Germany and the
United States in the Era of World War 1, 1900-1924, ed. Hans-Jürgen Schröder (Providence:
indirectly link the war debt issue to the question of German reparations. In June 1921, while preparing for negotiations with Britain regarding that nation's debt, the administration tested congressional flexibility on war-debt repayment by requesting authorization for the Treasury to extend the term of payment on Britain’s principal and interest as well as authorization to accept domestic obligations of Allied debtors or German reparation bonds in exchange for French and British obligations. The bill encountered immediate opposition in Congress, where it was denounced as a scheme to make the American people pay $10 billion of the German reparation bill. Secretary of the Treasury Andrew Mellon received rough handling in committee hearings, especially after he was forced to acknowledge that the British had twice solicited total war-debt cancellation. His vague and often contradictory testimony reflected the political concerns and general ambivalence surrounding the issue of war debts.

In October 1921, only days after congressional ratification of the Treaty of Berlin, the administration had to accept a House Ways and Means Committee bill that placed authority for war-debt policy in the hands of a five-member commission. Well aware of schemes involving the Allies, Germans, and even some American officials to resolve the reparation crisis by assigning German reparation payments to the United States in lieu of Allied debt payments, Congress barred the commission from accepting the bonds of any foreign government in lieu of another. Because the House of Representatives would not tolerate exchanging valuable French and British obligations for German bonds which were

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4 Congressional Record, 24 June 1921, pp. 3015, 3021-28.

5 Refunding of Obligations of Foreign Governments, Hearings before the Committee of Finance, United States Senate, 67th Congress, 1st sess., on S 2135, pp. 49-53. For public commentary see "What about that $10,000,000,000?," Literary Digest 70 (13 August 1921), pp. 11-22; "Our Moral Obligation to Our Europe Debtors," Literary Digest 74 (19 Aug 1922), pp. 13-15. See also Leffler, "Origins of Republican Debt Policy," pp. 585-601.
considered to be practically worthless, Mellon's only success there was that the bill granted the commission latitude to alter rates of interest and dates of maturity.\textsuperscript{6} While Treasury officials privately questioned how America could "collect $500,000,000 of interest in from Europe in its present condition," they publicly adhered to the official line for fear of provoking Congress into further restrictions. Treasury strategists were left with the hope that the commission might be able to provide political cover for Mellon if deferral someday became a political or economic necessity.\textsuperscript{7}

As the rejection of the Treaty of Versailles had left the United States without a clear conception of its relationship to Europe, congressional restraints reinforced the Harding administration’s disinclination to engage Europe politically. Unable to acknowledge the perceived link between war debts and reparations or the connection between the American rejection of the Versailles treaty and French military spending, the administration focused on the issue of disarmament as a partial solution to Europe's economic problems. The Washington Naval Conference became the Harding administration’s first major venture into international diplomacy.\textsuperscript{8} Preparation for the conference increasingly absorbed the energies

\textsuperscript{6} Refunding Foreign Obligations, Report by Mr. Fordney, from the Committee on Ways and Means, to Accompany H.R. 8762, 67th Congress, 1st sess., House of Representatives, Report No. 421, 20 Oct 1921. See also Schuker, "American Policy Towards Debts and Reconstruction at Genoa, 1922" and Leffler, "The Origins of Republican War Debt Policy, 1921-1923."

\textsuperscript{7} Elliot Wadsworth (Assistant Secretary of the Treasury) to Dresel, 15 Aug and 29 Oct 1921, box 421, Dresel Papers.

\textsuperscript{8} These points have been made by Carole Fink, who noted the quality of expediency in American policy that resulted from the retreat from Versailles in The Genoa Conference: European Diplomacy, 1921-1922 (Chapel Hill: The University of North Carolina Press, 1984), pp. 24-6. Sally Marks makes the additional point that the Senate's rejection of the Versailles treaty was reinforced by the Treaty of Berlin in “German-American Relations 1918-1921," p. 226.
of the State Department during the late summer and autumn of 1921.\textsuperscript{9} Meanwhile, the lack of a fully formulated policy toward Europe greatly affected relations with Germany. Contrary to American promises for both the early resumption of full diplomatic relations and negotiations for a commercial treaty, the level of diplomatic activity between America and Germany markedly diminished rather than increased in the months following the August 1921 signing of the Treaty of Berlin.

The administration, which had yet to develop its overall trade policy, was not anxious to begin commercial negotiations with Germany. The State Department also intended to hold trade talks hostage to German acceptance of American plans for a still-undefined joint claims board for the settlement of war claims. In addition, the State Department opposed any release of sequestered German property without assurances that American claims would be settled--a strategy it termed "Machiavellian," but Washington was convinced that it was the only way the claims would be paid. Dresel was instructed not to indicate any American interest in opening up trade negotiations, and relations with Germany were placed on the back burner.\textsuperscript{10}

Washington's indifference to German concerns and sensitivities regarding bilateral relations manifested in a number of ways. The State Department had neglected to keep Dresel informed about the progress of Senate ratification of the Berlin treaty, leaving him embarrassed by his inability to respond to German inquires, and also insisted on approving German diplomatic personnel, including diplomatic secretaries, and vetoed appointments

\textsuperscript{9} Castle to Dresel, 2 Aug and 19 Oct 1921, box 68, Dresel Papers.

\textsuperscript{10} Castle believed that a bill releasing German property could pass Congress, but that such a move would be "idiotic." Castle to Dresel, 16 Feb 1922, box 68, Dresel Papers.
approved by Dresel. The latter practices infuriated not only the German foreign ministry but also Dresel, who noted that "it is quite impossible to make a pretense of friendly relations, and at the same time treat the German diplomatists as pariahs." Dresel was further embarrassed when the State Department failed to respond to the choice of Dr. Karl Lang as temporary chargé in Washington, which forced him to leave for the United States with alternate plans to take the post as consul in New York if rejected by Washington.  

The American diplomatic presence in Berlin was further diminished after the administration decided in mid-November not to name Dresel ambassador but to make a political appointment instead. The eventual choice, New York Congressman Alanson B. Houghton, would not arrive in Berlin until April 1922; in the interim, key embassy staff were reassigned and not replaced, leaving an overworked and demoralized Dresel unable even to keep up with the mission’s routine chores.

The failure of America to actively engage Germany was disappointing to the Germans; consequently, German hopes rapidly diminished for both financial support and increased trade with the United States in the immediate future. Major American bankers made it known that they had little interest in handling any long-term German reparation loan that might be floated in America without evidence that Germany was willing to control its inflation. German-Americans who had held marks out of sympathy with Germany began

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11 Dresel to Castle, 29 Nov 1921, box 68, Dresel Papers.

12 Ibid., 13 Dec 1921.

14 Dresel, who was already in poor health and found what he considered the "lack of idealism" in the Harding administration to be "shocking," became increasingly pessimistic and depressed during the winter and spring of 1921-22. Dresel to Castle, 26 Sept and 18 Nov 1922, box 68, Dresel Papers.
disposing of their holdings as the mark fell from 69 to the dollar in June to 105 in September 1921; some argued that the decision on Upper Silesia proved that any help given to Germany would only end up in the pockets of France. Horror stories of America threatened by a flood of cheap German goods began to circulate; however, American fears of German exports had little basis because, in reality, price instability and delays resulting from the high cost of raw material imports into Germany as the mark fell angered American importers and significantly impeded German exports to America.

Although Germany's overall negative balance of trade substantially worsened during 1921, many business leaders in America nevertheless believed that Germany was deliberately inflating its currency, a belief which intensified the general distrust of Germany. Businessmen who were convinced that reparations, and not government action, was driving the inflation were equally reluctant to become involved due to their conviction that loans and investments would have to await a revision of reparations.15

In the late summer 1921, the deteriorating situation raised concerns in the State Department that German inflation might spiral out of control, but the department had little interest in becoming directly involved in the question of reparations, having reached a consensus that the London Schedule was beyond Germany's capacity to pay, that the indemnity should be based on Germany's capacity to pay, and that these matters should be determined by financial experts not politicians.16 But American efforts to implement these


16 William R. Castle, memorandum, 2 Sept 1921, Record Group 59, General Records of the Department of State, 1910-29 (hereafter cited as USDS), 462.00R29/932, United States National Archives, Washington D.C.
goals were restricted to the attempts of its unofficial delegates to the Reparation
Commission, Roland Boyden and James A. Logan, to persuade the commission to adopt a
capacity-to-pay formula.

When Boyden and Logan suggested in September 1921 that the United States undertake
an initiative to place the issue of reparations on a "more business and conciliatory basis," the
State Department refused permission. Convinced that Germany would not be able to make
reparation payments after spring 1922, Logan then suggested that the United States accept
the relatively secure B bonds as war-debt payments and to enhance American influence on
any European economic settlement. But the State Department, better attuned to the political
realities in Congress, demurred, nor was it willing to increase the pressure on France at a
time when it hoped for French cooperation on the issue of disarmament; instead, it warned
Logan to mute his outspoken opinion that reparations must be reduced. America's policy
about reparations continued to be one of watching and waiting for the Europeans to accept
what some chose to call Germany's "capacity to pay" as the basis of a reparation settlement.

But while America was willing to wait, the Wirth government could not: its most
pressing problem in late 1921 was the need to obtain a moratorium for the reparation
payments due in January and February 1922. Efforts to utilize German industry's credit

17 James A. Logan to Under Secretary Henry P. Fletcher, 29 Aug and 2 Sept 1921; Assistant Secretary Fred Dearing minutes, 24 Sept 1921, 462.00R29/1026 and 1043, USDS.

18 Logan to Fletcher, 9 Sept 1921, 462.090R29/1043, USDS; Fletcher to Logan reporting Assistant Treasury Secretary Wadsworth's response, 21 Sept 1921, 462.090R29/1046, USDS; Dresel to Castle, 6 Sept 1921, box 68, Dresel Papers.

abroad to procure $1.5 billion in gold marks foundered on industrial insistence on a program of governmental financial austerity and privatization of German railroads, along with the dismissal of thousands of excess workers, in response to which the Socialist trade unions demanded a wealth tax on real assets from industry and the rich. Wirth, unwilling to force a domestic political crisis over these issues, concluded that a moratorium was the only practical solution.20

The German political situation further weakened American confidence in the Wirth government's ability to accomplish financial reforms and stabilization in the face of widespread tax avoidance and speculation. Boyden saw Wirth as a weak leader, lacking in both firmness and frankness and unable to stand up to either his cabinet or the German industrialists. Even the more sympathetic Dresel despaired at the "impotence" of the Wirth government, the "preposterous conditions" of the industrialists and the "equally unworkable program" of the Socialists.21 Germany's worsening inflation and governmental weakness reinforced American tendencies to view Germany not as a nation with mutual interests but rather a nation whose situation had to be changed if American goals for Europe were to be achieved.

20 This battle over finances ended hopes of drawing the German People Party (DVP) into the government coalition. On 2 October the German Democratic Party (DDP) took advantage of the League of Nations decision about the partition of Upper Silesia to withdraw from the government, forcing Wirth to form a new minority government based on a Center-Social Democratic coalition on 26 October. Rathenau, a member of the DDP, withdrew from his official position but remained a government advisor (Besprechung mit Vertretern der Regierungsparteien, 11 Nov 1921, Nr. 138, Kabinette Wirth I, 385). For discussion of the battle over financial reforms see Kabinette Wirth I, xxxvi-xxxviii, and Feldman, The Great Disorder, pp. 350-84.

21 Boyden to Hughes, 22 Nov 1921, 462.00R29/1285, USDS; Dresel to Castle, 18 Nov 1921, box 68, Dresel Papers.
Mutual misunderstanding between the United States and Germany was also hampered by differing views regarding the causes of the German inflation. Germany's reluctance to take strong action to curtail its printing presses reflected not only political concerns, but also the degree to which "balance of payment" theory dominated the economic thinking of the majority of German economists and political leaders about inflation. This theory held that a negative balance of payments led to an outflow of paper money and a rise in the price of foreign exchange. In contradistinction to monetary theory, which emphasized the quantity of money in circulation, balance of payment theory postulated that inflation and the increase in the quantity of money were consequences of the exchange depreciation, not its cause.

German theorists argued that since Germany had inelastic demands for food and raw materials, restricting the currency supply and balancing the budget would not halt the basic demand for imports and end inflation. Rathenau, a strong proponent of balance of payment theory, denounced quantity of money theory as "an alien way of looking at things." Although the German belief in the balance of payment theory of inflation was independent of the issue of reparations, it offered a powerful argument against the practicality of large payments. Self-righteous German insistence on treating balance of payment as an article of faith, however, undermined mutual understanding between Germany and both Britain and the United States, nations where the quantity of money theory held greater sway.

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The ideas of Moritz Bonn, the leading proponent of balance of payment theory, had a major influence on the Wirth administration's viewpoint toward the United States in autumn 1921. Bonn recognized that Germany's economic problems included not only reparations but also the growing debt from numerous short-term private loans being made to Germany by American bankers. While such loans had kept the German economy afloat, Bonn realized these obligations would have to be consolidated into long-term foreign bonds at lower interest rates, because the German economy would not be able to afford the interest on those loans plus reparation payments.24

Trachtenberg and Feldman highlight the inability of the weak Wirth government to implement fiscal reforms and monetary restraints. Trachtenberg uses modern monetarist (quantity of money) theory to demonstrate the fallacies of German balance of payments arguments and justify French demands for external controls on the German economy (pp. 220-3; 337-42). Feldman, while acknowledging the contribution of monetarist theory, believes that contributions of Keynesian analysis with its emphasis on questions of demand, employment and consumption "has nevertheless been greater" and that the German inflation is best understood from that perspective (p. 9). In assessing the new historiography that followed the opening of the French archives in the 1970s and emphasized French sensibility, British duplicity and German bad faith, Feldman warns, "It would unfortunate, however, if the welcome discoveries concerning the complexities of French reparation policy were to create the illusion that the German story was a simple tale of treaty evasion and bad faith"(p. 309) and notes that "while the chief sources of the German inflation were endogenous, the catalyst of inflationary development between the spring of 1921 and the summer of 1922 was reparations" (p. 418). Feldman makes the additional point that some balance of payment theorists, such as Moritz Bonn, believed that Germany had an obligation to pay reparations (p. 402).

24 See also Moritz Bonn, So Macht Man Geschichte (München: Paul List Verlag, 1953), p. 252 and pp. 257-67. Bonn's program for German reconstruction was to obtain a $1.5 billion loan from London and use it to make some immediate payments to France; he argued that by 1923-1924 Germany would be able to get its domestic finances in order and meet the interest payments on that loan. With the mark strengthened and confidence in Germany improved, Bonn believed that Germany would then be able to obtain major long-term American financing to consolidate its debts. Feldman, The Great Disorder, pp. 400-1; "Reparationsfrage und internationale Anleihe," Essen, 27 May 1922, Bundesarchiv Koblenz, Nachlass M.J. Bonn, N1082, 4c.
Germany Turns to Britain

With major American banks uninterested in long-term reparation loans and American diplomatic interest in Germany at a low ebb, Germany's political and economic leadership increasingly placed their hopes in Britain to keep France in check, serve as a source for loans, and lead the United States into taking greater responsibility for Germany. They noted with satisfaction the weakening of the American economic position in Europe during 1921, as American trade with Europe dramatically fell and the pound rose against the dollar, hoping that Britain, with its greater interest in integrating Germany into the world economy, would take financial leadership and get America to join in a program of major loans to Germany.25 Firmly believing that American involvement was essential to Germany's problems of reparation and inflation, Rathenau told the DDP convention in November that Germany had to recognize that America for the time being would not accept any greater responsibility for the reconstruction of Europe and Germany.26 Germany, however, could not wait for America to become involved. In April 1921, Germany had sought to be rescued from the impending London ultimatum by the United States; in November 1921, it turned to Britain and Lloyd George to be rescued from the payments imposed by that ultimatum.

The German attempt to involve London coincided with a change in British policy. Lloyd George had already come to the conclusion that, because the London payment schedule was impossible, Germany required a moratorium. He also was convinced that Britain should take the lead in finding an alternative solution to the reconstruction of Europe. When first

25 Ibid., 401-2.

26 Speech at the DDP convention in November 1921, Walter Rathenau, Gesammelte Reden, p. 355.
Rathenau and then Hugo Stinnes, the leading German industrialist, met with Lloyd George in London in late November and early December, each proposed an elaborate scheme involving expanded German exports to Russia, the profits from which would serve as reparation payments to Britain.27

Lloyd George expanded the German ideas into a plan to settle the questions of reparations, inter-Allied debts, and Russian reconstruction through an overarching program for European reconstruction led by Britain, France, Germany, and the United States, telling Rathenau that he wanted to see a cancellation of all debts with the exception of Germany's responsibility for the devastated areas of France and Belgium. Both men agreed that the United States was the key to any solution but Rathenau, whose primary goal was obtaining a moratorium and keeping the French out of the Ruhr, was under the impression that French resistance to Washington's disarmament program was isolating France and that Lloyd George would be able to involve the United States in his scheme. Once that occurred, Rathenau noted, "America and England can enforce everything." With little prospect of immediate help from the United States, Rathenau was quite willing to follow Lloyd George's lead.28

27 For a discussion of the Stinnes and Rathenau visits to London, see Feldman, The Great Disorder, pp. 380-2. Rathenau's scheme was modeled on the Wiesbaden Agreement Germany had signed with France in October, which would have allowed Germany to meet a significant share of its reparations payments to France through payments in German-produced goods. The agreement was more of an experiment in trying to decrease tensions with France than a practical or rational economic arrangement, but it raised suspicions in London about Franco-German cooperation. Since payments in kind would not have been useful to Britain, the Russian scheme was proposed as an alternative. For the Wiesbaden Agreement see Trachtenberg, Reparation in World Politics, pp. 216-18, and Feldman, The Great Disorder, pp. 356-57.

28 In the belief that American gold had to be sacrificed to save Germany and Europe, Rathenau drew an analogy between the United States and Fafner, the gold-hoarding giant in Wagner's opera Das Rheingold. Rathenau's misreading of American policy and intentions reflected the lack of German representation in Washington that could supply reliable
Lloyd George first attempted to get French cooperation. He met on 8 December with Louis Loucheur, the French Minister of Liberated Regions and Premier Aristide Briand's close associate, offering to cancel French debts to Britain and German reparations to the same degree that the United States would cancel British debts, but also warning Loucheur that Germany must have a moratorium and that any French occupation of the Ruhr would rupture Anglo-French cooperation. Rathenau, Lloyd George and Loucheur worked out a plan centered on inducing the United States to convene an economic conference whose ultimate purpose would be the cancellation or reduction of debts.29

When Briand accepted Lloyd George's invitation to a conference on reparations in London, a delighted Rathenau told the German cabinet that it was the beginning of a "revision of Versailles"; Germany officially requested a payment moratorium on 14 December 1921.30 Rathenau was further encouraged by Britain’s refusal of Germany's request, as expected, for a loan of 500 million gold marks, which not only saved the Wirth government from having to make the fiscal reforms any such loan would have required, but intelligence. Obtaining his ideas about French isolation from a meeting on 1 December with General Allen and George Harvey, the American ambassador to Britain, Rathenau had misread the extent of American annoyance with France. Another example of Rathenau's ignorance of American politics was his suggestion to Lloyd George that it might be helpful for him to visit the United States to explain the European perspective; the more astute Lloyd George was forced to explain that any such visit would interpreted simply as an attempt to get Britain's debt remitted. Walter Rathenau, Walter Rathenau: Industrialist, Banker, Intellectual and Politician, Notes and Diaries 1907-1922, entries of 1 and 2 Dec 1921, pp. 275-81.  


30 Chefbesprechung, 12 and 13 Dec 1921, Nr. 166 and 167, Die Kabinette Wirth I, p. 463.
also included language at the behest of Montagu Norman, Governor of the Bank of England, in consultation with Rathenau, stating that Germany's reparations requirements precluded any long or short-term loans from Britain. Norman had provided Germany with strong justification not just for a moratorium, but also for a revision of the London Schedule; for Wirth and Rathenau it was a confirmation of their Erfüllungspolitik.

Rathenau's policy was, as always, critically dependent on United States involvement. When informed of Rathenau's initial plan for Germany to play the role of middleman with Russia, Hughes was inclined to go along "provided the middlemen play fair," but Secretary of Commerce Herbert Hoover, who was strongly and outspokenly opposed to any arrangement in which other nations would dispense American capital and goods, saw the plan as undermining the basic principles behind the United States' policy of non-recognition of Russia.

American opposition to any linkage between Allied war debts and German reparation payments also remained adamant. Congressional opposition to debt cancellation stiffened in reaction to French recalcitrance about naval disarmament at the Washington Conference in December. Democrats, quick to seize on the issue, demanded that the full interest on the debt be used for popular programs such as tax relief, credits for farmers, bonuses for soldiers,

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33 Reginald McKenna, the former British chancellor of the exchequer, traveling in the United States, had outraged American opinion in late October by suggesting that British cancellation of Allied debts owed to it from the war would be in its economic best interest, a statement recognized as an indirect appeal to the United States to do likewise. New York Times, 26 Oct 1921, p. 26; 2 Nov 1921, p. 26.
and unemployment compensation. The administration also had to cope with restive Republican majorities as well as an overall congressional mood that favored taking back powers lost under Wilson’s wartime leadership.

Also in December, the Senate Finance Committee revised the war debt legislation to require Senate confirmation of appointees to the Debt Commission established by the House and to stipulate that any new funding agreements should neither exceed a period of twenty-five years nor carry an interest rate of less than five percent. Vigorous lobbying by the Treasury in January managed to get the final minimum interest rate reduced to 4.25 percent, but these congressional actions precluded any American participation in Europe's reconstruction in the immediate future from involving cancellation of Allied debts.\(^\text{34}\)

In December, encouraged in part by his conversations with the British regarding the possibility of American involvement, Loucheur made a clumsy appeal for the United States to call for an economic conference as a follow-up to the Washington Naval Conference. Hoover, who had gotten wind of Loucheur's and Lloyd George's plan, which included Britain offering the elimination of pensions from the German reparation bill and France reducing its claims by half before pressuring Washington for the elimination of all war debts, warned Harding that such proposals would create an "impossible situation" for the administration. The president agreed and on 16 December the United States punctured the trial balloon and

officially declined to call a conference.\textsuperscript{35} 

Washington's decision had the major impact on the London Conference (19 - 22 December) of collapsing Lloyd George's grand scheme to link reparations and Allied war debts. He believed that it was politically impossible for Britain, which was struggling to maintain its financial leadership against an American challenge, to cancel its war debts without reciprocal American action. Convinced by Rathenau that Germany could not fulfill the London Schedule, Lloyd George felt compelled to drive Briand hard, insisting that France agree to both a moratorium on German reparation payments and the convocation of a conference for the opening up of Russia. Briand made no specific concessions, but by reminding him that the Allies could drive Germany into an alliance with Russia that would threaten the status quo, Lloyd George maneuvered Briand into agreeing to a Supreme Council meeting on Germany and Russia.\textsuperscript{36}

The London Conference ended with all major decisions being postponed until the Allies met in Cannes in January. Even though Rathenau himself questioned Germany's ability to raise sufficient capital to participate in the planned international consortium, Germany was optimistic about its turn toward Britain.\textsuperscript{37} Wirth told Lord D'Abernon, Britain's influential ambassador to Germany, that Lloyd George's plans for European reconstruction had assured Britain of Germany's friendship for years to come. D'Abernon in turn reported to London

\textsuperscript{35} Hoover to Harding, 15 Dec 1921 and Harding to Hoover, 16 Dec 1921, cited in Schucker, "American Policy Toward Debts and Reconstruction," p. 103. See also Harvey to Hughes, 13 Dec 1921, RG.550 E1/, USDS.

\textsuperscript{36} "Conversations in London between British and French Ministers," 19 - 22 Dec 1921, DBFP XV, pp. 760-805.

\textsuperscript{37} Rathenau, \textit{Notes and Diaries}, entry of 19 Dec 1921, pp. 283-84.
that Germany's policy of following Britain, which had suffered a temporary eclipse, "is now again dominant and probably stronger than before." But Germany's strategy was dependent upon Britain's ability to hold France in check and to lead America into involvement with European reconstruction, two possibilities that remained very open.

At the Cannes Conference (6 - 12 January 1922), the Supreme Council accepted Lloyd George's proposals for the reestablishment of economic and eventually political relations with Russia, and an invitation went out to the nations of Europe and the United States for a world conference in Genoa. However, it was easier to conceptualize such a gathering on a grand scale than to settle the problem of German reparations. While Germany adopted a strategy of pleading bankruptcy, offering minimal payments and resisting any imposition of Allied controls over Germany's fiscal and monetary affairs, Lloyd George continued to press Briand for concessions the premier could not give and survive politically.

On 12 January the Briand government fell and Raymond Poincaré assumed the premiership. Yet despite this change in French leadership, Germany won a temporary victory at Cannes, receiving a partial moratorium without the imposition of Allied controls

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38 Quoted in Feldman, The Great Disorder, p. 382.

39 DBFP IX, p. 36-44.

40 Rathenau and Wirth negotiated with Britain and relied on Lloyd George to impose on France whatever settlement Britain and Germany worked out. On Wirth's instructions, Rathenau offered minimal reparation payments, German cessation of domestic subsidies, to balance the budget, and to close down the printing presses; Germany would then wait for British counter-proposals and negotiate from there. Rathenau, Notes and Diaries, p. 282.

41 When the announcement of Briand's replacement by Poincaré was made, Rathenau was in the middle of a three-hour speech that placed the blame for Germany problems on balance of payments difficulties, for which there was no cure, and budgetary problems which could not be resolved by an increase in revenues. See Bruce Kent, Spoils of War: The Politics, Economics, and Diplomacy of Reparations, 1918-1932 (Oxford: Clarendon Press, 1989), p. 95.
over its monetary and fiscal affairs. At Lloyd George's urging, the Allies accepted German promises for reform instead of controls; in addition, Germany could expect to play a major role at Genoa and in the planned reconstruction of Russia.

The Cannes settlement was a major step in the revision of the London Schedule, enabling Rathenau and Wirth to triumphantly inform the Reichstag Foreign Affairs committee on January 19 that, despite Briand's replacement, "we will not sink back into the complete darkness of the year 1921 in the year 1922." Rathenau's reward was his appointment as Germany's Foreign Minister. But Poincaré could be expected to hold a harder line toward Germany and would prove more difficult for Britain to check without a reduction in war debts. By trying to exploit inter-Allied politics to achieve reduced reparations and a moratorium on payments without painful but necessary domestic reforms, Wirth and Rathenau had tied the fate of Germany to American policy about Allied war debts. Carl Bergmann later noted," We had entered the blind trail of the moratorium; it was soon to terminate in a jungle."

U.S. Declines Invitation to Genoa Conference

The State Department followed negotiations in London and Cannes with both interest and skepticism. While Washington considered the London reparation schedule to be unworkable, it also believed that Germany could and should pay reparations. Castle’s


45 Harvey (Cannes) to Hughes, 6 Jan 1922 and 12 Jan 1922 (2 tels), 550.E1/4, 5, 7, USDS.
opposition to any moratorium allowing Germany to avoid cash payments and escape with only requirements for payments in German goods had been strengthened by a meeting with German banker and reparations expert Carl Bergmann in which Bergmann, a proponent of fulfillment, told Castle that if Germany could raise a modest loan to stabilize the mark, it would not require a moratorium and could pay an annual indemnity of 2.5 billion gold marks. Bergmann's stance was in direct opposition to that of Rathenau and Wirth. But if German reparation diplomacy was characterized by its disorganization, American diplomacy was characterized by its passivity. The State Department, reluctant to take a firm position on the question of reparations, instructed Boyden simply to insist on payment of the accumulated costs incurred by the United States Army occupation forces, a matter of great interest to Congress.46 Following the Cannes conference, the State Department turned down a French invitation for American participation in the Reparation Commission subcommittee appointed to consider fluctuations of the German exchange. With characteristic caution, Hughes decided that he was "not ready to take up the reparations question," nor did he relish the possible consequences of asking the Senate to approve such an appointment.47

The British and French invitation to the Genoa Conference for the reconstruction of Europe could not be dismissed so easily. Secretary of Commerce Hoover, the primary recipient of complaints about the adverse impact of the European situation upon American business, sent Harding a memorandum on 4 January outlining his plan for European stabilization, the key to which was ending the economic conflict between France and

46 Castle memorandum for Arthur N. Young, 3 Dec 1921; Bergmann, History of Reparations, p. 106; State to Boyden, 6 Dec 1921, 462.00R29/1285, USDS.

47 A.N. Young, Dearing, Harrison memorandum, 30 Jan - 21 Feb, 1922, 462.00R29/1450, USDS.
Germany. His plan was based on a severe reduction in armaments, a five-year partial reparation moratorium, a foreign loan raised by Germany for reconstruction of the devastated areas of Belgium and France, a reduction in the military forces occupying the Rhineland, a reorganization of Germany's finances, and a return of European currencies to the gold standard. In return America could offer a five-year moratorium on interest payments on debts to America to all European countries, with the exception of Britain, which Hoover believed could well afford to pay. America's reward, beyond that accruing from international peace and harmony, would be the improvement of America's trade and competitive position in Europe.\textsuperscript{48} However, Hoover also let it be known that European stabilization, while serving American interests, was not essential. America, Hoover maintained, could "reestablish its material prosperity and comfort without European trade."\textsuperscript{49}

Hoover's plan reflected the general American disillusionment with Europe. France's posture at the Washington Naval Conference had aggravated American tendencies to view France as an impediment to disarmament whose military spending also contributed to the economic problems of Europe. Irritation at France, however, did not translate into a pro-German attitude. Hoover believed that Germany had profited from its inflation, avoided efficient taxation, doled out subsidies, and taken advantage of unsophisticated foreign holders of marks. He expected Germany to end subsidies, increase taxation, balance its

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  \item \textsuperscript{48} Hoover to Harding, "Memorandum on the Major Questions before the Proposed Economic Conference in Europe," copy to Hughes, 550.E1/3, USDS.
  \item \textsuperscript{49} For quotation see Hoover, "Drafts," January 1922, Herbert Hoover Commerce Department Papers, box 21, Herbert Hoover Presidential Library, West Branch, Iowa; Leffler, The Elusive Quest, p. 81.
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budget, and stabilize the mark by its own means without resorting to foreign loans.\textsuperscript{50}

Hoover, like most American leaders, viewed Germany within the context of Europe but, unlike many others, his dislike of Germany was no greater than his dislike of France or Britain. Therefore his condemnation of Germany was no harsher than his attitude toward the other European states, although State Department officials suspected that the Commerce Department harbored pro-German sentiments and were suspicious that Jews in leading positions there were too close to the German-Jewish banking community in the United States.\textsuperscript{51} But even more important than personal prejudices was the general resentment of Commerce Department interference in prerogatives of the State Department and the Treasury, rivalries that impeded policy initiatives and reinforced the passive American posture toward Europe.\textsuperscript{52}

Although Hoover's plan was politically unrealistic, his focus on the reduction of European armaments resonated with Harding's conviction about world affairs. On 6 January Harding told the \textit{New York Times} that although the Europeans were responsible for solving their own problems and that Allied debts to the United States could not be discussed, the United States might consider involvement if Europe was prepared to reduce its land armaments.\textsuperscript{53} Harding's comments opened a public debate. Public opinion predominately opposed participation. The conference was seen as a scheme to get the United States to

\textsuperscript{50} Hoover to Harding, "Memorandum on the Major Questions before the Proposed Economic Conference in Europe," copy to Hughes, 550.E1/3, USDS.

\textsuperscript{52} For an extended discussion of the rivalries between the Departments of State and Commerce and the role of class prejudice and anti-Semitism in that rivalry see Schuker, "American Policy Towards Debts and Reconstruction."

\textsuperscript{53} \textit{New York Times}, 6 Jan 1922.
cancel the debts and underwrite German reparations. State Department officials in Washington and abroad opposed participation as well. Castle pointed out that the British and French positions after Cannes were so far apart, little of use could be accomplished. Richard W. Childs, ambassador to Italy, warned that America had little to gain since it held "all the chips" while the Europeans would be holding "all the cards."\(^{54}\) Public opposition to American attendance tapped into the same sentiments and interests that made cancellation of war debts such an emotional issue. In addition, anti-French attitudes stemming from perceptions of France as militaristic together with anti-German sentiments based on suspicions of a German *Drang nach Osten* reinforced a general disinclination to become involved with European affairs.\(^{55}\)

Hoover concluded by late January that the conference’s nature would be political, not economic, and urged that the United States not attend, instead suggesting a six-month postponement during which he hoped France would become more realistic about the amount of reparations it could collect and America might become more flexible about war debts.\(^{56}\) Secretary Hughes, with characteristic caution, adopted a wait-and-see approach. It was not until 8 March that he formally refused to participate believing that the conference would be of "a political character" and had excluded from consideration the "chief causes of economic

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\(^{54}\) Child to State, 13 Jan 1922 550.E1/6, USDS; see also Harvey (London) to State, 6 Feb 1922, 550.E1/31; Castle to Hughes, Washington, 25 Jan 1922, 550.E1/72, USDS.


disturbances.\textsuperscript{57} Hughes's timing may have been influenced by his anticipation of the political firestorm that in fact did follow the 11 March ratification of the Allied decision in Cannes to exclude American occupation costs from the apportionment of German reparation payments. Hughes complained in an off-the-record press conference that "it was ridiculous to suppose that we should bear our share of the expenses of occupation and then be told to whistle for our money." As expected, Congress erupted in outrage and threatened to cut off funding for all American troops in Europe.\textsuperscript{58}

The Search for an Ambassador to Washington

The American decision not to participate doomed Germany's hopes for a solution at Genoa. On 7 March, Rathenau made a last-minute impassioned plea for the United States to save Germany by recognizing the link between international indebtedness and international recovery and attending Genoa, pointing out that only the United States could facilitate Germany raising a loan large enough to satisfy its creditors.\textsuperscript{59} The timing of Rathenau's speech was reflective of the poor intelligence Germany had regarding American intentions; without capable, high-level representation in Washington, he was dependent on Britain for information. But Britain, wanting to hold Germany in line, had waited until 2 March before

\textsuperscript{57} Hughes to the Italian ambassador in Washington, 8 Mar 1922, \textit{FRUS} 1922 I, pp. 384-96.


\textsuperscript{59} Notes on Rathenau's speech to the Reichstag, 7 Mar 1922, 462.00R29/1603, USDS.
notifying Germany that America was very unlikely to attend Genoa.⁶⁰

Lloyd George's failure to deliver America to the conference increased German concerns about Britain’s ability to hold France in check. For his part, Poincaré had little incentive to attend a conference that did not promise elimination of French debts but rather threatened revision of both the London reparations schedule and the enforcement of Versailles. Under the terms of the provisional moratorium established at Cannes, Germany had to produce 31 million gold marks every ten days. If Genoa was indefinitely postponed or if reparations were excluded from discussion, both Rathenau's policy and the mark faced collapse.

German fears were confirmed at the Boulogne meeting on 27 February when, to ensure French participation at Genoa, Lloyd George was forced to agree to Poincaré's demands that there would be no discussion at Genoa of either reparations or the other provisions of the Versailles treaty.⁶⁰ At Paris in early March, Lloyd George was also forced to accept French demands for the primacy of the Reparation Commission over the Supreme Council in setting reparation terms, a move which significantly reduced his political influence. In addition, Lloyd George acceded to French demands for specific methods to establish control over Germany's chaotic finances. From the German perspective, Boulonge was a reversal of the gains of Cannes. Germany had overestimated its freedom of action, and without American involvement, Lloyd George would not support German interests at the expense of coming to terms with France.⁶¹


⁶⁰ Fink, *The Genoa Conference*, pp. 81-84.

⁶¹ DBFP IXX, pp. 173-5. For German reaction, see Fink, *The Genoa Conference*, pp. 90-94.
Thus, Germany was again faced with the urgency of stimulating American involvement. On 1 March when Otto Wiedfeldt, director of Krupp and expert financial consultant to the German government, met informally with Lloyd George in London for a frank discussion of the outlook for the Genoa Conference and the reparations question, Lloyd George admitted that he had no definite program for Genoa and warned that “England cannot help you alone” and “You must get other people to assist us in the task.” These remarks were meant as clear references to the United States. Following a critique of the present German diplomats, Lloyd George added that he would be very interested to see who would be sent to America. Soon afterward, Ambassador D’Abernon discussed this meeting with Rathenau and reported Rathenau’s view: “In his judgment, nothing remains but America. If he could only get a good German Ambassador at Washington he might be able to bring them in to help Europe. ‘It would be worth a great sacrifice to do this.’”

Rathenau stepped up the difficult search for an appropriate ambassador to Washington that he had been overseeing since taking over as foreign minister in January. Since the election of Harding and subsequent German hopes for a quick re-establishment of relations, Berlin had been wrestling with the dilemma of whom to send. It was not an easy question: the United States made clear that it wanted no former representative of the Old Regime. Debates took place throughout 1921 over what sort of person would best represent German interests. Rosen strongly favored sending a leading German intellectual such as Lujo Brentano or the theologian Adolf von Harneck. Germany’s deepening financial crisis and

American preferences eventually resolved the uncertainty in favor of a leading financial figure, but who would want the job? Due to the sinking mark, only a millionaire could afford to take up the position and Germany’s leading businessmen were occupied with their more profitable interests at home. Wilhelm Cuno, General Director of the Hamburg-America-Linie, repeatedly refused, as did the General Director of the Norddeutschen Lloyd, Philipp Heineken. Finance Minister Andreas Hermes did not want the job; the Center Party preferred he stay in the cabinet. Wilhelm Solf, the former Foreign Minister and German Ambassador to Japan since 1920, was the preferred candidate of the Foreign Office but was passed over after much debate, due to concerns over American reaction to Solf’s Imperial background and his connections to Japan.63

By late February, Otto Wiedfeldt had emerged as the best candidate. Wiedfeldt was a leading German economic expert, with wide experience in national and international financial and social matters. Before the war he had made a study of the transportation situation in the Far East and America for the Reich Railroad Authority, and as chairman of the Krupp directors he had orchestrated the firm’s postwar reorganization. Both the Kaiserreich and the new Republic were highly corporatist and relied heavily on technical experts from industry, a capacity in which Wiedfeldt served often during the negotiations with the Ukraine in 1918 and as a leader of technical delegations both for Paris Peace

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Conference and the Spa Conference

He had always refused the cabinet positions offered to him by Wirth, however. Politically close to the liberal wing of the Peoples Party, Wiedfeldt both considered Wirth too socialistic and distrusted the fulfillment policy. But because of his business background, familiarity with Germany’s financial difficulties, and official expert status, Rathenau and especially President Ebert were keen to persuade Wiedfeldt to accept the Washington post. They were also attracted to Wiedfeldt’s similarities with his eventual American counterpart in Berlin, Alanson B. Houghton, who came from the business world rather than the foreign service and had strong independent political ties. For both the United States and Germany, these were traits that fit the peculiarly financial requirements of rebuilding relations between the two nations.64

Wiedfeldt agreed to accept the Washington position but only with permission from a reluctant Gustav Krupp von Bolen, who was hesitant to lose his most valuable employee. President Ebert and the Foreign Office therefore applied direct pressure to Krupp for Wiedfeldt’s release to accept the urgent Washington position so vital to Germany’s financial situation. Ebert made clear his opinion that nothing was more important for the German economy than to stimulate American engagement with Europe, calling on Krupp to release Wiedfeldt in the interest of German economic life.65 Still Krupp remained obstinate, loath to lose Wiedfeldt at a time the firm most needed his talents, until Wiedfeldt himself came up

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64 On Wiedfeldt’s career see Schröder, Otto Wiedfeldt, and Frank Lambach, Our Men in Washington (Köln: Rudolf Müller, 1976), pp. 75-77.

65 The negotiations with Wiedfeldt and Krupp began even before Wiedfeldt’s meeting with Lloyd George. See Ebert to Krupp von Bohlen, 24 Feb 1922, R28040, Büro RM, Pa2 Bd 3, PA-AA, K170626.
with the idea of taking the Washington position as a special mission of limited duration—as a *Sonderbotschafter* [a special ambassador]. Negotiations over Wiedfeldt’s appointment continued well into March, including an effort by Hugo Stinnes, Germany’s greatest industrialist, to sway his colleague’s intransigence. By mid-March, Krupp had relented enough to permit a “special mission” of short duration in Washington but wished to retain Wiedfeldt through the summer so that he could go to Genoa, arguing that Genoa must play out before anything else could happen regarding the United States.

Rathenau, who by late March realized the prospects for any real achievements at Genoa were dim, was strongly apposed to any delay, especially since the new U.S. Ambassador, Alanson B. Houghton, would soon be in Berlin and the U.S. was asking for a German ambassador in Washington as soon as possible. Because relations with the United States were now the first priority, Carl von Schubert, director of the American section of the Foreign Office (Abteilung III), complained to Rathenau that Krupp just wouldn’t understand how vital America now was for Germany and Europe and the absolute necessity of having a reliable German expert in Washington to explain the German situation and counter French influence. Despite the continued reluctance of his employer, Otto Wiedfeldt was named German Ambassador to the United States on 22 March 1922. German hopes were now once again squarely pinned to help from the United States.66

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The Failure of the Genoa Conference

Britain's financial ability to help Germany in the Reparation Commission had also been severely curtailed by America's refusal to attend the Genoa Conference, its request for payment of American occupation costs, and its request to London to negotiate a debt-funding arrangement. On 22 March, the Reparation Commission granted Germany a provisional short-term moratorium but imposed rigorous conditions, including a tax increase of 60 billion marks, a reduction in German expenses, the establishment of an independent Reichsbank, and a committee of guarantee in Berlin. The commission also imposed a 31 May deadline for acceptance, or reparations terms would revert to the schedule of the London Ultimatum and Germany would be in default.\(^6\) \(^7\) The demands produced a crisis in the Wirth government. With its policy of fulfillment now in danger of being totally discredited, Ebert, Wirth and Rathenau gambled that the Reparation Committee would take no action on the eve of the Genoa Conference and refused the demands for new taxes and controls.\(^6\) \(^8\) The decision received strong backing in the Reichstag, reinforcing the feeling that Germany's financial state had reached an intolerable situation and that Germany required new tactics. Well aware that the mark had declined to 346 to the dollar, the Cabinet feared

\(^6\) Germany was required to pay the full 720 million gold marks for 1922, but was relieved of its March payment and had its April payment reduced to 15 million. Letter from the Reparation Commission to the German Government, 21 Mar 1922, Official Documents Relative to the Amount of Payments to be Effected by Germany under Reparations Account, I, 1 May 1921 - 1 July 1922 (London, 1922), pp. 118-21, cited in Kent, The Spoils of War, p. 176, n. 7. For French pressure on the Reparation Commission, see Trachtenberg, Reparation in World Politics, pp. 240-42.

\(^7\) Kabinettssitzung, Ministerratssitzung, 24 Mar 1922, Nr. 230, Kabinette Wirth I, pp. 630, 634-39.
that essential food and raw-material imports would make reparation payments impossible.\textsuperscript{69}

It is this context that best explains the German decision during the Genoa Conference to sign the Treaty of Rapallo with Russia, a risky gamble that a special relationship with Russia could provide leverage against other European nations and thereby improve Germany’s international position. From the time he took office, Wirth had hoped to widen German options and escape a Versailles-based, Allied-dominated European system by improving relations with the United States and Russia; signing a trade agreement with Russia in May 1921 and accepting the Treaty of Berlin in August had left him little to show for his efforts. After the Reparation Commission’s demands of 24 March further proved that Germany had failed to loosen the restraints of Versailles, Rapallo was an attempt to breathe life into Wirth's policy and, national independence and freedom of action.\textsuperscript{70}

With the support of Wirth, who was attracted to the possibilities for more freedom of movement in the East, Ago von Maltzan, the influential head of the Eastern department of the German Foreign Ministry, skillfully took advantage of German fears that Britain and France would conclude a separate agreement with Russia at Germany’s expense to maneuver an ambivalent Rathenau into signing the treaty. The Rapallo Treaty provided for the establishment of diplomatic relations, mutual repudiation of claims for war costs and damages, Russian renunciation of any claims under the treaty of Versailles, and a waiver of German claims for the nationalization of German property in Russia, thereby shattering

\textsuperscript{69} Chefbesprechung, 4 Apr 1922, Nr. 240, \textit{Kabinette Wirth} II, pp. 670-74.

\textsuperscript{70} This view of Rapallo follows the analysis of Peter Krüger. See Peter Krüger, \textit{Die Außenpolitik der Republik von Weimar} (Darmstadt: Wissenschaftliche Buchgesellschaft, 1989), pp. 147-50; and "The Rapallo Treaty and German Foreign Policy," in \textit{Genoa, Rapallo, and European Reconstruction in 1922}, ed. Carole Fink, Axel Frohn, and Jürgen Heideking, pp. 49-64.
unified Western non-recognition of the Communist regime and insistence on compensation for nationalized property.

Rapallo was also a reversal of the German policy of close cooperation with Britain and a refusal to concentrate German efforts on whatever solutions for European construction might be accomplished by Lloyd George. As its critics in Germany noted, the treaty did nothing to solve Germany's 31 May deadline and reflected the lack of clear priorities and purpose in German foreign policy created by the apparent bankruptcy of Germany's fulfillment policy. This desperate, uncertain, conflicted quality would characterize Germany's relationship with the United States when Germany would once again turn to the United States for salvation in mid-1922.71

The United States viewed the lack of any substantive progress at Genoa with smug satisfaction. The American observer at the conference, Ambassador to Italy Richard W. Child, who had initially advised that the United States should withhold its involvement until Europe turned away from "imperialistic intrigue and purely political programs" and sought "liberal economic cooperation," considered the conference "a great confusion."72 Logan termed the conference a "cess-pool of political intrigues."73 The United States was not especially concerned about Rapallo. To Castle it was just "another case of German

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71 For a discussion of Rapallo in the larger context of the Genoa Conference see Fink, The Genoa Conference; for a detailed analysis of the specific events that led to the signing of the Russo-German pact, see Krüger, "The Rapallo Treaty and German Foreign Policy," Genoa, Rapallo, European Reconstruction in 1922, pp. 49-64.


73 Logan to State, 28 Apr 1922, USDS 550.E1/293.
psychology" that confirmed Washington's dislike and mistrust of Rathenau. But while the Rapallo pact cast a pall over the Genoa Conference, it was not the cause of its failure. The Genoa Conference reflected Lloyd George's political agenda, not the agenda of the United States. All agreed that German reparations and Allied war debts were the pivotal issues in the reconstruction of Europe, but neither could be solved without the United States, which had little interest in placing its political and financial interests under the tutelage of Lloyd George and Britain.

Ironically, the American decision not to attend the Genoa Conference, together with Congressional restrictions on reduction of war debts, did increase America’s interest in resolving the question of German reparations. The United States sought the economic revival of Germany as an essential element in the larger question of the reconstruction of Europe and increasingly viewed the battle over reparations as the heart of the European crisis. By spring 1922, strong consensus had developed that the London reparation payment schedule was impossible for Germany to meet and that the cycle of French demands worsening the situation in Germany, followed by German refusals heightening French demands, had to be resolved through a "businessmen's solution" based on a determination by non-political experts of Germany's capacity to pay. This approach offered multiple

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74 Castle to Alanson Houghton, U.S. ambassador to Germany, 22 Apr 1922, Houghton Papers. Castle, who had a dislike of "reds" and carefully monitored communist activity in Germany, wrote Houghton that he did not trust Rathenau, considered him sympathetic to communism, and worried that Rathenau would lead "the forces of destruction if a terrible economic crisis hit Germany." Castle to Houghton, 11 May 1922, Houghton Papers. Logan considered Rathenau "a man with exaggerated ego and exalted conceit." Logan to State, 28 Apr 1922, 550.E1/293, USDS.

75 This point is also made by Link, Die amerikanische Stabilisierungspolitik in Deutschland, 1921-1932, p. 122.
advantages: it avoided political entanglements that would be unacceptable to Congress and the American public and it was grounded in a belief that a recovered Germany could pay reasonable reparations to France, which in turn could begin to pay its war debt to America.

In mid-March 1922, rumors of plans to shame the United States into canceling Allied war debts by having the Reparations Commission offer to reduce German reparations by 100 percent, if the United States would agree to such a plan, gave the Harding administration additional incentive to move the issue of German capacity out of the Reparations Commission and into an experts committee. Keeping the issue of Allied War debts off the table both avoided a fight with Congress and held the issue in reserve as possible leverage for later British and French concessions about trade and disarmament.

By the logic of American policy, the first step was to maneuver France into accepting a reduction in German payments that would pave the way for American loans to stabilize Germany, but the State Department doubted that the 24 March demands of the Reparation Commission would accomplish anything useful. Dresel warned that the demands had led to a fall in the exchange rate of the mark and that Germany faced a "real catastrophe" if this continued. Myron T. Herrick, the American ambassador to France, advised Hughes that a reform of German finances was essential for reparation payments, "but there is no way of permanently reforming German finances or obtaining maximum possible indemnity which does not begin by reducing the total to a figure within German capacity." American official opinion was now supporting those Germans who insisted that reform and stabilization could

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76 The plan was suggested by British Chancellor of the Exchequer Sir Robert Horne, discussed at the Paris meeting of the Allied Ministers in March and then leaked to the press. Harvey to Hughes, 13 and 21 Mar 1922, 462.00R29/1543 and 1552, USDS; Herrick to Hughes, 21 Mar 1922, 462.00R29/1554, USDS; Boyden to Hughes, 21 Mar 1922, 462.00R29/1601, USDS.
not occur unless the total bill for reparations was reduced.\textsuperscript{77}

The opportunity for American intervention in the reparation crisis arrived on 4 April, when the Reparation Commission decided to appoint a special loan committee, including international bankers, to evaluate Germany's qualifications for an international loan. France and Belgium had agreed to this plan, both because they urgently needed reparations and because of a general concern that Germany was approaching collapse.\textsuperscript{78} But the French position had hardened after the Rapallo Pact. It was not until mid-May that Germany reached an agreement with the Reparation Commission in which Germany promised to balance its budget and accept the supervision demanded by the commission, with the understanding that supervision would not affect the sovereignty of the German government. In return, the commission would grant approval for an international loan. The agreement was contingent upon Germany receiving a loan, but without American involvement it was unlikely that any loan could floated.\textsuperscript{79}

\textsuperscript{77} Dresel to Hughes, 23 Mar 1922, USDS 462.00R29.1564; Herrick to Hughes, 24 Mar 1921, USDS 462.00R29.1565.

\textsuperscript{78} The idea of an international loan for Germany was initially proposed at the March conference of Allied finance ministers in Paris by Sir Robert Horne, whose plan called for a loan of 4 billion gold marks guaranteed by German customs receipts which would provide four reparations annuities of 720 million gold marks and 500 million gold marks for stabilization of the mark. Chefbesprechung, 1 Apr 1922, Nr. 237 and Kabinettsitzung, 6 Apr 1922, Nr. 243, Kabinette Wirth II, pp. 659-62; Bergmann, The History of Reparations, 124-6; David Felix, Walther Rathenau and the Weimar Republic (Baltimore: The Johns Hopkins University Press, 1971), p. 149; Feldman, The Great Disorder, pp. 433-44.

\textsuperscript{79} The agreement was the result of an independent initiative by Andreas Hermes, the German finance minister, who had met in Paris with British, Belgian and French representatives during the course of the Genoa Conference. Because France refused any discussion of Germany's total liabilities, the plan negotiated by Sir John Bradbury, the British representative on the Reparation Commission plan, proposed the interim solution of a partial moratorium for 1922 while compelling Germany to get its fiscal house in order. Hermes accepted the plan, which required Germany to reform its finances before stabilization, a
The Loan Committee

The Loan Committee provided Hughes with a mechanism for United States involvement in the reparations question by which the issue of Allied war debts could be avoided. The State Department readily approved the loan committee scheme on 8 April, but rejected Boyden's suggestion of New York Federal Reserve Bank President Benjamin Strong as the American representative because of his connection with a semi-official government agency. Hughes instructed Boyden to suggest J.P. Morgan, the influential New York banker, but cautioned Boyden to "safeguard against any possible allegation that his name had been proposed by you." The administration wanted to be certain that Morgan could insist on a reduction of German reparation payments and at the same time claim he had no authorization to discuss any reduction in Allied war debt. 80

While unwilling to become officially involved, Harding publicly announced that the administration supported the bankers committee as a vehicle to European reconstruction and American economic expansion. 81 His message was reinforced by Hoover, who told the

reversal of the German "balance of payment" approach to inflation; Wirth was furious and the German Cabinet split over the issue for five days. Rathenau initially opposed acceptance, but then changed his mind and finally convinced Wirth that there was no alternative to acceptance. For Cabinet meetings and documents see Kabinette Wirth I, pp. 728-88, 791-822, 828-36, 839-41. See also Feldman, The Great Disorder, pp. 438-40, and Felix, Walther Rathenau and the Weimar Republic, pp. 153-54.

80 Hughes to Boyden, 8 Apr 1922, 462.00R29/1608, USDS. See also John M. Carroll, "The Paris Bankers' Conference of 1922 and America's Design for a Peaceful Europe" International Review of History and Political Science, 10 (August 1973), pp. 39-47. Carroll follows the Open Door interpretation of American policy regarding Allied war debts, arguing that Washington sought to use those debts as leverage to further American commercial interests but makes no mention of the domestic political pressures constraining Hughes.

81 New York Times, 6 May 1922.
United States Chamber of Commerce on 16 May that European reconstruction required a reduction in armaments, a balancing of budgets, and a responsible schedule for the payment of reparations. Hoover also pointed out that America was unlikely to give government loans to Europe, and that the Allies and Germany needed to demonstrate their commitment to peace and economic stability if they wanted private loans. The message was clear: If Europe would follow America's agenda, the dollars necessary for reconstruction would be made available.

Although France officially insisted that the Loan Committee could not modify either the Treaty of Versailles or the 1921 London Schedule, the Reparation Commission's Loan Committee expected that the international bankers would insist upon modification of the reparations schedule, thus sparing the commission responsibility for the decision. Morgan's task was to convince the French that Germany's total reparation bill had to be scaled down if Germany was to receive a loan. Logan quipped, "The fellow who lends the money is the fellow who makes the conditions and sets the rules, this fellow is not the politician but is the banker." But Logan's quip to the contrary, it was not Morgan who was setting the rules in May 1922, it was the Harding administration, which had defined the basic parameters of the loan. As noted by Logan, if Morgan attempted to ignore those parameters, any attempt to

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83 Hoover was so adamant on the scaling down of reparations that he told Hughes that unless the State Department instructed Morgan to insist upon the reduction, he would publicly declare that any German loan not accompanied by a reduction in reparations was worthless. Hughes demurred, since he was already aware of Morgan's belief that a reduction was essential for any loan. Memorandum by Christian A. Herter, 22 Apr 1922, Hoover Papers, cited in Buckingham, International Normalcy, p. 119.

84 Logan to Fletcher, 18 May 1922, box 8, Henry Fletcher Papers, quoted in Carrol, "The Paris Bankers' Conference of 1922," p. 45.
link the reduction of Germany's reparations with the inter-Allied debt would result in the United States government withholding its "favorable consideration," essential for marketing the loan in the United States.  

Poincaré, however, was not prepared to accept American rules. In the latter half of April, the United States had begun pressuring France and Britain to prepare to begin repaying the war debt. Morgan reported that it would be possible to float a loan of $1.25 billion secured by German customs receipts and railroads. Germany would also have to reform its finances.) But when Morgan refused to discuss any reduction in French debt to the United States and indicated that much of any loan would have to go for German food and raw material imports, thus limiting the amount available reparations, Poincaré's attitude hardened.

Expecting that the bankers would recommend a dramatic reduction in the 132 billion gold mark reparation bill, Poincaré told the French senate that the Loan Committee should not have the power to make recommendations about German reparations as long as American bankers had no mandate from their government to consider the question of inter-Allied debts.

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85 Logan to Assistant Secretary of State Leland Harrison, 2 June 1922, 462.00R29/1773, USDS. On 3 March 1922 the State Department, in an effort to control foreign loans by United States banks, had issued a public policy statement establishing procedures by which banks would consult with the State Department to review whether such loans met the criteria. While the administration had no legal power to enforce its decision, banks were dependent on the government's aid in cases of default. Press release issued by the Department of State, 3 Mar 1922, FRUS I, pp. 557-58; see also Leffler, The Elusive Quest, pp. 58-64, and Carl P. Parrini, Heir to Empire: United States Economic Diplomacy, 1916-1923, pp. 172-211.

86 Wadsworth to the Secretary of State, 18 Apr 1922, FRUS 1922 I, p. 397; Poincaré to the Secretary of State, 19 Jul 1922, FRUS 1922 I, pp. 404-5.

87 Fletcher to State, 6 June 1922, 462.00R29/1779, USDS; Carrol, "The Paris Banker's Conference of 1922 and America's Design for a Peaceful Europe," pp. 39-47; Link, Die americanische Stablisierungspolitik in Deutschland 1921-32, pp. 122-35.
Accordingly, on 7 June the French representative to the Loan Committee cast a lone dissenting vote to defeat the resolution authorizing the Loan Committee to deal with all matters affecting German eligibility for an international loan. Having misjudged French resistance to American inflexibility regarding war debts, America’s premature efforts to force a settlement on France ended in failure.

The report of the Loan Committee was designed to be and was recognized as a severe reprimand to France. In it, the bankers concluded that Germany could not receive an international loan while the reparation bill established by the London Ultimatum remained unchanged. They did not consider Germany qualified for either a provisional loan large enough to cover its needs for five or six years or even for a small loan in the range of 1.5 billion gold marks, which would cover reparations payments for one year. The committee concluded that France's position made any further efforts pointless; however, the problem of inter-Allied debts and American policy did not escape notice. In its final report, the committee insisted that prerequisites for any future loan must include, in addition to the removal of uncertainty about Germany's reparation obligations and stabilization of Germany's finances, a settlement of inter-Allied debts.

The American assessment was that, despite the failure to reach agreement on a loan, the conference of bankers was "of great benefit to the general situation" and a vindication of

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88 For the French reaction see Kent, The Spoils of War, pp. 182-83; and Trachtenberg, Reparation in World Politics, pp. 247-49.

89 Report of the Banker's Committee to the Reparations Commission on the Question of a German Loan, 10 June 1922," London Times, 12 June 1922. For the deliberations of the committee see the memo provided to the German cabinet by Carl Bergmann (Kabinettssitzung, 13 June 1922, Nr. 291, Kabinette Wirth II, pp. 855-65). See also Carl Bergmann, The History of Reparations, pp.138-139, and Feldman, The Great Disorder, pp. 441-43.
American policy. Logan reported to Washington: "Their findings constitute an expression of
the world's financial opinion that the figure of the present indemnity so far exceeds German
capacity as to be fantastic and that the maintenance of this figure can only lead to German
bankruptcy. The world opinion will undoubtedly follow the majority view of the
Commission, backed by the Bankers, on this subject and this must have its ultimate effect on
French Government opinion." 

Germany, like Logan, viewed the committee report as a
great victory in the battle for world opinion. Rathenau termed it "the greatest progress which
the government's policy has enjoyed since the London Ultimatum."

Rathenau's delight stemmed from the report’s conclusions that reparations had to be
transformed from intergovernmental debts, enforceable by sanctions and force, to a
commercial debt dependent upon traditional mechanisms of credit, which included the
capacity to pay. America and Germany had a mutual interest in such a transformation, which
both saw as essential to the reintegration of Germany into the world economy. But this
mutuality had its limits. While America sought a peaceful revision of the Versailles system,
it expected Germany to pay reparations significantly higher than German ambitions. In
addition, while Germany wanted American political support for reduction in reparations, it
was ambivalent at best about the prospect of being rescued by American loans, particularly
interim and partial loans that would not cover the full costs of reparations but would still
impose fiscal and monetary restraints and require mortgages of German assets.

Stabilization of the mark and fiscal discipline entailed social and economic consequences

90 Logan to Harrison, 9 June 1922, 462.00R29/1790, USDS.

91 Kabinettssitzung, 13 June 1922, Nr. 291, Kabinette Wirth II, p. 867.

92 Ibid., pp. 862-67.
that the weak Wirth government was reluctant to face. Advocates of a loan were caught in a circular dilemma: Germany insisted it could not stabilize without a loan, but it could not get a loan unless it was willing to reform its finances and stabilize its currency. In addition, right-wing opponents of the Wirth government, which was far from confident about the success of its fulfillment policy, increasingly voiced criticisms. The Wirth government was now dependent on the United States in two crucial respects. First, the United States had to be both willing and able to pressure a progressively more militant France into reducing Germany's reparation burden and not invading the Ruhr. Second, because Germany was willing to make only limited domestic reforms, American investors had to have enough confidence in Germany to provide sufficient investment and trade to keep the mark and the German economy from collapsing. But the first reward of the "victory" of the bankers report was the fall of the mark, on 8 June, from 278 to the dollar to 313 on June 13. Hyperinflation, looming on the horizon, would further complicate Germany's foreign relations.93

During the spring and summer of 1922 the United States developed its policy toward Germany and European reconstruction. American policy options, like German ones, were limited by domestic political considerations. Germany was important to the United States but not so important that the United States would risk direct political involvement. By June 1922 American policy had taken shape. In seeking a European reconstruction based on a peaceful and limited revision of Versailles, America would continue to rely on "unofficial" economic diplomacy while waiting for the "ultimate" effect on French policy. The bankers report contained all the elements that would reappear in the Dawes plan of 1924. But initiative had

93 For a discussion of beginning of Germany's slide into hyperinflation, see Feldman, The Great Disorder, pp. 447-52.
passed to France in the early summer of 1922, and the German-American endeavor to reduce German reparation payments would be based on waiting France out. By overestimating its freedom of action and by refusing to undertake domestic reforms without a reduction in reparations, Germany had made itself dependent upon the United States, whose policy was still characterized by detachment. Bilateral relations between the two nations, that began to grow with the exchange of ambassadors in the spring of 1922, would evolve in that context.
Chapter III

“Fairest and Most Righteous Treatment”:

German-American Relations and the Origins of the 1922 Mixed Claims Agreement

Introduction

After each of the two world wars, and again after the end of the Cold War, the United States has been forced to establish a new basis for its relationship with Europe and Germany. The United States engagement with Germany and Europe in the years immediately following World War II has been studied extensively, as scholars have long recognized the importance of the early years of the Weimar Republic to the rise of Hitler and widely debated the triangular interaction between Germany, France and Great Britain. However, only minimal attention has been paid to post-World War I German-American relations prior to U.S. involvement in the Dawes Plan of 1924, which ended the French and Belgian occupation of the Ruhr and temporarily resolved the German reparations question.

The paucity of studies on German-American relations from 1918 to 1923 reflects the inherent problems of considering both nations’ multifaceted domestic issues that, together with complex international issues, impacted and defined the relationship. Yet the nascent relationship between Germany and the United States was arguably the most crucial relationship in the international system of the early 1920s. Germany represented the greatest
challenge to the international system while the United States, which had emerged from the First World War as the world’s dominant economic power, represented the logical solution to the problems of European security and reconstruction. It is this context that gives the United States-German Mixed Claims Agreement of 1922, which established a vehicle for the settlement of American war claims against Germany, its particular importance.

The agreement, an important step toward defining the German-American relationship in the 1920s, created the necessary political space in both the domestic and international arenas for a more active American role in reparation diplomacy and its later participation in the Dawes plan. A close examination of the relationship between American domestic political issues and the implementation of foreign policy, as evidenced in the Mixed Claims Agreement, allows evaluation and critique of theoretical paradigms about the origins of American foreign policy during the 1920s. From the perspective of Germany, the agreement demonstrates the importance it placed on its relations with the United States in its efforts to escape the restrictions of the Versailles treaty.

The issue of American war claims against Germany, symbolized in American minds by the sinking of the passenger liner Lusitania in 1915, engendered fierce political passions in the United States. After Congress refused to ratify the 1919 Treaty of Versailles, the 1921 Treaty of Berlin, which reestablished official relations between the United States and Germany, claimed all rights and privileges against Germany granted under the Versailles treaty but refused to accept the corresponding responsibilities. Section 5 of the Treaty of

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Berlin provided that confiscated German property would be retained by the United States against all war claims dating from 31 July, 1914, thereby including shipping loss claims predating America’s entry into the war. These pre-war claims not only made up the largest component of all claims but also engendered the greatest American political passions. Their inclusion was a political necessity for Congressional ratification of the Treaty. The Treaty of Berlin thus allowed for the possibility of extensive American claims against Germany.²

Germany had misread American policy and had hoped that an American desire to counter the domestic post-war recession through increased American exports to Germany would provide the Germany a strong hand in negotiating a separate peace. Secretary of State Charles Evens Hughes, however, was concerned over the acrimonious political atmosphere in the U.S. Senate after the fight over the Versailles Treaty and insisted that Germany accept the Treaty of Berlin without modification. The German government, led by Chancellor Josef Wirth, had unsuccessfully attempted to limit American war claims in the Treaty of Versailles so that claims predating America’s entrance into the war could be avoided. Germany had also failed to secure the return of German assets seized during the war and held as security for American war claims, which it had hoped to use as a source of foreign exchange and a base for the expansion of German-American commercial relations, an important element of Wirth's “fulfillment” policy regarding reparation demands.³


³ The minority Weimar Coalition cabinet led by Dr. Josef Wirth took office on 10 May 1921 and had accepted responsibility for fulfilling the conditions of the London Ultimatum on reparations imposed by Britain, France and Belgium. The Wirth government's publicly avowed policy was one of fostering economic recovery through cooperation with the Allies. Its "fulfillment" reparation policy was based on appearing to cooperate while demonstrating
All that Germany achieved were assurances that the United States, unlike its allies, would not press claims under the reparation clauses of Article 244 of the Versailles treaty and a promise that Germany would "be dealt with on the fairest and most righteous basis."\(^4\)

Germany, desperate for American aid in its growing conflict with the Allies over reparations, accepted the ambiguous terms of the separate peace agreement. It did so both out of German enthusiasm for anything that was not Versailles and the hope that the settlement would lead quickly to a helpful and favorable resumption of full diplomatic and commercial relations with the United States. However, having resolved the immediate political need for a peace treaty with Germany, the Harding administration was content to wait with cool detachment while it debated its policy about the reconstruction of Germany and Europe.

By 1922, the question of how the cost of the war was to be apportioned had reached a crisis stage. The Allies owed the United States billions in war debts and were demanding billions in reparations from a German government whose financial capacity to pay was doubted and which had little political will to make the necessary sacrifices. While the United States officially denied any links between the question of the Allied war debts and question of German reparations, there was an organic linkage that both Britain and France attempted to exploit.\(^5\)

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\(^5\) France and especially Britain responded to American calls for a reduction in reparation demands from Germany by noting that U.S. reduction or even cancellation of Allied war debts would go a long way toward reducing their claims against Germany. See Stephen A. Schuker, "American Policy Toward Debts and Reconstruction at Genoa, 1922," pp. 95-122.
Because political opinion within the United States was divided over the question of reducing the Allied war debt as a means of solving the reparation crisis and facilitating the economic recovery of Europe, the Harding administration and Secretary of State Hughes adopted a policy of seeking a "business-like" solution based on German capacity to pay. This formulation finessed the hot political question of reducing Allied war debts in exchange for reduced Allied demands for German reparations.

Interpretation of American policy regarding war debt reduction has been a subject of lively debate between historians sharing William Appleman Williams’s emphasis on a rigid economic determinism in U.S. foreign policy and those such as Melvyn P. Leffler, who emphasize the multiplicity of political and economic factors that led to policy formation. Recently, scholars such as Michael Hogan, who identify the development of corporatism as the primary influence in American domestic and foreign policy, have seized upon the phase "business-like" as evidence of the beginning of the strengthening of government-business collaboration. However, even though extensive American claims against Germany would


8 Michael Hogan, challenging the view that the United States sought a world economic order based on competitive free trade, calls attention to the cooperative and corporative aspects of Anglo-American relations after 1923 and argues that this Anglo-American cooperation, instrumental in the 1924 resolution of the Franco-German struggle, created a "cooperationalist" order that characterized the later years of the 1920s. Michael J. Hogan, Informal Entente: The Private Structure in Anglo-American Economic Diplomacy, 1918-1928.
impact what Germany could pay in reparations and the question of American war claims against Germany was a major roadblock to the settlement of the war debts/reparation issue, American scholars of this period have in general paid only slight attention to American war claims and the Mixed Claims Agreement.

Two reasons can be suggested for this relative neglect. First, a useful analysis requires a combined American-German perspective since the question assumed a much greater importance in Germany than in the United States. Second, only scant documentation exists in official government archives about the formation of policy toward war claims; Hughes's later account of the negotiation of the agreement simply repeats the official representations he originally made for domestic political purposes. ⁹

That scholars writing from the German perspective have given slightly more attention to the Mixed Claims Agreement is to be expected, given the large role the United States played in German diplomatic and economic aspirations of the time. But even among these scholars, there is no general consensus regarding the Mixed Claims Agreement and its meaning for German-American relations. Views on the Mixed Claims Agreement depend on how one understands the negotiations leading up to the agreement and the extent to which the agreement served the perceived goals of both Germany and the United States.

For example, Russell Van Wyk sees confusion and incoherence in the negotiations which naturally led to disappointment on both sides and the eventual failure of the Mixed Claims Commission that resulted from the agreement. ¹⁰  Alternatively, Elisabeth Glaser-Schmidt

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¹⁰ Russel D. Van Wyk, German-American Relations in the Aftermath of the Great War:
views the negotiations as evidence of a continuing, deliberate American policy to incorporate Germany into a liberal trading system, and the signing of the agreement as the launching of a new period of normalization for German-American relations. These studies, however, fail to evaluate the Mixed Claims Agreement in light of the international deadlock over reparations and war debts, a conundrum that constrained the foreign policy options of both Germany and the United States (monies paid to the United States for war claims would reduce what Germany could afford to pay the Allies in reparations). It is only in this context that the coherence of policy and the limitations of the Mixed Claims Agreement can be understood.

The Exchange of Ambassadors

The German government, desperate for American aid to contain Germany's rapidly expanding economic crisis, hoped that closer relations with the United States, especially via a commercial treaty, would help crack some of the economic restrictions placed on Germany by the Versailles treaty. By spring 1922, Germany found itself crucially dependent on an America that had become the center of gravity in international politics. Secretary of State Hughes made it clear that no commercial treaty would be considered until a provision for the settlement of American claims against Germany had been reached. The Germans, with

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12 Castle to Dresel, 16 Feb 1922, box 68, Dresel papers; Dresel to Sec. of State, 22 Feb. 1922; Sec. of State to Dresel, 15 Apr 1922; Houghton to Sec. of State, 5 May 1922, FRUS,
almost no diplomatic leverage, had to wait for the State Department to establish its policy toward Germany and offer its proposals in regard to confiscated German property and the settlement of war claims. Examination of the formulation of policy in Washington is therefore not only the key to understanding the origins of the Mixed Claims Agreement, it also provides crucial insight into the more general questions of who set policy and how policymakers balanced domestic and foreign policy concerns.

The ratification of the Treaty of Berlin, in November 1921, reestablished official diplomatic ties between the United States and Germany. However, the appointment and exchange of ambassadors, the next step in normalizing relations, did not occur until spring 1922. In early 1922 the United States, still in the process of establishing policy about Germany and Europe, was in no hurry to have a heightened presence in Germany. Anxious to gain the good will and cooperation of the United States and unwilling to appear as pressing Washington on the issue, the Wirth government waited for Washington to make the initial move.

In February 1922, President Harding appointed Alanson B. Houghton, whose political and business background eminently qualified him, as the first U.S. postwar ambassador to Germany. Houghton personified the business-oriented Republican policy toward Europe.  

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13 Houghton had supported the nomination of Frank O. Lowden, the governor of Illinois, as the Republican presidential candidate. Harding's appointment of him as ambassador to Germany was an effort to heal party wounds but he also had a genuine regard for Houghton's abilities and qualifications. Houghton had been a loyal Republican who was, at the time of his appointment, serving as congressman from New York's 37th District. This gave Houghton an understanding of the political realities of the administration's interactions with Congress over foreign policy. As president of Corning Glass Works, a family concern,
Although William Castle, chief of the West European Division, and other State Department officials had hoped that Ellis Loring Dresel, the American commissioner in Berlin, would be appointed ambassador, the State Department was resigned to a political appointment.

Houghton did, however, meet with State Department approval, even if he was not their man. Castle considered Houghton perhaps too sympathetic to Germany, but at least "sane" on the subject of reparations. Castle commented to Dresel that "if we had to have a political appointee, Houghton is the best" and noted that perhaps Houghton's businessman's viewpoint would not be bad.  

In Germany, the search for an ambassador was more difficult. The United States refused to accept any diplomat who had previously served in the United States under the Kaiserreich. The State Department also had asked the Germany not to send a "big name," but rather someone who understood and appreciated economic questions. More important, due to the exchange rate, only a millionaire could afford to accept the post and few were willing to do so. In March 1922, Otto Wiedfeldt, director of Krupp, accepted the government's pleas to take the position. Walther Rathenau, the German foreign minister, considered Wiedfeldt especially suitable because of his connections to leading German industrialists and financial circles. The choice demonstrated the premium placed by the Wirth government on fostering

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14 Castle to Dresel, 15 Nov 1921;  31 Jan 1922;  25 March 1922, box 68, Dresel papers.
commercial relations and on courting the United States for help with Germany's financial situation.\(^\text{15}\)

With the arrival of Houghton, Germany looked forward to bilateral relations with the United States. Germany's goal was a commercial treaty that would enhance economic ties with the United States and help break the economic restrictions imposed by the Treaty of Versailles. But before Hughes would even consider a commercial treaty, he wanted a German agreement on the settlement of American war claims against Germany. His first task would be to obtain an agreement, based on terms set by the United States.

The Problem of the American War Claims

When the Harding administration took office it faced a confusing situation regarding the satisfaction of American claims against Germany. A significant amount of American claims against Germany stemmed from losses, primarily shipping losses, that had occurred prior to the entry of the United States into the war and therefore were not covered by the Versailles Treaty. Claims relating to the rights of neutrals during time of belligerency traditionally had been governed by precedents arising out of international law and many of the claims of United States citizens against Germany arose from incidents which might not be considered violations of international law. When Senator Philander Knox, in 1920, proposed terminating the state of belligerency by simply repealing President Wilson's declaration of war, he had added a proviso giving the United States the right to retain German property

until Germany satisfactorily settled all United States claims. Germany’s defeat had not softened the memory of the sinking of the _Lusitania_ which continued to excite American passions. Wilson's veto of that measure, however, left the legal justification for American pre-war claims in legal limbo.

The Wilson administration had not been overly concerned with the legal technicalities of American claims and sequestered German property, as during the war other belligerent nations had also ignored the traditional prohibitions of international law against seizure and sequestration of private property. Following their example, Wilson sequestered German property in the United States when America entered the war in 1917 and by 1918 had begun to sell off German assets to satisfy claims, a practice reflecting his nationalism as well as his personal lack of interest in economic affairs.\(^\text{16}\)

The disarray that characterized the final year of the Wilson administration, together with the unresolved questions of legal status, gave entrepreneurs ample opportunity to loot the Alien Property Custodian Fund and seek settlements furthering individual financial and political gains. The sale of German assets, particularly patent rights, for artificially low prices created a small scandal.\(^\text{17}\) Law firms seeking large fees advertised their political connections to German owners of confiscated assets. Francis P. Garvin, the Alien Property Custodian, proposed to German shipping companies that America would return German

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\(^{17}\) Dulles to Dresel, 9 March 1921, Dresel Papers.
property if German companies dropped complaints against the United States and the Alien Property Custodian.\textsuperscript{18}

The Harding Administration inherited both the problems of the Alien Property Custodian Fund and the legal questions associated with American claims against Germany. Hughes' first step was to stop the abusive practice of selling German assets at below market prices. Hughes, a patrician attorney with progressive beliefs, had little tolerance for these corrupt practices. He also disliked the idea of using the confiscated property of private German nationals to pay claims, but in April 1921, there appeared to be little alternative to that policy. Legal advisors in the State Department noted:

\begin{quote}
It seems extremely unfortunate that no such provision was made and that pre-war claims must be settled, so far as the treaty is concerned, out of the proceeds of property which for centuries has been regarded as inviolable.\textsuperscript{19}
\end{quote}

Congress was similarly guided by these considerations in July 1921 when it passed the Knox-Porter Resolution ending the state of war against the Central Powers. Section 5 of the resolution expressly addressed the holding of German property until suitable provisions had been made "for the satisfaction of all claims against the German Government" by American nationals "who have suffered through the acts of the Imperial German Government or its agents since July, 31, 1914, loss, damage, or injury to their persons or property."\textsuperscript{20}

\textsuperscript{18} For these and other schemes involving the sequestered property, see Van Wyk, "German-American Relations," pp. 35-39.

\textsuperscript{19} Nielsen to Hughes, 16 Apr 1921, RG 59, 711.62119/116, USDS.

\textsuperscript{20} Congressional Record, (SJ Res. 16), 67th Cong., 1st sess., p. 3299.
The Mixed Claims Proposal

During negotiations over the Treaty of Berlin, Germany had been well aware that Section 5 of the Knox-Porter Resolution could become the basis for extensive American claims against Germany. They had tried without success to have American claims limited by the Treaty of Versailles as a means of avoiding claims originating before America's entrance into the war. But these efforts were met only with assurances that the United States would not press claims under the Versailles treaty’s reparation clauses of Article 244 and that Germany would "be dealt with on the fairest and most righteous basis." But even with this understanding, the language of Section 5 still afforded United States nationals the opportunity to file a vast array of claims against Germany.

When Hughes turned his attention to the issue in February 1922, he had little trouble with the idea that validating claims from 31 July 1914 was a marked departure from prior international law. Section 5 of the Knox-Porter Resolution made Germany responsible for prewar damages, whether or not those acts constituted a violation of international law as it applied to the rights of neutrals. Not only had Germany signed the Treaty of Berlin, thereby accepting such claims, any actions casting doubt on the legitimacy of claims against Germany for the sinking of the Lusitania or other shipping losses would have been politically untenable. What did trouble Hughes was the confiscation of private property belonging to German nationals, which violated the norms of both international and American law and set a potentially dangerous precedent for the possible confiscation of American property in some future war or military action.

In a draft proposal for the settlement of claims against Germany, the first assumption of Hughes's legal advisors was that "provision should speedily be made for the return of this
property subject to proper provision being made for the protection of American claims against Germany and German nationals" (emphasis in original). The second assumption, however, was that "no undertaking or guarantee of the German government would be sufficient in view of its precarious financial condition and that the reparation claims of the Allies have a prior lien." The only secure source of funds in 1922 was the Alien Property Custodian Fund. In the legal department's opinion, the preservation of the benefits of the provisions of Versailles "fortunately" allowed the retention of German nationals' private property to secure or provide for claims. Hughes could assert that the United States was acting entirely within the context of law.21

The February 1922 draft proposal conceptualized four classes of claims. The largest category, claims of American nationals against the German government concerning the conduct of the war, included American ships sunk by German submarines. For the second category, insurance claims arising from insurance payments for losses incurred and the expense of excessive war premiums, the solicitor's office recommended that no provision be made since insurance companies had been compensated for their losses through increased premiums and ship owners had received insurance payments. Also, the cost of increased insurance payments had already been shifted to consumers, whose reimbursement was deemed impractical.22

The solicitor's office expected that claims in the third category, for the return of real

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21 “Suggestions for Dealing with the Private Property of German Nationals Now in the Hands of the Alien Property Custodian," 14 Feb 1922, unsigned draft, copy in the Houghton Papers, Corning NY. This draft proposal appears to have been given to Houghton before his departure for Berlin as an outline of State Department goals.

22 Ibid. Insurance claims constituted approximately 40 percent of all pending cases in 1922. Van Wyk, "German-American Relations," p. 99, n. 52.
property (factories, warehouses, goods, and securities) seized by the German government during the war, would largely take care of themselves as Germany had already restored these things to their American owners. Outstanding claims would be for the use of these properties during the war and claims for properties that Germany had converted into cash.\footnote{23}

The fourth and final category of claims was payment of private debts, owed by German nationals to American nationals, which had been interrupted by the war, including bank accounts and commercial debt. The solicitor's office wished for these claims to be paid at the mark’s exchange rate in March 1917, one month prior to America's entrance into the war, and wanted to apply this principle to the property debt category as well (the mark had declined as the possibility increased that the United States would enter the war). In addition, the office viewed the efforts of German nationals to discharge their debts in depreciated marks as an "injustice" against which American nationals should be protected "just as the Allied governments have protected their nationals against a similar injustice." The State Department was probably well aware that Congress would not tolerate American nationals being treated less favorably than Allied nationals. This category of claims, however, represented a departure from international law as it attempted to hold the German government responsible for the debts of its private citizens.\footnote{24}

By February 1922, $270,000,000 in damage claims had been filed with the State Department, an amount estimated by the solicitor’s office to greatly exceed what would actually be paid, especially if insurance claims were excluded. The State Department fully

\footnote{23} “Suggestions for Dealing with the Private Property of German Nationals Now in the Hands of the Alien Property Custodian," 14 Feb 1922, unsigned draft, copy in the Houghton Papers.

\footnote{24} Ibid.
expected that the $400,000,000 German assets held in the Alien Custodian Fund would more than cover claims and that as soon as the full amount of legitimate claims could be ascertained, the balance could be returned to Germany. The draft proposal suggested that German small holdings of under $2000 should be paid immediately and in full. Owners of larger holdings would then be returned some percentage of their assets.\textsuperscript{25}

The original proposal envisioned a German bureau operating in the United States with the authority to approve claims and, if necessary, litigate disputes before a tribunal consisting of one American, one German, and one neutral; an American bureau would present claims to the German bureau and assist in their adjustment. The State Department expected that the vast majority of claims would be settled without litigation, but the February proposal recommended an all-American tribunal for those that were disputed, arguing that American claimants might hesitate to submit their claims to a mixed tribunal and would prefer to litigate in American courts. The proposal noted, "It is perhaps necessary that American claimants should know of their right to assert their claims in American courts," but expressed the hope that claimants would be attracted to "the more speedy relief" of an "all-American tribunal."\textsuperscript{26}

Above all, Hughes's legal advisors and the State Department wanted to keep claims cases out of American courts, presumably because of the greater influence the State Department would have on a tribunal system. Unlike the court system, wherein the executive branch had only limited influence, the administration would be able to appoint members of the tribunal, better assuring not only its integrity but also greater sensitivity to Hughes’s diplomatic

\textsuperscript{25} Ibid.

\textsuperscript{26} Ibid.
agenda. Hughes had to satisfy Congressional political imperatives while preventing American claims against Germany from spiraling out of control. Large American claims against Germany would be in competition with British and French claims for reparations; the United States could not simultaneously raise questions as to Germany's capacity to pay reparations, demand payment of Allied war debts, and seek massive claims against Germany.

The State Department's desire to disallow insurance claims reflected concern about opening up the claims process to indirect or consequential injuries rather than limiting claims to proximate causes. At the same time, Hughes had to contend with the language of Section 5 that made Germany liable for damages caused "directly or indirectly" to American nationals. If allowed under the language of Knox-Porter, consequential claims could include categories such as lost profits, possibly totaling several hundred million dollars in claims. This would create a diplomatic nightmare for Hughes, who was struggling to keep pressure on Britain and France for a reduction in German reparations annuities while maintaining the official separation of inter-Allied debt from German reparations. The draft proposal thus reflected a compromise among Hughes' sensitivity to the political demands of Congress, his personal preferences for the rules of international law and his recognition of the diplomatic realities of reparation politics in 1922.27

The final mixed-claim proposal that emerged in June 1922 was very close to the February draft proposal. In formulating plans for a claims commission, Hughes limited his

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27 Hughes' concerns regarding indirect claims were well warranted. In 1923, Robert W. Bonynge, the American agent presenting claims to the Mixed Claims Commission, took the position that since Germany had assumed responsibility for the war it was immaterial how proximate or how remote the damage may have been; Germany was responsible for all consequences of the war. Hughes was forced to instruct Bonynge that the intent of the Treaty of Berlin was to restrict claims to those involving proximate cause. Sec. of State to Bonynge, 17 Jul 1923, copy in Houhghton Papers.
consultations to the legal staff of the State Department. Castle and other West European
advisors were consulted only minimally. The only significant change was the substitution
of a mixed American-German claims commission in place of the original plan for an all-
American one. A commission composed entirely of Americans would have had several
advantages, including easier Congressional acceptance and avoiding insistence that cases be
tried in American courts. Additionally, because American nationals’ claims against Germany
was a popular subject of Congressional rhetoric, an all-American tribunal would have
assured Congress that Germany would not be able to evade claims. The initial proposal,
however, violated international legal precedent and differed significantly from the tribunal
mechanisms established by the Treaty of Versailles. Germany would also very likely have
raised significant objections. Following consultations with Houghton, Hughes settled on a
plan which amounted to an elaborate charade. The United States would propose a mixed
tribunal and then ask Germany to request the appointment of an American to serve as an
umpire for disputed cases.

The German foreign office raised the question of a mixed claims commission in February
in connection with its desire to establish commercial relations. While it expressed its
resentment that commercial negotiations were being held hostage to the claims question, it

28 Hughes to Houghton, 23 Aug 1922, Houghton Papers. That Hughes held his plans for
such a key element of the Administration's European policy so closely is an indication of the
lack of either any consensus or corporatist coalition building regarding policy towards
Germany.

29 Hughes left no documentary evidence that the idea for Germany to ask for an
American umpire originated with the United States. Throughout his life he maintained that
the proposal had originated with Germany. Houghton, however, recorded in his diary that he
told the Germans of Hughes’s involvement, and German documents corroborate those
conversations. Houghton Diary, entry of 2 Jun 1922, Houghton Papers; Schubert to
Wiedfeldt, 9 May 1922, Nr. 584, Botschaft Washington, 959, Po2a, PA-AA.
also expressed its willingness to establish a mixed claims commission. Germany, however, wanted the commission not only to determine the amounts to be paid, but in addition to decide on the justification of the demands, determine the categories of indemnities and clarify questions of finances. Germany also wanted a specific waiver from the United States of American rights to reparations under the Treaty of Versailles.30

Written at a time when Germany still held high hopes for its relationship with Britain and Lloyd George, the German note was a challenge to the American position that Germany was responsible for damages incurred during the period of American neutrality. Since American claims were secured by the Alien Property Custodian Fund, the German note represented little more than an expression of irritation with the United States and the unrealistic hope that those claims based on German action before the United States entered the war could be excluded.

Hughes waited until Houghton was on his way to Germany in April before answering the German note, pointing out that while the commission would consider questions of facts, the rules of liability were determined by the Treaties of Versailles and Berlin. He also indicated that claims would be limited to the three categories detailed in the February proposal.31 Germany would not be subject to open-ended reparation claims. Negotiations would center around the question of the composition of the mixed claim commission and on what categories of claims Germany could exclude.

Immediately upon his arrival in Germany on 18 April, Houghton sounded Wiedfeldt out on the idea of Germany asking for an American umpire. In that conversation and in

30 Dresel to Sec. of State, 15 Apr 1922, FRUS 1922 II, pp. 240-41.
31 Sec. of State to Dresel, 5 May 1922, FRUS 1922 II, pp. 242-43.
subsequent meetings with German officials that an American umpire would help gain Congressional support for a mixed commission. In response to German suggestions that the mixed claim commission could be started immediately, leaving the issue of an umpire to be settled later, Houghton indicated that it would be best to resolve the matter before Congress dictated an even less desirable solution.\textsuperscript{32}

German officials were ambivalent about the proposal. The idea of a mixed commission was tremendously appealing. It would set a precedent for German equality in international relations and signify a break with international commissions on which Germany had no representatives but which handed down "Diktats." Although concerned about the possibility that an American umpire would always rule against Germany, senior German officials tended to believe that the United States would treat Germany fairly and that Germany might even fare better with an American umpire than with a neutral. The plan also offered the possibility of the release of some assets from the Alien Property Fund. Houghton also misled the Germans into believing that decisions of the commission would have to be confirmed by the Reichstag. What bothered German officials was the possibility that the German public would view an American umpire as a violation of equal bilateral German-American relations. Despite this, Germany was prepared to accept the idea rather than face Congressional action. The Auswärtige Amt's strategy was to hold out as long as possible for a mixed commission without an umpire and hope that the United States might drop its demand for an American umpire. At the same time, Germany would see what concessions it might extract, including American action on the revival of the prewar bilateral treaties between the United States and

\textsuperscript{32} Aufzeichnung aus einem Gespräch mit dem amerikanischen Botschafter Houghton, Wiedfeldt, 28 Apr 1922, Botschaft Washington, 959, Po2a, PA-AA; Haniel to Rathenau, 8 May 1922, Nr. 1462, Botschaft Washington, 959, Po2a, PA-AA.
Germany on such matters as consular relations, patents, copyrights and naturalization conventions.33

By early June, German hopes for a reparation settlement were riding on a committee of international bankers, led by J.P. Morgan Jr., who were investigating the possibility of a loan to Germany. Foreign Minister Walther Rathenau, was inclined to be as cooperative on the war claims issues as German political conditions allowed. Rathenau accepted an American umpire but hedged on the powers of the umpire out of persistent concerns about German public opinion. Privately, however, Rathenau told Houghton that he would "swallow it whole."34

This bid for closer relations with America, with the hope for American support in the growing reparations crisis if the claims issue could be settled quickly, represented the last gasp of Chancellor Wirth's and Rathenau's fulfillment policy. Large government expenditures had maintained the social order within Germany, which had been shaken by the war and the traumatic birth of the republic, but by June 1922, Germany had begun its collapse into “hyperinflation” threatening the existence of the middle class. The Wirth government’s fulfillment policy had brought to a boil the issue of which segment of society would be forced to bear the burden of the domestic costs of reparations. This was a lethal issue in Germany which tested the new democratic state. Walther Rathenau's assassination on 24 June 1922 resulted largely from his role in the government’s fulfillment policy. Chancellor Wirth and other members of the cabinet also faced the real threat of

33 Houghton to Sec. of State, 5 May 1922, FRUS 1922 II, pp. 242 -43; Houghton Diary, entry of 11 May 1922, Houghton Papers.

34 Houghton to Sec. of State, 3 Jun 1922, FRUS 1922 II, pp. 243-46; Houghton Diary, entry of 23 Jun 1922, Houghton Papers.
assassination.\textsuperscript{35}

The murder of Rathenau and the spurt of inflation that followed it significantly changed the atmosphere of negotiations. Houghton chided Castle for State Department delays in drafting the final treaty. "If the Department had acted promptly," Houghton noted, "the treaty would have been signed and put into effect long before Rathenau's death." Houghton was convinced that the late foreign minister "meant to play the game very much as I wanted it."\textsuperscript{36} Houghton also believed that Rathenau had been more concerned with the German-American relationship than about the details of the treaty. But after his death, "[t]he four or five Under Secretaries who run the Foreign Office just now cannot get that point of view."\textsuperscript{37}

Despite American assurances of good will, Germany had reason to question exactly how the United States would interpret the broad reach of the language contained in Section 5 of the Knox-Porter resolution. Germany wanted several points changed or clarified. The first of the Auswärtige Amt's concerns was that, contrary to Houghton's earlier mistaken assurance that decisions of the Commission would have to be approved by the Reichstag and the United States Congress, the draft treaty specified that decisions would be binding on both governments. Germany wanted all decisions to be subject to ratification by the Reichstag. Such a provision would provide a check on rulings by an American umpire. Secondly,

\textsuperscript{35} For a discussion of the domestic problems faced by the Wirth government in the summer of 1922 see Feldman, The Great Disorder, pp. 454, 600-2; Gerald D. Feldman, "Der unschlüssige Staatsmann. Rathenaus letzter Tag und die Krise der Weimarer Republik," in Ein Mann vieler Eigenschaften: Walther Rathenau und die Kultur der Moderne, ed. Ulrich Raulff (Berlin: Wagenbach, 1990), pp. 84-98; Houghton Diary, entries of 29 June and 3 August 1922, Houghton Papers.

\textsuperscript{36} Houghton to Castle, 8 Jul 1922, Houghton Papers.

\textsuperscript{37} Houghton to Castle, 29 Jul 1922, Houghton Papers.
Germany wanted removed from the jurisdiction of the Commission the question of debts owed to American citizens by German nationals. The Auswärtige Amt argued that the Commission should only deal with claims against the German government and not private individuals. The inclusion of claims against German nationals technically violated German constitutional law. In addition, the treaty made the German government responsible for the payment of such claims. In July 1922, the Wirth government was under attack for the failure of its policy of fulfillment. It was concerned that it would be attacked for agreeing to treat private debts in a manner which was not provided for either in the Treaty of Berlin or the Treaty of Versailles. In an effort to limit the number of claims it would have to pay, Germany wanted to exclude all claims not presented to the Commission within two months of its first meeting. Germany's primary concern, however, was to secure a side letter specifying that the United States did not intend to raise claims relating to military pensions or family allowances. The Auswärtige Amt also sought the insertion of phraseology that could be interpreted as limiting American claims to those originating after America's entrance into the war. Finally, Germany, desperately short of foreign exchange, was anxious to discover if there was any possibility of assets from the Alien Property Custodian Fund being released.  

Although very willing to provide Germany with a side letter stating that the United States did not intend to press claims for pensions, Hughes was worried about a bill, introduced by Senate Democratic Minority Leader Oscar Underwood, that proposed to treat American claims against Germany as a purely domestic matter and establish an exclusively American

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38 Houghton to Sec. of State, 2 and 7 August 1922, FRUS 1922 II, pp. 256-57, 259. Wiedfeldt was active in following up reports of State Department plans to release trust accounts of under $10,000 and was lobbying for the interest-bearing securities held in the Custodian Fund to be paid to the German owners. Castle to Houghton, 8 Jul 1922, Houghton Papers.
commission that would use the Custodian Fund to pay American claims. Additionally, Underwood's bill sought to include military pensions and family allowances under American claims. Such claims would have vastly exceeded the assets of the Custodian Fund. Coming at a time when Germany had just requested a two-year moratorium on reparation payments, such Congressional action would have been a diplomatic bombshell. It would have placed the United States in direct competition with Britain and France for German reparations when the United States was already insisting on Allied payment of war debts and promoting the idea that German reparations be based on Germany's capacity to pay.\(^3^9\)

The financial impracticability of attempting to charge American military pension costs to Germany most likely would have enabled the Harding Administration to stop such legislation. However, Congressional insistence upon an all-American claims commission and confiscation of the Custodian Fund to pay benefits represented a serious threat to Hughes' plans. The original proposal had envisioned an all-American commission. Germany's demands for a moratorium strengthened the belief that the Fund's assets represented the only likely vehicle for payment of American claims. Hughes viewed the outright confiscation of private property as going against the tenets of international law, "at variance with the principles and practice generally observed by nations in their relations with each other."\(^4^0\) Hughes, who looked forward to a reconstruction of Europe based on the principles of liberal capitalism, had little interest in setting precedents for overt government

\(^3^9\) The Chairman of the Senate Judiciary Committee (Knute Nelson) to the Sec. of State, 21 Jul 1922; Sec. of State to the Chairman of the Senate Judiciary Committee (Nelson), 29 Jul 1922, \textit{FRUS} 1922 II, pp. 251-53; \textit{Congressional Record}, 67th Cong., 2nd. sess., pp. 10443-49.

\(^4^0\) Sec. of State to Nelson, 29 July 1922, \textit{FRUS}, 1922, II, pp. 252-54.
confiscation of the private property of foreign nationals, a precedent that could some day rebound against the interests of United States property owners in foreign lands. Nor was there any particular advantage for the United States to do so. Hughes knew that Germany would accept an American umpire and that the United States lost nothing by waiting to see if an alternative to the Custodian Fund could be arranged.

Hughes now turned to Senator William E. Borah for assistance. Borah was the best situated to lead any potential revolt against the administration and his support would cut short any Congressional attempt to block the administration's policy. Borah, who believed that German recovery was necessary for European reconstruction and that the Allies had been too hard on Germany, accepted Hughes's constitutional argument that the administration had the authority to set up the Mixed Claim Commission through executive agreement. 41 Although Borah's support assured Hughes that the Administration's position ultimately would prevail in Congress, Hughes wanted rapid German acceptance to forestall Democrats from using the issue for political advantage in Congress. Hughes used the threat of the Underwood bill to pressure Germany into quickly accepting American terms for the Mixed Claims Commission. As a sweetener, Hughes was willing to accept a time limit for the filing of claims, although he extended the German request for a two month time limit to six months. But Hughes was not prepared to yield on the question of pre-war claims or claims against German nationals. 42


42 Castle to Houghton, 4 August 1922, Houghton Papers; Sec. of State to Houghton, 29 July and 5 Aug 1922, FRUS 192, II, pp. 255-58.
German Acceptance

The Wirth cabinet decided on 15 July to accept the principle of an American umpire. Although Germany's experience with neutral referees in tribunals established under the Treaty of Versailles had not been good, the cabinet felt that Germany was likely to do no worse with an American umpire, especially if a member of the United States Supreme Court was chosen for the position. Furthermore, cooperation on this point would gain American good will.43 The Auswärtige Amt and State Secretary Edgar Carl Haneil von Haimhausen remained strongly opposed to accepting the agreement.44 In addition, the Ministers of Justice and Interior, Eugen Schiffer and Georg Gradnauer, opposed the provision regarding claims against German nationals. Nonetheless, Wirth overrode the opposition and accepted the Mixed Claims Commission on 29 July.45

The German-American claims agreement was signed on 10 August, and Wirth asked the United States to name the umpire. Hughes arranged for the immediate announcement that Supreme Court Associate Justice William R. Day would serve as umpire. President Harding asked Hughes that in making the announcement, Hughes "emphasize the request to us to name [the] umpire." "It is so unusual," Harding noted, that its significance is worth bringing well to the fore." The Agreement provided the administration with the political ammunition to defeat Underwood's bill. It also allowed Hughes to celebrate the Agreement as an

43 Cabinet meeting of 15 Jul 1922, Kabinette Wirth II, p. 953.


45 Houghton to Hughes, 2 and 7 August 1922, FRUS 1922 II, pp. 256-57, 259-60; Agreement Between the United States of the America and Germany, signed at Berlin, 10 August 1922, FRUS 1922 II, pp. 262-64.
administration success while campaigning for Lodge in October 1922.\textsuperscript{46}

Both the Alien Property Custodian Fund and the Mixed Claims Agreement quickly became enmeshed in reparation politics. The Allies immediately saw the Custodian Fund as a source from which the United States could obtain its costs for the American occupation forces. The dispute over the United States' entitlement to reparation annuities for the payment of claims against Germany would continue through the London Conference of 1924, which established the Dawes Plan for the payment of German reparations, and into early 1925 when it was finally agreed that the United States would reduce the annual installment for its occupation costs in exchange for the allocation of two percent of the German reparation payments to American claims.\textsuperscript{47}

In 1923 the United States Congress passed the Winslow Act, allowing accounts of $10,000 and less held in the Custodian Fund to be returned to their owners. The act was in large measure a humanitarian gesture designed to help holders of small trusts during the ravages of the German hyperinflation of 1923. It would be another five years before the bulk


\textsuperscript{47} Hughes strongly resisted these pressures, insisting that only Congress could dispose of the Custodian Fund. Hughes insisted that the United States was entitled to participate in reparations not only for army occupation costs but also for the payment of claims against Germany. Hughes also argued that it was unfair for the United States to confiscate the property of private persons who were not responsible for the war. Sec. of State to Assistant Sec. of Treasury (Wadsworth), 19 Feb 1923. \textit{FRUS} 1923 II, pp.128-29; Memorandum by the Secretary of State of a Conversation with the French Ambassador (Jusserand), 27 Apr 1923, Hughes Papers; Herrick to Sec. of State 7, 9, 10 and 13 Jan 1925; Sec. of State to Herrick, 9 and 10 Jan 1925, \textit{FRUS} 1925 II, pp. 134-42.
of Alien Property Custodian Fund was released to its owners.\textsuperscript{48}

Conclusion

The history of the negotiation of the Mixed Claim Commission provides little support either for the argument that domestic economic issues drove American foreign policy in the early 1920s or for the thesis that foreign policy resulted from a collaboration between business interests and government. The United States was divided over the crucial issue of whether it should reduce Allied war debts to foster a European recovery that could stimulate American exports. While Hughes was forced to take parochial congressional pressures into account, the Mixed Claims Agreement is primarily an example of diplomacy directed from the top and closely held because of lack of consensus.

Secretary of State Hughes balanced the domestic political and partisan concerns of Congress with the practical concerns of the problem of inter-allied debts and the stabilization of Germany in the interest of European reconstruction. Hughes satisfied American public opinion with the staged German proposal for an American umpire, smoothing the agreement's way through Congress, and in doing so undercut the Democrats’ ability to use the war claims issue in the 1922 elections. The establishment of the Mixed Claims Commission kept the claims issue out of American courts, where the amount of allowable claims and sums awarded against Germany could spiral out of control, confounding the administrations diplomacy with both Germany and the Entente. Hughes therefore successfully prevented the question of American claims against Germany from opening up

larger question of the linkage between the war debts the Allies owed to the United States and the Allies reparation demands against Germany. Hughes was now free to continue to take the position that the two issues were unrelated and that what was needed was a "business-like" solution that would settle the reparation demands on the basis of Germany's capacity to pay. It was a position that the United States would continue to hold throughout 1922 as the reparation crisis deepened and throughout the 1923 occupation of the Ruhr. It would become the basis of the Dawes plan.

Germany was forced to accept an agreement whose terms were dictated by American priorities. Hughes threatened the stick of the Underwood bill and held out the carrot of a commercial treaty. In addition Germany was desperate for the support of American financial interests in its struggle with France over reparations. From the German perspective, the agreement did have the advantage of being a settlement with a major power that had been negotiated outside the framework of the Versailles treaty. Most importantly, in accepting the agreement Germany settled the last outstanding issue with the United States clearing the way for Germany to seek aid of the world's strongest economic power in its struggle to escape from its reparation burden and the confines of the Versailles treaty. When the Wirth government fell in September 1922, the new German government, with the blessings of Ambassador Houghton, would be led Wilhelm Cuno, the President of the Hamburg-American shipping line, who was chosen in large measure because of his American connections and whose explicit mandate was to seek a "business-like" solution to the reparation crisis. Germany's eventual reward for its relationship with the United States would be the American led Dawes plan which temporarily resolved the reparation issue, ended the threat of any further French militarily action against Germany to enforce
reparations, and marked the beginning of Germany's escape from the Versailles settlement.
The Question of German Reform and the Moratorium

Secretary of State Hughes's attempt to avoid direct U.S. involvement in the reparations crisis and utilize the Reparations Commission as a vehicle to achieve a “businessman's solution” had unintended, pernicious effects of reinforcing Germany’s belief that American involvement would lead to a reduction in the reparation bill and that eventual American loans would ease Germany's path to stabilization. Poincaré's rejection of the loan commission's June 1922 proposals had allowed Germany to immediately enjoy the dubious benefits of avoiding the reforms any loan would have imposed and thus the hard choices involved in stabilization. Reichsbank President Rudolf von Havenstein saw no need to commit Reichsbank gold to support the mark, and in July the Wirth cabinet was content to pass tax legislation that the government knew in advance would not cover the cost of reparation payments.¹

The after-dinner conversation that took place at the American Embassy on 23 June 1922 (the eve of Rathenau's murder) between Rathenau, Stinnes, Houghton and Logan, is revealing of how German leaders thought about their economic problems. Rathenau and

¹Cabinet meeting, 9 May 1922, Kabinette Wirth II, p. 766. For the effects of inflation and tax evasion on the yield of the July 1922 forced loan-tax program, see Kent, The Spoils of War, table 7, p. 196. For Havenstein's reluctance to commit German gold, see Feldman, The Great Disorder, p. 444.
Stinnes, defended Germany's postwar inflationary policy to Houghton and Logan. Both argued that inflation had been a political necessity in the immediate post-war period to maintain employment at a level sufficient to contain the revolutionary impulse. In addition, both saw the need to bring inflation under control by ending governmental subsidies and economic controls, and by increasing worker productivity, agreeing that worker productivity could be increased without the spur of higher unemployment. However, the two leaders felt that increased productivity would support only modest reparation payments. Rathenau believed that Germany would be able to afford fifty billion gold marks in reparation payments, but only eventually. Despite their dreams of a better future, both men were convinced that Germany could no longer afford the partial payments it was making under the moratorium. Logan was skeptical about Rathenau's catalog of complaints regarding Germany's condition but agreed that Germany required a moratorium.²

In reflecting on that long conversation, Houghton recognized the link between Rathenau's reparation policy and domestic German politics. He correctly recognized Rathenau’s waiting game of doing what he could to hold Germany together and making "such a show of fulfillment" as he was able until France's need for money forced that nation to accept a solution based on loans to Germany. Houghton further noted that a loan would depend not only on a final reduced settlement of the reparation bill, but on "absolute freedom for Germany from further interference from France." Germany would seek to get as large a cash

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payment for France as could be raised and settle the rest later, according to a formula based on Germany's ability to pay. If Rathenau's policy was successful, Houghton reasoned, it would both bridge the gap between the fulfillment policy and the policy of non-fulfillment advocated by Ruhr industrialists and bring the German People Party into the government, which in turn would stabilize Germany's domestic politics. This solution to the reparation conundrum would be compatible with American policy, and with Houghton who personally favored a shift to the right in German politics. In Houghton Germany had an American ambassador whose thinking was quite compatible with the primary thrust of German policy.  

German optimism was based on the expectation that the United States would be able to convince France to accept American ideas about reparations and that in the interim, Boyden and Logan would bring American influence to bear on the Reparation Commission in favor of Germany. On 12 July Germany submitted its request for a two-and-a-half year moratorium on cash payments to the Reparation Commission. If accepted, cash payments under the reduced schedule established in March would stop and no more cash payments would be made until 1925. Germany was therefore asking for a two-year suspension of the London Ultimatum schedule, which was to be resumed at the end of 1922.

While a strong argument can be made that Germany required a moratorium in cash payments for the remainder of 1922, its request for extension of two years was an assault on the London schedule that, if granted, would allow Germany to wait until 1925 for French financial weakness to force France to accept a program similar to the one that had been

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3 Houghton favored a harder policy towards labor than either Stinnes or Rathenau, believing that low productivity was a major difficulty and that workers needed the threats of unemployment and hunger to accept higher productivity. Diary entries of 24 Jun 1922, Houghton Diary, Houghton Papers, Corning NY.
outlined by the Loan Commission in June (an international loan requiring a significant reduction in Germany's total reparation). The extension would also remove the possible threat of France using 85 billion gold marks of un-issued C Bonds, set up by the London Schedule, as leverage in later negotiations with Germany over further revisions in the Versailles settlement. With his policy of fulfillment vindicated and his government strengthened, Wirth could then use the two extra years to develop a program of stabilization through international loans.

The realities of the weakness of Germany's position and the United States' limited willingness and ability to check France became evident as soon as Germany made its request for an extension of the moratorium. The Reparation Commission did not believe the German arguments that reparations had been the chief cause of the mark's recent collapse, insisted that Germany undertake domestic reforms to curtail inflation and make its scheduled July payment. Boyden was reduced to arguing that reparations were at least aggravating inflation and Germany needed a suspension of the July payment if only for its "psychological effect." Hughes, however, warned Boyden and Logan to only observe and not "take any position that involves the United States in these discussions" or express opinions on these subjects.

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4 The mark had fallen from 331 to the dollar on the eve of Rathenau's murder to 670 on July 3; Wirth's tax program, passed in July, had been based on a range of 250 to 300. Germany also faced a poor harvest in 1922. In addition, Germany was beginning to experience a domestic flight from the mark and was also losing the competitive advantage of the weak mark as other nations adjusted and were able to undersell Germany or offer quicker and more reliable service. In his review of the domestic problems faced by Wirth in July 1922, Feldman concludes that while Germany's policy was problematic, "... this is not to argue that the policy was not justified under the circumstances." Feldman, The Great Disorder, p. 454; see also pp. 600-2.

5 Boyden to Sec. of State, 15 Jul 1922, 462.00R29/1852, USDS.

6 Sec. of State to Logan, 20 Jul 1922, 462.00R29/1852 USDS.
Hughes's curtailment of the activities of Boyden and Logan was in response to changes in the positions of both Britain and France. Loan Committee's June report and Germany's July request had infuriated Poincaré. By mid-July, he began thinking about obtaining "productive pledges," the seizure of German assets as a means of producing some reparation payments. Poincaré was now willing to consider breaking with the Allies and even acting independently of Reparation Commission if necessary. His first step, however, was to pressure Belgium to oppose the moratorium.⁷

Belgium, whose primary policy was to avoid having to choose between France and Britain, turned to the United States for help in finding a compromise solution. Although willing to support a moratorium, Belgium would not take the lead. Seeking to sound out American attitudes, Belgium informed Henry P. Fletcher, the United States ambassador to Belgium and former Under Secretary of State, that Lloyd George was planning to propose reducing Britain's reparation demands, thereby giving France the opportunity to do likewise and thus create pressure for an American reduction of war debts.⁸

Belgium's warning was confirmed on 19 July when Poincaré notified Hughes of the "absolute impossibility" for France to begin payments on its debt to the United States, cautioning that if a reduction of the German debt to France were to be imposed, the settlement of France's debt to America "would involve France's ruin."⁹ Poincaré's note was primarily an effort to avoid having to break with the Allies and follow an independent policy.

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⁷ For the shift in Poincaré policy see Trachtenberg, _Reparation in World Politics_, pp. 249-52.

⁸ Fletcher to Sec. of State, 6 Jun 1922 and 12 Jul 1922, 462.00R29/1779 and /1850, USDS.

⁹ Poincaré to Hughes, 19 Jul 1922, 462.00R29/1894, USDS.
If France could obtain a reduction in its debts to Britain and the United States, it could then afford to relax some of its demands on Germany. By refusing a moratorium for Germany, France hoped to force a meeting where the issues of reparations, inter-Allied debts and loans would be considered by governments rather than financial experts. This strategy would become the central thrust of French policy throughout 1922.10

Poincaré's policy threatened to place the United States in the middle of the reparation crisis and to reopen questions about war debts that had been decided when the United States had refused to attend the Genoa conference, but its immediate effect was to limit the support the United States would provide Germany. While Hughes "was anxious to have a German collapse avoided," he could not place himself in a situation wherein the United States was requesting that the German debt be reduced while at the same time demanding France and Britain pay their debts to the United States. Hughes was also sensitive to the fact that Logan and Boyden were unofficial observers, not official representatives. Any open efforts on their part to help Germany would be vulnerable to French criticism; Hughes therefore cautioned them not to take "any position that might involve the United States in these discussions."11

Within Germany, policy was increasingly driven by a sense of desperation and worry over the scheduled London Conference of 7 - 14 August, during which the Allies were to consider Germany’s moratorium request as well as future policy about Germany's obligations. Warned by Carl Bergmann (chief advisor and negotiator to the German Government for reparations) that France would take "independent action" if the majority of

10 Poincaré explicitly outlined this policy in a message to President Millerand on 13 August 1922, Trachtenberg, Reparation in World Politics, pp. 258-59.

11 Sec. of State to Logan, 20 Jul 1922, 462.00R29/1852, USDS.
the Reparation Commission granted the moratorium over French objections, and cautioned against "false hopes" that Britain could or would protect Germany from Poincaré, the Wirth government began a desperate search for assistance.\textsuperscript{12} Wirth sent impassioned pleas to the pope and to Lloyd George, but his main effort was directed at the United States, which was now becoming more cautious. Wirth informed Houghton that if the Allies did not lift the reparation burden the German economy would collapse and asked him to inform Hughes "that if the administration has any desire or intention to help Germany at this juncture the help must be rendered now otherwise it will come too late."\textsuperscript{13}

After 15 months in office pursuing its policy of fulfillment, the Wirth government found itself in the same humiliating position that its predecessor had been in April 1921. With the exchange value of the mark at 670 to the dollar, only one-tenth of what it had been in May 1921, Germany’s task of changing both its own attitude and economy enough to actually make the economy function properly and fulfill reparation requirements had become even more difficult.\textsuperscript{14}

The continuing downward slide of the mark raised suspicions that Germany was deliberately destroying its currency as a means of avoiding reparations; Poincaré viewed the situation as a German swindle and was far from alone in that belief. American attitudes varied. In general, those most involved in German affairs were sympathetic to the German position. Ambassador Houghton, a businessman appointed from outside the ranks of the State Department, was even more sympathetic than Dresel had been. Both Logan and

\textsuperscript{12} Bergmann to Wirth, 29 Jul 1922, Kabinette Wirth II, pp. 974-80.

\textsuperscript{13} Houghton to Sec. of State, 26 Jul and 31 Jul 1922, USDS 462/00R29/1872, 1880.

\textsuperscript{14} Feldman, The Great Disorder, p. 505.
Boyden believed that Allied reparation policy was driving inflation and destroying any chances of Germany obtaining the loans that they believed would be necessary to make reparation payments.\textsuperscript{15}

The perception among Washington officials, who had a broader perspective on European affairs, was quite different. Economic analysts in the State Department, believing that Germany had deliberately inflated its currency as an obstacle to cash payments, drew the obvious comparison between Germany, which had placed itself in a situation where it could not raise $12 million monthly, and France which had raised large sums for reconstruction.\textsuperscript{16} But because Germany had the closest contact with American officials based in Germany and Europe, it is very likely that Germany either did not fully appreciate that Washington might be less sympathetic or, if it did understand the difference, chose to ignore it.

The Balfour Note

The validity of Bergmann's caution regarding British assistance became apparent with Britain's issuance on 1 August of the Balfour note, a specific attack on U.S. war-debt policy, which declared that Britain was prepared to give up reparations claims as well as claims against the Allies to the extent that the United States would cancel British debts. If the United States insisted on Britain repaying its debt, Britain was now stating its intention to collect an amount from its debtors, notably France, Italy and Germany, equal to what it owed the United States. Blame for what might next occur in Europe could then be placed on the

\textsuperscript{15} Logan to Harrison, 26 Jul 1922, 462.00R29/1906, USDS.

\textsuperscript{16} Memo from Arthur Young, Office of Economic Affairs, 20 Jul 1922, 462.00R29/1922, USDS.
The note had three immediate consequences. First, it infuriated France because it upstaged the French plan for a parallel reduction in German reparations and Allied debts. If Allied war debts were not reduced, France faced the prospect of having to pay the Allies in full while being asked to reduce German reparations. Second, it impeded Britain's ability to help Germany with France; because Britain had offered cancellation of debts owed to it only to the extent that America would cancel British debts, the more German reparations to Britain were reduced, the more France would have to pay. The note therefore limited the extent to which Britain could ask for concessions for Germany. Lloyd George, although well aware of the likely French reaction, had come to believe that France would only moderate its policies after experiencing the consequences of attempting to take independent action against Germany; Britain could then use any resultant European chaos to its own advantage in discussions on war-debt payments with the United States.

Last, the Balfour note created an uproar in the United States, where it was readily identified as moral blackmail. Congress strongly opposed the scheme's overall debt reduction, as did the overwhelming preponderance of newspaper editorial opinion. The

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17 Arthur Balfour to the French ambassador in London and to the diplomatic representatives in London of Italy, Yugoslavia, Rumania, Portugal and Greece, 1 August 1922, FRUS 1922 II, pp. 406-10.

18 For French reaction see Trachtenberg, Reparation in World Politics, pp. 257-59.

19 Trachtenberg, Reparation in World Politics, p. 257, n. 93. See also Kent, The Spoils of War, p. 186.

20 A survey by the New York Times found that only one of twenty major papers supported the scheme, while a more comprehensive survey by the Literary Digest found only a few editors supporting cancellation. New York Times, 3 Aug 1922; Literary Digest 74 (19 Aug 1922,) pp. 13-15.
most prominent supporters of war-debt cancellation were members of New York international banking community, led by J. P. Morgan, who openly called for the cancellation of debts, which he considered an impediment to international trade and prosperity.\textsuperscript{21} Interest groups such as agricultural groups and import-export concerns also lobbied for a program of overall debt reduction, but because economic conditions in non-agricultural sectors began to improve in the second half of 1922, the administration was not under great pressure to respond to them. For the Harding administration, the public and congressional reaction reinforced political lessons learned in its 1921 confrontation with Congress over the issue; reduction of war debts would be considered a political impossibility until after the November elections.\textsuperscript{22}

The Balfour note cut short the French attempt to reach a reparation settlement involving cancellation of inter-Allied debts. Louis Dubois, the French president of the Reparation Commission, informed Logan that France, now extremely concerned about its finances, was willing to fix all treaty charges against Germany, including reparations at 48 billion gold

\textsuperscript{21} New York Times, 3 Aug 1922.

\textsuperscript{22} For a discussion of the reaction in America to the Balfour note see John Carroll, "America Reacts to the Balfour Plan: The Debate over War-Debt Cancellation," Research Studies 41 (June 1973), pp. 107-117. Carroll's thesis is that public opinion played a small part in influencing war-debt policy in the early 1920s and that Hughes’s "primary concern was to retain the debts as an economic lever to promote American policy in Europe," particularly disarmament and equal trading opportunity (p. 115). Carroll correctly acknowledges that Hughes's papers contain no evidence for the basis of his policy of insisting that war debts be paid, stating that his interpretation is derived from letters to Hughes by other State Department officials including William Castle, James Logan and Roland Boyden (endnote 44). Albeit this material contains occasional references to such goals, it contains many more to domestic political concerns and thus supports Leffler's argument that a strict Open Door interpretation of America's war-debt policy in the 1921-1922 period is too narrow a reading of a policy that also contained other economic, strategic, and political factors. Leffler, "Origins of Republican War Debt Policy."
marks, if Britain relinquished its reparations claims and both the United States and Britain canceled French debts. Washington found the proposal "interesting" but did not see what could be done, "particularly in view of the recent action of the British in dispatching the Balfour Note."  

After the London Conference of 7 - 14 August ended with no decision regarding a moratorium, Poincaré turned to his alternative plan of demanding extensive production pledges in exchange for the German moratorium. Lloyd George was willing to let Poincaré take independent action in the hope that consequent French financial problems would result in the fall of the Poincaré government, but would not risk making a unilateral concession to France with only a hope of U.S. reciprocal action in favor of Britain. In addition, Lloyd George had an intense personal dislike of Poincaré and opposed giving a French government led by Poincaré extensive rights in Germany. The most he would tolerate was supervision of mines and forests if Germany defaulted on deliveries of coal and timber. The Reparation Commission would only take title to those properties if Germany could not make up the default.  

After the conference it was evident that the policies being pursued by Lloyd George, Poincaré and Wirth, considered together, along with the absence of large-scale

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23 Logan to Sec. of State, 5 Aug 1922 and Young to Harrison, 9 Aug 1922, 462.00R29/1895, USDS.

24 The French proposals called for the restoration of custom boundaries between the occupied and unoccupied areas, the surrender of Prussian state forests and mines in the Rhineland and the Ruhr to the Allies, the surrender of 60% of the shares of the chemical industries on the left bank of the Rhine, the confiscation of tax receipts in the occupied areas if reparation payments were delayed, and increased control of German exports. Foreign Office, Great Britain, Minutes of the London Conference on Reparations, August 1922, Cmd. 2258 (London, 1924). For a strong critique of Lloyd George's policy see Sally Marks, "Reparations in 1922" in Genoa, Rapallo, and European Reconstruction, ed. Fink, Frohn and Heideking.
financial intervention by America, were setting the stage for a disaster in Europe.

Despite the hopes of the Europeans, the Harding administration had no intention of asking Congress in an election year to reduce or cancel the war debts. Meanwhile, Hughes cautiously waited in Washington until after the conference to respond to Poincaré's note on France's debt to America. His reply hinted that the administration was prepared to help with the question of the French debt, eventually, but that Washington first wanted a "reasonable and practical solution" to the debt problem "consistent with the economic recuperation of Europe."  

Faced with British and French proposals for war debt relief, Hughes needed a plan that could implement a businesslike solution of the reparation problem; otherwise the United States would be accused of doing nothing except letting the Europeans stew in their own juices.

Plan for a International Commission and a Capacity-to-Pay Solution

Hughes now concluded that the idea of reducing reparation and war debts in a single operation was politically impossible and began to consider a proposal, originally suggested by Boyden, calling for an international commission of private financial experts appointed by their respective governments to determine Germany's capacity to pay. But before Hughes would go to Congress and ask for debt reduction, France would have to accept the reduction of reparations. "To start with war debt reduction," Hughes argued, "is to begin at the wrong end."  

Although decisions of the proposed commission would not be binding, Hughes

25 The Secretary of State to the French President of the Council and Minister of Foreign Affairs (Poincaré), 23 Aug 1922, FRUS 1 1922, pp. 412-13.

26 Sec. of State to Richard W. Child, United States Ambassador to Italy, 18 Oct 1922, 462.00R296/1, USDS.
believed that world opinion and American influence would force French and German acceptance. He knew that Germany’s chances of evading equitable reparations payments would decrease, since through the proposed sale of bonds it would become the debtor of all nations. Hughes told Castle that if France did not accept then it could "go to hell" and if Germany did not accept it could "go bust for all the world cares."^{27}

Hughes's tentative plan for a panel of experts, while moving the United States closer to official involvement since the experts would be appointed by governments, had the advantage of allowing the United States to select financial experts who, unlike Morgan, did not have the proclivity of linking reparations to war debts. American financiers could utilize American financial strength to achieve a resolution based on Germany's capacity to pay without compromising the issue of war debts or directly involving the government in Europe's political affairs. Accordingly, after August Hughes would repetitively reply to requests for war debt remission with a legalistic litany: "Congress has not given the administration the power to reduce war debts," "Germany cannot pay one mark more or less because of what France may owe," and "Germany must pay up to her capacity but France can not collect what Germany is unable to pay." He would maintain these positions throughout 1922 and 1923; they would become the basis of the Dawes Plan that resolved the reparation crisis in 1924.

Hughes's economic diplomacy, which sought to frame reparations as a financial issue based on Germany’s ability to pay, ignored the reality that reparations were more than just a financial issue for France, which had little confidence that any commission of financial

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^{27} Memorandum by William R. Castle of conversation with Hughes, 1 Aug 1922, copy in Castle to Houghton, 4 Aug 1922, Houghton Papers.
experts would recognize its security needs. With no Anglo-American security guarantee, reparations were the means of establishing French economic predominance over Germany or, at a minimum, assuring German cooperation with France in the reconstruction of Europe. In addition, French debt reduction approved by some future Congress was uncertain, as were disarmament concessions or trade-policy changes the United States might require in exchange for debt reduction. France needed access to American financial markets and wanted American moral support against Germany, but it could not afford to place itself in a position of strategic and economic inferiority to a recovered Germany. For these reasons, France wanted a political solution to the problem of war debts and reparations. French financial weakness would be essential to its agreement to Hughes’s plan, and French pressure on Germany would be essential in gaining American acceptance of its views.

Starting in August, tension over the European situation increased within the State Department. Castle admitted to Houghton that “from this distance the situation in general looks pretty desperately bad” and “at the present time I find it hard to see a light.” Hughes, Castle noted, “is very restless under our enforced inactivity.”28 This struggle would continue throughout the remainder of 1922. Although both the United States and Germany intended to wait until France agreed to a "capacity to pay" settlement, their assessment of what Germany’s capacity to pay differed. That difference was not a major issue in 1922, however; the crucial difference was that United States could afford to wait patiently for the eventual success of its policy while Germany, facing growing inflation and the increasing impatience of France, could not. The unanswered question was what Germany could or would do to stabilize its economy and thereby aid the United States in convincing France that Germany

28 Castle to Houghton, 4 Aug 1922, file 51, Castle Papers.
would pay reparations to the full extent of its capacity.

German Rejection of External Controls

In Germany, political and economic attitudes toward both inflation and reparations made any solution difficult. The German conviction that reparations were fueling inflation added to political resentments about the Versailles treaty that were already strong. With the Left and Right divided over the means by which stabilization should be accomplished, reparations gave both sides a common enemy. As inflation continued, more Germans lost faith in their currency and a flight from the mark began. When Germany failed to implement exchange controls on its own, the Reparations Commission insisted on their establishment as a condition of consideration of a moratorium.

Imposing controls from the outside had serious consequences. The Reparation Commission was unanimous in its belief that a foreign loan to Germany was essential if France and Belgium were to receive any substantial sums of money. But as Logan noted, the need for external controls made any loan more difficult. Even if the financiers were willing to accept that a reduced final settlement of Germany’s reparation bill would have to wait, the decision to impose external supervision of German exchange control would only “shake the confidence “of potential lenders. "It might be difficult,” Logan quipped, "to get a lender to advance money if he were told that it was necessary to keep three or four policeman with the borrower so as to prevent his running away."29

The hardening French policy deepened the atmosphere of crisis in Germany. Houghton advised Washington that the collapse of the mark, which had fallen by late August to 1300

29 Logan to Harrison, 26 Jul 1922, 462.00R29/1906, USDS.
marks to the dollar, a loss of almost half its value in a month, was primarily due to the changed reparation policy and that "specific threats of the French government have created a psychological, economic and financial vicious circle." Hoping to prod Washington into a more active policy, Houghton specifically noted that German cotton and copper imports from America had dramatically declined and asked that his report be forwarded to Hoover at the Commerce Department. Even Lloyd George's compromise for the supervision of German mines and forests was too much for the Wirth government. Wirth insisted that acceptance of Allied supervision of properties that belonged to the individual states and not the federal government would bring his government into further conflict with Bavaria, which was already fighting with the national government over what it defined as its constitutional sovereign rights.

While Germany would cite constitutional reasons for its inability to accept supervision,

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30 Houghton to Sec. of State, tel., 26 Aug 1922, 462.00R29/1950, USDS. Houghton's analysis of the effect of international events on inflation is supported by Feldman, who notes that while the reparation payments themselves exerted a strong influence on the value of the mark in the latter half of 1921, they became of secondary significance in 1922 when political events had a much greater influence in the collapse of the mark. Feldman, The Great Disorder, pp. 505-6, esp. Table 19, which provides a correlation between the dollar exchange rate of the mark and political news in 1922. Feldman uses the rational expectation model of inflation (people respond to what they anticipate will be the consequence of fiscal news) to explain the impact of reparations on inflation at a time when Germany was not paying cash reparations. Feldman's discussion is in part an answer to Marks, who strongly questioned how it could be said that reparations were causing inflation at a time when Germany was not paying reparations. This point, however, does not bear on Marks's central argument, which is that Germany had neither the "desire or the will to act" on its problems in 1922. Marks, "Reparations in 1922."

31 Chefbesprechung, 25 Aug 1922, Kabinette Wirth II, p. 1053. For Wirth's conflict with Bavaria see Kabinette Wirth II, pp. 981-87, 991-1010, 1016-19, 1021-37. Wirth was willing to offer 50 million gold marks in foreign securities as a guarantee, but France, determined to keep the pressure on Germany, refused the offer. The Acting Secretary of State to the Secretary of State, 28 Aug 1922, FRUS 1922 II, pp. 160-62.
Wirth had other reasons for opposing the proposal, including his lack of confidence that his progressively weakening government could implement a stabilization plan in the face of the country’s economic and social conflicts. He was willing to take on Bavaria to obtain a moratorium, but not for one that would last only until the end of 1922. In a similar vein, State Secretary of the Foreign Office Ernst von Simson acknowledged to Houghton that if the Germans agreed to give up their mines and forests, within a few months nothing would remain to obtain the further moratorium that would almost certainly be required.\footnote{Houghton Diary, entry of 24 Aug 1922; The Acting Sec. of State to the Sec. of State, 28 Aug 1922, \textit{FRUS} 1922 II, pp. 160-62.}

Houghton, cautioning that France with its military strength could now disregard Britain, reminded Wirth that there was only one angle from which France could be attacked and that was the "financial angle."\footnote{Houghton Diary, entry of 24 Aug 1922.} Despite the growing inflation, Wirth was willing to gamble: Germany refused to accept the conditions for the moratorium, hoping that French financial weakness would force France to accept a reduced reparations bill if Germany could hold out long enough.\footnote{Chefbesprechung, 25 Aug 1922, \textit{Kabinette Wirth} II, p. 1053.}

Germany's refusal to accept the proposal not only risked a declaration of default and an occupation of part of the Ruhr as a sanction, it meant that Britain could no longer be depended upon to restrain France. Bradbury informed Bergmann that Lloyd George was in a tight spot and would not mind seeing France serve as the scapegoat for his policy, warning that "England would not prevent French stupidities."\footnote{Kabinettsitzung, 23 Aug 1922, \textit{Kabinette Wirth} II, p. 1043; Houghton to Acting Sec. of State (Phillips), tel., \textit{FRUS} 1922 II, pp. 162-63.} This change in British policy
increased German reliance upon the United States; however, Germany could not afford to make a public appeal to the United States to accept the linkage between war debts and reparations when the reverberations of the Balfour note had not yet died down. The inevitable American refusal would simply leave Germany isolated and more vulnerable to France. For its part, the United States did not want Britain to be able to use a French-German crisis as a vehicle for pressuring the United States into reducing war debts. In addition, the Harding administration was vulnerable to charges that its failure to ratify the Versailles treaty had resulted in chaos in Europe. For Germany, the game continued to be one of hoping that American support in some form would enable it to outlast Poincaré financially.

Restraints on U.S. Intervention

As the crisis intensified, President Harding's immediate concern was the presence of 1,000 American troops in the Rhineland. If France were to make a move towards the Ruhr, Harding wanted those troops immediately removed to avoid any entanglement.36 Unfortunately, Washington did not have good intelligence about the extent of French

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36 Throughout 1922 Harding had vacillated between withdrawing the troops to avoid any entanglements and leaving them in place both as symbol or America's acceptance of a moral obligation and so their withdrawal would not be seen as a gesture relating to any European crisis. For France, the presence of American troops was a symbol of American support for the occupation of the Rhineland. For Germany, the American presence served as a moral check on France. Houghton to Sec. of State, 10 Jan 1923, FRUS 1923 II, p. 48. Harding's political instinct was to have the troops quietly withdrawn during a period of non-crisis. Harding to Fletcher, 24 Aug 1922, Henry P. Fletcher Papers, Library of Congress; Harding to Phillips, 31 Aug 1922, 462.00R29/2020, USDS. In Harding's view, any moral support the troops provided Germany was not worth the domestic political costs that entanglements would produce. Harding's attitude was also very dependent on which way changing political winds were blowing in Congress. See Nelson, Victors Divided, pp. 234-235.
intentions. The United States ambassador in London, George Harvey, warned that despite the French concessions at the London Conference, Britain believed that the French demands cloaked ulterior political motives regarding the Rhineland. It is likely that Britain emphasized this aspect of French policy to Harvey in a deliberate effort to heighten Washington's anxieties and thus influence American war debt policy.\textsuperscript{37}

French interest in an active Rhineland policy did increase in the summer of 1922. General Allen, the commander of American troops in the Rhineland and the unofficial American representative on the Rhineland High Commission, reported that French activity in the Rhineland led him to seriously question whether France was simply interested in a financial settlement, a view shared by Houghton. Allen warned that if the French were to get control of the Ruhr coal, "[they will] exercise an excessive influence on Europe." Britain had also passed on to Allen its warning regarding French intentions.\textsuperscript{38} The American Embassy in Paris, however, emphasized the economic issue and advised Hughes that France was following a policy of taking a firm stand before other Allies did away with the reparations entirely. According to embassy analysts, France had simply concluded that "moral suasion of Germany was useless" and that forceful measures were necessary to "make the Germans desire to pay".\textsuperscript{39} While continuing to keep a watchful eye on events, Phillips notified Harding that the State Department did not believe "the moment has arrived when we can say definitely that France has embarked on a policy of independent aggression in the

\textsuperscript{37} Harvey to Sec of State, 14 Aug 1922, 462.00R29/ 1917.

\textsuperscript{38} Allen (private report) to "Billy" Phillips, 22 Aug 1922, copy in Houghton Papers; Allen, Henry T., Mein Rheinland Tagebuch (Berlin: Verlag Reimar Hobbing, 1923), pp. 269-70. Houghton to Sec. of State, 170, 25 Aug 1922, 462.00R29/1949, USDS.

\textsuperscript{39} Whitehouse (Paris) to Sec. of State, 24 Aug.1922, 462.00R29/1945, USDS.
Germany immediately tried to see what support it could get from the United States. When Wiedfeldt sounded out Castle, he was told that although Houghton and Hughes were in favor of some American intervention, American public opinion was against action in Europe. Castle informed Wiedfeldt of Hughes's idea for an expert commission, but acknowledged that neither France nor Britain had any interest in Hughes's proposal and that Castle’s efforts had to have Hughes make a public statement had been unsuccessful. Castle, who saw no solution to the problem, predicted that public opinion in America would eventually change, but that the change would come too late for Europe.\footnote{Phillips to President, 25 Aug 1922, 462.00R29/1978a, USDS. American confusion over French intentions is understandable; even with access to French archival materials, the question of whether France saw its Rhineland policy as an end or only as a tactic in its pursuit of reparations has continued to be hotly debated among modern scholars. Trachtenberg, Reparation in World Politics, pp. 259-74. For a critique of the thesis favoring French moderation, see Jon Jacobson, "Strategies of French Foreign Policy after World War I," Journal of Modern History 55 (March 1983), pp. 78-95.}

Despite Castle’s pessimism, Germany, having learned from its experience with its April 1921 initiative to avoid direct governmental pleas, forwarded a note to Washington from German labor federations maintaining that Germany had done "all in its power politically to fulfill its obligations" and now had "the absolute need of immediate help from outside."\footnote{The German Chargé (von Thermann) to Acting Sec. of State (Phillips), 26 Aug 1922, FRUS II, p. 160.}
President Harding's response was that America "would be glad to be helpful in a consistent and practical way," but "unless further advised, I do not understand what course we might helpfully pursue."\textsuperscript{43} Hughes, who did not feel that America could make "any helpful suggestion while the subject is a question for the Reparation Commission," was committed to his idea of an expert commission and did not want the idea compromised by allowing the United States to be dragged into political bargaining in the Reparation Commission.

Uncertain of French intentions, Hughes was willing to wait on events. Hughes also realized that if the French were "fully determined to act at once," no suggestion the United States might make would affect their decision.\textsuperscript{44} By late August the United States had determined that if the French were resolved to take independent action in the Ruhr, there was nothing the United States' could or would do to stop them and that America's response would be restricted to the immediate withdrawal of American troops. It was this policy that the United States would follow in January 1923.

The Belgian Compromise

Germany correctly recognized that American help would be limited and did not "really seriously" expect United States intervention in the Reparation Commission. At best they hoped for an indirect expression of approval of Germany through Logan. Yet, as Houghton


\textsuperscript{44} Sec. of State to Acting Sec. of State (Phillips), 30 Aug 1922, \textit{FRUS} 1922 II, p. 163.
noted, Germany also clung "to the hope that the United States will make its influence felt in some way in their behalf."\textsuperscript{45}

The crisis in the Reparation Commission was temporarily resolved by Logan. Acting on his own initiative, he found a way to bypass the question of the moratorium with the aid of Bradbury and the cooperation of Belgian representatives on the Reparation Commission who desperately wanted to avoid having to cast the deciding vote between Britain and France.\textsuperscript{46} German cash payments for the remainder of 1922 were scheduled to go to Belgium; although the Belgians could not simply relinquish their claim, Logan obtained Belgian consent to accept 200 million gold marks in the form of German treasury bills guaranteed by an equivalent amount of Reichsbank gold deposited in a neutral country. Logan and Bradbury then stage-managed a vote on the moratorium which allowed the Belgians to cast the decisive vote against a moratorium. In a second vote, the Belgians switched sides and joined Britain and Italy in voting against declaring Germany in default. But Germany was asked to submit proposals for financial reform, including proposals for how it would eventually pay

\textsuperscript{45} Houghton to Acting Sec. of State (Phillips), 30 Aug 1922, FRUS 1922 II, pp. 162-63.

\textsuperscript{46} Belgium was inclined to cooperate with Germany in defusing a crisis that threatened to catch them between Britain and France, but faced domestic pressures to move closer to France. At London, Belgium had proposed a new conference after the American elections in November to discuss inter-Allied indebtedness, reductions in German reparations and an international loan to Germany. Lloyd George had accepted the idea, provided Germany received a moratorium in the interim, a demand Poincaré had refused. On 16 August the Belgian foreign minister, Henri Jaspar, informed Fletcher that Poincaré had intimated that the United States would approve vigorous and direct action by France against Germany. Jaspar, who wanted to avoid being forced to follow France in the Ruhr, asked for the United States to strongly express its disapproval of any move into the Ruhr. Fletcher replied that it would be difficult for the United States to take any action that would seem like an intrusion into European affairs irrespective of the political situation. Belgium was therefore willing to cooperate with Logan in finding a solution. Fletcher to Sec. of State, 16 and 17 Aug 1922, 462.00R29/1923 and /1926, USDS.
its reparation debts.\textsuperscript{47}

The actions of Logan and Bradbury were partly revolt against the policies of their respective governments (Hughes's policy of avoiding American initiatives in the Reparation Commission and Britain's policy of allowing France to take independent action). Members of the Reparation Commission, with the exception of the French, had long personally concluded that Germany was incapable of meeting its immediate reparations payments; Logan outspokenly so. Bradbury, firmly convinced that if the present reparation policy continued it would lead to "a complete collapse of the mark" by the end of the year and to the complete collapse of the franc a year later, was prepared to use the commission's judicial capacity without regard to his government's political instructions and, if necessary, go to the press.\textsuperscript{48}

Phillips notified Harding, who had been ready to withdraw the troops "on a moment's notice" that the crisis had passed and asked that no withdrawal take place since such action could be construed as American disapproval of the commission's action.\textsuperscript{49} Despite his efforts to keep his involvement quiet, Logan was forced to respond to charges of "American arbitration" in press accounts instigated by the British in response to unfavorable publicity about the arrangement. But he simply stressed his limited, unofficial role as an observer.\textsuperscript{50}

The German response to Logan's compromise further demonstrated the Wirth government's inability to resolve its own internal conflicts, thereby complicating American

\textsuperscript{47} Logan to Sec. of State, 29 and 30 Aug 1922, 462.00R29/1958 and /1961, USDS.

\textsuperscript{48} Logan to Sec. of State, 29 Aug. 1922, 462.00R29/1958, USDS.

\textsuperscript{49} Phillips to President, 1 Sept 1922, 462.00R29/2020, USDS.

\textsuperscript{50} Logan to Sec. of State, 2 Sept 1922, 462.00R29/1971, USDS.
and British efforts to assist Germany. Rudolf von Havenstein, the director of the Reichsbank, balked at the idea of using Reichsbank gold to guarantee Belgian reparation payments, insisting that the gold was indispensable for a future stabilization of the mark and arguing that Germany had to decide whether the time had come to close down its policy of fulfillment. Havenstein also suggested that Germany use the autonomy of the Reichsbank as an excuse to reject the proposal.\(^5\) His earlier suggestion of using the 80 million gold marks worth of gold, set aside for food imports by the Wirth government, had been rejected by the cabinet.\(^5\)

Wirth was willing to support Havenstein on the issue of keeping Germany's gold but would not abandon his policy of fulfillment. Turning again to America for help, Wirth asked Houghton to assist in getting Belgium to extend the time that they would hold the German bills from six to eighteen months, so that the Reichsbank could provide guarantees without drawing on gold reserves. With Houghton's assistance, an arrangement was made for the guarantee to be provided by the Bank of England, which held 50 million gold marks of the Reichsbank's gold.\(^5\)

Poincaré, although angered, accepted the Reparation Commission's decision. As American representatives in Paris had correctly judged, he was not yet ready to take independent action, although he did begin to try to get Belgium in line with French policy.

\(^5\) Kabinettssitzung, 30 Aug.1922, Kabinette Wirth II, pp. 1069-71, 1071-76.

\(^5\) Kabinettssitzung, 23 Aug 1922, Ibid, , pp. 1042-43. For a detailed discussion of the internal German battles regarding the use of the Reichsbank gold, see Feldman, The Great Disorder, pp. 457-59.

\(^5\) Diary, entries of 5 and 9 Sept Houghton, 1922, Houghton Papers; Meetings of 4 and 8 Sept. 1922, Kabinette Wirth, II, pp.1081-82, 1098-1101.
Poincaré wanted Belgian cooperation both in the Reparation Commission and in pressuring the United States to reopen the question of war debts. He wanted Belgium to call for an international conference on war debts and reparations, to be held in Brussels after the American elections in November. Belgium confidentially informed Fletcher of the plan, after which Logan warned Washington that sentiment for such a plan was growing in the Reparation Commission and that the United States could expect both another crisis and an European attack on the American position on war debts following the November elections.  

Although aware of the worsening situation in Germany and the increasing desperation of France, Hughes had little interest in reversing America's decision, made at the Genoa conference, against attending international economic conferences that would link war debts and reparations. Instead, he strengthened his commitment to his idea of an expert commission but also, out of caution and uncertainty about what the post-election mood of Congress would be, kept his options open.

Lack of German Proposals and the Failure of Fulfillment

America's ability to assist Germany was hampered by German reluctance to submit the proposals for stabilization and reparation payments demanded by the Reparation Commission. In an early-September meeting, Castle informed Wiedfeldt that in addition to Hughes's plan for an expert commission, it was also possible that American public opinion might be changing, which might give the administration more flexibility about war debts after the election, but also reminded him that the administration needed German proposals.

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54 Fletcher to Sec. of State, 25 and 26 Sept 1922, 462.00R29/2037 and /2082, USDS.

55 Thurmann to A.A., 5 Sept 1922, Botschaft Washington, Po2a (959), PA-AA.
An embarrassed Wiedfeldt had little to offer. He complained to the Foreign Ministry that the German note pleading for help could be compared to "the SOS signal of a sinking ship, which must leave the ways and means of rescue to the savior." Wiedfeldt had, on his own, asked for some public statement from the administration in support of Germany and for Logan and Boyden to become more active in the Reparation Commission. But without instructions he could not go further, other than to point out that the complex counterproposals he had received in response to the intricacies of the compromise with Belgium "were beyond the capacity or interest" of senior State Department officials and were no substitute for a comprehensive German plan for German and European reconstruction.

Wiedfeldt had concluded from his conversations with Castle that Germany's best chance lay with supporting Castle and Hughes, since Hoover was insisting that America would not become involved in the question of reparations until Germany stabilized its currency, balanced its budget and restored its balance of trade. He emphasized that although Germany could not expect results from the United States until after the elections, it must have specific proposals if anything were to be accomplished. Wiedfeldt's note illustrates the problems caused by the strong tendencies of German foreign policy to procrastinate first and later to seek hasty, improvised solutions based on temporary compromises.56

While Wiedfeldt could only complain about Germany's lack of proposals, he did what he could to improve Germany's image in American opinion, particularly in Washington and the

[56 Wiedfeldt to Auswärtige Amt, 5 Sept 1922 and Tel. Nr. 200, 6 Sept 1922; letter to Leg. Roediger in London, 23 Sept 1922, unsigned but presumably written by or on the instructions of Wiedfeldt, Archives of the German Embassy. It is very likely that, because the State Department was continuing its battle to keep reparations and war-debt policy out of Hoover's hands, Castle specifically warned Wiedfeldt against Hoover. Castle to Houghton, 13 Jul 1922; Houghton to Castle, 29 Jul 1922, Houghton Papers.]
major trade centers such as New York, areas of influential opinion which he believed were more sympathetic to Germany than the rest of the United States. Recognizing that the United States saw Germany as central to the reconstruction of Europe, Wiedfeldt maintained that the way to overcome Hoover's statement that Germany represented only five percent of American trade was to continually stress that Germany was the key to Europe. Wiedfeldt also astutely recognized that the American people, while proud of their role in winning the war, did not care about the Versailles treaty. Germany had to take advantage of the American propensity to favor the underdog; therefore, its propaganda line should emphasize "the dire conditions in the new, democratic, disarmed Germany which is harassed by the Versailles treaty but trying to live up to its obligations." If Germany could win American public opinion, then the United States could move. Germany should propose practical programs "rather than just complain."  

Germany's inability to provide specific proposals reflected the collapse of Wirth's policy of fulfillment in the face of growing inflation. Its policy was becoming one of haggling over the details of temporary expedients. While a general consensus existed that fulfillment was impossible and stabilization had to be confronted, there was no agreement on the preconditions for stabilization or how it should take place. Going on the offensive for both domestic and foreign opinion, Wirth announced a new policy formula to the international press in Berlin of “first bread then reparations,” which struck at the heart of the chancellor’s own fulfillment policy.  

Wirth and some business leaders, including Wilhelm Cuno, who

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57 Memo from Wiedfeldt, drafted by Baron Plessen, 18 Oct 1922, for dispatch to Auswärtige Amt, Archives of the German Embassy; also found in Botschaft Washington, Po2a (959), PA-AA.

58 Ulrike Hörster-Philipps, Joseph Wirth, 1879-1956: Eine politische Biographie
would replace Wirth as chancellor in November, strongly insisted that an external solution requiring outside help was essential, arguing that German policy must continue to be directed toward a reduction of reparations and a foreign loan. For Wirth, an external solution was a political necessity; his fragile minority government was already too weak to undertake the necessary deflationary measures without the legitimization of a reduction in reparations or a foreign loan.

Businessmen such as Cuno saw a foreign loan in terms of international economic reconstruction based on cooperation among the world's businessmen, a positive alliance which would in and of itself lead to a reduction in reparations. The drawback of an externally imposed option, the realized, would be German foreign policy development based on passively waiting for foreign help and desperately attempting to fend off British and American attempts to attach preconditions of domestic stabilization, especially international controls on the economy, to reparation reduction. This assessment, shared by the Wirth government, was the most basic impetus for its preoccupation with the Reparation Commission and attempt to achieve an 18-month moratorium.

Others favoring German control of its own domestic stabilization comprised a heterogeneous group ranging from liberal members of the DDP to Hugo Stinnes, whose grandiose scheme envisioned a major restructuring of the German economy. Many were convinced that because the nation’s economy was collapsing and a domestic stabilization would enhance possibilities for an eventual loan and forestall external economic controls, Germany could wait no longer.⁵⁹

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⁵⁹ For a detailed discussion of the debate over external and internal stabilization, see (Paderborn: Ferdinand Schöningh, 1998), p. 275.
The Wirth government would not respond to Wiedfeldt’s requests for proposals to give Castle in September 1922 because, caught up in its debate over stabilization, it had no plan to offer other than continued pleading for international understanding of Germany's condition. Under pressure, Wirth activated his emergency powers to impose exchange controls to dampen speculation. It was more of a gesture to demonstrate that Germany had not surrendered to total passivity than an effective program. The crucial decision, to begin the stabilization of the currency by issuing gold-denominated Treasury bills, was postponed. Without a solution to Germany’s domestic problems, the Wirth government could not develop a coherent foreign policy, and events began to overtake Wirth's last efforts to hold to his policy of fulfillment. On 17 October, Lloyd George fell and was replaced with Bonar Law, who was widely expected to be more accommodating to French interests. The Wirth’s government’s policy of fulfillment was increasingly seen as irrelevant to any solution to Germany’s problems.

Stinnes - Lubersac Initiative

Hugo Stinnes was eager to step into the policy vacuum. With President Ebert's support, Stinnes bombarded foreign leaders with suggested plans for Germany's stabilization and the reconstruction of Europe. Behind the scenes he was engaged with Baron de Lubersac, the leading representative of the French coal industry, in a scheme to privatize Germany's "in kind" reparation payments and used this contact to pass his ideas on to Poincaré. Stinnes


also used Houghton, to bypass the Foreign Ministry and confidentially inform Wiedfeldt of his proposals. Wirth was never kept fully informed; as Stinnes told Houghton, "he did not trust the Chancellor's discretion."\textsuperscript{61}

Stinnes' program called for the Allies to abandon all sanctions, evacuate the Rhineland and grant Germany most-favored nation status. In exchange the German people would agree through a plebiscite to work overtime for as many years as necessary to achieve a favorable balance of trade and cover the cost of a gold loan that would provide for French and Belgian reconstruction as well as stabilization. Germany would balance its budgets, abandon controls, and reduce publicly funded employment; social and labor policy would be structured to favor production. Finally, Germany would join the other Allies in approaching the United States for a program of general debt cancellation.\textsuperscript{62}

The plan was politically unrealistic but its emphasis on increasing German productivity appealed to Houghton, who viewed decreased German industrial productivity as a major cause of German difficulty. Houghton believed a new coalition government must be formed that included the German People Party (DVP). He reasoned that if that party’s membership, which included major German industrialists, entered a government committed to a reparation settlement, skepticism about Germany's willingness to accept and fulfill a reasonable reparation settlement would end. Houghton also knew that such a government would have a

\textsuperscript{61} Houghton to Sec. of State, 30 Oct 1922, 862.00/1192, USDS. Wirth had been informed about the initiative on 18 October. In an unofficial exchange of notes between Lubersac and Wirth it became clear that Poincaré would demand impossible conditions, but it was agreed that quiet negotiations should continue. Rosenberg to Mayer (Paris), 2 Dec 1922 including Stinnes Memo, 23 Oct 1922, Buro Reichsminister, Reparations (5 Secr.), R28189, pp. 66-73, (D736132- D736139), PA-AA.

\textsuperscript{62} Ibid.
better chance of forcing reforms on Germany's economy. Houghton actively encouraged a German move to the political right. 63

Hughes, however, was not interested in the Stinnes vision of a reconstructed Germany. When Wiedfeldt presented some of the ideas in an interview with Hughes, the Secretary of State told him "it was idle to begin with political questions" and stressed that what was needed was "taking the first practical step" in settling the problem of reparations, which to Hughes meant a solution based "on a sound economic basis." Hughes informed Wiedfeldt that the State Department was continuing to work on finding a way for an impartial expert to examine the problem. 64

“Capacity to Pay” and War Debts

By mid-October the question of Germany was becoming a struggle between France and the United States over the issue of war debts. Bonar Law had adopted a somewhat passive policy and Germany was in the midst of its internal debate over economic reform. Poincaré had been pressing Britain since August for a conference at Brussels to consider war debts and reparations. Bonar Law had delayed in hopes of a softened American position on war debts, which had hardened following the Balfour note. Britain did not want to be the only creditor at the table, but, under pressure from Poincaré and needing French cooperation in

63 Houghton to Sec. of State, 15 and 23 Sept 1922, 462.00R29/2023 and 2031, USDS.

64 Memorandum by the Sec. of State of an Interview with the German Ambassador, 9 October 1922, Memoranda of Interviews with Members of the Diplomatic Corps, Reel 122, Cont. 157, The Papers of Charles Evans Hughes, Library of Congress, Washington D.C.
Asia Minor, Bonar Law agreed to a preliminary conference in London in December.\textsuperscript{65}

The combination of German passivity, a new British government, and Poincaré's policy of seeking productive pledges, increased the pressure on the United States to relax its war debt policy. On 14 October Boyden sent an urgent plea warning that the German situation was approaching "complete demoralization" and unless something was done immediately there was "no possibility of saving Germany." Boyden cautioned that "if the United States does nothing France will not make sufficient concessions to meet [the] situation." Boyden reported that the French political situation was preventing Poincaré from changing his policy without the political cover of a U.S. intervention, which would allow France to accept a "capacity to pay" approach to Germany. Boyden advised Hughes that, even with pledges of "definite security and stringent financial controls," French concessions were "barely possible," but added that he still believed there was a "great probability" of France accepting the capacity-to-pay principle if it could be applied to inter-Allied debt as well.

In the Reparations Commission, Bradbury, who was becoming more independent-minded, developed a plan that would give Germany an opportunity to stabilize its economy through a two-year moratorium. The 1921 London Schedule of Reparations would be retained until the planned Brussels conference, at which the Allies were meant to consider both reparations and war debts. In an effort to pressure both the Allies and the United States, Bradbury released the plan to the press.\textsuperscript{66} In response to French pressure, Belgium was also trying to find a way to include the United States in the proposed Brussels conference. Jaspar

\begin{flushright}
\textsuperscript{65} Trachtenberg, \textit{Reparation in World Politics}, pp. 279-80
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\textsuperscript{66} Herrick to Sec. State, tel., in three sections, 14 Oct 1922, 462.00R29/2094, USDS, reprinted in \textit{FRUS} 1922 II, pp. 165-68.
\end{flushright}
offered to exclude any agenda item America might find objectionable. An extension of the “capacity to pay” would actually allow discussion of the capacity-to-pay principle to segue into a discussion of the cancellation of war debts. But even if war-debt relief was overtly excluded, Belgium wanted an American presence at Brussels because major American participation would be crucial for Europeans to agree on an international loan to Germany as a solution to the reparation problem. In one way or another, Europe saw American dollars as the answer to the reparations issue.  

The Harding administration, in addition to international pressure, was also under domestic pressure from agricultural and banking interests to settle the war debt issue. At the American Bankers Association convention in October 1922, Thomas Lamont, Morgan's partner, termed the inter-Allied debt problem a more important issue than reparations and called for American concessions, statements echoed by Reginald McKenna, former Chancellor of the Exchequer in Britain. Mindful of the impending election and the need to take some public stand, Harding authorized Hoover to give a speech on 16 October flatly rejecting war debt cancellation. But Hoover refused, declaring that to do so "would undermine the fabric of international good faith." As Harding could not now reverse himself before the November elections, Hughes was also locked into a policy of opposing cancellation of war debts, writing to Child, "Any suggestion looking to discussion of debts

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67 Fletcher to Sec. of State, 11 Oct 1922, 462.00R29/2127, USDS.


would create violent opposition here . . .”

The fact that any debt reduction or exchange of Allied debt for German debt would be accomplished in the glare of an international crisis rather than through quiet negotiations was highly problematic for Harding in October 1922. There were issues of context as well: the administration wanted to deal with Britain in terms of American-British relations, not a German crisis. And, as Hughes explained to Child, the administration was also concerned that an economic conference about reparations and war debts would give the Europeans an excuse to raise politically taboo subjects such as tariffs and ship subsidies.\(^71\)

Committee of Experts

Harding's decision against modifying war debts left Hughes solely dependent on his plan for a committee of experts to determine Germany's capacity to pay. Although Hughes argued that there was "no prospect for agreement unless Governments can arrange to interpose between themselves and their public the findings of an impartial committee," he could not make either a public statement or even a confidential formal diplomatic proposal to France about his plan. While recognizing that there was "no prospect" of Poincaré yielding to a public demand by the United States in the face of French public opinion, Hughes also did not want to give Poincaré a formal diplomatic proposal that Poincaré could use to insist on a corresponding reduction of France debts to the United States. Hughes stressed to Child, "It is important that the United States should not make a proposal on this matter while refusing to

\(^70\) Hughes to Child (Rome), 18 Oct 1922, 462.00R296/1, USDS.

\(^71\) Hughes to Child, 18 Oct 1922, 462.00R296/1, USDS. In his discussion of French policy, Trachtenburg identifies Poincaré's demand for the conference as "abrasive tactics." Reparation in World Politics, p. 75.
discuss French debts.\textsuperscript{72}

Hughes also notified Herrick and Boyden that although the United States could not make a formal statement regarding an experts committee, it was committed to that approach. He expressed little confidence that the Reparation Committee’s arguments could settle anything and emphasized "the futility of sending notes or issuing statements that will encourage retorts and attempts to start useless discussions," particularly discussions about linking reparations and war debts at the proposed Brussels conference.\textsuperscript{73}

At the same time Hughes, not indifferent to the problems of Germany, knew that the "uncertainty" regarding reparations promoted "economic disorganization in Germany where the situation is becoming extremely critical" and negatively affected American interests. Hughes also recognized that the administration at some point might have to reduce France’s debt, but he wanted its "present undefined reparation asset reduced to a certainty" before negotiating debt reductions with the French. Because the United States would have to know what Germany would be paying France before reducing France’s debts, Hughes maintained that "to begin with the debt question is to start at the wrong end."\textsuperscript{74} Telling Houghton that "the key to this situation is held by France," Hughes was now ready to see if Poincaré could be talked into not only accepting a committee of businessmen as a means of settling the reparation crisis, but making the proposal himself.\textsuperscript{75}

Despite the antagonism that had developed between Poincaré and Morgan after the Loan

\textsuperscript{72} Hughes to Child (Rome), 18 Oct 1922, 462.00R296/1, USDS.

\textsuperscript{73} Hughes to Herrick and Boyden, 17 Oct 1922, 462.00R296/2a, USDS.

\textsuperscript{74} Sec. of State to Herrick, 17 Oct 1922, \textit{FRUS} 1922 II, pp. 168-70.

\textsuperscript{75} Sec. of State to Houghton, 9 Nov 1922, \textit{FRUS} 1922 II, pp. 181-82.
Committee report in June and Morgan's public support of cancellation of war debts, Hughes turned to the banker for help in convincing Poincaré to accept the plan for an experts committee.76 Morgan's efforts, however, would be reluctant at best. Still bitter over his experience on the bankers committee in June, he had come to the conclusion that reparations were a political issue. He told his associate Thomas Lamont that if the politicians wanted a committee of experts, they would have to give that committee complete freedom to arrive at their conclusions. Anything less "would be worse than useless."77

In Paris, Herrick informed Poincaré that the American decision against linking war debts with reparations was final and also, hinting that some reduction in French debts might be possible in the future, tried unsuccessfully to convince the French premier to accept the idea of an experts commission. Knowing full well that any such commission would reduce French claims against Germany with no guarantees that French debts to the United States would be reduced, Poincaré insisted that governments, not economic experts, should control the reparations issue. Poincaré still hoped to lure the United States into the proposed Brussels conference, where reparations and war debts would be linked. After two frustrating interviews, Herrick concluded that Poincaré had such an anti-German prejudice as to "destroy sound judgment" but that financial weakness would eventually force France to yield.78

Poincaré next sent Jusserand to inquire about American participation in the proposed

76 Sec. of State to Herrick, 9 Oct 1922 and Herrick to Sec. of State 13 Oct 1922, 462.00 R296/- and /2, USDS.

77 Morgan to Lamont, 6 Nov 1922, 462.00R296/7, USDS.

78 Herrick to Sec. of State, 23 and 27 Oct, 17 Nov 1922; FRUS 1922 II, 168-70, 175, 177-78; Herrick to Sec. of State, 24 Oct 1922, 462.00R296/5, USDS.
Brussels conference. Hughes demurred by noting that plans for the conference were still tentative. The next day Jusserand and the British, Italian and Belgian ambassadors, in a long-awaited response to the United States' March 1922 request for arrangements to subsidize America's forces in the Rhineland, reminded Hughes of America’s interest in German reparations. Jusserand additionally pointed out that because of the moratorium Germany had been making payments only in kind, suggesting that perhaps "in some manner" a similar in-kind arrangement could be made with United States.79

By the beginning of November, not only had Germany still not replied to the Reparation Commission's demand for specific proposals, the question of what Germany was willing to pay also remained unanswered. In presenting the American case to France, Hughes and Herrick had argued that, since no one was suggesting relieving Germany of any payments that it could reasonably make, war debts bore no relationship to reparations. However, what Germany could pay largely depended on what sacrifices Germany was willing to make in order to pay. German proposals to the Reparation Commission would be taken as an indication of that willingness; France would be acutely sensitive to such matters. Boyden cautioned Hughes that unless Germany made meaningful reparation proposals, the American denial of any link between reparations and war debts would be in "serious danger" in the Reparation Commission.80

79 Memorandum by the Sec. of State of a Conversation with the French Ambassador, 7 Nov 1922, FRUS 1922 II; Memorandum by the Secretary of State of a Conversation with the French, Belgian and British Ambassadors and the Italian Chargé, 8 Nov 1922, pp. 178-80. 462.00R294/105, USDS, reprinted in FRUS 1922 II, pp. 232-33.

80 Boyden to Sec. of State, 22 Oct 1922, 462.00R29/2124, USDS. As the conflict over reparations dragged on, the mark steadily fell from 1409 to the dollar on 23 September to 3568 on 30 October after the fall of Lloyd George. Feldman, The Great Disorder, p. 505.
Hughes's initiative reinforced German passivity. When Wiedfeldt questioned Hughes as to the status of the expert committee plan, he was told that while the United States was doing its best, Hughes feared that there was only "slight hope of success." Nevertheless, Hughes warned Germany to do and say nothing regarding the initiative. Any German involvement would make it even more difficult to convince Poincaré to accept the plan. 81 Unable to do much else, Wiedfeldt busied himself meeting with nervous New York bankers cautiously urging them not to shorten German credit at this crucial juncture. 82 While it would have been impolitic for Germany to propose any new initiative in the face of Hughes's caution to wait on events, that restraint did not apply to Houghton who was more than willing to plead Germany's case.

Houghton’s consistent argument that French security concerns were intermingled with reparation demands was reinforced by talks with Stinnes, who told Houghton that he believed Poincaré would accept the capacity to pay formula if it was accompanied by a security arrangement endorsed by the United States. 83 Since any involvement by the United States in security guarantees was politically impossible, Houghton came up with another arrangement linked with debt cancellation. In an impassioned plea to Hughes, he proposed a

81 Memorandum by the Secretary of State of a Conversation with the German Ambassador, 23 October 1922, FRUS 1922 II, pp. 170-71.

82 Wiedfeldt to A.A., 30 Oct 1922, Botschaft Washington, Po2a (960), PA-AA. In his report on the meetings, Wiedfeldt noted the banker’s fears over the intentions of the Entente and possible internal disturbances within Germany and chided the Foreign Office for allowing rumors of the unreliability of the Reichswehr to be spread abroad. Ever the businessman, Wiedfeldt warned that every anti-business law passed by the government makes the U.S. bankers more wary of loans.

83 Castle Diary, entry of 21 Nov 1922, Castle Diary, Houghton Library, Harvard University, Cambridge MA.
fifty-year renunciation of war by Germany, France, Britain and Italy. Their constitutions would be modified to require a plebiscite before any nation could go to war, and all would agree to a disarmament program. In exchange, America would cancel the war debts.

Houghton argued that America would only be able to collect a fraction of the debt, that the American people would respond positively to such a plan, and that the alternative was that the "Bolshevik tide" already "beating against the barriers of European civilization" would "sweep relentlessly to the Atlantic." Urging the administration to bypass Congress and take the case directly to the American people, Houghton asked for permission to float a trial balloon by raising the idea personally and unofficially in a Thanksgiving Day speech. His plan, although impractical, offered a *cordon sanitaire* against Bolshevism, the economic recovery of Europe, and world peace in a single package.  

Castle, in Germany at the time and deeply concerned by the conditions he found, endorsed Houghton's idea for less idealistic reasons. He believed the plan could have political appeal in America. Noting the propensity of the American public to respond to moral issues, Castle observed that action by the administration would keep the Democrats from gaining "tremendous initial advantage" by sponsoring the issue. He further argued that a speech by Houghton could begin the education of the American public, which would in turn ease the administration's path with Congress. In addition, Castle was interested the possibility of an economic conference in Washington, an idea that offered the advantage of turning the tables on the Europeans by having Washington set the agenda.

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84 Houghton to Sec. of State, *FRUS* 1922 II, pp. 171-75. Wiedfeldt was also instructed to emphasize the threat of Bolshevism to prompt U.S. activity. Haniel to Wiedfeldt, 21 Oct 1922, Buro Reichsminister, R28488, p. 51 (D618611), PA-AA.

85 Castle to Sec. of State, *FRUS* 1922 II, pp. 176-77.
Hughes also faced domestic pressure from agricultural interest groups, increasingly supported by Senator Borah, who were asking for an economic conference. However, while maintaining that reparations had to be settled outside the political arena, Hughes was extremely sensitive to American domestic political concerns. The Republican Party had suffered major losses in the November 1922 elections but still had control of both houses of Congress. The administration, still in the early stages of developing its Open Door trade policy, did not want to clash with a new Congress over the political and economic issues that any conference on the reconstruction of Europe would inevitably include. After consulting with Harding, Hughes informed Houghton that he was to limit his remarks to American interests in promoting disarmament and that any remission of war debts was "unlikely in the near future." America would continue to restrict its efforts to attempts at persuading France to agree to the capacity-to-pay formula, but Harding's decision meant that there would be no common ground for Franco-American negotiations.

Experts Meeting on Currency Reform and the German Proposal

While Germany waited to see the results of the American initiative, in early November it set up its own informal experts committee by convening a meeting of international economic experts in Berlin, which Wirth hoped would support his position that Germany required both a reduced reparations bill and an international loan. Left to follow their theoretical

87 Sec. of State to Houghton, 14 Nov. 1922, FRUS, 1922, II, pp. 181-82.
inclinations, the economists produced two reports, neither of which satisfied Wirth. The majority, including Keynes and American economist Jeremiah Jenks, held that permanent stabilization was impossible because of both Germany's financial policy and the requirements of the Treaty of Versailles. However, the majority report also stated that Germany, with its large gold reserve, could undertake a temporary stabilization without external help, and called for a two-year moratorium on reparations as well as a concentrated German effort to balance the budget. The minority report, written by the Dutch banker Vissering and Dubois, the French representative on the Reparations Commission, was even more unsatisfactory to Wirth; it called for an external loan but made no mention of reducing reparations.  

The reports arrived when Wirth was attempting to follow Houghton's advice to move the government to the right and create a Great Coalition including both the DVP and SPD, in hopes that SPD cooperation would allow Germany to cut its budget and increase labor productivity. Wirth had used the experts committee as an excuse to deflect both the Socialists' demands for rapid stabilization at the expense of the industrialists and the Reparation Committee's request for concrete German proposals. But after the experts committee released its reports in early November, Wirth was finally forced to submit a proposal. Combining features of both reports, he attempted to design a program that would

89 The majority report noted that at the then current exchange rate of 3500 marks to the dollar the Reichsbank's gold amounted to twice the value of the note issue. For discussions of the committee and its reports, see Bergmann, History of Reparations, pp. 151-54, and Feldman, The Great Disorder, pp. 475 -478.


91 Besprechung mit den Parteiführern, 7 Nov 1922, Kabinette Wirth II p. 1154-57.
both placate the Reparation Commission and form the basis for a Great Coalition
government. Reluctantly accepting the principle that temporary stabilization was possible
without a final reparation settlement, Wirth proposed a moratorium of three years, although
deliveries in kind would continue, and a stabilization of the mark through an international
loan of five hundred million gold marks that Wirth was now willing to have guaranteed by
Reichsbank gold. This loan would become the primary obligation of the Reich. He also
promised that Germany would balance its budget and increase productivity. In addition,
Wirth proposed to raise an internal gold loan, half of which would be used to pay off the
international loan and the other half to pay reparations. However, he also included a request
for the Reparation Commission to encourage a permanent solution by expediting a definite
determination of the German debt and calling for a conference of international financiers to
arrange the necessary loans that would place the entire debt on a commercial basis. This
request was made to gain the support of industrialists such as Stinnes, who wanted Germany
to be given a final reparation amount at a time of economic disarray, in order to keep the
figure as low as possible. 92

Wirth's proposal, an advance over his policy of fulfillment, was nevertheless a rejection
of France's demand for productive guarantees and a gamble that, having taken Hughes’s
suggestion of a committee of experts to devise a plan, he could gain American support and
British willingness to accept the proposal as a basis of negotiation. Wirth also hoped that
Britain and United States together could restrain France, as they had during the crisis in
August. The British foreign office, however, saw the plan as "vague schemes for the

92 Wirth to President of Reparations Commission, 9 Nov 1922, Bd. 64, Nachlass Wirth
(N/1342), BA- Koblenz; Laubach, Politik der Kabinette Wirth, p. 306; Feldman, The Great
Disorder, p. 488.
stabilization of the mark" that gave "no guarantee of the eventual payment of reparations."93 Even Houghton saw the request for a final determination as an attempt by the industrialists "to use the present critical situation in Germany to hold down the reparations to the lowest possible amount."94 In response to Wirth’s proposal, the Reparation Commission simply took no action.

The Fall of the Wirth Government

The reparation proposal was the final act of Wirth's government. On 14 November the SPD, which had reunited with the left wing Independent Socialists in September 1922, refused to join any Great Coalition that contained the DVP.95 With his policy of fulfillment in ruins and worn out by his efforts, Wirth resigned. His decision to ask for an external loan had been dictated by domestic political considerations. Germany required outside help to achieve stabilization because by November 1922, divisions between the Socialists, who wanted an internal stabilization at the expense of the industrialists, and the Right, which wanted stabilization at the expense of the workers through an austerity program, had become too deep to be overcome. Consequently, the general unwillingness to accept the need to pay reparations was reinforced. The domestic price of Wirth's policy of fulfillment had been a failure to confront inflation; the stresses of that inflation had exacerbated the divisions within German society and consequently weakened its government. In part unable and in part unwilling to muster its own internal resources, Germany had made itself an object for other

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94 Houghton to Hughes, 14 Nov 1922, Houghton Papers
95 On the failure to expand the coalition, see Hörster-Philipps, Joseph Wirth, pp. 277-8.
states’ decisions. Germany was united only in its opposition to the payment of reparations.  

Wilhelm Cuno, who had been serving as president of the Hamburg-Amerika shipping line, formed the new government. The bourgeois parties, unable to agree on a candidate from within their political ranks, had settled on Cuno as compromise candidate who would be able to create a new coalition government under the guise of a government of experts.  

Well-known as an “America expert,” Cuno was familiar and well liked in U.S. business and government circles. He had become a personal friend of Houghton, and this relationship together with his business contacts in the United States were important reasons for his selection.  

Cuno was also known as a strong advocate of the businessman solution to reparations. Party leaders unrealistically hoped that this approach and his American relationships would facilitate American and British aid in obtaining a final settlement of the reparation problems.  

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96 Boyden commented to Houghton, "...any weakness which one detected in the German government was, in large measure, due to the same causes which produced the financial difficulties with which the Commission was struggling, namely: that conditions had never been such that the German people that the German people could unite on a definite policy of fulfillment with a strong government to carry it out." Boyden to Houghton, 14 Nov. 1922, Correspondence between Roland W. Boyden and Houghton, Houghton Papers.  

97 Wiedfeldt reports that Hughes was pleased with the appointment of Cuno, who he had met and of whom he had a good impression. Wiedfeldt to A.A., 28 Nov 1922, Botschaft Washington, Po2a (960), PA-AA.  

98 Cuno's major success had been an agreement he had signed with the American Ship and Commerce Company that facilitated the German line's re-entry into international shipping activities and provided close personal contact with Averell Harriman, the American line's owner. He had been asked but declined to become the first American ambassador, and in September 1922 he had been asked by Wirth to become foreign minister. Wirth believed that Cuno's contacts with American and British businessmen could strengthen Germany's position in negotiations. Lord D'Abernon, the British ambassador to London [??], described Cuno as "rather pro-English and still more pro-American." Viscount D’Abernon, An Ambassador of Peace, 3 vols. (London 1929-30) vol 2, p. 132; Hermann J. Rupieper, The Cuno Government and Reparations, 1922-1923, (The Hague: Martinus Nijhoff, 1979), pp.
Before Cuno accepted the chancellorship, which he did in hopes that America's economic and financial power could still influence the final reparations settlement, he discussed the situation with Houghton with whom he had a personal relationship. According to Houghton, Cuno believed it was possible to handle reparations as "a business question." Houghton did nothing to disabuse him of that idea, cautioning his friend only to insist on a free hand in forming his cabinet.\textsuperscript{99}

Dresel, ever suspicious of the German industrialists, had placed his faith in the workers of Germany, whom he believed would make the necessary sacrifices and rally to support the government in times of crisis. The SPD’s withdrawal from the government proved him wrong. Houghton, on the other hand, believed that Germany needed a government ready to listen to businessmen if the twin problems of inflation and reparations were to be solved. He found what he wanted in the Cuno government, viewing it as representing the largest and most important banking and industrial elements in Germany and also as committed to obtaining a reparation settlement. Houghton noted, "His government has no other reason for existing."\textsuperscript{100} However, the Cuno government’s true level of commitment remained to be seen.

Almost immediately after Cuno took office, the small hope that Morgan might persuade Poincaré to accept Hughes' solution came to an end. Before he would even meet with the French leader, Morgan demanded that Poincaré accept the plan proposed by the Loan Committee in June as well as a prolonged moratorium on reparation payments. Poincaré

\textsuperscript{18-25; Laubach, Politik die Kabinette Wirth, p. 282.}

\textsuperscript{99} Houghton Diary, entry of 18 Nov 1922.

\textsuperscript{100} Houghton Diary, entry of 18 Dec 1922.
rejected the demands and refused to see Morgan. Castle complained that Morgan failed to understand the political pressures on Poincaré and had set conditions in advance rather than trying to get French concessions in the context of the findings of experts.\textsuperscript{101}

While Morgan’s diplomatic skills might have been wanting, the substance of American diplomacy had placed Poincaré in an impossible political position. America was insisting on payment of the French debt while demanding that France reduce German reparations and accept a moratorium. Boyden, pointing out that Poincaré had staked his political career on an aggressive policy, advised Hughes that if he wanted results he would have to "make some public utterance" to rally moderate opinion in France and stiffen the resistance of the other Allies to a French policy which Boyden saw leading to disaster.

Hughes, however, argued that an appeal over the head of Poincaré would only make matters worse and concluded, with Herrick, that any further efforts on America's part before the proposed Brussels conference would only be interpreted as coercion.\textsuperscript{102} A public statement by Hughes would have given Poincaré an opportunity to respond by publicly calling for the United States to join the Allies at Brussels in a discussion of all international debts. But Hughes had to rely on Bonar Law to keep Poincaré in check, as Germany was relying on the United States. Poincaré still hoped to find a settlement at London, but on 27 November the French cabinet began making contingency plans for the occupation of the

\textsuperscript{101} Herrick to Castle, 28 Nov 1922; Castle to Herrick, 19 Dec 1922, Correspondence Box 1, Paris, Dec 1920 – Jun 1925, Castle Papers.

\textsuperscript{102} Boyden to Sec. of State, 22 Nov 1922; Sec. of State to Boyden, 24 Nov 1922, 462.00R29/2187, USDS; Herrick to Sec. of State, 24 Nov 1922; Sec. of State to Herrick, 25 Nov 1922, 462.00R29/2199, USDS.
Cuno’s Attempts at Settlement

Cuno's program was one of continuity rather than change. He endorsed Wirth's stabilization program and request for a moratorium. His publicly announced foreign-policy program called for the return of German sovereignty, equal rights in the world market, and a revision of the London Schedule of reparation payments. It was a German wish list upon which all parties could agree, but it did little to resolve Germany’s immediate difficulties. Meanwhile in the Reparation Commission, faced with Poincaré's refusal to allow an international loan without productive pledges, the British agreed not to press for consideration of German stabilization plan in exchange for French agreement not to press for a declaration of default on German coal and timber deliveries. The issue of any moratorium was now to be settled at a December meeting between the Bonar Law, Poincaré, Belgian premier George Theunis, and Benito Mussolini, who had taken over the Italian government and supported the French position.

The failure of the Morgan mission led Cuno to try to use the Stinnes-de Lubersac relationship to contact Paris informally and open negotiations through and with Ruhr industry. In part, his initiative emerged from a strain of German policy in which a settlement with France based on a common interest in industrial developments was thought possible. Some German industrialists believed that France, in need of money and industrially dependent on German coal, could be forced into cooperation. Their argument was that if

103 For French policy in late November, see Trachtenberg, Reparation in World Politics, pp. 280-81.
France wanted reparations from Germany, then France would have to allow Germany to become a strong, economically integrated nation.

In exchange for their support on reparations, these leaders envisioned Germany obtaining reduced reparations, most-favored-nation treatment for Germany, and liberation of the Rhineland and Saar from occupation and sanctions. Their argument was that if France wanted reparations from Germany, then France would have to allow Germany to become a strong integrated nation. In late 1922, however, Cuno's initiative was merely an act of hope rather than an attempt to negotiate from German strength. In any case, Poincaré had little interest in any negotiations with Germany until he could determine what might be achieved at London.104

Cuno's next move was to turn to the Reparation Commission for help in developing a plan that could be presented at London. But with Poincaré insisting on productive pledges, the Reparation Commission was pessimistic about what could be accomplished. Logan and Boyden advised against submitting any plan, since they were certain that any plan submitted by Germany would be rejected by Poincaré. The American position remained that Hughes's capacity-to-pay approach was the only solution. Bradbury, however, recommended that Germany provide some plan that Bonar Law could use as a basis for negotiation. Unable to wait for Hughes, Cuno prepared his proposal, which placed stabilization in the foreground.105

Unlike Wirth, Cuno was now willing for Germany to attempt stabilization out of its own


resources and to accept a provisional arrangement without a final settlement; reparations would be paid predominantly from a foreign loan yet to be raised. In exchange, Germany would ask for a minimum two-year moratorium. The plan, however, allocated very little immediate cash to France and industry had declined to guarantee the loan since the plan did not include a final settlement. Taken as a whole, it asked the Allies to fund German reparation payments, because Germany was bankrupt, and to grant Germany a moratorium so it could raise money at home for stabilization.106

At the London meeting, the question of inter-Allied debt dominated the proceedings. Britain’s desire to attend a conference at Brussels at which it would be the only creditor was no greater than U.S. desire had been to attend the Genoa conference. Poincaré, still hoping for a conference on inter-Allied debts and reparations, was willing to reduce Germany's theoretical burden only by transferring to Britain an amount in C Bonds equivalent to France's indebtedness to Britain. Bonar Law, who wanted to use German and French debts to Britain as leverage in debt negotiations with the United States, was willing to retreat only slightly from the Balfour note position, although Britain was willing to accept the risk of paying somewhat more to the United States than it received from France and Germany. Neither Britain nor France considered the German offer satisfactory, but while Bonar Law adopted the attitude that the Allies should take what they could get from Germany, Poincaré demanded the occupation of portions of the Ruhr. With neither eager for an open break, Poincaré and Law agreed to meet in Paris in early January.

106 For details of the proposal see Bergmann, History of Reparations, pp. 158-59.
Towards the Ruhr Occupation

By mid-December, Hughes was aware that an occupation of the Ruhr was likely, having been warned by Herrick that although Poincaré was reluctant to go into the Ruhr, France would do so if an agreement could not be reached with Britain.\textsuperscript{107} Within days after the conference Hughes met separately with Wiedfeldt and Jusserand. Wiedfeldt told Hughes that Germany was convinced of France’s determination to occupy the Ruhr, expressing the fatalistic attitude of many Germans that the seizure of the Ruhr was France's "last card" and saying the Germans almost hoped that France "would take the Ruhr and they would have this over." But Wiedfeldt also predicted that any profit France would gain from Ruhr coal would be eaten up by the administrative costs of an occupation and warned Hughes that French intentions were not to get reparations costs, but "to dominate German industry and prostrate Germany."\textsuperscript{108}

Hughes's meeting with Jusserand was also based on the assumption of a French occupation of the Ruhr. He made some effort to convince Jusserand to accept a settlement based on expert advice about Germany's capacity to pay, but his primary concern was the extent of French intentions. Hughes, thinking that a French policy of seizing productive pledges would be unwise and unlikely to be effective, warned Jusserand that the United States assumed France "did not contemplate a policy which would dismember Germany and lay her prostrate"; such a policy "would defeat an economic revival" and affect American interests. He also told Jusserand that French occupation ran the risk of creating a situation

\begin{itemize}
  \item \textsuperscript{107} Sec. of State to Herrick, 29 November 1922, Herrick to Sec. of State, 1 Dec. 1922, \textit{FRUS}, 1922, II, pp.185-86.
  \item \textsuperscript{108} Memorandum by Sec. of State of a Conversation with the German Ambassador, 12 Dec 1922, Hughes Papers.
\end{itemize}
that "would seem to make war at some time inevitable."\textsuperscript{109}

In response to these concerns, Poincaré sent assurances through Jusserand that France did not contemplate any "diminution" or "annexation" of German territory, however, Jusserand could not explain exactly what measures were contemplated to enforce guarantees, nor was he certain about the possible use of military force. Hughes replied by warning that an occupation to enforce guarantees "might not be easily given up." Despite these misgivings, Hughes would later be able to claim that he had obtained French assurances that its demands on Germany were limited and did not include diminution of German territory, and would rely on these assurances in the formulation of American policy.\textsuperscript{110}

Having met with the French and the Germans, Hughes was ready to meet with Sir Auckland Geddes, the British ambassador. Geddes told Hughes that, in Bonar Law's exact words, Britain saw "no chance of agreement" with France while Poincaré held office and that although Bonar Law was almost certain France would send forces into the Ruhr, he could not predict either the extent of those forces or the eventual measures France would adopt. Geddes, who wanted to know what Hughes was prepared to do, asked the United States send an American representative to the scheduled Allied meeting in Paris.

Hughes begged off, citing rumors that France objected to an American presence. Nor would Hughes commit to making a public statement expressing his opposition to French occupation of the Ruhr. Hughes told Geddes that he doubted very much whether "any suggestion the American government could make at this time would bring about any

\textsuperscript{109} Memorandum by the Sec. of State of a Conversation with the French Ambassador, 14 Dec 1922, Hughes Papers.

\textsuperscript{110} Memorandum by the Sec. of State of a Conversation with the French Ambassador, 26 Dec 1922, Hughes Papers.
change..." Hughes emphasized that the United States was not going to enter into any discussion of war debts.\textsuperscript{111} Angry that Bonar Law would have to face Poincaré without the possibility of a remission of French war debts owed to America, Geddes notified London that Hughes and Harding "are frightened of their own political shadows and are terrified by the new radical senators who whether they are [R]epublicans or [D]emocrats are more strongly isolationist than the men they replaced."\textsuperscript{112}

After the failure of the London meeting, Cuno made a three-pronged effort to ward off French action. He first tried to schedule meetings with France, only to again be rebuffed by Poincaré, who was not interested in negotiations with German industrialists.\textsuperscript{113} Houghton had also attempted to facilitate German-French cooperation, by using Boyden and Herrick to pass on to Seydoux his assessment that Germany was now ready to enter into serious negotiations.\textsuperscript{114} Cuno’s second effort was to begin work on yet another reparation plan that could be presented to the Allies. And finally, with Houghton's encouragement, Cuno sought to involve the United States both politically and financially in efforts to resolve the reparation crisis.

Almost certainly with Houghton's prompting, Cuno tried to address French security concerns and gain American support by demonstrations of Germany’s commitment to European cooperation. Cuno offered on an unconditional basis to sign a thirty-year non-

\textsuperscript{111} Memorandum of a Conversation with the British Ambassador, 18 Dec 1922, Hughes Papers.


\textsuperscript{113} Dr. Wilhelm Mayer (German Ambassador to France) to Auswärtige Amt, 16 December 1922, \textit{Auswärtige Politik}, pp. 575-76.

\textsuperscript{114} Houghton to Hughes, 20 December, 1922, Houghton Papers.
aggression with Britain, France, Germany and Italy; each power would then promise the
United States not to go to war without putting the matter to a popular vote. The United
States, in some undefined manner, was to serve as "trustee" for this arrangement. However,
when queried by Hughes as the extent of the peace proposal, Wiedfeldt acknowledged that
the pact would not refer to a war with a non-participatory power. Cuno's proposal would
ultimately serve as the basis of the Locarno Pact of 1925, but in 1922 Germany was no more
willing than it would be in the Locarno pact to forswear war with Poland.\footnote{Wiedfeldt was also planning to approach Morgan to obtain his opinion on what amount Germany should suggest for the final settlement of the reparation bill in their proposal for the Paris meeting of the Allies. Germany could then state that an American loan would be predicated on that figure. Hughes accurately predicted that Morgan would not give an opinion and told Wiedfeldt that the issue was not what Morgan thought but what France would accept. Memorandum of an Interview with the German Ambassador, 15 Dec 1922, Hughes Papers.}

France was interested in the proposal only to the extent that the United States was
prepared to guarantee the pact. When Hughes explained that the United State would not be
bound to any action but would simply "be entitled to complain" if Germany broke "such a
solemn agreement," Jusserand replied that France did not trust German promises. Despite
Hughes's request that France reconsider, Poincaré rejected the approach as well. In 1925,
France would have to accept the end of the Allied occupation of the Cologne zone in
exchange for the Locarno Pact (which did have stronger guarantees than Cuno's proposal),
but in December 1922, France was in a stronger position. Before Poincaré made peace, he
wanted to be paid.\footnote{Memorandum by the Sec. of State of a Conversation with the French Ambassador, 18, 21, 26 Dec 1922, Hughes Papers.}

Pursuant to Cuno’s effort to produce a new reparation plan and involve the U.S.,
Wiedfeldt traveled to New York on 16 December to meet with J.P Morgan. Hughes gladly arranged the meeting, despite his previous disagreements with Morgan, knowing that Morgan’s support would eventually be needed for a European settlement. Wiedfeldt hoped Morgan might be willing to offer his opinion on the amount Germany might offer in a new settlement proposal and also discuss the possibility of an American loan to finance it. Hughes was doubtful that Morgan would be willing to offer any firm opinions after his experience the previous summer with reparation politics, and perhaps because of this, he approved the meeting.

As predicted, Morgan gave Wiedfeldt no positive answers, citing that the questions were basically political rather than financial, but he did express interest in seeing the reparations issue settled and willingness to participate in an international loan as soon as the reparations sum was definitively set. The setting of the sum, in Morgan’s view, was firmly in the hands of the politicians. Only after the political questions had been settled could the financiers discuss the question of a loan. Wiedfeldt warned that Germany was on the verge of collapse and that the situation could not wait until France decided on a more reasonable course. While Morgan agreed that the mark could not be stabilized until the reparations question was settled, he was, in Wiedfeldt’s view, remarkably unconcerned over the effect a French move into the Ruhr might have on Germany. Morgan was sure that even if the French were to move into the Ruhr, they would quickly be forced out by world opinion. When Wiedfeldt protested that Germany would starve, Morgan replied, “such things do not happen in the 20th century.”

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117 Wiedfeldt to A.A., 18 Dec 1922, Abt.III, Po. 2, R80134, K321060. Sally Marks might be correct in her assertion that the C Bonds of the 1921 London Schedule of Payments only represented political cover for the politicians in regard to the total sum owed by Germany but
A report prepared by Castle upon his return from Germany offers revealing insight into how official Washington circles viewed Germany in December 1922. Castle noted that economic conditions were horrid and that the population had little hope, adding that labor did not want reparations paid on the backs of working people and that among the moderate parties there was no will at all to undertake reparations since "payment in full is obviously impossible." Castle realized that these dynamics undermined the original notion that the payment must be made, concluding that "][t]he Allies, therefore, have to deal with a nation which plans to pay just as little as possible, a nation which might have buckled down to the task had the reparation figures been furnished promptly and the sum had been reasonable." Castle's assessment, while expressing the prevailing American belief that the European politicians had simply made a mess of the reparations issue, offered very little in the way of solutions. He believed that Germany had to stabilize before reparations could be paid but that stabilization was "naturally impossible" without a moratorium, which France was refusing to provide, and he knew quite well that the option of linking war-debt relief to some type of peace arrangement had already been rejected by Hughes. Castle wondered if the United States might find some way to guarantee French security. But any meaningful security arrangement was precisely what the United States had rejected when it chose the Treaty of Berlin over the Treaty of Versailles.\footnote{Report to the Secretary on European Situation by Castle, enclosed in Castle to 204}

left open and further politicize the question of how much Germany would be expected to pay. As Morgan makes clear, American bankers were unwilling to participate in any international loan until the political question of the sum was settled. The bankers did seem to take those open-ended C Bonds seriously, however. Sally Marks, “Reparations Reconsidered: A Reminder,” \textit{Central European History} 2 (1969), pp. 356-65.
By late December, when it had become obvious that France was very likely to enter the Ruhr, Hughes was prepared to see a limited French presence if it would secure Poincaré’s productive guarantees. On the other hand, if Wiedfeldt proved correct and Poincaré would gain little net profit for his efforts in the Ruhr, then Hughes could wait until the Poincaré government fell and a more moderate French government accepted his plan. However, Hughes was under pressure from Germany and Britain as well as members of his own diplomatic corps to make some effort to facilitate a settlement.

What finally forced Hughes’s hand, however, was domestic political pressure. Senator Borah, urged by agricultural groups to help increase exports and personally quite opposed to French intervention in the Ruhr, had introduced a Senate resolution calling for an international conference on trade, war debts, reparations and disarmament. His primary motivation for the resolution, however, was political. Borah was seeking to rally reform Republican senators under his leadership. Challenged by Borah and faced with an almost inevitable French occupation in the Ruhr, the Harding administration was finally forced to respond.  

The administration needed to inoculate itself against charges of American inaction by domestic and foreign critics. Hughes’s famous New Haven speech to the American Historical Association, delivered on 29 December, is best understood in this context. In that speech Hughes at last publicly revealed his proposal for an international committee of financial experts to determine Germany's capacity to pay, defining the crux of Europe's problems as the settlement of reparations and arguing that although France deserved

Houghton, 30 Dec 1922, Houghton Papers.

reparations, Germany could not be prostrated since European prosperity depended on German recovery. Hughes then exempted the United States from any blame in creating the problem, pointing out that the United States did not ask for general reparations but only for its occupation costs but did not mention American war claims.

Hughes further noted that American troops were in the Rhineland at the Europeans’ request and that "[o]thers have been paid and we have not been paid." He maintained that the United States was not responsible for a solution. The United States could not act as an arbiter unless invited, he stated, nor should it seek "such a burden of responsibility" that would draw "to ourselves all the ill feeling which would result from disappointed hopes and a settlement which was viewed as forced upon nations by this country which is at the same time is demanding the payment of its debts." Hughes insisted that the European themselves must find a solution: "The key of the settlement is in their hands not ours."

Turning to the issue of American war-debts policy, Hughes reminded his audience that France's capacity to pay the United States could not be determined until how much France would receive from Germany had been settled and noted, in an effort to disarm domestic critics, added both that the Harding administration was following the same policy as the Wilson administration and that it was Congress which had removed the administration’s flexibility on the issue. In response to Borah, Hughes dismissed the idea of any general economic conference issue since a "political" conference could not be expected to achieve results and argued that his proposal for a commission of finance experts was the only practical one. Such a commission would be "friendly" and "not be bound by special obligations" and "distinguished Americans" would be willing to serve.120

120 Extract of Hughes's Speech on 29 December before the American Historical Society
Hughes’s speech did not influence French intentions, nor was that Hughes’s primary purpose. But, in addition to mounting a political defense of the administration, it signaled the American public that France would occupy the Ruhr and outlined future American policy. If the reparations problem was not of American making and only the European could solve it, then America would simply have to wait until the Europeans, particularly the French, were ready for a settlement. The speech also paved the way for the administration to demand more flexibility from Congress about war debts. Hughes was now prepared to ride out any storm of domestic criticism and wait on events.

Thus, in the last days of December, Cuno could no longer count on either Hughes or Bonar Law to restrain France. The only remaining question was whether Germany could come up with a serious reparation proposal that might tempt Poincaré into negotiations. Cuno was forced to turn to the bankers and industrialists for help, but the impending crisis did little to alter the industrialists’ differences of opinion, which were based on self-interest and varying interpretations of political necessity. The proposal that emerged was a hurried attempt to satisfy different interest groups, particularly the Ruhr industrialists. Its final offer avoided fixing the German debt but did call for a massive international loan of 20 billion gold marks, evacuation of the right-bank towns occupied in 1921, and an early evacuation of the Rhineland. As an impetus for the economic integration of Germany, free from Allied interference, it was more a statement of attitude than a serious proposal. Few believed that any German offer would be considered by the Allies, who were meeting at Paris in an
attempt to resolve the impending crisis.\textsuperscript{121}

The German proposal was never presented at Paris. Bergmann considered it "insolence" and Castle called it "the kind of thing that the French will seize upon as proof that Germany is trying to get out in the easiest possible way."\textsuperscript{122} But ultimately its absence made no difference. Hoping to obtain significant future reparations, Bonar Law presented his own plan that offered Germany a four-year moratorium, reduced the real value of the total debt to 37 billion gold marks, and required unanimous Allied agreement to impose sanctions instead of Poincaré’s desires, which were a high reparation bill and French control of German assets that would produce immediate payments. The Paris meeting quickly degenerated into a fight over the allocation of inter-Allied debts and reparations. France rejected Bonar Law's plan and forced a declaration of default with the support of Belgian and Italian Reparations Committee members. On 11 January Belgian and French troops entered the Ruhr, Germany implemented a policy of passive resistance, and the test of strength between Germany and France began.\textsuperscript{123}

Conclusion

The United States recognized that a resolution of the question of German reparations was essential to the reconstruction of Europe. However, American policy about reparations


\textsuperscript{122} Bergmann, \textit{The History of Reparations}, p. 169; Castle to Houghton, 30 Dec 1922, Houghton Papers.

\textsuperscript{123} Foreign Office, Great Britain, \textit{Inter-Allied Conferences on Reparations and Inter-Allied Debts, held in London and Paris, December, 1922 and January 1923}, Cmd. 1812 (London, 1923).
contained self-contradictory elements. The United States wanted a settlement that would reduce German reparations sufficiently to allow Germany to stabilize its economy. Republican policy makers hoped that a peaceful, prosperous Germany would provide both security for France and a market for American goods and investments. At the same time, the United States believed that Germany had a moral responsibility to pay reparations and sought a level of payment large enough to allow France to meet its debt payments to the United States and to place some limits on Germany's economic and military potential.

Policy makers seized upon the idea of Germany's "capacity to pay," as determined by experts, as a stratagem that could meet the United States' diverse goals. This allowed the United States to pursue a settlement without official involvement, circumvent linkage between war debts and reparations, and avoid debate over political and strategic considerations. It also deferred the contentious questions of exactly what sum Germany could pay and what means could induce or force Germany to pay. Policy debate centered primarily on how vigorously and publicly the United States should pressure France to accept this solution and whether war-debt reduction should be used as an inducement.

The administration's first attempt to implement its solution, through J.P. Morgan and the Loan Committee in June 1922, failed when Poincaré refused to accept the committee's findings that the London Schedule of Reparations would have to be reduced and that a moratorium on Germany payments would have to precede a stabilization loan to Germany.

However, France would not accept a reduction in reparations when it was being asked to pay its war debts and the uproar following the Balfour note in August 1922 severely limited American flexibility on war debts. Despite demands by international bankers and agricultural interests to stimulate international trade by a reduction of Allied war debts,
prevailing American domestic opinion remained opposed to sacrificing the nation’s financial interests for the benefit of international trade. Domestic economic priorities rather than desire for expansion of exports drove American policy. The Harding administration was not willing to pay the domestic political costs necessary to accommodate Poincaré's demand for linkage between war debts and reparations. After August, Hughes became committed to a solution based on Germany's capacity to pay, determined by an expert committee without reference to Allied war debts. Convinced that France's financial position would eventually force it to accept American terms, Hughes was willing first to accept and then to wait out the French occupation of the Ruhr.

Germany's foreign policy in 1922 centered on its conflict with France over reparations. It was a struggle over both national capabilities and relations of power. The highly technical questions of whether or not capital transfers of the magnitude demanded by the London Schedule were beyond Germany's capacity to pay, and what effect those transfers would have upon the international economic system of the 1920s, may remain unanswerable even with modern economic analysis. Reparations was a political question whose feasibility could only have been established empirically and politically through the efforts of Weimar policy. Feasibility was therefore more a function of the national will than national resources.

In part, the lack of German political will about reparations reflected Germany's unwillingness to accept its defeat and the verdict of Versailles. But even if Germany's economic ability to pay reparations is theoretically assumed, its political capacity to pay was not simply limited by German strategic ambitions. Facing very difficult domestic and political dilemmas arising from the internal distribution of the war’s costs, German parties of the left refused to accept an austerity program and the representatives of heavy industry
refused to support either a coherent or reasonable reparations offer or a stabilization program adverse to their interests. Stabilization and reparations policy was subordinated to the need to maintain social peace and revive industrial production.

The Wirth government sought to buy time for a gradual stabilization which would be socially, economically and politically tolerable to the German people and that would allow Germany to enter a reconstituted world economic order with reduced reparations and a currency stabilized at an advantageously low level. Its policy of fulfillment was a gamble which accepted the risk of domestic political conflict and economic instability in order to prove that reparations were unfeasible. By August 1922 it had clearly failed as hyperinflation took hold, but the growing domestic and foreign crisis only paralyzed the Wirth government, which clung to its unsuccessful policies. The subsequent Cuno government, heavily influenced by industrial interests, also refused to accept the economic consequences of a gradual revision of Versailles and, with a sense of confronting the inevitable, was willing to accept a showdown with France.

The policies of both the United States and Britain contributed to Germany's lack of political will to pay reparations. Although the two nations' perspectives differed on how European reconstruction and debt settlement should be achieved, both viewed the London Schedule as an impediment to European reconstruction. To pay reparations, Germany would have had to establish a deflationary fiscal policy, generating budget surpluses, and accept a decline in national income reducing the import of foreign goods and creating an export surplus. Such an economy would have served the perceived interests of neither the United States nor Britain.

The view that the London Schedule was both impractical and an impediment to a
European recovery was also shared by British and American international bankers, who by late 1921 had became the arbiters of Germany's capacity to pay. The Bank of England's refusal to lend money for reparations in November 1921 and the report of J.P. Morgan’s Loan Committee in June 1922 strongly critiqued what the bankers considered excessive demands made upon Germany, thereby strengthening Wirth and Rathenau's hopes for the ultimate success of their fulfillment policy and serving as a disincentive for stabilization. In the Reparation Commission, unofficial American representatives worked to protect Germany from demands they considered beyond Germany's means; their success in preventing a declaration of default in August 1922 allowed Germany to postpone reform. Hughes's subsequent efforts to convince Poincaré to accept an experts committee could only have reinforced Germany's belief that France would eventually be forced to give way.

At the same time, American war-debt policy hindered any reparation settlement. The establishment of the World War Foreign Debt Commission in February 1922 increased French resistance to Morgan's Loan Committee in June. Poincaré would not accept a reduction of German reparations while France was being pressured to pay its war debts. Lloyd George's Balfour note and the United States’ subsequent refusal to link war debts and reparation reduction induced France to consider an occupation of the Ruhr as a means of forcing Germany to pay reparations.
Chapter V

Passive Neutrality:

The Ruhr Crisis and the American Response

January - August 1923

The Occupation of the Ruhr and American Troop withdrawal from Koblenz

On 11 January 1923 three columns of French and Belgian infantry, supported by cavalry and heavy weapons, swept into the Ruhr, ostensibly to provide security for the 72 French, Belgian and Italian engineers of the *Mission interalliée de contrôle des usines et des mines* (MICUM) sent in to extract reparations directly from Germany’s industrial heartland.¹ The

¹ France moved into the Ruhr with two infantry divisions and a reinforced cavalry division numbering well over 20,000 men. Belgium provided two infantry battalions, three batteries and a cavalry regiment. By 16 January, there were 47,000 French and Belgium troops in the Ruhr, the British noting that 176 trainloads of French troops passed through the British occupation zone in the first week. Italy provided token participation by contributing two engineers to the MICUM mission. The Americans were shocked by the extent of French military action. Warren Robbins in Berlin wrote to Castle “What really does annoy me about this whole fiasco is that the French still have the gall to say that they have sent engineers to inspect the working of the mines and the necessary troops for their safeguard,” estimating that by late January France had 65,000 troops in the Rhineland and the Ruhr. Robbins to Castle, 30 Jan 1923, file 51, Castle Papers. For troops strengths see Stanislas Jeannesson, “Pourquoi la France a-t-Elle Occupé la Ruhr,” *Vingtieme Siecle* 51 (1996), p. 56; Conan Fischer, *The Ruhr Crisis: 1923-1924* (New York: Oxford University Press, 2003), pp. 41-42; Ludwig Zimmermann, *Frankreichs Ruhrpolitik* (Göttingen: Musterschmidt, 1971), pp. 92, 96; James E. Edmonds, *The Occupation of the Rhineland, 1918-1929*, facsimile edition (London, Imperial War Museum, 1987), p. 249.
occupation was both the result of the total failure of the diplomacy of 1922 and a return to
the sanctions of 1921, applied unilaterally by France with Belgian cooperation, but on a far
larger scale.

The government of each major power was required to alter its international policies in
light of the crisis. Seeking to avoid blame for the collapse of diplomacy, all were under
pressure to respond to their respective domestic pressures and public opinion. Secretary of
State Hughes immediately disengaged the United States as much as possible to avoid any
entanglement in the conflict. In conformity with a Senate resolution that had already been
passed in anticipation of the French-Belgian action, on 6 January, American troops in the
Koblenz occupation zone were withdrawn to preclude any incidents with French troops
moving through it. As William R. Castle noted, the troops had been a restraining force, but
"now the French are beyond restraint."² Washington deliberately did not provide an official
explanation for the withdrawal, so officially France and Germany could both interpret the
action in support of their policies.

Although Hughes’s New Haven speech of 29 December, calling for a committee of
experts to take up the issue of reparations, had come far too late to prevent the occupation of
the Ruhr, it did reinforce Germany’s belief that American intervention was all that could
break the deadlock with France and supply the impetus for revision of the reparations
schedule. With what he thought was the moral and financial authority of the United States
behind the call for an international conference, Cuno felt he could afford to take a moral
stand against Poincaré. On 10 January Cuno personally told Houghton that Germany would
not make any formal public appeal for support from the United States or any other county,

² Castle to Houghton, 12 Jan 1923, Houghton Papers.
dramatically declaring his intention to “let history take its course.”

Germany did, however, intend to protest the invasion as a violation of the international law and the Treaty of Versailles, which it paradoxically reviled as a “Diktat” and which the United States never ratified. The German government also announced that during the duration of the Ruhr occupation, Germany would not, because it could not, make reparation deliveries or even discuss them. Nonetheless, Cuno was anxious that the United States retain its troops in the Rhineland, believing that their presence would make the treatment of Germans less severe and possibly avert more serious trouble, a belief supported by Houghton. However, when the withdrawal of American troops was announced, Rosenberg and Cuno made the best of the situation, interpreting the move as a response to the French and declaring that “the withdrawal of American troops from Koblenz can only be seen as nothing else but a protest action.”

In an effort to block France, Germany immediately asked Britain to move troops down from Cologne into the Koblenz zone. Needing to maintain the appearance of neutrality because its occupation of the Rhineland’s Cologne zone placed it in the center of any

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3 Houghton to Secretary of State, 10 Jan 1923, FRUS 1923 II, p. 48; Erklärung des Reichskanzlers Dr. Cuno vor americanischen Pressevertretern, 8 Jan 1923, Ursachen und Folgen bd. V, Nr. 995, pp. 12-13.

4 Statement for the Press Handed by the German Ambassador (Wiedfeldt) to the Under Secretary of State (Phillips), 11 Jan 1923, FRUS 1923 II, p. 50-51.

5 Houghton to Secretary of State, 10 Jan 1923, FRUS 1923 II, p. 48; Castle to Houghton, 12 Jan 1923, file 51, Castle Papers.


Poincaré, recognizing the importance of international opinion, awkwardly attempted to mitigate the view that the French incursion was meant as a dismissive rebuff to Hughes’s call for a committee of experts that the American withdrawal of troops was then meant to protest. On the eve of the occupation Poincaré had categorically denied, in public, that he had received any version of the New Haven proposal prior to Hughes’s actual speech. “This is, of course a straight lie,” according to Castle.\footnote{Castle Diary, entry of 9 Jan 1923, vol. 4, Houghton Library, Harvard University.}

Furious, on 5 January Hughes informed the French Ambassador, Jules Jusserand, that he would not tolerate being “put in a position before the American people of contenting himself with making a speech at New Haven and supposing that this was a way to address the French Government. He had previously taken this matter up directly with the French Ambassador and if publicly questioned, he would make this clear.”\footnote{Memorandum by Secretary of State of a Conversation with the French Ambassador (Jusserand), 5 Jan 1923, FRUS 1923 II, p. 46. For Hughes notification to the French see Memorandum by the Secretary of State of a Conversation with the French Ambassador (Jusserand), 7 Nov 1922 and 21 Dec 1922, FRUS 1922 II, pp. 178-79, 195-96; Phillips to Herrick, 29 Dec 1922, FRUS 1922 II, pp. 199-202; Hughes to Herrick, 6 Jan 1923, FRUS 1922 II, p. 203.}

The extent of the French military move into the Ruhr had caught the United States by surprise, although some sanctions in regard to the Ruhr were expected. Hughes opposed the military occupation, fearing it would do far more harm than good. He especially was opposed to any thought of French annexation of German territory “creating another Alsace-Lorraine.”
Since late December 1922, Jusserand had repeatedly met Hughes’s queries about Poincaré’s intentions with assurances that “nothing was contemplated except to take certain guarantees.” When he asked directly if France intended military occupation of the Ruhr, Jusserand thought not.\footnote{Memorandum of Interview with the French Ambassador, 26 Dec 1922, Hughes Papers.} On 8 January, three days before French troops moved in, Hughes had again quizzed Jusserand, who “intimated that all the plans would be made for the occupation of the Ruhr in order to impress Germany and in the hope that some better offer would be made by Germany.”\footnote{Memorandum by the Secretary of State of a Conversation with the French Ambassador (Jusserand), 8 Jan 1923, FRUS 1923 II, p. 47.}

The French military occupation of the Ruhr so soon after Hughes had issued his New Haven proposal and the French attempt to keep him in the dark as to their intentions embarrassed and angered Hughes. Writing to Senator Henry Cabot Lodge, chairman of the Foreign Relations Committee, Hughes admitted that “of course there were rumors and many entertained views as to what France would do. But France herself did not disclose her plans until her final demand on Germany immediately before the entry of her troops into the Ruhr.”\footnote{Hughes to Lodge, 1 Feb 1923, reel 28, cont. 41, Hughes papers.} To British Ambassador Sir Auckland Geddes, Hughes clearly stated that “the French had deliberately misled him” about the Ruhr.\footnote{Hughes to Lodge, 1 Feb 1923, reel 28, cont. 41, Hughes papers.}

Hughes had also warned Jusserand on 8 January that the United States would immediately withdraw its troops if the French occupied the Ruhr, to which Jusserand responded by requesting that the United States take no immediate action for fear that it would give the “wrong impression abroad.” Obviously France was more than willing to take
over the American position in Koblenz, albeit the loss of visible American support in the Rhine was a blow. Poincaré’s public denial that he had been warned by the United States of American intentions, made immediately after the announcement of American troop withdrawal, added insult to injury. Castle wrote Houghton that Poincaré’s statement were attempts to reduce the “odium” surrounding the French action.

In fact, America’s troop withdrawal was widely recognized as a sharp rebuke of France, particularly after Boyden condemned the French action in the Reparation Commission and General Allen, commander of American forces in the Rhineland, protested the withdrawal and called for the reopening of negotiations. Hughes, however, did what he could to perpetuate the appearance of strict American neutrality. After French complaints, he firmly instructed General Allen to refrain from comments and restrict his activities withdrawing the troops. He also curtailed the activities of Boyden and Logan within the Reparation Commission.

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13 Quoted in DBFP XXI, no. 89, fn. 1, p. 94.

14 Memorandum by the Secretary of State of a Conversation with the French Ambassador (Jusserand), 8 Jan 1923, FRUS 1923 II, p. 47.

15 Castle to Houghton, 12 Jan 1923, file 51, Castle Papers. Hughes had discussed the issue of a committee of experts in meetings with Jusserand on 7 November and 21 December. On 5 January Hughes had confronted Jusserand on the matter of Poincaré denial, noting that regardless of form, “the French Government certainly had the suggestion before it” and asking the ambassador to confirm this with Paris. Memorandum by the Secretary of State of a Conversation with the French Ambassador (Jusserand), 7 Nov 1922 and 21 Dec 1922, FRUS 1922 II, pp. 178-79, 195-96; Memorandum by Secretary of State of a Conversation with the French Ambassador (Jusserand), 5 Jan 1923, FRUS 1923 II, p. 46; see also Rupieper, Cuno Government, p. 92.

16 New York Times, 27 Jan 1923, p. 3; Allen to Sec. of State, 13 Jan 1923, FRUS 1923 II, p. 51.

17 Sec. of State to Allen, 15 Jan 1923, FRUS 1923 II, p. 53; Herrick to Allen, 16 Jan, 1923, copy in Houghton Papers; Boyden's letters to his mother, A.L. Boyden, 26 Jan and 4
Despite a reparations policy that was clearly provoking confrontation with France, Germany had done little in actual preparation for French intrusion into the Ruhr. Cuno continued to hope that some last-minute arrangement could be made; it was not until 9 January that his cabinet began to outline plans for passive resistance designed to foil economic exploitation of the region. The first step, taken in conjunction with Ruhr industrialists, was to remove the expertise and organization needed to run much of the region’s industry by evacuating coal-syndicate headquarters from Essen to Hamburg.\(^\text{18}\) In protest, Germany stopped all reparations deliveries of coal to France and Belgium and ceased cooperation with the Military Control Commission still conducting inspections within Germany.\(^\text{19}\) Not wishing to provoke the French into further action, there was a degree of moderation in the planning for passive resistance. The cabinet, for example, decided against calling a railroad strike as it would place an undue burden upon the population and would likely serve as a pretext for a French seizure of the railways.

The German government had planned to recall its ambassadors to France and Belgium in the event of an occupation, and did so although the embassies remained open and diplomatic

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\(^\text{19}\) Coal deliveries did continue to Italy, as Germany hoped for Mussolini’s intervention. See von Rosenberg to Embassy in Rome, 7 Feb 1923, \textit{ADAP}, Bd. VII, p.166; Besprechung mit den Ministerpräsidenten der Länder, 12 Jan 1923, \textit{Das Kabinett Cuno}, Nr. 43, p. 143.
relations continued under Chargés d’Affaires Leopold von Hoesch in Paris and Conrad Roediger in Brussels.\textsuperscript{20} Noting during the planning stage that evacuation of the Ruhr could only be accomplished by negotiations between governments, von Rosenberg regretted that German “national resistance can only be expressed in a modest form.”\textsuperscript{21} With little preparation the government declared passive resistance in the occupied territories of the Rhine and the Ruhr. The mechanisms of passive resistance were slow and difficult to organize. The key element necessary for effective passive resistance was providing the financial support to the Ruhr, especially subsidies for industry and the payment of unemployment insurance. This quickly led to dangerous deficits and eventually to the collapse of the policy of passive resistance.\textsuperscript{22}

From the German perspective, the conflict was tantamount to war: a Ruhrkrieg, subjectively understood as a fight for the very existence of the unified German Reich of 1871. Militarily, of course, Germany could do nothing, but the if the government was to survive and national unity to be preserved, Cuno felt that a strong show of resistance to the German people, especially in the occupied areas, was essential.\textsuperscript{23} Much of the government’s response would necessarily rely on moral protest. President Ebert declared on 14 January,

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\textsuperscript{21} Ministerrat beim Reichspräsidenten, 9 Jan 1923, \textit{Das Kabinett Cuno}, Nr. 37, p. 124.

\textsuperscript{22} Rupieper, \textit{The Cuno Government}, pp. 103-5.

\textsuperscript{23} In the Reichstag, Cuno admitted that there was “little, bitterly little” that could be done outwardly to resist but declared: “What we can and must do to resist inwardly is more: will and resolution!” Aus der Rede des Reichskanzlers Dr. Cuno, 13 Jan 1923, \textit{Ursachen und Folgen}, Bd. V, Nr. 1000, p. 29.
\end{footnote}
the first Sunday after the beginning of the occupation, a national day of mourning. The
government also imposed social controls such as increased regulation of alcohol, luxury
goods, black markets and frivolous amusements. To demonstrate solidarity with the
occupied region, the nation was to adopt a fittingly solemn attitude.24 As in 1914, the
government exhorted all parties and classes to cooperate in supporting a policy of passive
resistance.25

While Germany would meet the French/Belgian incursion with a demonstration of
national unity and moral resistance, governmental appeals to national feeling and a few
administrative steps could not change the fact that Germany was financially and materially
unable to support passive resistance for long. It needed outside assistance, if not direct
diplomatic intervention then at least foreign credits and coal deliveries to supplant the loss of
the Ruhr mines. Credit, secured by Reichsbank gold, was obtained from the Bank of
England, Swiss banks and the Dutch. Coal was delivered by Britain, which was pleased to
ease the plight of its own coal yards, and was also provided by Poland and Czechoslovakia in

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24 Ministerrat beim Reichspräsidenten, 9 Jan 1923, Das Kabinett Cuno, Nr. 37, p. 128;
Aufruf des Reichspräsident und der Reichsregierung, 11 Jan 1923, Ursachen und Folgen, pp.
21-22; Rede des Reichskanzlers vor den Ministerpräsidenten der Länder, 12 Jan 1923, Das
Kabinett Cuno, Nr. 42, pp. 139-41; Warren Robbins, U.S. embassy consul in Berlin, was
verbally abused while walking with his wife during the Berlin demonstrations on 14 January
and thought it a mistake to allow any sort of official demonstrations. He also comments on
the new restrictions, noting that “the town closes at 11 pm.” Robbins to Castle, 30 Jan 1923,
file 51, Castle Papers.

25 Feldmann points out that in contrast to 1914, there would be no united front on the
basis of a Burgfrieden because the left would not accept policy dictated by a right-wing
government. The prime objective of the trade unions was to save the gains of the
Revolution. “Insofar as there was going to be a common front, it would be against the French
progressively larger quantities, a situation particularly galling to the French.\textsuperscript{26}

The Cuno government knew that Germany could not maintain passive resistance for long, given its financial strains. Nonetheless, it hoped to hold out long enough to thwart France’s attempt to make the occupation pay, in the meantime working to exploit perceived Allied disagreements by pressing both for internationalization of the conflict and reduction of the German reparations debt as per the New Haven proposal. The courting of American intervention and the elicitation of positive U.S. reactions were therefore central to Germany’s strategy for successful resistance; these would remain the primary thrust of German policy until economic collapse rendered passive resistance infeasible.

Germany’s immediate diplomatic tactic in response to the Ruhr occupation was to seek direct American intervention based on Hughes’s New Haven proposal for a committee of experts, albeit no formal public appeal was made. The \textit{idée fixe} of German policy, “only America can help,”\textsuperscript{27} was to remain the cornerstone of German diplomatic objectives throughout the crisis; only the tactics for achieving U.S. involvement, either direct or indirect, would change. In the early months of the crisis, the Cuno government had great faith that they might achieve direct involvement, based on the warmer relations with the United States that had begun when Cuno replaced Wirth as chancellor.

Passive resistance was based on the premise of outside intervention, yet the policy itself proved to be an impediment to intervention. Cuno stated that he was eager for American mediation but also insisted that French evacuation from the Ruhr was a precondition for

\textsuperscript{26} Rupieper, \textit{The Cuno Government}, pp.109, 113-14.

negotiations. France, in turn, repeatedly opposed any American initiatives on the grounds that they could encourage German resistance. Neither French nor German policy allowed space for realistic diplomatic intervention by the United States or Britain.

On 7 January, facing the impending French move into Ruhr, Cuno made a desperate informal appeal to Hughes in which he stated that “only America can help” and asked Hughes to immediately call for an international conference. Following his meeting with Hughes, Wiedfeldt’s assessment was that the United States did have the ability to put financial pressure on France but that American public opinion and policy splits in the cabinet favored passivity. Knowing that Hughes’s expert committee was the only proposal on the table, he concluded that “I think we must do every thing to push for this American plan.”

On 20 January, Wiedfeldt again met with Hughes and informed him that sentiment in Germany was such that any government yielding to French demands would be “blown away.” Counting on a favorable attitude toward the Cuno government, he added that the

28 Houghton to Hughes, 29 Jan 1923, Houghton Papers.

29 Logan to Hughes, 19 Jan and 9, 16, 23 Feb 1923, Fletcher Papers, box 10.


31 Wiedfeldt to AA, 7 Jan 1923, ADAP Bd. VII, pp. 29-42, quote on p. 41. In this long memo, an assessment of the political situation in the United States, the ambassador saw Harding as a weak president, good-hearted and sympathetic to German plight, but unlikely to initiate or endorse any policy contrary to public opinion or his advisors. The cabinet was seen by Wiedfeldt as dominated by Mellon, who seemed to occupy himself only with the war-debts question; Hoover, who favored international loans to settle the reparation question; and Hughes, who opposed Hoover. Hughes was seen as more legalistic then political, therefore Wiedfeldt highly regarded his conference proposal. Whereas U.S. foreign policy toward Europe could be summed up with the words “cautious and without clear goals,” Hughes was quite active in South American questions. The Republicans opposed any action that could lead to European entanglement and confer upon Democrats the moral victory of seeing a Republican administration forced to do what Wilson and the Democrats had argued for in the 1919 treaty fight.
chancellor needed some success in foreign relations if it were to survive and asked Hughes if France had formally rejected the New Haven proposal. Pointing out the all-too-obvious lack of French interest, Hughes only promised Wiedfeldt that his proposal was still open if the French chose to accept it. On 27 January Cuno made a follow-up visit to Houghton during which he again urged for American intervention and, while maintaining Germany’s insistence that France must withdraw before an international conference could be convened, made a futile offer to compel French acceptance by erecting a custom barrier around the Ruhr.

The Cuno government remained fixated on the possibility of American intervention, to be achieved either unilaterally or with the British if Germany could only hold out against the French. This fixation remained through the first months of the crisis, despite America’s disinclination to active involvement and Wiedfeldt’s persistent reminders that, because American action was unlikely, Germany should look to Britain to take the diplomatic lead. News of Senator William Borah’s anti-occupation speeches in the United States Senate made a great impression in Germany, although Carl von Schubert, head of the American section of the Foreign Ministry (Abteilung III) agreed with Wiedfeldt’s warnings that little could be expected from the United States. “It would be difficult for the American government to take the decisive step in Paris,” von Schubert wrote to Wiedfeldt, “above all because it is not clear to them what exactly to do and because they are afraid that by some clumsy step, to again

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32 Memorandum of Interview with the German Ambassador, 20 Jan 1923, reel 122, cont. 157, Hughes Papers.

33 Rupieper, Cuno Government, p. 131, citing Houghton Diary, entry of 27 Jan 1923.
become mixed up in European affairs.”

Still, the German Foreign Ministry continued to eagerly search for any encouragement of its American strategy. The American ambassador to London, George Harvey, provided just that when he told the German ambassador, Friedrich Sthamer, that the American government might indeed take an active position on the German-French conflict. Sthamer reported that according to Harvey the time was not yet ripe; “France must first have her experience in the Ruhr,” which would likely be of shorter rather then longer duration, and then America would be willing to intervene. Harvey told Sthamer that “it must be the Americans as they are the only ones who could do it as the British cabinet is reluctant.” Such reports, along with Borah’s actions in the United States Senate, sustained the Cuno’s government’s hopes for impending American intervention and an eventual international conference to settle reparations, despite the skepticism of von Schubert and Wiedfeldt. These wishful expectations on the part of Cuno and Rosenberg approach outright denial of the reality of the international situation that Germany faced in January and February 1923.

The Reaction in Washington

Washington's reaction to the Ruhr occupation was heavily influenced by public opinion. Contrary to Cuno’s expectation that Americans would decisively oppose the occupation, the


35 Sthamer to AA, 1 Feb 1923, ADAP Bd. VII, pp. 140-42.


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nation was sharply divided.\textsuperscript{37} Isolationists, opposed any American involvement in Europe on principle and many Americans, including senior Republican legislators and officials, saw France as a wartime ally that deserved reparations and support. Hughes informed the British ambassador, Geddes, that those who held this view were quite influential and that this was an important body of opinion.\textsuperscript{38} The Eastern Establishment" of New York and Boston shared the sentiment that Germany "had not acted in good faith" and that "France should have a chance of finding out whether present methods may help after all."\textsuperscript{39}

By late February, a “revival of war spirit” began to move public opinion away from Germany; except in the Midwest, most Americans believed that “Germany knows no argument but force” and that the task of proving to Germany that it was defeated, left unfinished in 1918, must now be taken up again. Great sentimental feeling remained for the justness of the French cause, augmented by the idea that France’s ability to pay its war debts to the United States was bound up with its success in the Ruhr.\textsuperscript{40}

The State Department echoed these views. Houghton was confronted with such strong

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\item \textsuperscript{37} For public opinion see "Right and Wrong of the Ruhr Invasion," \textit{Literary Digest} 76 (27 Jan 1923), pp. 7-11; "American Opinion Concerning the French Seizure of the Ruhr," \textit{The Outlook} 133 (21 Jan 1923), pp. 210-12. For a survey of mixed immediate reaction of the American press to the withdrawal of American troops see Nelson, \textit{Victors Divided}, p. 249.
\item \textsuperscript{38} Memorandum by the Sec. of State of a Conversation with the British Ambassador, 25 Jan 1923, \textit{FRUS} 1923 II, pp. 52-54.
\item \textsuperscript{39} Dresel to Houghton, 12 Feb 1923, Houghton Papers.
\item \textsuperscript{40} Geddes to Curzon, 26 Feb 1923, \textit{DBFP} XXI, no. 118, pp. 126-27. Geddes reports, “Almost grotesquely a certain note of criticism of Great Britain is even becoming audible on the ground that she has withdrawn from participation in this work.” Noting that the thriving U.S. economy prevented it from feeling the economic effects of the European chaos brought on by French action, Geddes remarked, “America can enjoy the luxury of exulting in the discomfiture of Germany to an extent which is denied to British.” He also added that there is “a distinct feeling that it may not be bad for American trade that British trade should
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opinion as he pleaded the German case and urged American action, perhaps with an attack on
the franc.\footnote{41} Castle wrote to him, “From the point of view of the Nation, however, the
French move was for the purpose primarily of getting reparation payment, which Germany
was not making. There can be no blinking of the fact that Germany did not try to pay all that
it was possible to pay, nor the fact that the German industrialist who were making enormous
amounts of money, were not using any of that money—if they could help it—to pay
reparations.” Castle also reminded Houghton that France needed reparations “to repair
incalculable damage caused by the war, which was a German war,” noting that “Germans
have, I think, on the whole the most disagreeable characteristics of any great nation—their
brutality when in the ascendant and their servility when face to face with something more
powerful.” Castle discounted stories of French harshness in the Ruhr as German propaganda
by stating, “I am unwilling to admit that the French can be as brutal as the Germans were.”

These opinions were not, of course, official policy, but they do provide insight into the
thinking of those responsible for implementing America’s neutrality policy in Western
Europe. According to Castle, Hughes believed “the time will come when the influence of the
United States can be thrown into the balance in such a way as to bring about amelioration of
conditions and a possible solution of the European problem which will mean justice.” But
the solution would not let Germany go “scot-free.” If that were done, Castle declared, “I
believe from the bottom of my heart what within ten years Germany would again be on the
neck of the world.”\footnote{42}

\footnote{41} Houghton to Hughes, 6 Mar 1923, Houghton Papers.

\footnote{42} Castle to Houghton 17 Mar 1923, file 51, Castle Papers. Castle notes that these

suffer through disorganization of the continent of Europe.”
Both the United States and Britain agreed that the French "were determined to prosecute their undertaking" and what will there was in Germany to pay reparations "was rapidly departing." In Hughes's view, it was "a contest in which neither party was willing to yield," and each side would have "to enjoy its own bit of chaos" until they were ready to stop.\textsuperscript{43} The response of the British foreign office to Geddes’ report was to dismiss the role of the United States: “Mr. Hughes is quite unable to do anything even if he wanted to... Mr. Hughes is no more dependable than the rest of his country where European politics are concerned.”\textsuperscript{44}

Disagreements between Ambassador Houghton and the State Department

In Berlin, Ambassador Houghton was feeling the same frustrations as the British. From his vantage point the situation in Germany was so grave that he had difficulty understanding the domestic constraints upon Hughes and the administration’s foreign policy priorities which mandated passivity of United States towards Europe. Houghton sympathetically described the German situation in his reports to Washington and emphasized that, to Poincaré the French desire for security trumped its need for reparations even if this meant the destruction of German military, financial and economic strength and the indefinite presence of French troops on the Rhine. The personal affinity Houghton felt for Cuno and his belief in the “business-like” attitude of Cuno’s government with which he thought reasonable nations could negotiate underscored his belief that the United States was missing its chance to

\textsuperscript{43} Memorandum by the Sec. of State of a Conversation with the British Ambassador, 23 Feb. 1923, \textit{FRUS}, 1923 II pp. 55-56.

\textsuperscript{44} Cited in O’Riordan, \textit{Britain and the Ruhr Crisis}, p. 52.
intervene and was standing by as Europe sank into economic and political chaos.

The irony of the situation intrigues me. Germany had gone under new leadership. These men are not warlike. They are business men. They were willing to accept conditions as they found them. They sought to make Germany’s future a peaceful one, and believed that in this way they would gradually wear out French antipathy. I know them. I have talked intimately and confidentially with them. I know what they sought to accomplish. There was real and good reason for hope. Now, even these men believe that peace is impossible.

Houghton also reported that the new attitude about to reparations was “if no payment will satisfy France, why make any?” He saw Europe as in a “sorry mess” and noted that the United States “might save some of the sum it loaned Europe, but it may also look forward to a new war soon that may destroy European civilization.”

Writing directly to Hughes, Houghton made it clear that while the Cuno government recognized the difficulty of Hughes’s position, it expected help from the United States. The feeling among the Germans, Houghton noted, was that the United States had the moral and financial power to restrain the French if it were only willing to try. As for the Cuno government’s opinion of Hughes’s reserved reaction to the crisis, “[t]hey have a sort of smiling and cynical contempt for what we have done up to date.”

Cuno asked Houghton to again convey the position of the German government that it cannot treat with the French while they are in the Ruhr, but also dropped the hint that American intercession would be welcomed. According to Houghton, “if the French would withdraw, and some nation, say America, would offer to mediate, he would accept the mediation gladly and eagerly.” The ambassador passed the hint along “for what it is worth,” admitting that it had no present significance but suggesting it might be useful later.

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45 Houghton to Castle, 17 Jan 1923, file 51, Castle papers.

46 Houghton to Hughes, 29 Jan 1923, Houghton Papers.
By February Houghton’s concern about the situation in Germany and his despair over American inaction reached the point that he raised the question of his resignation: “So long as I can keep the confidence of the Department, and so long as there is a possibility that the government sooner or later may use its influence and power to better the appalling conditions that surround us, I am willing to remain. And not one minute longer.” Again Houghton expressed his frustration and his sense that the United State was missing its chance to take decisive action:

We had our chance to do something. Success was then a probability. It is now a possibility. A few weeks from now even the possibility will disappear. I have felt from the outset as you know that the real problem here was moral and not financial, and that we should reap far more industrial gain from conditions of peace than the sort of situation that is being developed by pursuing the other plan. I hope and pray that I am wrong and that you people in Washington are right. A terrible responsibility rests somewhere. Time is going to tell.  

Warren Robbins, the embassy consul in Berlin, shared Houghton’s view of French policy, believing that the French goal was to keep Germany crippled rather than to obtain a settlement; however, far less sympathetic than his chief regarding the attitude of the Cuno government, he was more aligned with State Department policy on American intervention. He reported that Germans were becoming increasing cynical regarding the attitude of the United States, which he viewed as a positive development since they “have been banking too much on the assistance of the United States,” noting that “I never lose an occasion to tell them that we are not in a position to do anything at present.”

Robbins felt that the Auswärtige Amt was deluding itself by overestimating Germany’s ability to hold out while

47 Houghton to Castle, 12 Feb 1923, file 51, Castle Papers.

48 Castle seems to have agreed with the sentiment as he marked this passage in the text. Robbins to Castle, 30 Jan 1923, file 51, Castle Papers.
unrealistically fixating on French financial weakness.

From a confidential source Robbins found out that Gustav Stresemann, leader of the German Peoples Party, had been meeting with leading industrialists who also realized that Germany could not carry on under the present conditions. In Robbins’s opinion, sooner or later Germany would have to give in, but he questioned whether honest or accurate information was being supplied by Foreign Ministry and Foreign Minister von Rosenberg, who consistently maintained that Germany remained united and would never give in. He also speculated that von Rosenberg, whom he viewed as a “fire-eater,” might “not even know the situation.”

Robbins provided a view from Berlin that was fully compatible with Hughes’s disinclination to sponsor any American initiative.

American diplomats in Germany and officials in Washington continued to differ in their judgments of Germany and France. Houghton warned that France had an underlying security agenda and was seeking to subordinate Germany militarily and economically. State Department officials, however, argued that while the French occupation was a "tactical mistake," it was not a "profound moral question with a clear right and wrong." Considering the French action “a crazy plan” to get reparations from a Germany that was not “paying all that they could,” Castle wrote to Houghton, “If I felt by going into the Ruhr the French could get some reparations I should be all for it but it seems to me that all they can hope to get is

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49 Robbins to Castle, 7 Feb 1923, file 51, Castle Papers.

50 *Ibid.* Robbins’s remarks were made with Houghton’s knowledge. In a handwritten postscript Robbins explained: “As regards any attitude on the present situation I have talked at length with the Ambassador & we have, in a happy & friendly way, agreed that it may be a good thing to have a Counselor with a few opposed ideas to his chief as in that way there is always safety.”
the undying hatred of the German people-- a hatred which must eventually result in war."\textsuperscript{51}

Regardless of individual views on the rights and wrongs of the issue, there was unanimous agreement within the State Department that, presently, nothing could be done. Hughes defended State Department policy in a letter to Senator Henry Cabot Lodge, stating, "The help that the Continental nations have desired from us in connection with their economic matters was not advice contrary to their wishes but either the cancellation of their debts or such relief from their debts as would be entirely opposed to the views of Congress." The United States could not call for an international conference because undesirable linkage between war debts and reparations would arise, a dilemma Hughes made clear to Lodge:

\begin{quote}
Any action by this Government at this moment which could be construed as taking the part of Germany, and thus as having the effect of sustaining and stiffening German resistance, would be bitterly resented in France and she would at once place upon the American Government the responsibility for all subsequent action by Germany and for whatever disastrous consequences might further ensue. On the other hand, any action which might be regarded as supporting the French in their coercive measures would be regarded as encouraging the French to maintain a position from which they would soon otherwise have receded, and as the cause of Germany’s subsequent injuries and perhaps her ultimate ruin.\textsuperscript{52}
\end{quote}

Having decisively refused to engage on the issue of debt relief, the United States would simply wait until the combination of British pressure and French financial weakness forced France to accept a settlement that suited American interests.

The March Initiative

In March 1923 Germany, which been unsuccessful in its direct appeals to the United

\textsuperscript{51} Castle to Houghton, 12 Jan 1923, file 51, Castle Papers; Houghton to Castle, 20 Feb 1923; Castle to Houghton, 17 Mar 1923, Houghton Papers.

\textsuperscript{52} Hughes to Lodge, 1 Feb 1923, Hughes Papers.
States, sought to capitalize on growing anti-French sentiment in Britain by asking the British to call for an international committee of experts to settle the reparation issue, hoping that the United States would join this British initiative. The proposal not only failed to persuade Britain to goad the United States into action, it irritated Hughes and further solidified his policy of strict neutrality. The Cuno government would be forced to change diplomatic tactics as a result of this counterproductive initiative.

By February, lack of a U.S. response to German appeals for intervention and the growing negativity of American public opinion about Germany were matters of great concern both in Berlin and the Washington embassy.\(^5^3\) A demoralized Wiedfeldt asked to be allowed to return to Krupp unless Foreign Minister Frederic von Rosenberg felt he could be of some use in Washington.\(^5^4\) Rosenberg, however, needed Wiedfeldt to stay in Washington for at least a little longer as no solution could be reached without American participation and he had a new strategy for bringing the Americans in.

It was now clear to von Rosenberg that America “does not have an independent foreign policy, rather it follows the lead of Downing Street. Should England intervene, the USA

\(^{53}\) Rosenberg to Wiedfeldt, 12 Feb 1923, Nr.123, Büro RM-USA, R28488, D618648, p. 105.

\(^{54}\) Wiedfeldt to Rosenberg, 17 Feb 1923, Büro RM-USA, R28488, D618707, p. 201. Wiedfeldt, as chairman of board of directors at Krupp had only taken on the job as ambassador to Washington as a short-term necessity at the urging of then-Foreign Minister Rathenau and President Ebert in spring 1922. Krupp had been assured that Wiedfeldt would only be gone six to nine months and was anxious to have him back. Although he found the work at Washington interesting, Wiedfeldt wanted to return as soon as possible to Krupp, where his heart was. Noting the snobbery of Washington society, Wiedfeldt recommended that an aristocrat be sent to replace him. But because connections with American bankers and businessmen were viewed as vital to German interests, and because the much-hoped-for commercial treaty still to be negotiated, Ebert, Cuno and Rosenberg wanted the businessman Wiedfeldt to remain in Washington.
would support them but a unilateral action is out of the question.” Wiedfeldt agreed, noting that the Americans had little understanding or interest in German problems, but the British, due to the closer trade and banking ties, understood the German position far better. Britain must lobbied to take the lead; the U.S. would then follow.

The Germans saw their chance to approach and persuade Britain after the conclusion of Anglo-American war-debt funding negotiations in early February; they assumed that the settlement signaled a renewed American interest in Europe’s economic troubles and hoped it could serve as a model for a more comprehensive international-debt conference, along the lines of the New Haven proposal. Germany believed that the time was now ripe for a German proposal, directed at both Great Britain and the United States, for an international experts committee including German and American members to decide the amount and method of payment of German reparations. It was expected that such a proposal would make an outstanding impression on both governments which, having just come together over debt settlement, would then rapidly issue a joint demarche to force France into an international conference.

Through Count Harry Kessler, Cuno established contacts with sympathetic Liberal and 

55 Auszug Rosenberg, 19 Feb 1923, Büro RM-USA, R28488, p. 193.

56 Wiedfeldt to AA, 1 Mar 1923, Nr. 98, Büro RM-USA, R28488, p. 165.


58 Schubert to Wiedfeldt, 5 Mar 1923, Nr. 182, Büro RM-USA, R28488, D618681, p.
Labor Members of Parliament who suggested that Cuno make a proposal to Bonar Law that included clear German intentions to abide by the decision of impartial experts. The British opposition parties would then raise the issue in the House of Commons. Cuno prepared a letter stating that once a committee of experts decided how much Germany had already paid, what it could and must pay, and how payment could be made, Germany was prepared to obtain an international loan and provide the necessary guarantees, including the use of agricultural and industrial properties as securities. The cessation of passive resistance, however, would depend upon French withdrawal from the Ruhr. Germany intended first to present this proposal to the British foreign office, so it could not be accused of trying to of going behind the back of the British government. The plan collapsed, however, when the Foreign Office refused to accept the note which effectively curtailed any chance of debate in Parliament.

When the German Ambassador to London, Friedrich Sthamer, met with British Foreign Secretary Lord Curzon on 14 March, he was informed that responsibility for taking the first step indeed belonged to Germany, but that a German initiative would have to include a reasonable offer addressed to all the Powers, including the American government. Curzon

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also warned that it would be unwise for the Germans to simply repeat the New Haven Proposal, as the French were clearly not interested and Hughes’s plan left the question of the Ruhr occupation “wholly untouched.”61 The following day, Curzon and Bonar Law informed Sthamer in a joint meeting that the German proposal was inadequate. Bonar Law suggested that only German acceptance of his January 1923 proposal would open the possibility of negotiations and that Germany would, in addition, have to consider concessions to French security interests that might include demilitarization of the left bank of the Rhine and control of railroads by the League of Nations.62

Germany also hoped to interest the United States in the plan as soon as possible; on 3 March, von Rosenberg met with Houghton to inform him of the initiative. Then, on March 16, despite the failure to interest Britain in the proposal, Counselor of the German Embassy Hans-Heinrich Dieckhoff presented the plan in a memorandum to Hughes (Wiedfeldt was out of town). Houghton had already informed Hughes of the German proposal, on 15 March, as well as of a request by Rosenberg that the memorandum “be treated in the highest confidence.”63 Putting the best face on the recent German failure with Curzon in London, 

61 Sthamer to AA, 14 Mar 1923, ADAP, p. 339; Curzon to D’Abernon, 14 Mar 1923, BDFP, XXI, no.151, p. 158.


63 Houghton informed Hughes that the German proposal was based on Cuno’s idea of a Rhine pact and provided a guarantee of French security. Following the advice of the British, the Germans thought to “improve” the offer with such a proposal at this time, but the memorandum presented to Hughes on 16 March contained no such provisions for French security. “Memorandum, Handed to the Secretary by the Counselor of the German Embassy, March 16, 1923,” reel 122, cont. 157, Hughes Papers; Dieter Bruno Gescher, Die Vereinigten Staaten von Nordamerika und die Reparationen, 1920-1924 (Bonn, Ludwig
Dieckhoff told Hughes that Curzon had received the proposal favorably and had noted that it enlarged Hughes’s New Haven proposal, but Curzon also had suggested that “the British reckoned on the United States.” In reply, Hughes simply remarked that the United States had no word from London on this and refused to make any comment beyond what he had said at New Haven. In addition, he observed there was no indication that the French, now in the Ruhr, favored the proposal, a reality with which Dieckhoff could only agree.⁶⁴

Within hours of the meeting, what had been just another inadequate reparation offer presented in an inept manner turned into an angry confrontation which significantly cooled German-American relations. An account of the London meeting between Sthamer and Curzon was leaked to press; there were rumors that the proposal had also been made the United States. An angry Hughes summoned Dieckhoff back, informing him that the German proposal could no longer be held in confidence and that the United States could not tolerate rumors about its joint participation with Britain in a reparations initiative. Because the memorandum made no formal request of the American government, Hughes refused to be placed in a position where the United States “might be embarrassed by misapprehensions” and asked that the memorandum be made public without revealing that it was published at the request of the United States. He also warned that the United States would feel free to say “what ever should be necessary to avoid misapprehension” regarding the American position.⁶⁵

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⁶⁴ “Memorandum of Interview with the Counselor of the German Embassy, Dr. Dieckhoff, Friday, March 16, 1923, At Noon,” reel 122, cont. 157, Hughes Papers; Rupieper, The Cuno Government, p. 134; Gescher, Reparationen, p. 168.

⁶⁵ “Memorandum of Interview with the Counselor of the German Embassy, Dr.
After the meeting, Hughes immediately cabled Houghton with instructions to inform von Rosenberg not only of the American position but also that Hughes saw no reason for German views to be expressed privately to the United States: “Such secretiveness will only start rumors of supposed collaboration with respect to some plan of intervention by Great Britain or the United States and put this government in a false position.” Rather then involve the United States, Hughes advised that “if Germany desires to make such a propositions to the French government it can be made directly.”

Hughes’s stern message had the effect of a bombshell in the German Foreign Ministry, which wondered why Hughes had been so angry over a leak to the press. A bewildered Schubert bitterly wondered why government should even bother to employ diplomats, “if a diplomatic officer were not permitted to leave a confidential memorandum with the Secretary of State.” Presenting the German point of view to Castle, Houghton attempted to convey the puzzlement within the Auswärtige Amt: “If they had asked us to do something for them, either directly or indirectly, the matter would be quite different, but inasmuch as they were accepting the Secretary’s proposition and wanted only to give him in all frankness their own position, they simply do not understand why, because some newspaper men guessed about the matter, it necessitated so stern an attitude on his part.” Houghton, noting the changed atmosphere, suspected that the German foreign office was debating whether Hughes’s attitude was hostile to Germany.

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Dieckhoff, Friday, March 16, 1923, At 4:55 PM (Second Interview)”, reel 122, cont. 157, Hughes Papers.

66 Hughes to Houghton, 16 Mar 1923, no. 21, reel 122, cont. 157, Hughes Papers.

Shortly after the failure of the March initiative, the German Embassy in Washington sent the Foreign Ministry an assessment of Hughes’s attitude toward Germany that made clear both his lack of sympathy and the embassy’s growing frustration with Hughes’s passive approach to the Ruhr crisis, opposition to credits that would relieve financial pressure on Germany, and perceived obstruction of the release of German property held by the Alien Property Custodian—an issue of fundamental importance to the embassy. Hughes had also used his influence to block congressional efforts to demonstrate support for Germany and opposed granting credits to relieve the pressure on Germany. While acknowledging that Hughes did not approve of Poincaré’s reparations policies, the assessment declared, “That Mr. Hughes sympathizes with France can hardly be doubted.” The report noted that although Hughes often asserted that he had no power over the French, many other politicians observed that Hughes did indeed have a strong lever in regard to the French war debt, a lever Hughes would never pull until he had secured French ratification of his pet project of a disarmament treaty. In analyzing Hughes’s attitudes, the report observed that Hughes still saw himself as the pro-war presidential candidate of 1916 and has never forgiven German-Americans for contributing to his defeat. It concluded that Hughes lacked “the necessary inspiration needed for active help in the solution of European problems” and suggested that “this key lies in London.”

68 Wiedfeldt to AA, 8 Apr 1923, Nr. 343, “Staatsekretär Hughes und seine auswärtige Politik,” (Reisser), Botschaft Washington, 960, PAAA. In summing up his report, Reisser quotes from some critics of Hughes’s foreign policy and commented that “we could have written this sentence in Germany: ‘the United States while refusing to recognize obligations, has insisted on its rights and privileges.’” The report also offers some interesting insight into the worldview of the German diplomats; Reisser complained that Hughes had no appreciation for the “loss of German culture and the inevitable downfall of the West that will accompany the collapse of Germany.”
The Germans’ bungling of this initiative decreased the State Department’s trust in Cuno’s diplomatic abilities; as a result, relations with Germany became markedly more distant. While the source of the leak was never definitely established, Castle believed that Germany was behind it—not because of a deliberate policy decision from the Cuno government, but rather from the “old stamp” in the German foreign office who had the intention of “forcing us in whether we wanted to get in or not.” In any case, the leak had put the State Department “terrifically wrong” with the press and the French.  

On 17 March, perhaps in response to the events of the previous day, Castle seized the opportunity to answer Houghton’s pleas for some American efforts on Germany’s behalf. While Castle considered the occupation of the Ruhr to be a “tremendous tactical mistake,” he also believed that all nations act on selfish motives and therefore did not see it as a moral issue. While recognizing French failings in their handling of the populace of the Ruhr, including brutality, he discounted German claims of outrageous treatment as propaganda and judged the French invasion as having been undertaken primarily to gain reparations payments which Germany was not making. Germany had not tried to pay all that it was possible to pay, particularly German industrialists who were making enormous profits.

Castle believed that the most likely outcome would be a solution by negotiation, or “possibly we may suddenly find ourselves faced with a great German-French industrial combination which, for a few years, will be economically dominant.”

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69 Castle to Houghton, 19 Apr 1923, file 51, Castle Papers.

70 Castle to Houghton, 17 Mar 1923, file 51, Castle Papers. Castle did not seem at all perturbed about the possibility of a German-French industrial combination. The issue was not as great a concern as Werner Link makes it out to be in his works on the United States and the Ruhr crisis, wherein Links argues that the U.S. welcomed the economic advantages of the Ruhr occupation, which included reduced German competition, until the specter of a
memories of the war were still strong and that American opinion was becoming more pro-
French, Castle defended Hughes’s position. Hughes would take vigorous action if he 
thought there was a chance of success and that the influence of the United States could bring 
“a possible solution of the European problem which will mean justice.”

The German Reparations Note of 2 May

The Cuno government, which by April had little to show for its foreign policy while 
conditions in Germany continued to deteriorate, faced pressure from both foreign and 
domestic sources to attempt another reparation proposal in order to initiate negotiations.
Lord Curzon, responding to his own domestic pressures, made a carefully hedged speech in 
the House of Lords on 20 April in which he urged Germany to declare its willingness to pay 
reparations and provide economic guarantees to France. As per the Hughes proposal, the 
amount to be paid should be fixed by an international committee; Curzon also offered the

German-French industrial combination threatened U.S. economic interests and led to U.S. 
intervention on terms favorable to U.S. interests. In reality, the economic interests most 
directly threatened were British and the British were far more upset about this than the U.S. 
For Link’s arguments, see Werner Link, “Die Ruhr besetzung und die wirtschaftspolitischen 
“Die Beziehungen zwischen der Weimarer Republik und den USA,” in Manfred Knapp et 
Vereinigten Staaten und der Ruhrkonflikt,” Die Ruhrkrise 1923, ed. Klaus Schwabe 

71 Castle to Houghton, 17 Mar 1923, file 51, Castle Papers. Von Rosenberg was very 
concerned about slipping of U.S. opinion, suggesting that increased French expenditures on 
propaganda in the U.S. and general American disinterest in European matters were results 
of improvements in the U.S. economy and asked Wiedfeldt to report on the matter. 
Rosenberg to Wiedfeldt, 11 Apr 1923, Nr. 240, Büro RM-USA, R28488, D618732, p. 226. 
Geddes also reported a groundswell of opinion hostile to Britain, prompting Crewe to 
comment: “This is significant and may account for President Harding’s silence and 
inactivity.” Quoted in O’Riordan, Britain and the Ruhr Crisis, p. 59.
deliberately vague suggestion that Britain might then become a “very useful agent” in negotiations.”

Von Rosenberg asked D’Abernon for a verbatim copy of Curzon’s speech and information “for the exact indication of the offer that Curzon considered it advisable to for the Germans to make.”

Cuno had already dispatched Paul Reusch, a personal business acquaintance, to London on 17 April, to informally propose to Bonar Law that Britain and the United States call for an international conference to fix reparations. Until the fixed amount was determined, Germany would offer 16 billion gold marks that would be raised by a loan. Once the loan was secured there would be simultaneous ending of passive resistance and withdrawal of French troops. Guarantees would be provided for the loan, the exact nature of which would be left to the expert committee.

Cuno’s hopes for British intervention in favor of an international conference were quickly disappointed. Curzon backtracked in the face of French outrage at his speech, declaring that his remarks were not meant to signal actual, imminent British intervention. In an attempt to mollify France the French ambassador was informed that Britain continued to view “the maintenance of the Entente as the corner stone of her foreign policy.” As the situation in Germany continued to deteriorate, the Cuno cabinet was compelled to produce a

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73 D’Abernon to Curzon, 22 Apr 1923, DBFP XXI, no. 191, pp. 222-23.


75 Curzon to Crew, 27 Apr 1923, BDFP XXI, no. 196, p. 235-56.
specific reparation proposal. When the German embassy asked Britain for advice about what
this offer should contain and whether or not a definite amount should be specified, it was
informed that British policy still placed the responsibility on Germany to make a “reasonable
offer to France as soon as possible” and that Britain had “no intention in suggesting in any
way what that German offer be.”  

Cuno now had no other choice but to come up with a new reparation proposal without
formal foreign support and with a cabinet that held very divergent opinions. Von Rosenberg
preferred that no offer be made; however knowing that the French would refuse any German
plan, he saw the submission of an offer as a means of silencing domestic criticism from the
SPD and perhaps driving a wedge between the British and the French. Both he and Cuno
believed that any offer exceeding the 30 billion gold marks mentioned on 2 January would be
unacceptable, because a higher figure would imply that Germany, even after four months of
disruption in the Ruhr, could afford more than it had already offered. Such a discrepancy
would provide justification for the French occupation. Citing Wiedfelt, von Rosenberg also
pointed out the negative effect that raising the offer made in Paris offer would have in
America. Other cabinet members, however, were willing to go higher.

Nor was there any consensus on which German assets could be used for guarantees. The plan was, in the words of Carl Bergmann, “strangely disfigured and diluted to meet the
misgivings stubbornly voiced by several ministers as to its effects on internal politics.”

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76 Record by Mr. Lampson of conversations with Herr Dufour-Feronce, 27 Apr 1923, DBFP XXI, no. 195, pp. 233-35.

77 Ministerbesprechung vom 28 Apr 1923 and Ministerbesprechung vom 30 Apr 1923, Das Kabinett Cuno, Nr. 142, pp. 433-38 and Nr. 144, pp. 440-44.

78 Bergmann, History of Reparations, p. 191-92.
These disagreements, over both the construction of the May proposal and the recriminations that followed it, reveal not only the weakness of the Cuno government but also the divisions within German society that made a cohesive reparation policy so difficult. There was no agreement about how the burden of paying for reparations should be distributed among industry, agriculture, labor, and state enterprises such as the railroads.\(^7\)

The final proposal, submitted on 2 May to each of the Allies and also presented to the United States, offered 30 billion in three installments. Twenty billion was to be paid through loans by July 1927 and the remainder in two installments of five billion apiece, in 1929 and 1931, also through loans. Should the payments not be considered adequate Germany was prepared to submit to an “international commission uninfluenced by political considerations as suggested by Mr. Hughes?” Germany also was prepared to provide guarantees, but their specifics would have to be negotiated with the international loan committee and the Reparations Commission.

The German offer, however, was contingent on a complete French withdrawal from the Ruhr as well as the Rhine bridgehead ports occupied in 1921. French security was to be guaranteed by a Rhineland pact, offers of which had become a standard feature of any German reparation proposal.\(^8\) The proposed interest structure of the loans set the real value of this offer at 15 billion gold marks, an increase over the 12 billion gold mark real value of the January 1923 offer, but still far short of Bonar Law’s January plan, which had a real

\(^7\) For an extended discussion highlighting the influence of industry see Feldman, *The Great Disorder*, pp. 658-68; Rupieper, *The Cuno Government*, pp. 147-52.

\(^8\) The German Embassy to the Department of State, 2 May 1923, *FRUS* 1923 II, pp. 57-60. The German proposal is reprinted in *Ursachen und Folgen* V, Nr. 1044a, pp. 121-24. British analysis of the proposal can be found in Curzon to D’Abernon, 2 May 1923, *DBFP* XXI, no. 201, pp. 241-43.
value of 25 billion gold marks.81

When shown the German proposal by Curzon, French Ambassador Count de Saint-Aulaire informed Curzon that he considered its tone “derisory” and together with Belgium he would send a curt rejection. Despite his chagrin over the inadequacy of the German offer, Curzon’s response to Saint-Aulaire was more charitable, characterizing the proposal as “inadequate, stupid, and in some respect shadowy and obscure” but nonetheless a starting point for negotiations.82 Even so, his formal reply sternly informed Berlin of Britain’s disappointment urged Germany to “display a great readiness to grapple with the realities of the case and to discard all irrelevant and controversial issues” and make a contribution “more serious and precise than any which has yet been forth coming.”83

German policy continued to be based on eventual American involvement and assistance, but Hughes provided little comfort about the issue of reparations. The United States government did not officially respond to the 2 May proposal, much to the disappointment of von Rosenberg, who felt that America was holding back from the Ruhr affair.84 Wiedfeldt, who had recommended to von Rosenberg that Germany not exceed the Paris offer, was well aware that the proposal fell short of the expected 30 billion. He defended the proposal to Hughes as being on the border of what the German government as a democracy that had to

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81 Niemeyer to Crowe, 4 May 1923 and enclosure in no. 212, Note by Sir Bradbury on the German Reparation Offer, BDFP XXI, no .212, pp. 252-57; Rupieper, The Cuno Government, p. 149.

82 Curzon to Crewe, 5 May 1923, DBFP XXI, no. 218, pp. 262-63.

83 Curzon to Graham, 7 May 1923, DBFP XXI, no. 226, pp. 273-75. The formal joint French-Belgian reply and the British reply can be found in Ursachen und Folgen V, Nr. 1044c and d, pp. 125-32.

84 Wiedfeldt to AA, 5 May 1923, Nr. 207 and Schubert to Reichsminister, 14 May 1923,
answer to public opinion could guarantee to fulfill and that it could serve as a starting point for negotiations. Hughes retorted that the entire affair seemed to be intended to bring international pressure on France and would cause “an unpleasant French reaction,” having the real effect of making negotiations more difficult. He recommended that, because the offer was contingent on French evacuation from the Ruhr, the best starting point for negotiations would be for the Germans to accept the fact that the Ruhr was now in the hands of the French and that is where negotiations had to begin.\footnote{Memorandum by the Secretary of State of a Conversation with the German Ambassador (Wiedfeldt), 3 May 1923, \textit{FRUS} 1923 II, pp. 60-61; Wiedfeldt to AA, 3 May, Nr. 204, Büro RM-USA, R28488, D618747, p. 241.}

Hughes did, however, acknowledge that the German note could serve as a starting point. In a meeting with the Belgian ambassador, he also argued for Germany, France and Belgium to find some way of conducting negotiations for a reasonable solution, warning that for the sake of the parties’ ability to compromise, this should not be done in the “public square.” In all probability, he also did not appreciate having American passions stirred up and the intensification of pressure on the United States to become involved at a time he believed was inopportune.\footnote{Memorandum by the Secretary of State of a Conversation with the Belgian Ambassador (Cartier), 3 May 1923, \textit{FRUS} 1923 II, p. 61.}

German officials in Berlin were less rigid than Wiedfeldt in regard to the total sum Germany might afford to pay. D’Abernon had warned von Rosenberg before the offer was sent out that it would be disappointing and that the British ambassador was sure von Rosenberg already knew this himself. However, convinced no other options existed for the

\begin{flushright}
Büro RM-USA, R28488, D618751, p. 243 and D618755, p. 249.
\end{flushright}
government, von Rosenberg “urged that the German offer was not absolutely final, and might be modified by discussion round a table.”

This broad hint was confirmed by Finance Minister Andreas Hermes, who told Ellis Loring Dresel, then visiting his old post in Berlin, that the 20 billion was only a minimum offer. Von Rosenberg explained to the former American chargé that the government was hesitant to make any offer it was not sure it could live up to and reminding him that a higher sum could be set by a meeting of experts. Even after the strongly worded French rejection was received in Berlin, von Rosenberg’s first reaction was that the reply might serve as a basis for further negotiations. Clearly the May 2 note was intended as a starting point for negotiations with the hope of achieving the internationalization of the reparations question.

In spite of Germany’s intentions and hopes, the 2 May note was a complete failure. Not only did it provoke a vehement rejection by France and Belgium, their joint response united the two Allies in the midst of their considerable differences over the goals the Ruhr occupation. The joint response, penned by Poincaré, added a new hindrance to the solution of the crisis with the demand that Germany give up all resistance in the Ruhr before any German offer would be considered and the declaration that the Ruhr would not be evacuated until Germany discharged her reparation payments. The May Note’s result was to further weakened the Cuno government as French resolve strengthened, thereby making the possibility of a negotiated compromise solution to the crisis all the more unlikely.

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88 Robbins Diary, 1 May 1923; Robbins to Castle, 8 May 1923, file 51, Castle Papers.

The German Reparations Note of 6 June

Divisions that had complicated cabinet debate over the 2 May proposal continued when the Cuno government began its consideration of a new proposal. Von Rosenberg, still placing his hopes on a split between Britain and France, insisted that the previous limit of 30 billion gold marks not be exceeded. Minister of Finance Hermes, and others, demanded that the offer should be increased to come close to the amount in the December Bonar Law plan.\(^9\) The cabinet’s struggled to resolve its internal differences, receive support or tacit consent from the major parties and state ministers, and negotiate guarantees from industry and agriculture. Once again the weak Cuno government was forced to negotiate with industry as if it were an independent entity. Moreover, in exchange for desperately needed industrial contributions, the government had to accept industry’s conditions of reduced state intervention and regulation, conditions the SPD considered unacceptable. This disunity reflected the disintegrating authority of the State. A compromise proposal was presented to the Allies on June 7.\(^1\)

Dissatisfaction with and disdain for this new proposal was conveyed to the United States Embassy by a leading German economic expert, Julius Moritz Bonn,\(^2\) Kabinettssitzung, 15 May 1923, Nr. 159, Das Kabinett Cuno, pp. 474-9.


\(^2\) Kabinettssitzung, 15 May 1923, Nr. 159, Das Kabinett Cuno, pp. 474-9.
even before it was formally submitted. 92

The proposal made no mention of passive resistance or the German demand for French withdrawal, but did acknowledge Germany’s responsibility to pay reparations and solved the question of whether the total sum offered should exceed previous ones by leaving the decision about Germany’s capacity to pay to an international committee of experts. It proposed annuities if a loan could not be obtained, and for the first time contained specific guarantees in the form of mortgages and taxes. In addition, the Reichsbahn would function independently of government administration. Once placed under special administration, starting in July 1927 it would issue bonds worth 10 billion gold marks, at five percent interest, and would provide 500 million gold marks per year. Another 500 million gold marks would be guaranteed by industry, trade, agriculture and banking either through taxes or mortgages. Proceeds from duties and taxes on tobacco and alcohol would also be used as a mortgage. 93

In May, an ailing Bonar Law was replaced by Stanley Baldwin. Ambassador Sthamer, in presenting the new proposal to Curzon, made it clear that although Germany had heeded Curzon’s suggestion to delete the contentious issues of German passive resistance and France’s insistence that evacuation would begin only as reparations were paid in a formal note, the German government had not changed its position on these critical matters.

92 Robbins to Castle, 5 Jun 1923, file 51, Castle Papers. In a postscript dated 6 June 1923, Robbins relates that even von Rosenberg thought the proposal seemed hopeless and “the best that could happen would be that it might serve as a basis for further negotiation.” Robbins was “very much impressed by his despondency.”

93 Wiedfeldt to Secretary of State, 7 Jun 1923, FRUS 1923 II, pp. 62-64; Memorandum der Deutschen Regierung, 7 Jun 1923, Nr. 1048; Ursachen und Folgen, pp. 145-56. The proposed financial guarantees are summarized in Rupieper, The Cuno Government, pp. 160-61.
Knowing that the French would inevitably ask Britain to jointly respond to the German note with the mutual demand that Germany end passive resistance, Curzon sought some wiggle room for negotiation by distinguishing between government-directed resistance and the resistance of the local population. However, Sthamer refused to go along, telling Curzon that Germany was resting its whole case upon “the illegality of the French and Belgian occupation” which justified the German government’s economic support of passive resistance.\(^9\)

Curzon’s apprehensions were soon realized when he was informed on June 11 by Comte de Saint-Aulaire of Poincaré’s demand that the German government end all official acts that interfered with French and Belgian operations in the Ruhr. The French ambassador also listed the region’s immediate productive assets that would be demanded by France as guarantees (mines, railways, custom receipts) and reminded Curzon that there was a strong party in France in favor of independent action even if it meant a break with Britain. Taking umbrage and declaring that “M. Poincaré was conferring a favor on Great Britain in approaching us at the present time instead of acting independently,” Curzon informed de Saint-Aulaire that the British felt the proposal “marked a serious advance” and for it to be flatly rejected “would not be countenanced by public opinion here.”\(^{95}\)

Despite the struggles in the German cabinet and its disunity over the offer, the 7 June note contained the first reparation plan that had some possibility of success, at least as the basis of a compromise solution. The note’s inclusion of annuities backed by mortgages

\(^9\) Sthamer to AA, 7 Jun 1923, ADAP Bd. VIII, p. 26; Curzon to Addison, 7 Jun 1923, no. 254, DBFP XXI, pp. 318-20.

\(^{95}\) Curzon to Crewe, 11 Jun 1923, no. 261, DBFP XXI, pp. 333-8.
which would begin payments starting in 1927 was a real advance; in fact, these arrangements were similar to those eventually established by the Dawes Plan. Perceiving the German note as an honest effort, the British and the Belgians were interested in further negotiations. Poincaré, however, immediately curtailed that possibility by rejecting the note. France holding fast not only to the principle that there would be no negotiations until passive resistance ceased, rejected the plan on the grounds that it offered no concrete sum, replaced the Reparations Commission with an international experts’ commission, and provided only theoretical pledges without securities.\footnote{Rupieper notes that if the plan could have been addressed only to the United States, Great Britain and Italy, it would have “become a success immediately.” Belgium’s only objection was to demand the end of passive resistance before negotiation. \textit{Ibid.}, pp. 161-62. The point is also made by Feldman, whose view is that “the note did represented considerable progress in Germany’s approach to the reparations question.” Feldman, \textit{The Great Disorder}, p. 668. For a discussion of the practical questions of the proposal by the British foreign office and French fears of an economic conference that could be influenced by Jewish bankers who favored Germany, see Memorandum on the German Offer of June 7, 1923, 9 Jun 1923, no. 258, \textit{DBFP XXI}, pp. 327-31. For French rejection see, Schreiben des französischen Botschafter in London, Rom und Brüssel, 7 Jun 1923, Nr. 1048a, \textit{Ursachen und Folgen}, p. 147.}

The thrust of U.S diplomacy throughout June and July 1923 was to encourage direct negotiations between the Allies and Germany. When Wiedfeldt presented Hughes with the 7 June proposal, Hughes simply repeated his admonitions that little would be solved by the exchange of written notes and that direct oral discussions were necessary. To encourage such negotiations, Hughes shared his opinion with the Belgians that Germany was willing to enter into negotiations and that the new proposal demonstrated movement by Germany that could lead to useful results if direct oral negotiations took place.\footnote{Memorandum by the Secretary of State of a Conversation with the German Ambassador (Wiedfeldt), 7 Jun 1923 and Memorandum by the Secretary of State of a Conversation with the Belgian Ambassador (Cartier), 7 Jun 1923, \textit{FRUS} 1923 II, pp. 64-65.} On 23 June, when the
Italian ambassador attempted to ascertain his current thoughts about an international experts commission, Hughes pointed out that France was not at the point of considering it and that German recognition of its obligations was an essential prerequisite for settlement. In what could reasonably be construed as a reference to the Cuno government’s hopes that Britain and Italy would persuade France to accept an expert commission, Hughes warned that “the German industrialists must feel that they could not rely on other governments to aid Germany in evading her just obligations.” Always sensitive to the issue of public opinion, he further observed that sentiment in Germany and France favored a partisan advisor rather than an impartial one. The United States would not dictate in any way nor make uninvited suggestions.  

The Work of the Embassies in Berlin and Washington

With Houghton on vacation in the United States during May and June, activity subsided at the embassy in Berlin and Cuno and von Rosenberg were deprived of their close and advisory relationship with Houghton. Robbins, acting in Houghton’s stead, was surprised that von Rosenberg had not sought him out for consultation prior the dispatch of the 6 June note, an omission he attributed to the lack of any U.S. response to Germany’s 2 May initiative. Still, Robbins warned von Rosenberg not to be misled by the pretty pictures of American sentiment painted by various American politicians who often visited Cuno. Von Schubert told von Rosenberg that he no longer expected any response from America in regard to the crisis since he had been informed by Robbins that the United States saw the

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98 Memorandum by the Secretary of State of a Conversation with the Italian Ambassador (Caetani), 23 Jun 1923, FRUS 1923 II, pp. 65-66.
Ruhr as basically a European affair. Although desperate for American help and intervention, von Rosenberg began to realize such support would not be forthcoming in the immediate future.

Von Schubert’s reading of the State Department’s attitude was well justified. Castle echoed Hughes’s opinion that Germany must prove to the world that “it recognized the fact that it was beaten and meant to pay all that it could” although it “had never been able, or perhaps willing, to prove any such thing.” While recognizing Houghton’s sincere desire to help Germany, Castle advised the ambassador that the greatest service he could render would be to accurately portray American sentiment and “make the Germans once and for all realize that America is not going to help in any way, shape or manner until Germany shows its willingness to repair damage for a war which it brought on and lost.” Castle hoped Houghton’s two meetings with Hughes had adequately conveyed that American opinion continued to remain pro-French and that policy could not be formulated or implemented contrary to public opinion. Castle also hoped that Houghton understood the centrality of Hughes’s conviction that “inasmuch as this country is the one stable point in the world this government cannot afford to make any demarche which may not be successful.”

Robbins, from his perspective in Berlin, echoed Castle’s and Hughes’s opinion that the

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99 Robbins to Castle, 5 Jun 1923, file 51, Castle Papers; v. Schubert to v. Rosenberg, 14 May 1923, Büro RM-USA, D618755, p. 249, PA-AA.

100 Castle to Robbins, 15 Jun 1923, file 51, Castle Papers.

101 Ibid. Continually concerned about Houghton’s appreciation of American opinion as seen by the State Department, Castle worried that during his vacation in the United States Houghton was talking to people with pro-German sympathies and that the “average man” who held contrary opinions would withhold them in deference to Houghton’s position, with the result that Houghton would get a false impression of American sentiment. Castle hoped that Hughes’s talks with Houghton had helped to set Houghton straight.
United States should avoid involvement. Having little use for the American businessmen and politicians visiting Berlin, he felt that if only the embassy could prevent “self-appointed envoys from going to Cuno and suggesting how they would like to help Germany, a great deal more could be done for Germany.” But Robbins was also now beginning to wonder if France really preferred a settlement to an indefinite occupation.\(^{102}\)

Britain vs. France

When its 6 June note failed to elicit any change in American policy, Germany became more dependent on Britain for help. The German note had precipitated a sharp dispute between Britain and France. Britain viewed the note as “serious advance” that met many of Britain’s demands and from which negotiations could proceed.\(^{103}\) The stumbling block was the French demand that German passive resistance to the occupation end before any negotiations could take place coupled with the German insistence that the French occupation was illegal and France must withdraw. Although Curzon tried to find a loophole by distinguishing between government-directed and grassroots resistance, France demanded both complete cessation of resistance and full cooperation with the occupation authorities.

An angry exchange of notes ensued between Britain and France. Curzon insisted that France could not ask Germany to surrender while offering nothing; in turn, Poincaré accused Britain of prolonging the struggle by not demanding that Germany end passive resistance.\(^{104}\)

\(^{102}\) Robbins to Castle, 19 Jun 1923, file 51, Castle Papers.

\(^{103}\) Curzon to Crew, 11 Jun 1923, no. 261, DBFP XXI, pp. 333-38. Quote on p. 337.

\(^{104}\) Crewe to Curzon, 24 Jun 1923, no. 275, DBFP XXI, pp. 360-62.
Each side hinted that the other’s position was threatening the Entente. The ever-present issue of war debts arose also as France insisted that its share of the A and B bonds was sacred, a stance implying to Curzon that any reduction in German reparations would come out of Britain’s share. France also suggested that its war debts owed to Britain could be paid off with its share of the C Bonds, a proposal that Britain, which had no more desire than the United States to see French war debts paid through German C Bonds, immediately rejected.

Germany, faced with the deadlock between France and Britain, tentatively explored the possibility of a compromise with France based on a phased ending of German passive resistance and a phased French withdrawal. But by late June both Britain and the United States recognized that passive resistance could not be sustained for much longer. While the Cuno government debated the precise degree to which it should be abandoned, Curzon noted that the question “might be solved by the capacity for passive resistance ceasing to exist.”

When France refused to alter its position, Curzon on 20 July attempted to encourage the opening negotiations by circulating among the Allies his version of what the joint Allied response to Germany should be. This draft called for an end to Germany’s passive resistance and the implementation of Hughes’s proposal for a committee of experts. It proposed that as soon as the economic sureties and guarantees recommended by the experts were put into

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105 For France, Curzon to Kedleston, 11 Jun 1923, no. 261, DBFP XXI, p. 337. For Britain, Curzon to Crewe, 3 Jul 1923, no. 287, DBFP XXI, p. 390.

106 Curzon to de Saint-Aulaire, 13 Jun 1923, no. 264, DBFP XXI, p. 344.

107 This idea was vetoed by President Ebert. Rupieper, The Cuno Government, p. 162; Curzon to Addison, 26 Jun 1923, no. 276, DBFP XXI, pp. 362-65.

108 Ibid., p. 363; Robbins to Castle, 19 Jun 1923, file 51, Castle Papers.
effective operation, “the occupation of all German territory outside of the limits laid down in the treaty of Versailles would come to an end.”

Poincaré’s immediate reply of 21 July, to British Chargé Sir Eric Phipps, clearly imparted both France’s rejection of the proposal and its continued insistence “that no negotiations could be opened with the German government until passive resistance came to an end.” Official French and Belgian notes of rejection were sent on 30 July.

D’Abernon, comparing the diplomatic situation to that of 1809-1812 in his diary, described the United States as the “new element of force” that could help control France but wondered, “Will they act? Will they even exercise their moral influence or intervene to apply financial pressure?” Curzon would learn that the answer was a polite “not yet” on 25 July, when British Chargé Henry Chilton sounded out Hughes on that issue and Hughes evasively replied that he hoped the United States would be able to help “when the right moment arrived.”

Hughes had already met with Jusserand, on 12 July, at which time Jusserand, upset about press reports that the United States was closely cooperating with Britain in developing the proposals which would be presented in Britain’s 20 July note, asked specifically whether “the Secretary was still of the view that nothing should be done which was unacceptable to France.” Hughes replied that he “would not like to approve anything that was opposed to

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113 Chilton to Curzon, 25 Jul 1923, no. 312, DBFP XXI, p. 438.
French interests,” but once again suggested that his New Haven proposal still remained the 
best way to resolve the issue. Denying the press reports, Hughes reassured Jusserand that not 
only had there been no communication formally or informally between Britain and the 
United States on that subject, he had yet to be approached by Britain at all. Jusserand, 
reminding Hughes that if the German government “could be persuaded to direct the 
discontinuance of passive resistance then the way would be open to an agreement,” then 
asked Hughes if he had any comments. Hughes replied, “Not now.”

Hughes’s refusal to commit himself freed Poincaré to carry on both his dispute with 
Curzon and his program in the Ruhr without worrying about active U.S. intervention on 
either Britain’s or Germany’s behalf. Houghton, however, reported from Berlin that both he 
and D’Abernon recognized the “real underlying fact” that without American support 
“England will be unable to oppose France,” leaving France able to continue policies that 
Houghton saw as “ruin and dismemberment.” Well aware of the prevalent opinion of 
Washington, Houghton could only express his hopes that “the real truth of this situation will 
make itself known in the United States. And just what will happen then, we shall see when it 
does happen.”

The Question of a Rhineland State

Houghton, from his vantage point in Berlin had good reason to worry about the domestic 
situation in Germany. By the summer 1923, the strains of long-term occupation and passive

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114 Memorandum of Interview with the Ambassador of France (Jusserand), 12 Jul 1923, 
reel 122, cont. 157, Hughes Papers.

115 Houghton to Castle, 31 Jul 1923, file 52, Castle Papers.
resistance threatened the potential dislocation the Reich itself. The printing of enormous quantities of paper money by the Reichsbank, done to support the unemployment insurance that enabled passive resistance in the Ruhr, had produced runaway hyper-inflation that threatened to disintegrate the nation’s economy. The areas of greatest desperation, the Ruhr and Rhineland, were sealed off from the rest of Germany by the occupying forces, but a resurgence of separatist movements throughout the country pushed solutions ranging from the creation of an autonomous Rhineland federal state, split off from Prussia but still within the Reich, to the establishment of an independent buffer-state under a French protectorate.

Well pleased with this resurgence of separatist feeling, French High Commissioner in the Rhineland, Paul Tirard, believed the chaos engulfing Germany would result in the establishment of an independent state or states dominated by France and communicated his appraisal to Poincaré who, after hardening his position regarding Germany over the course of the summer, was now beginning to shift his policy from forcing an end to German resistance to the establishment of a Rhenish buffer state. The internal situation in Germany was

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116 According to Feldman, “The crisis of 1923, therefore, was a far deeper crisis than that which brought forth the controlled Revolution of 1918-1919 because it was characterized by a despair and rage provoked by monetary disorder and social disruption which threatened the very existence of civil society itself as well as the political order and integrity of the German state.” Feldman, *The Great Disorder*, p. 699.


118 Nadler, *The Rhenish Separatist Movements*, pp. 277-78. Nadler points out that Tirard was over-optimistic, mistaking support for regional autonomy from Prussia with a demand
becoming dire.

Hughes and Castle attempted to justify the United States’ position of neutrality and inaction in a July 24 meeting with Wiedfeldt and Count Kessler.¹¹⁹ Kessler painted a dark picture of economic life in Germany, warned of social chaos there, and asked for American intervention. Hughes, as usual, referred to the problem of American opinion. However, if Wiedfeldt’s report of the meeting is accurate, Hughes described U.S. public sentiment as having shifted from entirely pro-French to an even split, with hundreds of letters flooding in from both French and German advocates and asked Kessler for concrete suggestions about what America could do.

Kessler suggested that the United States officially enter the Reparations Commission, so England would not stand alone. Hughes replied that the British were also in favor of this step, but that it was a matter for Congress which was in recess. When Kessler suggested that America could mount an attack on the franc, Hughes told him that the United States government did not have the same close relationship with American banks that British government had with the Bank of England and noted that although the government had some

for independence from Germany. The true separatist extremists were few and totally dependent on France for support. Trachtenberg feels this shift in policy came on 25 August in response to feelers from Ruhr Industrialists, especially Otto Wolff. Trachtenberg, Reparation in World Politics, pp. 314-21.

¹¹⁹ Count Harry Kessler had recently returned from his stint in London where he had been instrumental in advancing the German March initiative. A close friend of von Schubert, Kessler was one of the few Germans actually sent by the Auswärtige Amt to the U.S. on a propaganda trip. Intellectual and cosmopolitan, the count could always be counted on to create a good social impression. Apart from his meeting with Hughes and Castle to present the German viewpoint to the State Department, Kessler was also to lecture at Williamstown, MA where he was received very favorably by the American press. Grupp, Harry Graf Kessler, p. 285; Easton, The Red Count, p. 328.
influence, opinion in the banking community was also divided.\footnote{Wiedfeldt to AA, 31 Jul 1923, Nr. 89, \textit{ADAP} VII, pp. 232-35.}

What interested Hughes and Castle were reports from General Allen, citing D’Abernon, of rumors that the German government would be willing to consider administratively separating the Rhine provinces from Prussia to form an autonomous state within the Reich. Kessler stated that personally he was in favor of holding a plebiscite in the district; since France would feel satisfied that the mere fact that it had been held would prove its point. But Wiedfeldt, alarmed at the direction the conversation was taking, immediately interrupted with the argument that the Rhineland, “having been Prussians before they were Germans...felt themselves still Prussians first and Germans secondary.” Castle thought “there would be absolutely compelling reasons, naturally, against the formation of an autonomous state on the Rhine” but could offer no compelling reason not to separate the Rhine provinces from Prussia “except Prussian pride.” In describing his view of the matter to Houghton, Castle opined that if the Rhineland were separated from Prussia, German influence would prevail and thus not give security to France in the future, “but that seems to me of comparatively little importance if its creation would lead France now to institute reasonable economic discussions because she felt herself rightly or wrongly secure.”\footnote{Ibid; Castle to Houghton, 25 Jul 1923, file 52, Castle Papers.}

Castle’s persistent interest in the question of a Rhenish state raised Wiedfeldt’s suspicions that, under pressure from France and perhaps England, discussions with the United States on the issue were in progress.\footnote{Wiedfeldt to AA, 31 Jul 1923, Nr.89, \textit{ADAP} VII, p. 234.} Castle’s apparent indifference to the unity of Germany raised the possibility that if Britain and France reached a compromise, with the
blessing of the United States, Germany would be forced to agree or lose the battle for American opinion. Rhineland autonomy would also raise the danger of a break up of Germany if Bavaria were also to seek a more autonomous status. Kessler warned Castle that the whole world is standing before great difficulties due to the naive pride of the Americans. Castle replied that America is the only healthy nation and the only one with a stable government and that most be maintained for the sake of the world’s future.¹²³

The Death of Harding

When Vice President Calvin Coolidge assumed office after the death of Harding on 2 August, he immediately announced that he would carry out all of Harding’s policies and programs.¹²⁴ At a press conference following the first cabinet meeting on 14 August, he reaffirmed support for Hughes’s New Haven proposal and declared that the United States was ready to cooperate if the proper opportunity was presented. But Coolidge added that the government “hesitates to make any offer” and will wait to be invited. Coolidge warned, however, that the United States would not give favorable attention to any plan “which would commit this government too far.” The plan had to be “practical and offer a final solution to the whole problem” and meet with the approval of all of the interested parties.” In addition,

¹²³ Ibid, cited on p. 235. Kessler reported to Schubert his impressions of Hughes whom Kessler found frightened to take any action for fear of domestic criticism of any failure. “He will only move if sure of foreign policy success or in the highly unlikely case that the Republican Party forces him for domestic reasons.” Kessler gives his overall impression that it is unlikely that America will take any action at the instigation of England at the moment.

he announced that he wholeheartedly supported the collection of all war debts.\textsuperscript{125}

In London, Coolidge’s statement was hailed as a “welcomed change” in American policy implying that the United States might respond to a British call for an expert commission. Hughes utilized the Associated Press to state in response, only as an unnamed high official, that the “welcomed change” interpretation was both inaccurate and too optimistic. He also sent cables to American embassies in the European powers affirming that American policy remained the same. News of these cables increased speculation that the United States was in fact actively renewing its offer. The London papers again searched for special significance and clues, noting that Hughes had never before sent out such an explicit pronouncement of policy.\textsuperscript{126} Although the death of Harding did not alter U.S. policy toward Europe, the Europeans were primed to look at any official statement that might reflect a new course away from the passivity that characterized American policy that summer.

Curzon’s Note of August 11

As Coolidge and Hughes were making their statements about American policy on the Ruhr crisis, Curzon, believing that Germany had made real concessions in their 7 June note, tried to pressure France into negotiations. On 11 August he sent a strongly worded note to France and Belgium stating that the French and Belgian efforts to extract reparations by occupying the Ruhr were “doomed to failure” and that France’s threat to delay complete

\textsuperscript{125} Ibid; \textit{New York Times}, 15 Aug. 1923, p. 1; Wiedfeldt to AA, 18 Aug.1923, Po2b (964), Botschaft Washington, PA-AA.

\textsuperscript{126} This account is drawn from Wiedfeldt’s explanation to v.Schubert in response to v. Schubert’s inquiry about contradictory press report in London and Germany. Ibid; Schubert to Washington, 18 Aug 1923, Nr. 419, R28489, Büro RM-USA, D618884, p. 20.
evacuation until Germany fulfilled its entire obligation would lead to “disastrous” political and economic consequences.\textsuperscript{127} The note urged France and Belgium to accept Hughes’s proposed committee of experts. As an inducement Curzon repeated Bonar Law’s offer that Britain would seek from the inter-allied debt owed to it and German reparations only the sum needed to pay its debts to the United States. The note also pointed out that the plans proposed by Belgium and France gave those nations a disproportionate share of the reparations at the expense of Britain.\textsuperscript{128} Curzon also raised the possibility that Britain could join Germany in challenging the legality of the occupation under the Versailles Treaty and International law.\textsuperscript{129} The note also made clear that British advice to Germany to abandon passive resistance was political advice and in no way constituted British acceptance that German passive resistance was contrary to the Treaty of Versailles. Curzon also reminded France that Britain was deferring payment on the French war debt.\textsuperscript{130} The concluded with a statement that Britain “was reluctant to contemplate the possibility that separate action may be required to hasten a settlement which cannot be much longer delayed with the gravest consequences to the recovery of trade and peace of the world.”\textsuperscript{131}

Curzon’s note was largely a bluff since he did not have cabinet support for any of the actions “contemplated” within it. Political opinion in Britain remained divided and several


\textsuperscript{128} \textit{Ibid.}, pp. 470-71.

\textsuperscript{129} \textit{Ibid.}, pp. 474-75.

\textsuperscript{130} \textit{Ibid.}, Enclosure in no. 330.

\textsuperscript{131} \textit{Ibid.} p. 480.
cabinet members were opposed to the note. Britain did not have the unified political will to accept a break with France if necessary to lever France out of the Ruhr. Curzon’s note did appease some anti-French sentiment in Britain to some extent, but at the risk of charges of political impotence should Poincaré choose to call its bluff. Settlement of the Ruhr crisis would require combined British and American pressure. However, Coolidge’s and Hughes’ statements made clear that the United States would not become involved without French and Belgian agreement.

Poincaré waited no time in calling Curzon’s bluff, first with press releases and then with a long note containing the expected “full blast of French disapproval.” France’s position was that its war debts had been incurred “to make a greater military effort and to save English and American blood, whereas the German debt represents the Allied blood which was shed.” Poincaré affirmed the demand that France receive 26 billion gold marks and in addition requested a sum equal to what it was obliged to pay the United States and Britain, which could be provided through the German C bonds.

Belgium’s immediate response was to protest what appeared to be a British attack on the priority promised to Belgium in 1919 for German reparation payments, and to express

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132 O’Riorden, Britain and the Ruhr Crisis, pp. 82-92; Rupieper, Cuno Government, pp. 222-24.

133 Phipps to Curzon, 13 Aug 1923, no. 332, DBFP XXI, p. 483-84.

134 Ibid. p. 483.

offense that identical notes to both France and Belgium had cast Belgium “more and more into the arms of France.” Next, it attempted to determine what help the United States might offer about war-debt reduction. On 16 August, the Belgian chargé met with Hughes to discuss the American position in light of the recent diplomatic activity. Caught in the crossfire of the battle between Curzon and Poincaré, Belgium wanted to confirm Hughes’s thoughts about a settlement.

Without hesitation, Hughes dispelled all hopes either that war debts owed to the United States could be reduced to facilitate a settlement or that the United States would accept German C Bonds as a means of settling war debts. There was not the “slightest chance” that Congress would permit it. Nevertheless, Hughes did not view the reparations problem as unsolvable, noting that the total disputed amount was 45 billion gold marks (France wanted 26 billion, Belgium 5 billion, and Britain 14) and expressing his belief that not only could experts easily determine Germany’s capacity to pay, but also that payment schedules and guarantees could be arranged with international supervision.¹³⁶

Hughes was careful to add that because no request had been made to the United States, albeit the European powers directly concerned in the Ruhr crisis were in communication, he could make no official statement regarding the American position. However, speaking in what he termed a “personal and unofficial way,” he did outline his view of the settlement process. Although Germany had avoided payment in the past and possibly might be unable to pay in the future if conditions deteriorated further, he saw the current situation as a “favorable moment” and the Belgians as “[f]aithful allies of France;” while “understanding the position of Britain,” Belgium would be “a useful agent as achieving a compromise.”

¹³⁶ Hughes to Fletcher, 17 Aug 1923, FRUS 1923 II, pp. 66-68.
Hughes recognized France’s frontier security concerns but was suspicious of French intentions regarding the Rhineland and the Ruhr. He wanted Poincaré to make “a definite and reasonable proposal as to what France demanded for security” and cautioned that it was a “mistake to insist on the termination of passive resistance as a condition precedent to direct discussions.” Hughes warned that survival was doubtful for any German government that abandoned resistance without assurance of settlement terms, but also remarked that he expected Germany to end its public demands for immediate French troop withdrawal.

Germany and France should negotiate the amounts of payments, terms of payments, and guarantees by pledging the available resources of Germany with supervision “of an international character” to ensure that the payments were made. When substantial agreement had been reached, Germany could declare passive resistance ended and France could announce the end of the military occupation of the Ruhr. As a further incentive to negotiations, Hughes hinted that a European settlement which included disarmament might shift American public opinion toward supporting war-debt reductions, but also warned that if no settlement agreement was reached, conditions in Germany might deteriorate to the point that arrangements for reparation payments would become impossible.137 Despite Hughes growing concern regarding the situation in Germany, in mid August 1923 with President Coolidge only days in office, the policy of the United States remained one of reluctance to become actively involved in the European imbroglio.

Conclusion

From the start of the Ruhr crisis, Germany’s foreign policy centered on the United States, whose economic and financial power was viewed as essential to Germany’s recovery. The

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137 Ibid.
Cuno cabinet was created as a “businessman’s” government whose goal was to settle the reparations issue on an economic basis and reduce reparations to a level compatible with what “businessmen” would agree was feasible and credible for Germany to pay and still be able to recover economically. It was an approach designed to appeal to American sensibilities.

Germany had initially hoped that Hughes’s expert-committee proposal, made at New Haven, would forestall French action; after the occupation began, Germany expected that American and British economic interest in its recovery would lead those powers to intervene. When the United States failed to take any follow-up action to Hughes’s proposal, Germany did not relinquish its view of the centrality of the United States but instead resorted to a policy of attempting to use Britain, which was more immediately affected by the crisis, as a vehicle to achieve U.S. intervention. Germany pursued this unrealistic course of action despite warnings from both Wiedfeldt in Washington and Sthamer in London that early intervention was unlikely.

Since the vast majority of Germans were outraged by the occupation, Cuno’s decision to organize and support passive resistance is understandable; any other policy would have been viewed as surrender to France. But the Cuno government, supported by the bourgeois parties heavily influenced by industrial interests, failed to take the necessary steps to financially prepare Germany for its struggle with France. While insisting on passive resistance, neither the parties nor industry were ready to sacrifice their economic interests and accept the tax reforms required to support it unless they were compensated at the expense of the workers. As a result, the weak Cuno government was forced to run ever-growing budget deficits that caused rampant inflation.
In foreign policy the Cuno government relied on the hope for British intervention against France, which might in turn convince the United States to adopt a more active policy. However, the same interest groups in Germany that opposed financial reform also limited their financial support for German reparation proposals to levels lower even than British expectations, which greatly complicated the process of gaining British and American support. Germany’s difficulty in creating satisfactory reparation proposals also stemmed from increased nationalism, which was sparked by the occupation, which had intensified the public’s loathing of reparation demands that were seen as not only excessively high but also as punitive and unjust. It was also believed, not without reason, that no realistic reparation proposal would satisfy France.

A possible foreign policy initiative might have been for the Cuno government to have recognized its weakness and then to have considered the abandonment of passive resistance after the 7 June note, as demanded by France and Belgium in exchange for the opening of negotiations and the promise of partial French withdrawal from the Ruhr. However, there was no guarantee that ending passive resistance would bring the United States on board and this would have run the risk that France would simply prolong negotiations until Germany collapsed. Therefore, reliance on the promise of British support continued.

As inflation increased, the working class became demoralized. Passive resistance thereby became less of a viable policy and more of a means of justifying government policy. Although the resistance had initially united Germany, by July the financial and economic stress of maintaining by July led to greater contention between domestic interest groups. In was only in the last days of it administration, when Germany had reached the verge of economic collapse, that the Cuno government was able to take the first steps toward
economic stabilization. But by then, the government was bankrupt.

The United States looked to Great Britain to take the leading role in resolving the Ruhr crisis. Britain believed that ultimately it stood to gain more through commerce with a recovered Germany than it could extract in reparations from a bankrupt Germany, but at the same time it did not want to break with France. Faced with this dilemma, Britain hoped for United States involvement, which it saw as essential for any resolution of the crisis, and it resented America’s policy of disengagement. The latter was a luxury Britain could not enjoy, because of its occupation of the Cologne zone and its representation in inter-Allied commissions, both of which involved Britain in French-German disputes over railroads, customs, and trade. Britain initially pursued a policy of benevolent neutrality, but as conflict between Germany and France in the Rhineland and Ruhr grew the British position became more difficult. By April, Britain was engaging in tentative intervention by encouraging Germany to make reparation proposals that could become the basis for negotiations which Britain could mediate. This experiment led Germany to rely on British support rather than make the hard decisions necessary to stabilize its finances and make credible reparation offers.

The June note represented a real advance in German willingness to pay reparations but failed to lead to negotiations. Instead, it simply encouraged Poincaré to harden his policy. Frustrated by what he considered French intransigence, Curzon made the mistake of taking a harder line in his 11 August note, whose net effect was to demonstrate British impotence. With a divided cabinet and without American support, there was little Curzon could do to force France into negotiations. In August, Hughes made clear that the United States was still not willing, or prepared, to become actively involved.
The Cuno government’s inability to achieve any foreign policy success, and its failure to
prepare Germany for prolonged struggle with France, led to hyper-inflation which began to
cripple the economy. This situation was becoming truly desperate when the government
finally fell on 12 August. A fragile “great coalition” government was formed under Gustav
Stresemann, encompassing the Social Democrats and the middle-class parties, on 14 August.
Its immediate task was to confront both the deteriorating economic and financial situation in
Germany and Poincaré, whose policy had shifted from compelling Germany to pay
reparation to more ambitious possibilities that looked to achieving security needs beyond
what France had obtained at Versailles. It would not be until the unity of Germany itself was
threatened in late 1923 that the United States and Britain would concede that France had
gone too far and pressure France into negotiations to end the crisis.
Chapter VI

The Way toward Intervention:

America and the Resolution of the Ruhr Crisis

August - December 1923

Introduction

This chapter explores the period between August and December 1923, when the Ruhr crisis reached its peak and threatened the collapse of Germany. As the crisis reached its climax, events necessitated that the United States re-engage Europe, but it would do so only on its own terms, prescribed by domestic political constraints. With Germany prostrate and France weakened and isolated by the prolonged conflict, the way was finally open for Hughes’s December 1922 proposal for an experts committee to devise a plan for a solution of the reparation problem which had sparked the crisis. This chapter will examine changes at the height of the crisis that allowed the intervention of the United States, so keenly sought by Germany since the conflict began in January 1923.

In August, the new German government of Gustav Stresemann sought to stabilize Germany’s economic crisis and re-establish credibility. By achieving these goals it hoped to involve the United States, whose intervention Stresemann considered essential to the reconstruction of Germany. With the United States still reluctant to become involved, Stresemann sought the aid of Britain in obtaining French agreement to withdraw from the Ruhr in exchange for German guarantees of reparation payments. Britain’s diplomatic
attitude, however, was one of vacillation and reluctance to become involved, due to a cabinet stalemate over policy about France and Germany. Meanwhile, Poincaré refused to give up his productive pledges until Germany completely ended passive resistance.

In late September, imminent economic collapse forced Germany to do just that. But Poincaré, who entertained ambitions of separating the occupied territories from Germany, refused Stresemann’s desperate pleas for negotiations and tightened his hold. Domestic unrest and political instability continued to escalate in Germany which by October raised concerns in both Britain and the United States. Coolidge reaffirmed Hughes’s proposal for an expert committee, while British diplomacy was able to put enough pressure on Poincaré for him to participate in difficult negotiations about the scope of the experts committee until a solution was found that satisfied Hughes’s purpose and allowed Poincaré to save face.

The major concern of this chapter is the question of what motivated the United States to alter its disinclination to become involved in the European crisis and to engage in active diplomacy on Germany’s behalf that would pressure France to accept the New Haven Proposal. The chapter answers that question by examining the nature of the change in American opinion that occurred as the crisis became more urgent; it maintains that the determining factor in this change was the threat of Germany’s economic collapse and political disintegration, as the result of France’s actions in the Ruhr and Rhineland that were taken to resolve French security concerns. This broadened the nature of the crisis from an economic dispute over reparations to a political crisis that endangered American hopes for a peaceful reconstruction of Europe and threatened the Versailles settlement as well. Increasingly both the American public and the American government came to believe that Europe would not be able to resolve the crisis on its own and that resolution required
American involvement.

This chapter also examines changes in Germany and steps taken by the Stresemann government that led America to believe that intervention by the United States could be useful and successful, both prerequisites for American intervention. Answering the question of how Stresemann changed the strained atmosphere of the first half of 1923 necessitates an examination of his foreign and domestic policy. The chapter will argue that two essential components were Stresemann’s belief that foreign policy and domestic economic reform were linked and his ability to act accordingly in spite of domestic political and personal consequences. This conviction, along with the knowledge that America was essential to both the resolution of the crisis and Germany’s long-term future, convinced him to follow American leads in conducting policy. In turn, his ability to hold Germany together allowed for Coolidge’s and Hughes’s political decision in favor of American intervention.

Since French agreement to the New Haven proposal was necessary to begin the defusing of the crisis, the chapter also analyzes the complex reasons for Poincaré’s acceptance of Hughes’s proposal. What were his motivations behind his relations with Germany? How did the over-reaching of Poincaré’s German policy play a decisive role in the American decision to intervene? Finally, this chapter examines how the conflict between Poincaré and Hughes over the mandate of the experts committee threatened to undo the entire solution. Was Hughes’s threat to walk away from the whole project was a bluff or perhaps more accurately a further example of the constraints under which American policy towards the European crisis operated.

The Stresemann Government
The long-anticipated resignation of the Cuno government finally took place on 12 August. By then, the weary chancellor had lost all credibility as the government’s lack of diplomatic success was underscored by the ever-deepening domestic economic crisis. In November 1922, Cuno had been entrusted with forming a government that would bring the United States into the European crisis; Hughes’s New Haven proposal had buoyed these hopes. With the United States demonstratively avoiding involvement and the failure of British diplomacy to relieve Germany’s situation, Cuno left office at a time when prospects for a resolution of the foreign policy and the domestic political and economic crises were dim. His government was replaced on 14 August by a great coalition government that hoped to provide a broader base of support for the very difficult choices Germany would soon have to make if the Reich were to remain intact. The new cabinet, headed by Dr. Gustav Stresemann, who served as chancellor and foreign minister, was composed of a broad coalition that included the Social Democrats (SPD), the Center party, the German Democratic Party (DDP) and Stresemann’s own German Peoples Party (DVP).\(^1\)

Stresemann had long sought to be Reich Chancellor, but perhaps not under such circumstances. His background was one evolution from early opposition to the Weimar system to support of parliamentary democracy with lingering hopes that some day the monarchy could be restored on a constitutional basis.\(^2\) As head of the DVP and the


\(^2\) Turner notes that Stresemann’s transition from opponent to defender of the Weimar Republic has remained somewhat of a mystery to his contemporaries and to historians, some of whom see him as an opportunist and others as having made a sincere conversion. Turner’s view is that Stresemann was a conservative pragmatist who wanted the restoration of the country’s power and prosperity and the preservation of as much of what had been the pre-
Reichstag’s foreign relations committee in the Reichstag, Stresemann had been loyal to the Cuno government but had gradually become frustrated by its string of diplomatic failures while the German financial situation was strained to the breaking point. Like Cuno, Stresemann was known for his ties to the United States; he had co-founded Deutsch-Amerikanische Wirtschaftsverband, an interest group dedicated to improved economic relations with the United States.

Although Stresemann was well aware of the difficulty in engaging the United States in the European crisis, he hoped that by a strategy of closely following Hughes’s recommendations made to the Belgians on 17 August, Germany could attempt to engage France and his government might make more headway than its predecessor. As the pressures on and within Germany mounted, his primary concern was maintaining the Reich as a sovereign whole long enough for his foreign policy initiatives to take effect. For Stresemann, foreign policy was intimately connected with the issues of domestic currency reform and bringing hyper-inflation under control. Once these goals had been accomplished, the government might make an acceptable reparations offer or at least open the way to negotiations with France, with the hope then of internationalizing the reparations question by means of the Hughes proposal.³ Stresemann told the Reichstag, “We are expected to show activity in foreign affairs. The best activity of that kind which we can display is in the revolutionary order as was possible, “but was willing to be flexible about the means of achieving these goals.” Henry Ashby Turner, Stresemann and the Politics of the Weimar Republic, first Princeton paperback edition (Princeton: Princeton University Press, 1965), pp. 113, 263-64. Jonathan Wright has a similar view but notes the importance of the murder of Rathenau for his conversion to the defense of the Weimar constitution and against the violence of its right-wing enemies. Jonathan Wright, Stresemann: Weimar’s Greatest Statesman (New York: Oxford University Press, 2002), pp. 496-97.

³ Manfred Berg, Gustav Stresemann und die Vereinigten Staaten von Amerika: Weltwirtschaftliche Verflechtung und Revisionspolitik, 1907-1929 (Baden Baden: Nomos
settlement of our own affairs at home.”

The U. S. State Department’s initial appraisal of Stresemann was far from favorable. Robbins saw him as a mere politician and not “a high type of patriot,” someone “who had been gunning for the job” since the beginning of Cuno’s incumbency. But with the exception of Rudolf Hilferding, the finance minister and a member of the SPD, Robbins considered the entire cabinet to be an extremely weak lot of “old dodos.” He felt that Cuno had been under the “thumb of the industrialists” who were responsible for the serious condition of Germany, and assessed Stresemann as “being of the same persuasion though far less scrupulous than his predecessor.”

The new government, however, was sharply divided in regard to domestic policy. The SPD wanted steep increases in corporate and income taxes, to raise government revenue and combat inflation. It also wanted governmental protection of real wages, as well as social security and pension benefits-- all of which were being ravaged by accelerating inflation. The DVP demanded further sacrifices from workers and an increase of the eight-hour work day, a demand fiercely opposed by the SPD. The support of the SPD, however, was crucial.

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5 Robbins to Castle, 15 Aug 1923, file 52, Castle Papers.

6 Robbins to Castle, 28 Aug 1923, file 52, Castle Papers.

7 For opposition to the government, see Erdmann and Vogt, Die Kabinette Stresemann I, p. xxvii and Parteiführerbesprechung, 22 Aug 1923, Nr. 14, Die Kabinette Stresemann I, pp. 56-60.
to maintaining workers’ willingness to continue passive resistance.\(^8\)

During August and September Germany struggled over how the sacrifices that currency reform would require should be distributed among the various sectors and classes of society. The explosive question of the stabilization of German finances, which had been at the heart of the reparations debate since 1921, could no longer be avoided. Successive German governments had reverted to the printing press to assure domestic peace. Now, with total economic collapse brought on by months of paying for passive resistance, these issues had to be directly confronted. Questions regarding the retention of the eight-hour workday struck at the core gains of the 1918/19 revolution. These issues were critical to the survival of both the government and the internal viability of the Reich itself. From their respective extremes, the Communists and Fascists provoked strikes and demonstrations. Sentiment favoring some form of separation from grew in the Rhineland, as did nationalistic feeling in Bavaria.\(^9\) In the Ruhr, workers had become almost completely demoralized; as France tightened its hold and expelled Germans who refused cooperation, some businessmen began to seek accommodation with the occupiers.\(^{10}\)


\(^9\) Along with nationalism, there existed in Bavaria strong particularist and separatist sentiments. Conservative Bavaria distrusted the central government in Berlin, which was considered to be left-leaning, and there was much talk in Bavarian rightist circles of either marching on or breaking from Berlin. This should also be seen in the context of the longstanding regional and religious differences dating from the formation of the Reich in 1871. See Introduction, *Politik in Bayern: Berichte des württembergischen Gesandten Moser v. Filseck*, ed. Wolfgang Benz (Stuttgart: Deutsch Verlags Anstalt, 1971), and Werner Gabriel Zimmermann, *Bayern und das Reich, 1918-1923* (München: Richard Pflaum Verlag, 1958).

\(^{10}\) For a detailed account of the crisis throughout Germany, see Feldman, *The Great Disorder*, pp. 698-708; for a detailed account of the growing crisis within the Ruhr area, see
Stresemann’s Appeal to the United States and Britain

Stresemann fully realized that Germany could not continue passive resistance much longer. In a cabinet meeting on 23 August he described Germany’s position as desperate and stated that passive resistance could not be continued into the winter without creating extreme social unrest. Ending passive resistance, however, risked strong reaction from the nationalistic right in unoccupied Germany. Although Britain was attempting to isolate France by splitting off Italy and Belgium as well as attempting to bring in America, no immediate help from Britain could be expected. Stresemann’s initial strategy therefore was to attempt to prod the British into standing by Curzon’s notes of 20 July and 11 August while at the same time exploring the possibility of negotiations with France.

There was general agreement that accepting Poincaré’s demand for the end of passive resistance would be a blow to the prestige the government, but with its capacity for continued resistance nearly exhausted, Germany could no longer let pride interfere with a practical solution. It was willing to consider abandoning passive resistance and to negotiate economic guarantees provided they did not alter the political status of the Rhineland and the Ruhr. The cabinet’s decision, however, was to maintain the policy for the time being while Stresemann explored diplomatic options.11

Stresemann could not expect immediate help from the United States either. After a meeting with Hughes, Wiedfeldt reported that there would be little chance of American intervention on Germany’s behalf. Coolidge still held to Hughes’s New Haven proposal but would only participate in an international conference if France accepted the proposal and

Fischer, The Ruhr Crisis, pp. 192-218.
requested American participation. When Wiedfeldt complained that the American neutrality was in practice actually favorable to France, Hughes replied that he could not disagree but also did not think this would change. Wiedfeldt wondered what had happened to the earlier support among many Americans for some U.S. engagement and noted that American politicians returning from Europe, such as Secretary of the Treasury Andrew Mellon, were saying that the time for American involvement had passed and that America should step back from European chaos. Hughes agreed that conditions for American involvement had become more difficult.\textsuperscript{12}

But for the first time Hughes, instead of just listening to Wiedfeldt’s recitation of Germany’s difficulties, asked specific questions. Off the record, Hughes wanted to know whether conditions were really so bad that there was a Bolshevik danger. Wiedfeldt replied that the threat of a German collapse was imminent, that disintegration was already beginning, and that it would provide the Bolsheviks with a great opportunity. Hughes commented that he still did not think “Germany would go under,” to which Wiedfeldt retorted that the United States bore some responsibility for Germany’s situation since it had left Germany after the war “under a treaty that could not be fulfilled.” Wiedfeldt then asked if the United States could pressure France with financial issues or make a declaration standing behind the British initiative; Hughes replied that such means were too weak and that he doubted such an initiative would have any success.\textsuperscript{13}

On 27 August Houghton informed Hughes of Stresemann’s plans to stabilize the currency

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\textsuperscript{11} Kabinettssitzung, 23 Aug 1923, Nr. 18, \textit{Die Kabinette Stresemann} I, pp. 75-83.

\textsuperscript{12} Wiedfeldt to AA, 23 Aug 1923, Nr. 309, D618891, Büro RM-USA, Bd. 3, p. 27

\textsuperscript{13} Ibid.
\end{flushleft}
and attempt to reach an agreement with France, but reported that a “sense of hopelessness” was hampering the initiatives and discouraging democratic elements from the nationalistic right and also from the left, where there was a danger of a German form of communism developing. Although Houghton had confirmed Wiedfeldt’s statements, Hughes remained content to wait upon developments and refrain from risking American and administration prestige on uncertain outcomes.\(^1^4\)

Germany continued to remain dependent on Britain for immediate support, but by late August Baldwin’s position had changed. Curzon’s 11 August note had caused an uproar among pro-French members in the British Cabinet, who demanded that Baldwin repair relations with France and accept an invitation from Poincaré to meet with him during Baldwin’s vacation in France in September.\(^1^5\) By late August, with the cabinet divided and

\(^{1^4}\) Houghton to Hughes, 27 Aug 1923, Houghton Papers. Werner Link states that by August, the U.S. was increasingly ready to intervene, “more so then Stresemann knew.” Die amerikanische Stabilisierungspolitik, p. 203. Link judges that U.S. economic interest dictated an intervention in the crisis as the Ruhr occupation began to hurt U.S. business and the threat of a Franco-German economic co-operation out weighted the benefits of destroyed German competition; he sees the turning point in the summer of 1923. Link, “Die Vereinigten Staaten und der Ruhrkonflikt,” p. 46. Even if this doubtful proposition was true, there is no indication that such calculations affected Hughes in his directing of U.S. foreign policy.

\(^{1^5}\) For a discussion of this evolution of British policy see O’Riordan, Britain and the Ruhr Crisis, pp. 89-100 and Rupierper, The Cuno Government, p. 222. Matters were further complicated in late August when Belgium and Italy replied unfavorably to Curzon’s 11 August note. The Belgians’ reply, less harsh than the French, suggested that they might accept the exchange of productive pledges in the Ruhr for more general pledges, and were willing to consider an experts committee under Reparation Commission. But it adhered to Poincaré’s position that this could not occur until passive resistance ended. Grahame (Brussels) to Curzon, 31 Aug 1923, no. 341, DBFP XXI, pp. 498-99 and memorandum on the French and Belgian notes, 14 Sept 1923, no. 362, DBFP XXI, pp. 522-24. Italy, responding that its position was “to protect Italian interests,” saw a deadlock since Germany had not given up passive resistance and Britain had not “explicitly declared that she would she remit Allied debts,” an issue most dear to Italian hearts. Graham (Rome) to Curzon, 31 Aug 1923, no. 342, DBFP XXI, pp. 499-500.
receiving neither Belgian and Italian support nor an indication of active support from the United States, British policy was at a stalemate. The Foreign Office now favored a delay in any new action until policy could be discussed at the Imperial Conference scheduled for October.

Stresemann soon discovered he could not count on the British support for which he had hoped. On 23 August, he asked Sthamer to notify the British that Germany’s desperate situation would require it to make some important hard decisions and to ask the British for their views and intentions.\(^{16}\) Since Baldwin, Curzon and Crowe were all on vacation, Sthamer met with William Tyrrell, an assistant under-secretary in the Foreign Office. Tyrrell, however, was an ardent supporter of maintaining the Entente with France; Sthamer’s entreaties were unproductive.\(^{17}\)

After this failure, Germany next tried D’Abernon. On 29 August, Schubert met with D’Abernon and reiterated Sthamer’s pleas. D’Abernon, doubtful that British-French talks would produce anything fruitful given Poincaré’s obstinacy, suggested that Germany might give up passive resistance, negotiate with France and accept some French control in exchange for a lightening of the occupation, after which a settlement meeting could be held.

\(^{16}\) Stresemann to Sthamer, 23 Aug 1923, Nr. 114, ADAP VIII, pp. 288-91.

\(^{17}\) Germany, having informally heard of the demands contained in Poincaré’s reply to the British reparation proposal, hoped that Curzon’s 11 August note might soften the French, but it was now clear that this was not to be and that further British action was necessary. Sthamer tried to impress upon Tyrrell that the situation was desperate and that Germany needed British help, stressing that Germany was doing all that it could in the way of reforming its finances, but could not take draconian measures without domestic disorder. He asked for elaboration of the details in the 20 July British reparation proposal and stated that Germany was willing to do anything in its power to make it easier for the British to influence France. Although ready to give up questions of prestige and pride, Germany was facing capitulation to France and possible internal collapse. It needed to know British intentions quickly, because decisions about ending passive resistance had to be made. Ibid., see also
among France, Germany and Britain. For Schubert this was a “monstrous demand” that Germany would have to consider. If Britain could not help diplomatically, von Schubert asked D’Abernon to inquire whether it could at least ease Germany’s desperate financial situation by allowing British receipts from the Reparation Recovery Act to be used as guarantees to British exporters of coal to Germany. This Britain declined to do.  

Without financial help from Britain, Stresemann recognized that passive resistance would have to be ended quickly. Meeting on 30 August, the cabinet decided to place strict limitations on future unemployment funds for the occupied territories, a move that presaged ending of passive resistance, and established a committee to investigate the creation of a new fixed-value currency to replace the rapidly depreciating Reichmark. The cabinet explicitly recognized that Germany’s economic instability impeded its foreign policy. 

Politically, however, Stresemann could not afford for the ending of passive resistance to be seen as surrender and a defeat. He needed to obtain some concession from France that

O’Riordan, *Britain and the Ruhr Crisis*, pp. 91-94.

18 Tyrrell’s minutes of D’Abernon’s report would declare, “The Germans know as well as we do that unless they make the first move as regards passive resistance the French toes will remain dug in: the key is in Berlin.” Von Schubert, Aufzeichnung, 29 Aug 1923, Nr. 123, ADAP VIII, p. 312-14; D’Abernon to Curzon, 1 Sept 1923, no. 343, DBFP XXI, pp. 500-501, n. 3. D’Abernon noted in his diary that British policy of insisting on extracting payments under the Reparation Recovery Act (which taxed German imports to Britain at 26%, paid for by the German government) and various payments to the Rhineland Commission was counterproductive, contributed to the German inflation and “injured to a certain extent our moral position and we have gained very inadequate compensation for it.” D’Abernon, *An Ambassador of Peace* vol. 2, p. 247. On 6 September, D’Abernon personally urged Britain to accept this proposal or provide some other financial assistance. The request, however, was refused, on the grounds that Britain was reluctant to give up its reparation payments at a time when France and Belgium were doing everything in their power extract all that they could from Germany. Britain was also hesitant because such assistance could be misinterpreted by France and Belgium and denounced as affording support to German resistance. D’Abernon to Curzon, 6 Sept 1923, no. 353, DBFP XXI, p. 513; Curzon to D’Abernon, 13 Sept 1923, no. 360, DBFP XXI, pp. 520-21.
would allow him to make the ending of passive resistance appear as a diplomatic exchange made to preserve German unity and defuse the crisis. On 2 September, in a speech to representatives of the press at Stuttgart, he stated that the government was willing to offer security pledges both from private property and properties owned by the Reich, if this would open the way to a solution of the conflict and freedom for the Ruhr. He also made the usual offer of a Rhine peace pact guaranteeing the Versailles borders, predicated upon French good will in not attempting to separate the Rhineland from Germany.  

Stresemann’s Attempts to Negotiate with France

In the absence of any British initiative, Stresemann attempted to ascertain what compromises could be obtained from France. Already on 17 August, Stresemann had informally sounded out the French ambassador, Pierre de Margerie, as to the goals of French policy regarding Germany. Margerie denied that France wanted to meet security needs by annexing the Rhineland, but with the statement, “The fate of the Rhineland hinges on the Rhineland” (i.e. the decisions of the Rhinelanders) he left the door open for possible alternation in its status.

On 21 August, Cologne industrialist Otto Wolff informed Stresemann that he had spoken with General Degoutte, commander-in-chief of the French troops in the Ruhr, regarding what could be done about conditions in the Rhineland and prospects for industrial cooperation in

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19 Kabinettssitzung, 30 Aug 1923, Nr. 33, Die Kabinette Stresemann I, pp. 155-68, n. 3.

20 Aus einer Rede Dr. Stresemanns in Stuttgart, 2 Sept 1923, Nr. 1071, Ursachen und Folgen V, pp. 191-92.

21 Aufzeichnung Reichskanzler Stresemann über den Besuch ausländischer Botschafter, 17 Aug 1923, Nr. 8, Die Kabinette Stresemann I, pp. 18-23.
the Ruhr. Stresemann agreed to allow further discussion, in the interest of expediting a solution to the Ruhr conflict, but only under guidelines indicating the limits of what Germany could accept. The railroads, for example, were not to be used as a pledge for a foreign loan, and the possibility of a Rhenish republic was not to be discussed.

On 25 August, Poincaré decided to adopt a policy of attempting to loosen ties between the Rhineland and the Reich while strengthening its ties to France. He decided that the best way to accomplish this would be to encourage initiatives by the Rheinlanders based on a right to self-determination rather than on authority granted by Berlin. The importance of support from German industrialists to such an independence movement had been stressed by Degoutte, therefore French intentions were to prolong and even aggravate the German crisis and thereby stimulate Rhine and Ruhr industrialists to make an arrangement favorable to French political goals. Parallel to this policy, Paul Tirard, the French representative on the Rhineland Commission, pursued a more direct method to solve the problem of French security by seeking a redefinition of the Rhineland’s political status. To this end he began

22 Wolff, head of the concern holding the Phoenix and Rheinstahl works, had told Degoutte that French maltreatment of the German population and confiscation of property were merely intensifying German desires for revenge, suggesting a political understanding between Germany and France and economic cooperation to improve the situation. France, however, would have to invest in German industry so that Germany could afford to pay reparations to France. He also suggested to Stresemann that with economic collapse in the Rhineland, support was growing for the establishment of a Rhineland State that would also include parts of the Ruhr. Stresemann, Diaries, p. 91; Peter Wulf, Hugo Stinnes: Wirtschaft und Politik, 1918-1924 (Stuttgart: Klett-Cotta, 1979), p. 396.

23 Aufzeichnung über eine Unterredung Otto Wolff mit General Degoutte, 29 Aug 1923, Nr. 30, Die Kabinette Stresemann I, pp. 142-44.

24 Trachtenberg, Reparation in World Politics, pp. 320-21. The policy had been followed more informally since the hardening of the French position in June and July. Anticipating the collapse of passive resistance, the French had stepped up their overtures to Ruhr industrialists. Paul Tirard reported to Poincaré in July that such contacts were increasing and
openly supporting separatist attempts to seize control of the region and establish an independent Rhenish republic.\(^{25}\)

On 3 September Stresemann met with Margerie, whose attitude during the interview reflected Poincaré’s newly adopted policy of exploring the possibility of separating the Rhineland from Prussia or Germany. When Stresemann offered negotiations based on Curzon’s 20 July proposal, Margerie interjected that the conflict in the Ruhr was a matter that concerned only France, Belgium and Germany; England was not involved. In any case, Margerie insisted, passive resistance must cease before France would enter into any official discussions; nonetheless he was interested in Germany’s views. Stresemann discussed the use of general reparation pledges, suggesting an economic agreement with France based on a closer relationship between French and German industries. To his offer of a Rhine security pact, Margerie retorted that France would rely on the Treaty of Versailles. Well aware that Germany’s ultimate need was to involve the United States, Margerie reminded Stresemann that this offer was similar to the 7 June proposal which Hughes had “unofficially rejected.”\(^{26}\)

Stresemann wanted to know if French policy was immutable or whether there was a chance of reaching an understanding on the important differences. This line of inquiry was

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\(^{25}\text{Nadler, }\textit{The Rhenish Separatist Movements}, \text{pp. 303-10; McDougall, }\textit{France’s Rhineland Diplomacy}, \text{pp. 299-300. Britain had followed the beginnings of the separatist movement since July. On 18 August, British High Commissioner on the Rhineland Commission, Lord Kilmarnock, reported that a movement for an independent Rhineland state was beginning to get organized under French sponsorship but was not having much success and that he believed, similarly to General Degoutte, that success was unlikely “without the cooperation of the great Rhenish industrialists.” Kilmarnock to Curzon, 18 Aug 1923, no. 338, }\textit{DBFP XXI}, \text{p. 491.}\)

\(^{26}\text{Stresemann, }\textit{Aufzeichnung}, 3 Sept 1923, \text{Nr. 126, }\textit{ADAP VIII}, \text{p. 319-22; Stresemann, }\textit{Diaries}, \text{pp. 97-101. Stresemann told Margerie that if Germany could not pay reparations due to the Ruhr conflict, that was a matter which did involve Britain; Bradbury agreed. See}\)
impeded, however, by the issue of passive resistance, which he stated could only be ended if
the future status of the Ruhr was settled; without the Ruhr, Germany could not make
reparation payments. He also insisted upon the immediate return of Germans deported from
the Ruhr and the release of German prisoners. In addition, Stresemann turned away a
suggestion from Margerie that the Ruhr should be evacuated only in stages proportionate to
payments made by Germany, insisting that France should begin withdrawal as soon as
pledges became effective.27

D’Abernon, who had heard of these negotiations, warned Schubert that Britain wanted to
be informed of any German negotiations with France, most especially if they involved
reparations in which Britain wanted to be involved. Failure to do so would make a “bad

27 France wanted to create productive pledges by starting an international railway
company in the Rhineland and annexing German mines in the Ruhr, whereas Germany
wanted to raise money for reparations with mortgages on industry and agriculture and a
pledge of Reich property. Stresemann wanted to know if the French need to secure coal and
coke could be met by a mortgage on German total production, through treaties between the
states or by private agreements guaranteed by Germany. Stresemann also offered a closer
relationship between French and German industry that might lead to an economic agreement,
and was willing to discuss the extent and amount of delivery in kinds. Stresemann,
Aufzeichnung, 3 Sept 1923, Nr. 126, ADAP VIII, p. 319-22; Stresemann, Diaries, pp. 97-
101. The next day, Ago von Maltzan met with Margerie and gave him a note outlining
Stresemann’s ideas. When Margerie re-emphasized that Poincaré would not accept official
negotiation until passive resistance ended, von Maltzan adopted a stratagem, suggested by
D’Abernon, that this might be understood as an informal conversation between two
gentlemen. Von Maltzan then implied to Margerie that Germany could accept the French
condition of no negotiations prior to the end of passive resistance, by suggesting that
Poincaré give Germany informal assurances that following the ending of passive resistance,
Poincaré would voluntarily give concessions such as amnesty for German prisoners, the
return of Germans exiles that France had expelled from the occupied regions and the
restoration of the administration, including the railways, to German authorities. Von Maltzan,
Aufzeichnung, 4 Sept 1923, Nr. 128, ADAP VIII, pp. 324-25. For D’Abernon’s suggestion
for informal agreements, see von Maltzan, Aufzeichnung, 3 Sept 1923, Nr. 125, ADAP VIII,
p. 317.
impression in Britain.” Meeting with von Maltzan, he urged that Germany not just capitulate but also negotiate with the French. Maltzan pointedly countered that if England could not provide Germany with help, Germany would be forced to end passive resistance. Britain’s strategy was to attempt to maintain conveying a neutral stance to France and Germany regarding conditions in the Ruhr, and then to become involved when actual reparations payments were discussed.

On 4 September Stresemann informed D’Abernon that he was not opposed to financial and industrial groups in Germany and France making private arrangements, but he would officially negotiate only with the Allies. In fact, on 29 August he met Stinnes, Albert Vögler and other industrialists who informed him of their discreet inquiries regarding the French conditions for ending the struggle, which they had been told would include a 10% stake in German industry. Vögler warned Stresemann that resistance could not last much longer in the Ruhr as the population was worn down; in four weeks at the most, resistance would have to be stopped. Stresemann agreed but felt this outcome was “extraordinarily tragic,” as he was positive that by holding out “we could have won the game with England’s assistance.” This was not possible, however; even aside from conditions in the Ruhr, the national economic situation prohibited it.

28 Von Schubert, Aufzeichnung, 29 Aug 1923, Nr. 123, ADAP VIII, pp. 312-14, n. 8; D’Abernon to Curzon, 1 Sept 1923, no. 344, DBFP XXI, pp. 501-2.

29 Stresemann, Diaries, p. 101; Stresemann, Aufzeichnung, 3 Sept 1923, Nr. 126, ADAP VIII, pp. 319-22.

30 Stresemann, Diaries, p. 102; D’Abernon to Curzon, 4 Sept 1923, no. 346, DBFP XXI, pp. 503-4.

31 Von Schubert, Aufzeichnung, 29 Aug 1923, Nr. 122, ADAP VIII, p. 311. In an effort to reassure Britain, Poincaré instructed the French chargé d’affaires in London to inform the
In a speech on 9 September, Poincaré stated clearly that he preferred “positive pledges and we shall not give them up against general pledges which perhaps should be written down on paper, but not bring any realities, and we shall not withdraw until we are paid.” Nonetheless, he wanted to know more about Stresemann’s proposal. Stresemann again met with Margerie on 10 September, to explain a plan for mortgages on the German economy to be held by a trust that would include Allied representation. These mortgages could be used to obtain an international loan that would give immediate payments to France, which in turn would allow France to withdraw from the Ruhr. Margerie, however, was primarily interested in the details of what Stresemann meant by the end of passive resistance.

Poincaré’s interest was not in a negotiated settlement but rather the vindication of his Rhineland policy, to be accomplished by Germany’s capitulation. Stresemann knew that

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British of Margerie’s conversations with Stresemann. Although desirous of concealing the conversations from the press, Poincaré stated that he wanted to keep the British fully informed. The Foreign Office’s opinion was that Britain would welcome any measures that would liquidate the Ruhr crisis, reasoning that acceptance by Poincaré of Stresemann’s pledges in exchange for ending the occupation would have, from the British standpoint, two benefits. First, it would get rid of the “incubus on British trade” which the Ruhr situation represented; and second, it would clarify Britain’s financial situation by ascertaining how much money could be expected from Germany and the Allies and when Britain could expect it. Britain would therefore welcome any measure which would liquidate the Ruhr crisis, provided it did not jeopardize a reparation settlement satisfactory to British interests. The problem, as the Foreign Office saw it, was that Stresemann was “willing to give any sort of undertaking, however impossible of fulfillment, to get the French out of the Ruhr” and Poincaré was disinclined to end the incursion until it had “been demonstrated beyond all doubt that German had been utterly defeated, and their determination that this shall not happen again in the case of the Ruhr. We must realize that a German admission of defeat is more M. Poincaré’s present object than the defeat itself.” Curzon to Crewe, 8 Sept 1923, enclosure of a note by Sir W. Tyrrell, no. 358, DBFP XXI, pp. 516-18, quote in n. 4, p. 518.

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32 Cited in Stresemann, Diaries, p. 111.

33 Stresemann, Aufzeichnung, 10 Sept 1923, Nr. 136, ADAP VIII, pp. 350-53. Stresemann’s plan was very similar to the Dawes Plan. It is very unlikely that Poincaré was interested in an international loan since this would have meant negotiation with international bankers which, considering his experience in summer of 1922, was not an attractive
Poincaré was unlikely to accept his offer but hoped to find out what would satisfy Poincaré, for future negotiations. Von Schubert felt that capitulation was inevitable; the difficulty for Germany was the uncertainty of what would happen afterward: “If only we knew that the giving up of resistance would lead to lighting the occupation of the Rhineland and the Ruhr and the certainty that we would then enter into intensive negotiations.”

Germany’s frustration and fury at what it felt was abandonment was apparent in the tone of diplomatic conversations. On 8 September, when meeting with Chairman of the House Committee on Foreign Relations Stephen G. Porter, who was visiting from America, Stresemann delivered a harangue on American lack of action in which he expressed the view that the United States bore the greatest share of guilt for the present conditions in Germany. Stresemann recalled that at the time of the armistice Germany had not made an unconditional surrender and had been betrayed by Wilson at Versailles. He condemned the United States for leaving Europe “to stew in its own juice” but also explained that he was not referring to technical responsibility, but rather moral responsibility.

When Porter pointed out that Hughes’s New Haven speech had been passed over by the Allies and therefore there was nothing more the United States could do, Stresemann argued that the United States had not done her full duty by making a proposal and then relapsing into passivity upon its rejection, adding that America’s moral obligation was to ensure the proposal’s adoption. Stresemann then exploited what he believed was the American great fear by asserting that a U.S. statement of interest in the proper settlement of the reparations problem would nullify reactionary and communist (i.e., Bolshevik) dangers. These comments reflected not only the pervasive German belief that it was only the powerful proposition and would limit his freedom of action.
United States that could save Germany and German resentment that the U.S. had failed to do so, but also a tendency to castigate the United States with one breath and plead for help with the next.\textsuperscript{35}

Delaying the Inevitable

On 15 September the German cabinet agreed to delay the decision to abandon passive resistance until after the meeting of Poincaré and Baldwin that was to take place in Paris on 19 September. In preparation, Strezemann would begin a flurry of diplomatic activity in hopes of obtaining at least some concessions for abandoning passive resistance and thereby avoid the appearance of total capitulation.\textsuperscript{36} Also on 15 September, Stthamer met with Tyrrell and asked if it would be safe for his government to call off passive resistance; he also wanted to know if the British were satisfied that the French were not bent on the dismemberment of Germany. Tyrrell replied that Poincaré had declared to the world that he

\textsuperscript{34} Schubert to Hoesch, 12 Sept 1923, Nr. 142, ADAP VIII, pp. 370-71.

\textsuperscript{35} Houghton to Hughes, 8 Sept 1923, Houghton Papers. Germany also succeeded in infuriating the British foreign office. On 12 September, the German Chargé d’ Affaires, Alfred Feronce-DuFour, read to a British foreign officer extracts from two letters from von Schubert in which he condemned the “silence and inaction” of England as “stultifying” the policy that von Schubert had pursued with Britain, which apparently proved that those in Germany who had always maintained nothing could be expected of Britain were correct and that by placing his hopes in Britain, Schubert had “backed the wrong horse.” When he became aware of this incident, Tyrrell indignantly complained to Stthamer, but made it clear he blamed von Schubert not Dufour. He also told Stthamer that when he found out that von Schubert had been appointed head of the English section, he had “regretted it exceedingly, as I did not think he was a fit and proper person for such a post.” When Stthamer wisely made no comment, Tyrrell inferred that Stthamer agreed with his assessment and went on to say that he hoped the incident would lead to Schubert’s removal. Record by Sir W. Tyrrell of a Conversation with the German Ambassador, 15 Sept 1923, no. 363, DPFP XXI, pp. 325-26.

\textsuperscript{36} Kabinettsitzung mit dem Preussischen Staatsministerium, 15 Sept 1923, Nr. 59, Die Kabinette Stresemann I, pp. 273-84.
had no political aims. Tyrrell also denied that Britain was concerned that German capitulation would result in French economic hegemony, since the other Allies would not allow it.

Sthamer then suggested that it would be easier for his government to come to terms with the French over the Ruhr if Britain consented to act as a mediator between the two parties, since it would be easier for Germany politically to back down, and would deflect full responsibility for ending passive resistance from the Stresemann government, if it were done on the advice of England. Tyrrell sidestepped this request by pointing out that Poincaré would not accept mediation and that Britain would be exposed to further rebuff if it made such a suggestion, and then reinforced his arguments for the ending of passive resistance by reminding Sthamer that Germany had to choose between surrender to France or certain chaos. In his minutes of Tyrrell’s report, Curzon wrote, “I approve of everything he said. Our business is to stand aside at the present moment.”37

Seeking the aid of Belgium, Stresemann met with its ambassador on 16 September and

37 Record by Sir W. Tyrrell of a Conversation with the German Ambassador, 15 Sept 1923, no. 363, DBFP XXI, pp. 525-26 and n. 3. In Berlin, Stresemann warned D’Abernon on 18 September that Germany was in the position of having to end both passive resistance and financial assistance to the occupied territories, in which case Belgium and France would have to assume responsibility for provisioning the district. Germany would then consider the Treaties of Versailles and Berlin invalided, and in view of the loss of the Ruhr and the Rhineland, would have to refuse any further fulfillment of them. D’Abernon asked whether Stresemann was saying that the Treaty of Versailles was already broken. Stresemann replied that he was not, but repeated that Germany would not be able not carry out its terms under such conditions. Stresemann’s threat to D’Aberdon was no doubt intended in influence the British in their discussions with Poincaré, but the effort failed. The Foreign Office, which still expected that British and French negotiations over reparations would follow the ending of passive resistance, stated in minutes of D’Abernon’s report that it would not be wise to intervene between France and Germany: “What Germany must do is to abandon passive resistance and then offer the Allies jointly some adequate guarantees which there is some reasonable chance of the allies accepting.” The Foreign Office expected that the French would then be much more likely to modify conditions. Stresemann, Diaries, pp. 124-25;
pointed out that if German authority were returned to the Ruhr and the general pledges
accepted, Belgium could receive reparation payments in 1924. Stresemann’s real purpose,
however, was to use Belgium as a check on French designs of creating an autonomous
Rhineland state after Germany gave up passive resistance. He insisted that Germany would
never agree to the establishment of such a state as a solution to the Ruhr problem, because it
would set up another Bavaria rather than a peaceful democratic state, all of which would
have a terrible effect on the rest of Germany. The Belgian ambassador agreed, noting that
such a state would not be in Belgium’s security interest. 38  Stresemann then met with
Margerie on 17 September, only to be told decisively that Poincaré would not negotiate until
passive resistance was totally abandoned and also, with some embarrassment but under
instructions from Poincaré, that Margerie would not accept any written communication. 39

Von Maltzan notified the German embassies in London and Rome that Belgium and
France were refusing any negotiation and that Germany was asking for at least some
informal, unofficial understanding that there would be a lightening of the occupation which
would relieve some of the extreme domestic political pressure. Realizing neither London nor
Rome would take any initiative on Germany’s behalf, the embassies were not instructed not
to ask for any action; the missives were only to let them know how France and Belgium were
behaving in response to Germany’s request. All Germany could do was to try to shift public

38 Stresemann, Aufzeichnung, 16 Sept. 1923, Nr. 149, ADAP VIII, pp. 383-86; Besprechung des Reichskanzlers mit dem belgischen Gesandten, 16 Sept 1923, Nr. 61, Die Kabinette Stresemann, pp. 290-94. Von Matlzan met with the Belgian ambassador to reinforce the message the next day. Maltzan, Aufzeichnung, 17 Sept 1923, Nr. 150, ADAP VIII, pp. 386-87.

opinion in its favor, hoping it might check Poincaré once passive resistance was ended.\textsuperscript{40}

German efforts to change opinion did find some success in Washington. Houghton warned Castle that, with the approaching end of passive resistance, the situation in Germany was explosive and that he feared for Stresemann’s life, noting that he already had been shot at but that the news had been suppressed. Stresemann was also worried that France would turn the Rhineland into a buffer state, as well as about the increase in Bavarian separatist sentiment. Houghton noted that Stresemann planned to merely announce the inability of the government to further finance resistance in the Ruhr and the Rhineland, but anticipated that Poincaré “would no doubt demand a formal surrender.”\textsuperscript{41}

Castle wrote Houghton that Stresemann’s offer to end passive resistance if France agreed gradually to withdraw troops “was just about as liberal a proposition as could have been made by any prime minister who did not expect promptly to fall.” He also noted that his opinion of Stresemann was changing: “I had great doubts of Stresemann, possibly because I thought of him merely as an orator and because I liked and trusted Cuno. I am beginning to wonder whether Stresemann may not be a very much better man for the place than Cuno from the very fact that he is a politician, practical and able to carry people along with him--that Cuno could never do.”

Castle, who consistently held the opinion that Germany deserved “rigid justice” when it came to reparations and who agreed with the idea that “the German people should have to stagger along under a heavy load of debt for many years to come,” nevertheless felt that there was “a point beyond which Stresemann cannot go.” He wrote Houghton, “I hope that France

\textsuperscript{40} Von Maltzan to London and Rome, 18 Sept 1923, Nr. 153, ADAP VIII, pp. 393-95.

\textsuperscript{41} Houghton to Castle, 18 Sept 1923, Houghton Papers.
will not force him to overstep that limit.” While Castle continued to have little sympathy for
Germany as a nation or as a people, his changed attitude toward the French-German struggle
foreshadowed a softening in American opinion.42

The Meeting of Baldwin and Poincaré and the End of Passive Resistance

In an attempt to reconcile the differences within the Entente regarding Germany, Baldwin
agreed to a meeting requested by Poincaré to attempt to establish a common policy, which
took place on 19 September at the British Embassy in Paris. In their discussion, Baldwin
warned Poincaré that British opinion was moving against France; the Labor and Liberal
Parties were taking a line that, if not pro-German was surely anti-French, a feeling that
existed to some extent among Conservatives as well. There was also a feeling that France
had recognized neither Britain’s concessions about inter-Allied debts to help secure a
settlement nor that the occupation itself, by dissipating German assets, was making a
settlement more difficult. As Baldwin noted, “English temperament was peculiar in certain
respects and doubtless difficult to French understanding; but the average Englishman pre-
eminently disliked the military occupation of a civilian district; it antagonized and roused
him.”

Baldwin told Poincaré that no British government would be able to fully cooperate “in
order to make the Entente what it ought to be as long as the military character of the
occupation of the Ruhr remained unchanged,” and pressed Poincaré for his thoughts about

42 Castle to Houghton, 18 Sept 1923, file 52, Castle Papers. For the time being, American
public opinion remained split. Diekhoff reported that the reporting on the abandonment of
passive resistance ranged from the New York Times, which heralded Stresemann as “a man
with fibre and strength enough to do what has to be done,” to the New York Tribune which
celebrated the victory of Poincaré. Diekhoff to AA, 26 Sept 1923, Nr. 324, D618950, Büro
currency stabilization, a possible moratorium, and a rate of payment after the end of passive resistance. Without answers, Baldwin doubted he could influence public opinion and predicted grave results. Poincaré replied that he, like Britain, also had to follow public opinion and, resorting to rhetorical hyperbole, estimated that his Ruhr policy was approved by 99% of the French population. He stated that the military occupation was necessitated by German resistance to the occupation. Stresemann, who had sought the failure of the occupation through passive resistance, would now “reap the harvest himself.” for bring about its inevitable end. In addition, Poincaré warned that if Baldwin wanted to continue the “useful interchange of personal views” it was essential that “no alien factor should be allowed to intervene” and that France would not tolerate a discussion at the League of Nations. Poincaré then assured Baldwin that as soon as passive resistance had ended he would welcome the prospect of further consultation, either with ambassadors or in personal conversation, from which Baldwin inferred that Poincaré had formulated no immediate plans.  

At the end of the meeting a press communiqué was issued, stating that the French and British prime ministers “had been happy to establish an agreement of views and to discover that on no questions is there any difference of purpose or divergence of principle which could impair the co-operation of the two countries. This press release smoothed over a growing divergence on issues.”  

Once it had been announced to the press that the two governments

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43 Note on conversation between Mr. Baldwin and M. Poincaré, 19 Sept 1923, no. 367, BDFP XXI, pp. 529-34.

44 For those in Britain who favored a policy of intervention, the communiqué was a disaster. D’Abernon noted that what was meant as an “innocuous communiqué” led to a false interpretation of British policy and as a result “we lost influence in determining Anglo-
were in agreement regarding Germany, Stresemann was convinced that any further delay in
giving up passive resistance in favor of further attempts at negotiations would be futile and
Germany should begin to prepare for ending passive resistance. Unfortunately, the
communiqué mischaracterized the discussion, during which sharp differences had emerged
between Britain and France. Although these differences would eventually result in a
renewed British effort to engage the United States, it is doubtful that Germany could have
held out until then, given France’s intransigence.

The Stresemann cabinet began to prepare the nation for the end of passive resistance on
24 September by meeting party representatives and delegates from the occupied areas to
explain the financial situation of the Reich and the impossibility of obtaining concessions
from France; continuing passive resistance offered no advantage. With the exception of the
Nationalists, the parties supported the decision. Stresemann then met with the
representatives of the industrial groups, including Stinnes, and achieved an agreement to
abandon passive resistance. However, Karl Jarres, mayor of Duisburg and leader of the
DVP’s right-wing faction, argued that the government should openly declare itself no longer
bound by the Versailles treaty. Stresemann refused, arguing that this would mean

French policy and became subordinate to our Ally.” D’Abernon, An Ambassador of Peace
vol. II, p. 261. Reflecting on the event in a later diary entry, D’Abernon noted, “It might be
wise to apply to English Prime Ministers the rules governing the peregrinations of a Lord
Chancellor and forbid them leaving England.” Ibid., pp. 284-85. According to Harold
Nicolson’s account, Curzon, reading the communique from his sickbed, was aghast. He took
it as a repudiation by his own prime minister of his policy of neutrality between Germany
and France, an opinion Nicholson regarded as unjustified. Baldwin had told Curzon in
advance that the point of his trip was to impress upon the French government that there were
no longer two foreign policies in London, but only one. That the communique gave just the
opposite impression was in Nicholson’s view not the fault of Baldwin, who was not present
when it was drafted. Harold Nicolson, Curzon: The Last Phase, 1919-1925 (London:
Constable and Company LTD, 1934), p. 372-73. Baldwin, however, can be faulted for
allowing a crucial communiqué to be drafted and released without his review and approval.
abandoning the population of the occupied territory to its fate and sacrificing the unity of the Reich, an unacceptable option to the cabinet.\footnote{46}

With no realistic options left, on 26 September the government issued a proclamation to the German people announcing the ending of passive resistance, praising the heroic sacrifices of the occupied population and acknowledging that it was now calling for an even greater sacrifice, yet also assuring the nation that German sovereignty would be preserved and promising to work for the return of the expelled and amnesty for those arrested. A separate decree canceled all the regulations and ordinances that had been promulgated in support of passive resistance. At the same time, a state of emergency and a suspension of constitutional guarantees were declared throughout the Reich.\footnote{47} On 27 September, the official announcement was made to the ambassadors of France, Belgium, Italy, Great Britain, Japan and the United States.\footnote{48}

The Reverberations from the German Domestic Crisis

The Bavarian state government, opposed to ending passive resistance and fearful that


\footnote{46} Besprechung mit Vertretern der 5 Parteien und Vertretern des besetzten Gebiets and Besprechung mit Vertretern der Wirtschaftsverbände, 24 Sept 1923, Nr. 76 and Nr. 77, Die Kabinette Stresemann, pp. 334-45. The Cabinet met the next day with the Minister Presidents of the German States and the party leaders. The DNVP wanted to continue passive resistance with vigor. The Bavarian Premier, Eugen von Knilling, recognized the abandonment was for financial reasons but felt French actions were such outrages to justice and breaches of the Versailles treaty that the treaty could no longer be considered binding. Besprechung mit den Ministerpräsidenten, 25 Sept 1923, Die Kabinette Stresemann, pp. 349-56.

\footnote{47} Aufruf der Reichsregierung zum Abbruch des passiven Widerstandes, 26 Sept 1923, Nr. 1079, Ursachen und Folgen V, pp. 203-4.

\footnote{48} Von Maltzan, Runderlass, 27 Sept 1923, ADAP VIII, p. 422.
Stresemann might accept any terms the French might present, possibly setting off violent reactions within Bavaria itself, appointed Gustav von Kahr as Generalstaatskommissar with dictatorial powers.\textsuperscript{49} Anxiety was also growing within the Bavarian government about possible communist influence in border-state governments. Of particular concern was Adolf Hitler’s National Socialist movement, then taking the lead among the radical right and racist organizations assembled in Bavaria. It was in response to the challenge from Bavaria, among other threats to its authority, that the Stresemann’s cabinet declared a state of emergency.\textsuperscript{50}

A dispute with the SPD over changes to the eight-hour day led to a cabinet crisis; on 3 October the cabinet resigned. When efforts to form a new cabinet without the SPD deadlocked, Stresemann briefly considered forming a cabinet of talents. Wiedfeldt, then visiting Germany, was considered for finance minister but was passed over since his absence had prevented him from becoming intimately familiar with the country’s financial problems. The cabinet crisis was resolved when the SPD agreed to legislation retaining the eight-hour

\textsuperscript{49} Die Kabinette Stresemann II, pp. 281-83; Kabinettssitzung mit dem Preussischen Staatsministerium, 15 Sept 1923, Nr. 59; Der Vertreter der Reichsregierung in München an die Reichskanzlei, 27 Sept 1923, Nr. 84, \textit{Ibid.}, pp. 387-89; Der Vertreter der Reichsregierung in München an die Reichskanzlei, 28 Sept 1923, Nr. 87, \textit{Ibid.}, pp. 393-96.

\textsuperscript{50} The Federal Government in Berlin interpreting events in Bavaria as threats to its authority, reacted by appointing Defense Minister Otto Gessler as federal “dictator” outranking the Bavarian “dictator.” Matters came to a head over the National Socialist newspaper, the Völkische Beobachter, which had been publishing attacks on the government in general and General von Seeckt in particular. When the Reich government ordered a ban on the paper, Otto von Lossow, commander of the Bavarian Reichswehr, refused to enforce it. The matter then became a much more serious contest over whether the Bavarian government had the right to retain its military district commander against Berlin’s demands for his dismissal. Meanwhile, the dispute provided cover for right-wing extremists, most notably the Nazi movement, to plot against both the Berlin and Bavarian governments. General Seeckt to General Lossow, 9 Oct 1923, Dok. 31, \textit{Ibid.}, p. 205; Knilling to Stresemann, 12 Oct 1923, Dok. 37, \textit{Ibid.}, pp. 210-13; Der Vertreter der Reichsregierung in München to Reichskanzlei, 21 Oct 1923, Nr. 161, \textit{Ibid.}, pp. 683-85.
day as a norm but allowing for exceptions in the national interest.51

Germany’s ability to conduct diplomacy was hampered by a series of domestic crises that interacted with foreign affairs; lack of success in diplomacy led to domestic crises, which in turn made diplomacy more difficult. On 30 September, with French support, the first separatist demonstrations took place in Düsseldorf. On 1 October, an abortive mutiny of the “Black Reichswehr,” the so-called Küstrin Putsch, occurred in response to the giving up of passive resistance.52 From the other end of the political spectrum, there was a serious threat of communist uprisings. With Moscow’s approval, the German Communist Party hoped to exploit the deteriorating situation to launch a revolution within Germany, and Baden actually experienced a minor communist uprising in late September. The fact that Communists entered into the coalition governments in Saxony and Thuringia further aggravated tensions with conservative Bavaria.53

On the eve of the end of passive resistance, Houghton’s anxieties were heightened by a visit from Stinnes, who informed him that Germany was heading toward a dictatorship

51 Stresemann, Diaries, pp. 135-45; Besprechung mit Parteiführern, Nr. 99 and 100, 2 Oct 1923, pp. 436-45; Kabinettssitzung, 2 Oct 1923, Nr. 102, pp. 447-52; Kabinettssitzung, 3 Oct 1923, Nr. 104, 105, 106, pp. 454-62. Wiedfeldt was relieved not to have been offered the finance ministry, a relief shared by the Auswärtige Amt since Wiedfeldt had told them that his first official act would be to cut their budget in half. Schubert to Wiedfeldt, 31 Oct 1923, R28041 Büro RM-Personalfragen Bd. 4, K170783, p. 86.

52 Elements of the Black Reichswehr, a group of short-term volunteers illegally trained to provide a reserve for the Reichswehr, attempted to seize the fortress at Küstrin as a signal for a rightist revolt. See Bruno Buchrucker, Im Schatten Seeckts: Die Geschichte der “Schwarzen Reichswehr” (Berlin: Kampf Verlag, 1928).

replacing parliamentary government. Stinnes predicted that a royalist movement in Bavaria would be joined by all the parties of the right, who would be supported by the industrialists. This would lead to a fight with the Communists, who would attempt to start a revolutionary outbreak. Ebert would then name either an individual or a three-man committee as dictator and the military would quell the uprising.

Stinnes, expecting communist agitation to begin in Thuringia and Saxony, was concerned that the right would take precipitous action but wanted the Communists to make the first move so that world opinion would not be automatically prejudiced against the new government. Stinnes expected all this to begin in mid-October, but a puzzled Houghton wrote, “I am completely at a loss to know how seriously to take Stinnes’ statement.” Houghton did think, however, that if industrialists were determined to give financial and organizational support to the right-wing parties, “a very serious crisis may be impending.”

Houghton had good reason to be puzzled, since Stinnes’s own allegiance was not at all clear, and also had reason to be concerned about German-American relations; if there was one group of Germans disliked and distrusted by the State Department, it was right-wing industrialists and Stinnes in particular.

Although the crisis was resolved constitutionally, both President Ebert and General von Seeckt, Chief of Army Command of the German Reichswehr, were very worried that following the defection of the SPD from the cabinet, Stresemann’s minority government would not have enough authority to govern effectively. While Wiedfeldt was in Berlin in early October to discuss the construction of the new cabinet and the outlook for a commercial

treaty with the United States, he met with von Seeckt to discuss Germany’s domestic and foreign crises.\textsuperscript{55} Von Seeckt suggested the possibility of forming a directorate with dictatorial powers under Article 48 of the German constitution, which gave the president the right to invoke emergency powers to suspend the constitution. The proposed directorate would be headed by Wiedfeldt as President Ebert’s trusted man, since he was wary of establishing a dictatorship and regarded it as a last resort.\textsuperscript{56} Wiedfeldt’s participation would guarantee that the directorate would not move to destroy the constitution and also help gain American acceptance, perhaps even support.\textsuperscript{57}

Ebert was correct in his assessment of Wiedfeldt, with whom he had a long working relationship. The ambassador, unenthused by Stinnes’s version of the planned directorate, told him that a dictatorship would be impossible unless German opinion was solidly behind it and that he, Wiedfeldt, did not want the job in any case. If forced to take the position,

\footnotesize{\textsuperscript{55} Wiedfeldt met with von Seeckt on 2 October. Schröder, “Otto Wiedfeldt als Politiker und Botschafter der Weimarer Republik,” p. 219.}

\footnotesize{\textsuperscript{56} The directorate would comprise Wiedfeldt, Friedrich Minoux, General Director of the Berlin section of the Stinnes concern, and General von Seeckt. Von Seeckt, as head of the Reichswehr, thought it inappropriate that he himself head this directorate lest it be perceived as a military dictatorship. Friedrich von Rabenau, Seekt: Aus seinem Leben 1918-1936, (Leipzig: v.Hase & Koehler Verlag, 1940), p. 370; von Seeckt to von Kahr, 2 Nov 1923, reprinted in Die Kabinette Stresemann II, Anhang Nr. 4, p. 1211-15; Schröder, Otto Wiedfeldt, p. 142-43.}

\footnotesize{\textsuperscript{57} Ebert’s fears were confirmed by Stinnes’s ideas about the role and purpose of the dictatorship, which amounted to a reversal of the substantive gains won by German labor in the 1918 revolution. In his meeting with Houghton, seeking American approval for his plans, Stinnes emphasized the need to establish a dictatorship in order to re-impose the 10-hour day, increase productivity, and move decisively against the Communists. Furthermore, Stinnes told Houghton that if all went according to plan, “Socialism as a politically possible method of national existence in Germany will it is hoped be thus definitely eliminated and the laws and enactments which hamper production and serve no useful purpose will be forthwith repealed.” Houghton to Hughes, 21 Sept 1923, quoted in Hallgarten, Hitler, Reichswehr und Industrie, pp. 65-66. For the role of Stinnes in the directorate plans, see}
Wiedfeldt assured Stinnes that his first attempt to unite Germany would be to “promptly to put him in jail.” According to Wiedfeldt, Stinnes then dropped the matter of a dictatorship.  

Immediately after giving up passive resistance, Stresemann turned to Britain for help and advice. He was informed by Curzon that Germany should make “the surrender sincere, unconditional and complete” as it had been “beaten by the bigger battalions of Poincaré,” and advised that Germany wait for Allied negotiations to be held on what really mattered, which was reparations. Next, Stresseman attempted to negotiate with Poincaré a means to restart the economy of the Ruhr and maintain German authority. But when Hoesch met with Poincaré on 10 and 17 October, Poincaré refused negotiations, stating that he would only parley with local industrialists and officials and thereby raising German concerns that Poincaré was attempting to make Stresemann’s position in the occupied regions untenable and to break off the occupied regions from Germany.

Wulf, Stinnes, pp. 452-65.

58 Castle to Houghton, 2 Nov 1923, file 52, Castle Papers. Castle noted that he believed this to have been an actual conversation. Houghton replied, “Wiedfeldt is exactly the quiet seeming kind of man to make such a deadly thrust.” Houghton to Castle, 3 Dec 1923, file 52, Castle Papers.

59 Stresemann, Diaries, p. 137; D’Abernon to Curzon, 27 Sept 1923, no. 373, BDFP XXI, pp. 540-41.

60 Curzon demanded that the German government have nothing to do with the negotiations between German and French industrialists, warning that if he heard such proceedings were on foot, or still more had been concluded, “I should not feel disposed to lift a little finger to help Germany in any of her future troubles.” Curzon to D’Abernon, 27 Sept 1923, no. 375, DBFP XXI, pp. 541-44, quote on p. 543.

61 Poincaré informed Hoesch that the settlement in the occupied territories concerned France and Belgium together with the occupants of the occupied territory alone and was not the concern of the other Allies or the German government. France had won the battle and did not intend the cease the application of force majeure. Stresemann had little alternative but to accept those negotiation with the proviso that they did not affect German sovereignty. Hoesch to AA, 10 Oct. 1923, Nr. 186, ADAP VIII, pp. 471-73; Hoesch to AA, 13 Oct. 1923,
By 6 October, General Degoutte had already reached a preliminary agreement with Otto Wolff and Stinnes had begun negotiations with France. Stresemann told Wolff his initiative had seriously undermined the government’s foreign and domestic authority; however, if he was to prevent economic collapse in the Ruhr, Stresemann had little choice but to allow negotiations between the Ruhr industrialists and France. Nonetheless, he sought to do so in a way that preserved sovereignty. France made significant financial demands on the industrialists, who in turn demanded financial help from the Reich. This posed a major dilemma for Stresemann, who was in the process of establishing a new currency that would halt the ever-increasing inflation threatening to bring down the economy.

On 20 October, a major cabinet debate over the fate of the occupied territories. A decision not to fund the industrialists, because the reparation and coal-tax payments demanded by France would stabilize the currency in unoccupied Germany but would also spell economic disaster and possibly drive governments in the occupied territories to independent negotiation, which would put them all at the mercy of France. Some cabinet

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62 In a letter to Stinnes on 12 October, Stressemann stated that he had no choice but to permit the freedom to negotiate economic agreements, as long as the results did not abridge sovereignty. Nr. 131, Die Kabinette Stresemann II, pp. 560-62. Stresemann, however, refused to concede to mine owners’ demands for government credits of 150-200 million gold marks, reimbursement for both the cost of the coal that France was demanding as reparations, the taxes on coal also demanded by France. Besprechung über Verhandlungen der Phönix- und Rheinstahlgruppe, Nr. 123, Die Kabinette Stresemann II, pp. 520-22; Kabinettssitzung, 10 Oct 1923, Nr. 125, Die Kabinette Stresemann II, pp. 528-34.

63 On 15 October, the cabinet decided to establish a new currency, the Rentenmark, based on mortgages of agricultural land and industrial assets which would halt inflation. In addition, tax payments would have to be paid on a gold basis. These moves promised to end the inflation that was crippling Germany. Kabinettssitzung, 15 Oct 1923, Nr. 136, Die Kabinette Stresemann II, pp. 570-82; Feldman, The Great Disorder, pp. 751-53.
members doubted that it was possible to hold on to the occupied territories and felt that the Reich was the first priority. Stresemann, however, insisted that the integrity of all of Germany had to be preserved. In the end a compromise was reached by which the industrialists would bear the immediate costs but later be reimbursed by the government.\(^{64}\) The government also decided to increase world attention to Germany’s plight, notify the Reparation Commission of Germany’s inability to pay, and, under its rights in the Versailles treaty, request an examination of its capacity to pay.\(^{65}\)

Britain had initially expected the German ending of passive resistance would lead to French lightening the occupation and a beginning of negotiations between France and Britain about reparations. But British concerns rose as Poincaré moved to tighten his hold over the Ruhr and the Rhineland, particularly when French dumping of German coal, iron, and steel on the market at below-market prices began to affect employment in Britain. Curzon notified Poincaré, “It is impossible to exaggerate the danger to the Entente and the effect of the attitude of the people of this country towards France.”\(^{66}\) Attempts by France to extend the Régie and enforcement of French regulations in the British zone lead to further disputes.\(^{67}\)

The Shift in American Opinion

By October, following the end of passive resistance, public opinion in the United States

\(^{64}\) Kabinettssitung, 20 Oct 1923, Nr. 156, Die Kabinette Stresemann II, pp. 662-72.


began to shift in favor of Germany. Lloyd George, on a tour of the United States and Canada, publicly urged that the United States should actively intervene in the Ruhr conflict and lamented the failure of the Europeans to take up Hughes’s New Haven proposal. In London, Baldwin and Curzon decided to override the opposition of pro-French Conservative cabinet members and force Poincaré into negotiations. Taking advantage of the opening of the Imperial Conference, Curzon gave a speech on 5 October stating that since Germany had ended passive resistance, it was the responsibility of France to submit its views as to how the reparation crisis should be addressed and that Britain was waiting for this response. The speech was an effort to force Poincaré out into the open as to “real plans and intentions”; any reply from him would “set the ball rolling.” Britain was willing to accept the breakdown of a conference, but what to be avoided was “partial or temporary compromises which do nothing but reproduce the situation as it was before.”

The Coolidge administration was also being pressured by a growing chorus of groups, including not only those with a special interests in Germany but also those more generally concerned about European stabilization and prosperity. Fred Kent of the Banker’s Trust Company was particularly active in attempting to arouse American support for a United States intervention, including a reduction in war debts. Kent’s efforts were privately


69 Crewe to Curzon, 4 Oct 1923, no. 386, DBFP XXI, pp. 557-58, n. 1; O’Riordan, Britain and the Ruhr Crisis, pp. 126-27. Stresemann hoped to influence British policy by working through Jan Smuts, Premier of South Africa at the Imperial Conference. Smuts used his speeches at the Imperial Conference to call for an international conference of experts and asked Britain to lower its reparation demands on Germany by giving up war pensions costs. Stresemann to Smuts, 29 Oct. 1923, Nr. 200, Die Kabinette Stresemann II, pp. 894-95.
supported and encouraged by Houghton.  

Finding it necessary to respond, on 9 October the White House issued a statement that “President Coolidge, like President Harding, was in accord with the proposal advanced by Secretary Hughes”; however, the statement also noted that Coolidge questioned whether France was ready to become involved.  

The new Coolidge administration did not want to go into the 1924 elections faced with the charge that American inaction had allowed Europe to fall into chaos, yet the American initiative had no guarantee of success. It opened the door, but was dependent upon France to accept the American offer. It would be up to Hughes and the British to apply sufficient pressure to achieve French acceptance.

On 11 and 12 October, former Chancellor Cuno, who was touring the United States, had the opportunity to meet with Hughes, Mellon, Hoover and Borah. All expressed appreciation of Germany’s position but felt, given the intransigence of France, that it was difficult for America to help. Hughes was more forthcoming than he had been in the past, stating that he would like to help, but France made it difficult. He stressed that Germany had to hold together; if the Reich disintegrated there would be no possibility of help. Coolidge, whom

70 For a discussion of Kent’s activities in the summer and autumn of 1923 see Rupieper, The Cuno Government, pp. 244-45. Rupieper argues that Kent’s campaign to mobilize public opinion for American intervention was a significant influence on Hughes’s decision to intervene. For Houghton’s encouragement of Kent, see Houghton to Kent, 31 Jul and 21 Dec 1923, Houghton Papers. Prior to his 26 September speech to American Bankers Association calling for a partial cancellation of war debts, Kent discussed with Houghton the need to address the issue from the French point of view if his ideas were to have any hope of success. Kent to Houghton, 20 Sept 1923, Houghton Papers. For an example of noting the importance of Germany to American interests see New York Times, 10 Oct 1923, p. 1, reporting that Germany was a major purchaser of American copper and cotton. On 15 October Senator Reed Smoot, Chairman of the Senate Finance, committee urged the White House to immediately implement the Hughes proposal because of the deteriorating situation in Europe. Kent, Spoils of War, p. 229.

Dieckhoff found more intelligent and informed about German matters than Harding had been, expressed a desire to help, but stated frankly that England had more of an interest in the issue than the United States. Coolidge felt that one could not expect anything out of an economic conference. In Coolidge’s view, it was England’s task since it was first in line to find a solution to the reparation problem. If England could not accomplish that, he did not see what chance America had.  

Britain was quick to seize the opportunity that Coolidge’s 9 October statement had provided. On 13 October Britain’s Washington chargé, Henry Chilton, met with Hughes to forcibly impress upon him the British views that the cooperation of the United States was essential for a European settlement and that Europe’s problems represented a direct and vital interest to the United States, “if for no other reason because the question of inter-allied debt is involved therein.” Chilton conveyed the two alternatives offered by Britain, an inquiry sponsored by a conference of the European powers, which it favored, or an inquiry sponsored by the Reparations Commission. Chilton also asked whether the United States would be willing to proceed in the absence of France.

Hughes, vehemently objecting to British linkage between war debts and reparations, reiterated the fundamental American position that the two were separate issues. Although he emphasized once again that the United States government and the people of the United States did not support cancellation of debts to the Allies or the United States, or the transfer of the burden of Germany’s obligation to the United States, directly or indirectly, he did hold out the possibility of reasonable settlements, if Europe made serious reductions in military

72 Dieckhoff to AA, 13 Oct 1923, Nr. 189, ADAP VIII, pp. 482-84.
73 Chilton to Hughes, Aide-Mémoire, 13 Oct 1923, FRUS 1923 II, pp. 68-70.
outlays and worked together to achieve peace and justice. In any case, the Europeans would have to find a solution to the reparation problem that did not involve a reduction in the war debts owed to the United States.

Hughes favored an inquiry by experts appointed by the Reparation Commission, undoubtedly recognizing that this plan had the best chance of French acceptance. He told Chilton that he could not give him any definite reply regarding the British proposal before consulting the president and the cabinet and that the British initiative had to be kept confidential until then, but that personally he hoped “something would come of it” and had already warned the French ambassador that France “should renounce her obdurate attitude and come into line with the other powers.” Hughes’s position remained that a settlement could not be achieved without the concurrence of all the “European powers directly concerned.” He also noted that it “would manifestly be extremely difficult to formulate financial plans of such importance and complexity without the participation of those whose assent is necessary to their fulfillment.”

Hughes was unwilling to say much about how the American-French relationship might change if unanimity could not be achieved, but if it could not, the United States would take the course “which will give the best promise of ultimate success in securing the desired end of re-establishing the essential conditions of European peace and economic restoration. To that end the United States would lend its assistance in any manner found feasible.” Hughes later notified Ambassador Harvey in London that the British approach was known only to the British, Coolidge and himself and that confidentiality should be preserved, stressing that if Britain presented its proposal to France, it was “very important” that it be done in a

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74 Hughes to Chilton, Aide- Mémoire, 15 Oct 1923, FRUS 1923 II, pp. 70-73.
conciliatory manner and without any statement which would suggest a British-American understanding in advance.75

Britain lost little time in informing the French, Italian, and Belgian governments of the America’s willingness to participate in a reparations inquiry, requesting that they join Britain in inviting the United States to participate in an impartial inquiry of experts into Germany’s capacity to pay reparations and in drawing up an appropriate financial plan for securing payment. Such a conference, in America’s view, should be advisory in nature.

Alternatively, if the Reparation Commission appointed an advisory body to undertake the inquiry, the United States would also be willing to have an American participate. Curzon made it clear that he preferred the first alternative, an independent inquiry.76

Poincaré gave preliminary acceptance to the British on 21 October, insisting that it adhere to the Treaty of Versailles, that it was absolutely inadmissible to curtail the powers and rights of to Reparation Commission, and that the experts be simply advisory to the Reparation Commission, whose proceedings France had been able to dominate. Additionally, all forms of passive resistance by Germany must end. The British were further informed that “M. Poncaré considers that the co-operation of the United States government would be an excellent thing, provided they would be willing to make certain sacrifices on the subject of

75 Curzon to Chilton, 12 Oct 1923, no. 392, DBFP XXI, pp. 563-64; Chilton to Hughes, 13 Oct 1923, FRUS 1923 II, pp. 68-70; Hughes to Chilton, 15 Oct 1923, FRUS 1923 II, pp. 70-73; Chilton to Curzon, 13 Oct 1923, Nr. 393, DBFP XXI, pp. 564-65. Manfred Berg asserts that in his answer to the British, Hughes indicated a willingness to accept a conference without the participation of the French. A more subtle reading of Hughes’s response, particularly in the light of subsequent events, suggests this was not so. See Berg, Gustav Stresemann und die Vereinigten Staaten, p. 147.

76 Curzon to Crewe, 19 Oct 1923, no. 403, DBFP XXI, pp. 574-76; Chilton to Hughes, 19 Oct 1923, FRUS 1923 II, p. 74; Fletcher to Hughes, 22 Oct 1922, FRUS 1923 II, pp. 74-75.
the allied debts.”

Britain had concerns over the nature of Poincaré’s acceptance. In reviewing it, Crowe noted the narrow scope Poincaré had specified and the likely effect such restrictions would have on the chances of attaining American participation. Bradbury framed the question as whether or not Poincaré was really willing to have an impartial enquiry into German capacity to pay (subject only to saving face in regard to his previous declarations). Bradbury thought that if Poincaré was allowed to dictate its terms of reference, “no sufficiently authoritative American would be found willing to serve on such a committee.” He also warned that the committee had to be set up so that France could not use it as a vehicle for purposes of delay. Bradbury, however, thought he had a good chance of arranging a satisfactory outcome in the Reparation Commission.

In Germany, Poincaré’s insistence on negotiating only with local authorities and industrial groups was posing a direct threat to German sovereignty over the Rhineland and the Ruhr. Germany could not stabilize its finances and currency while continuing to provide economic support for the Rhineland and Ruhr, and on 13 October passed an enabling law which allowed economic decisions to be made by decree and major reductions in government expenses through layoffs soon followed. Plans were put in place to introduce a new

77 Crewe reported on 21 October that he had received a telephone call from Peretti de la Rocca (director of political and commercial affairs at the French Foreign Office) who was relaying a telephone conversation he received from Poincaré. Memorandum by Cadogan, 23 Oct 1923, no. 406, DBFP XXI, p. 581, n. 5. A note verbale was presented to the British on 26 October. Record by Sir E. Crowe of a conversation with the French chargé d’affaires, 26 Oct 1923, no. 415, DBFP XXI, pp. 594-96. Mark Trachtenberg characterizes Poincaré’s decision as “impulsive.” Trachtenberg, Reparation, p. 333.

78 Record by Sir E. Crowe of a conversation with the French chargé d’affaires, 26 Oct 1923, no. 415, DBFP XXI, pp. 594-96.
currency, the Rentenmark, based agricultural and industrial mortgages, which would not begin to circulate until November.\textsuperscript{80} As a result of reduced government expenditures in the Rhineland and Ruhr, during October and November German industry was forced to negotiate agreements with the MICUM control commission. An even more serious result was that economic desperation led to an eruption, beginning on 21 October, of the separatist movements that had simmered in the Rhineland and Ruhr with French support varying from tacit to active. During October and November, Germany remained preoccupied with domestic issues, waited to see what would develop from the Hughes proposal and relied on Britain to check French ambitions.

The separatist putsches in the Rhineland were the greatest immediate threat to the unity of Germany. Tirard and the French military in the occupied zones had quietly supported various Rhenish separatist parties; now, with the acceptance of the experts committee, Poincaré made the decision to actively support the cause of a Rhenish republic.\textsuperscript{81} The

\textsuperscript{79} Bradbury to Crewe, 26 Oct 1923, no. 416, \textit{DBFP} XXI, pp. 597-602, quote on p. 598.

\textsuperscript{80} For an extensive discussion of financial stabilization see Feldman, \textit{The Great Disorder}, pp. 754-69 and for currency reform, pp. 780-82.

\textsuperscript{81} The Belgians had supported a separatist putsch on 21 October at Aachen, in the Belgian Occupation Zone, out of fear that imminent French action would establish French hegemony in the Rhineland, leaving Belgium economically encircled. The Belgian action sparked separatist putsches throughout the rest of the Rhineland. As the matter came to a head, Poincaré made the decision to give full support for an independent Rhineland. Belgium withdrew its support under pressure from Britain, much to Poincaré’s annoyance, and the Aachen putsch crumbled by 2 November. There is some debate over why Poincaré made this decision. Bariéty dates it to exactly 25 October, motivated, in his view, by desires to push the advantages Poincaré felt he had with the experts committee, which he hoped would address the questions of war debts, reparations, and Rhenish separatism both aimed to definitely resolve the political and economic questions left open by the Versailles treaty. Bariéty, \textit{Die Französische Politik}, pp. 22-23. Jeannesson, Rupieper, and Nadler essentially agree with Bariéty that Poincaré was attempting to settle the questions of Versailles on French terms. Jeannesson, \textit{Poincaré}, pp. 333-38; Rupieper, \textit{The Cuno Government}, p. 251;
French occupation authorities provided men, money and weapons to the separatist bands, and French troops often escorted them into public buildings, arresting German police and outraged citizens who resisted and expelling them from the occupied zone. A Rhineland republic was proclaimed, but local opposition both there and the Palatinate would ensure that the issue would remain unresolved. Even though Tirard understood that the distinct lack of popular support would doom direct separatist attempts to establish an independent Rhine State, the threat of a radical solution served as a useful source of pressure on the more legitimate autonomists to come to terms with the French simply as a way of reestablishing order. Despite British objections to France’s support of the so-called “revolver republic,” Poincaré refused any inter-Allied discussion of the matter and was particularly encouraged by events in the Palatinate, which seemed to favor a separatist republic or at least an autonomist state.  

The Struggle over the Experts Mandate

Having given the British his preliminary acceptance of an expert committee, Poincaré

Nadler, *The Rhenish Separatist Movements*, pp. 325-29. McDougall thinks Poincaré was using separatist radicals to leverage moderates to accept either independence under the auspices of the League of Nations or autonomy from Prussia, including a separate budget, parliament, railroads and diplomatic representation, yet still within the German state. McDougall, *France’s Rhineland Diplomacy*, pp. 310-11. Trachtenberg agrees that the support for separatism was mainly a threat to further the real aim of autonomy. Trachtenberg, *Reparation*, pp. 320-21. Keiger, however, insists that Poincaré was opposed to Rhenish separatism and interprets French policy as “characterized by confusion and lack of purpose.” Keiger, *Poincaré*, p. 303. This last seems an overly charitable view.

82 Nadler, *The Rhenish Separatist Movements*, pp. 324-31. In the Palatinate, which was governed by Bavaria, the opposition to the reactionary policies of the Bavarian state government created a certain amount of sympathy for secession. For separatism in the Palatinate, see Gerhard Gräber and Matthias Spindler, *Revolver Republik am Rhein: Die Pfalz und ihre Separatisten*, (Landau: Pfälzische Verlagsanstalt, 1992). For a firsthand account of the events by a correspondent, see George E.R. Gedye, *The Revolver Republic*:
wanted a clarification of American policy. On 22 October, the French chargé in Washington, André Laboulaye, met with Hughes and related that Poincaré was particularly anxious to know if the British proposal had been made on British or American initiative. Implicit in that question was the issue of whether the United States was cooperating with a British agenda or would be a neutral party more amenable to French concerns. Hughes responded that while the formal request had come from Britain, the request had itself been stimulated by Coolidge’s statement. Denying any pre-arranged American-British agenda, Hughes stated that he supported the British proposal, but in an attempt to maintain the appearance of strict American neutrality he insisted that he was supporting the proposal on its merits and not because it had been proposed by the British.  

Hughes’s statements reiterated his government’s official policies: The United States had a deep interest in economic situation of Europe and believed that the present time was “particularly opportune” to deal with the issue; the ending of passive resistance made it necessary to develop a financial plan to meet the present exigencies; Germany should not be relieved of its “just obligations”; and nothing should be done to stimulate German resistance. The inquiry commission was advisory only and governments should not be asked to abrogate their functions.  

On the subject of war debts, Hughes repeated his oft-stated position that there was no present sentiment in the United States for cancellation of war debts. However, repeating what he had told the Belgians in July, he added that were there to be a European settlement and cooperation for peace, opinion might change and “the terms, conditions and time of


83 Hughes to Whitehouse (Chargé in France), 24 Oct 1923, FRUS 1923 II, pp. 79-83.
payments could be considered in such a way that consideration would be taken of the actual conditions of the European debtors in light of what settlements were made.”

Hughes warned that the situation in Germany was grave, specifically mentioning Bavaria. He cautioned that if Germany collapsed, the French would be left with the Ruhr in its hands, “from which they might obtain some political security but no reparation payments.” Hughes also warned that although United States opinion on the controversial questions had been “strongly predominantly in favor of France during the past months, sentiment “would change very quickly if the French, after having won their victory and broken down German resistance were unwilling to aid in working out a financial plan.” Hughes emphasized that Germany’s unity had to be maintained and it was possible that the French could go “too far.”

Hughes was notified by Logan on 24 October of the German note to the Reparation Commission. Logan reported that the Italians were questioning Poincaré’s real intentions and were convinced he was committed to a policy of breaking up Germany. The Belgians were in favor of discussing the German request, but would need strong support from the Italians and British to hold out against French pressure. Logan was also concerned about

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84 Ibid.
85 Ibid. Bruce Kent strong criticizes Bariéty for suggesting that Poincaré’s decision to accept the expert committee was based on his belief that Hughes had conceded the relationship between war debts and reparations in this interview with Laboulaye. Kent’s criticism is strengthened by the fact that Poincaré had notified the British of his preliminary acceptance on 21 October. If Poincaré had hopes of a linkage between war debt and reparations, they were already in his mind at that time since his preliminary acceptance references that in his preliminary acceptance. There is also nothing in Hughes’s discussion that he had not already told the Belgians in August 1923 and was very likely already known by Poincaré. Kent, Spoils of War, pp. 230-31. Bariéty, however, elaborates Poincaré’s thinking. Bariéty, “Die französische Politik in der Ruhrkrise,” pp. 22-23.
Poincaré’s refusal to negotiate with the German government and his intention to prevent discussion of the German note in the Reparation Commission. Logan, writing as the separatist movement was spreading through the Rhineland, feared the “break-up” of Germany. He suggested that the State Department notify the Belgian, British, French and Italian governments via diplomatic channels that the situation in Germany was causing the United States “great anxiety” and jeopardizing both American and European interests, and urge those governments to allow the Reparation Committee to consider the German request for an evaluation of its ability to pay reparations under the current circumstances.

Alternatively, Logan suggested an authoritative statement along similar lines that he would present to the Reparation Commission, noting that the disadvantage of the latter was that publicity could not be prevented but that it would have the advantage of focusing public opinion on the situation.\textsuperscript{87} Hughes cabled Whitehouse that he and Logan should state clearly that the situation in Germany was causing “great anxiety” and that it was “deemed most important” to develop a plan base on Germany’s capacity to pay, but that Hughes did not want any statement placed in the Reparation Commission’s record.\textsuperscript{88} Hughes was not yet ready to exert public pressure on France.

In contrast to Hughes, Baldwin’s speech on 25 October to the Conservative Party conference at Plymouth called upon Poincaré allow the German reparation note to be considered and warned that the creation of separate Rhenish state within Germany would

\textsuperscript{86} Hughes to Whitehouse (Chargé in France), 24 Oct 1923, \textit{FRUS} 1923 II, pp. 79-83.

\textsuperscript{87} Whitehouse (Chargé) to Hughes, 24 Oct 1923, \textit{FRUS} 1923 II, pp. 76-78.

\textsuperscript{88} Hughes to Whitehouse (Chargé), 25 Oct 1923, \textit{FRUS} 1923 II, pp. 83-84.
break the Treaty of Versailles, which Britain would not tolerate. Discussing Baldwin’s speech, Maltzan and D’Abernon concluded that the United States was crucial and must be won over by the British. Poincaré would then be “done for,” since he could not hold out against a “combined English-American front.”

On 26 October, Crowe received Poincaré’s formal acceptance of the British proposal for inviting the United States to participate in a inquiry by experts into the means for a general settlement of reparations, but with the caveat that the expert committee would be advisory to the Reparation Commission and not an independent entity. Crowe informed Poincaré that he believed France had lost a great opportunity in not accepting a conference which could transcend that narrow inquiry into reparations. Crowe was also upset that Poincaré’s acceptance included the condition that the advisory committee would not be free to consider Germany’s recent communication until passive resistance had totally ceased, pointing out that Poincaré did not have the right under the Treaty of Versailles to prescribe such matters to the Reparation Commission. In addition, he was specifically concerned about the separatist movement in the Rhineland, which could rend the whole fabric of Versailles.

Poincaré quickly attempted to limit the scope of the inquiry that would take place under the auspices of the Reparations Commission. On 26 October Laboulaye met with Hughes, informing him of the reply that France had made to Britain, and returned on 29 October with an aide-mémoire about the French position specifically noting that the Reparation


91 Record by Sir E. Crowe of a conversation with the French chargé d’affaires, 26 Oct 1923, no. 425, DBFP XXI, pp. 594-96.
Commission, while it could alter the terms of payment, did not have the power to cancel or reduce to total amount of the reparation debt which had been fixed by the Allied and associated governments. Remission could only be granted by unanimous agreement of those governments and France would not agree to a reconsideration of the amount of debt fixed at the London Conference of 1921.

Laboulaye specifically referred to an Associated Press dispatch stating France’s determination not to alter the total payments by Germany did not, in the opinion of Washington, interfere with the plan for an expert inquiry. Hughes denied that he had even given out such a statement; it had been published by the Associated Press on its own responsibility. Hughes explained that, far from issuing an official State Department communiqué, he had said nothing more than what he had often said to the press. The rights under the treaty could not be altered without the consent of the parties; everyone knew this and therefore it required no emphasis. The question, Hughes observed, was whether or not Poincaré wanted to obtain reparation payments. He noted cuttingly that it did not appear as if France had been successful thus far in obtaining reparation payments and if matters continued as they had been going, France would not receive payments. Poincaré could continue his current policy if he did not care about payments, but if he wanted reparations he should not “put any unnecessary obstacles in the way of securing them.”

Wiedfeldt, who had been in close touch with Hughes during this period, reported to Berlin on 29 October about their conversations. In discussing the German situation generally, Hughes had expressed particular concern about the Bavarian crisis. Noting that

92 Memorandum by the Secretary of State of a Conversation with the French Chargé Laboulaye, 26 Oct 1923, FRUS 1923 II p. 84; Chargé (Laboulaye) to the Secretary of State, Aide-Mémoire, 29 Oct 1923, FRUS 1923 II, pp. 86–87; Memorandum of an Interview with
Poincaré had now accepted a conference as an “advisory-body” to the Reparations Commission, Hughes was willing to build a bridge to France, although he wanted the conference to be called as quickly as possible or it would be too late. He had confided to Wiedfeldt that America would conduct negotiations on the proposed conference of experts as openly as possible, to shift public opinion in France and the world against the stubbornness of the French government. According to Wiedfeldt, Hughes was “on the whole not optimistic, although France must know that a failure would provide no reparations.”

Meeting again with Laboulaye on 31 October, Hughes informed him that the United States recognized that under the Treaty of Versailles the Reparation Commission could not cancel any part of German reparation obligation without the specific authority of the governments represented on the commission, thus French consent to any changes would be necessary. But if Poincaré’s refusal to accept any revision in the amount of German obligation meant that the experts would not be able to consider Germany’s total capacity to pay, then the inquiry would be abortive and “we should all be made a laughing stock.” Hughes noted that “France, of course had her treaty rights and even if they took a position that involved the ruin of all of Europe, they would still have their treaty rights.” Still, he would not accept France blocking an inquiry that could lead to a proper financial plan. Although France had the right to reject the plan, Hughes was well aware that international public pressure would make it difficult for France to reject it once it had been formulated.


94 Memorandum by Secretary of State of a Conversation with the French chargé, 31 Oct
with Hughes on 1 and 2 November, described him as uncertain about Poincaré’s actual position and whether his public statements were official. Because Hughes requested a copy of the text of the French reply to Britain, Chilton’s impression was that Hughes was getting little information from Paris. Poincaré, who sensed victory in the Ruhr, continued to hedge his acceptance of an expert inquiry. On 5 November, Jusserand informed Hughes that the inquiry should be limited to Germany’s capacity to pay within a brief period. The experts could not recommend a reduction in the total of Germany’s reparation obligations, nor could the inquiry deal with the occupation of the Ruhr. Hughes replied that it was not the purpose of the inquiry to deal with the legality of the occupation, an issue that Britain had threatened to raise, or with the “mere political questions,” but that limitations on the productivity of the Ruhr would be a “serious restrictions.” He warned that there would be no reparations if Germany disintegrated and that if Germany subsequently reunited, France would lose both security and reparations. On 6 November, Hughes sought British confirmation of his position by asking Chilton for the British opinion about what the commission could achieve in an inquiry into Germany’s current capacity to pay and whether Britain thought Germany could pay anything at all. At the same time, Hughes made it clear that he “had no desire to infringe French treaty rights.”

Poincaré would have to be persuaded that it was in France’s own interests to agree.

Curzon’s response to Poincaré’s conditions was to propose that Britain, the United States, Belgium, and Italy send a joint note to Poincaré, urging him to reconsider. Hughes, however, ever mindful of the Congressional mandate to avoid “foreign entanglements,” was

1923, FRUS 1923 II, pp. 87-89.

95 Chilton to Curzon, 6 Nov 1923, no. 451, DBFP XXI, pp. 642-43.
not willing to associate the United States with a joint communication, nor did he think that sending one would do any good. When Chilton expressed the hope that the United States was “not going to desert us,” Hughes responded that he was using all the arguments he could to convince Poincaré, but the United States would not alter its conditions for participation. When Belgium proved to be reluctant to openly to join in a common front it opposition to Poincaré, the British initiative came to naught.

In the Reparations Commission on 6 November, Logan and Bradbury discussed the range of possibilities that could arise from the French restriction. Logan was firmly convinced that the United States would not participate if the committee was prohibited from discussing a reduction of the total German debt. Logan felt that Hughes would simply wait for the receipt of invitations from the Allies and would use any discrepancy he found among their terms as an excuse to decline. Bradbury and Logan both felt that the worst possibility would be a unanimously adopted compromise formula, which the United States might feel obliged to accept in the hope that some of the restrictions would be withdrawn once the committee began work. Logan believed that if Poincaré refused any compromise, the United States delegates would walk out.

Bradbury’s fear, from the British perspective, was that the United States might agree to a compromise report giving Poincaré much of what he wanted, which would leave Britain

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96 Curzon to Graham, 6 Nov 1923, no. 450, DBFP XXI, pp. 640-42.

97 Crewe to Curzon, 3 Nov 1923, no. 442, DBFP XXI, pp. 624-26; Curzon to Graham (Rome), 6 Nov 1923, No. 450, DBFP XXI, pp. 640-42; Chilton to Curzon, 8 Nov 1923, no. 456, DBFP XXI, pp. 648-49.

98 Sir G. Grahame (Brussels) to Curzon, 7 Nov. 1923, No. 453, DBFP XXI, p. 646. For further British pressure on Belgium and the accusation that Belgium left the British “in the lurch,” see Chilton to Curzon, 8 Nov. 1923, No. 456, DBFP XXI, pp. 648-49.
“buttoned up to some of the most mischievous elements in French policy.” Another possibility the two men discussed was that Washington could appoint a prospective American member of the experts committee to work out terms of reference with the Reparations Commission itself. Logan doubted that Washington would agree to such a plan. It would “leave the job to Great Britain.” Bradbury’s preference was for the United States to formally reject the French restrictions and, failing that, for a British rejection. Britain and the United States could then wait for either the situation in Germany, or the fall of the Poincaré government, to compel French acceptance of an unrestricted inquiry.99

On 7 November Poincaré notified Hughes that the inquiry could not consider the legality of the occupation, the French system of collecting taxes, the productive guarantees that had been seized, nor any agreements with the industrialists. The only change that Poincaré offered Hughes was to define the end of the brief period as 1930. Hughes informed Jusserand that such restrictions would make the inquiry futile, a view Hughes immediately confirmed with Coolidge.100 Jusserand informed Hughes that Poincaré was holding to his restrictions. Poincaré thought that he held a strong position in Germany and that he still controlled the Reparation Committee. Hughes then released the substance of the American-French disagreement to the press, and negotiations stopped. However, Hughes’s statement mentioned that he had closed no door and could not discuss the future.101 He hoped that international and French public opinion would pressure Poincaré to agree to his conditions.

99 Bradbury to Crowe, 6 Nov 1923, Enclosure in no. 452, DBFP XXI, pp. 643-44.

100 Memorandum of the Secretary of State of a Conversation with the French Ambassador, 7 Nov 1923, FRUS 1923 II, pp. 91-94.

101 Hughes to Herrick, 9 Nov 1923, FRUS 1923 II, pp. 94-95; Chilton to Curzon, 9 Nov 1923, no. 460, DBFP XXI, pp. 651-52.
The Hitler Putsch and the Reaction

While negotiations between Hughes and Poincaré were ongoing, within Germany the domestic political situation was rapidly deteriorating. National unity, which Stresemann was desperately attempting to preserve, was beginning to be in doubt. Robbins reported on the situation from Berlin:

"In the meantime, everything is going from bad to worse here. As I wrote to you about a month ago, there was a good chance of a Separatist movement. This morning we learn that the Separatist movement in the Rhineland is going full blast, and that at Aachen, Wiesbaden, Bonn, Dueren, Erkalanz, etc. the independent Rhineland Republic has been proclaimed. Yesterday I had a short talk with Maltzan, who told me that he was not worried about the Bavarian situation, though of course, as you know, the Bavarian Reichswehr has taken matters in its own hands and proclaimed absolute independence of orders from headquarters in Berlin."\(^\text{102}\)

Robbins noted that the Bavarians had “literally thumbed their noses” at Berlin and that Stresemann was apparently not able to do anything about it, “all of which shows that there is a little more chaos than ever.” His postscript added, “We learn that there is the devil to pay in Hamburg,” a reference to the city’s 22 – 24 October Communist uprising. Robbins hoped something might happen to “clear the air” but had “no intelligent reason to be hopeful just now.”\(^\text{103}\)

The German government, acutely aware that the domestic situation endangered its chance

\(^{102}\) Robbins to Castle, 23 Oct 1923, file 52, Castle Papers.

\(^{103}\) Ibid. About conditions in Berlin itself Robbins reported that due to the staggering inflation it was “practically impossible to buy anything,” citing the cost of a loaf of bread at ten milliards, “which of course is prohibitive to the German laborer.” Robbins found it “amusing” to see “all the rich Jews” getting their women out of town; however, he himself would be sending his wife to Warsaw for a few weeks.
for a vital foreign policy success, also knew that just at this precarious moment the United States was deciding whether or not to participate in the proposed experts conference. Additionally, in the midst of the domestic crisis the German government was engaged in a battle with France for world, and most especially, American opinion.\textsuperscript{104} Stresemann knew of Hughes’s warning that if Germany should fall apart there would be no possibility of American help.\textsuperscript{105} From Washington, Diekhoff reported that Hughes was on the verge of intervening and that he would do everything in his power to contribute the solution, but warned that he was deeply concerned about the situation in Europe. With the domestic crisis damaging Germany’s best hope for an overall solution, President Ebert, von Seeckt and others, even within the chancellor’s own party, began to doubt Stresemann’s competence. Given the indispensable importance of the United States, many at the upper levels of the German government thought it was time to bring Wiedfeldt back to Germany to take the chancellorship, in a directorate with dictatorial powers, and send Stresemann as ambassador to Washington.\textsuperscript{106}

\textsuperscript{104} Hoesch to AA, 7 Nov 1923, Nr. 236, \textit{ADAP} VIII, pp. 606-7.

\textsuperscript{105} Dieckhoff to AA, 12 Oct 1923, Nr. 332, R28489, Büro RM-USA, Bd. 3, D618964, p. 87.

\textsuperscript{106} Writing to Wiedfeldt in Washington on 4 November, von Seeckt recalled their conversations in Berlin, noting that the Stresemann government could not last much longer if it could not solve the currency problems or the Bavarian conflict, or achieve any foreign-policy success, and sharing his fear that it would be impossible to form an effective parliamentary government at the moment. He pressed Wiedfeldt for an answer, as much time and opportunity was slipping by. Von Seeckt assured Wiedfeldt that “I am writing not only with the knowledge but also by wish of the Reichspräsident” and that both of them were counting on him. The general reminded Wiedfeldt that he could bring him back by force, if necessary, but felt he had no right to do so. Wiedfeldt was, however, to hold himself in readiness to return to Berlin and “take the decisive step to work for better conditions.” General von Seeckt to Wiedfeldt, 4 Nov 1923, reprinted in \textit{Die Kabinette Stresemann} II, Anhang Nr. 5, pp. 1215-16; see also von Rabenau, \textit{Seeckt, Aus seinem Leben}, pp. 370-71.
Wiedfeldt understood that the United States and American opinion was now, more than ever, of vital importance to Germany. As official and public sentiment began to favor Germany, Wiedfeldt did not want to support or to even be associated with anything that might turn American opinion away from Germany. Wiedfeldt met with Castle and had a frank discussion about the situation in Germany. Clearly the relationship between the German ambassador and the State Department had improved since the previous summer.

Having been informed by Houghton of the Stinnes dictatorship plans, Castle asked Wiedfeldt about it: “I said to him that it was probable that Germany would have to have a dictatorship and asked him whether a man like Stinnes would take charge.” Wiedfeldt replied that a dictatorship was “almost inevitable” but Stinnes himself would not be part of it, and then informed Castle not only of Stinnes’s directorate plans but also that Stinnes had asked him if he would be willing to be one of the dictators, an offer he had refused.

On 5 November, Wiedfeldt wrote to the Foreign Office that the rumors of a dictatorship were hurting German interests in the United States. Wiedfeldt stated explicitly that such talk was endangering American efforts for an experts conference, chances for grain shipments and the beginning of large relief efforts for Germany. Wiedfeldt clearly laid out his position that what the German government and the German people needed more than anything was a conference that would at last bring about an end to the years of uncertainty. Hughes, Wiedfeldt reported, believed he had a real chance to bring all the parties to the conference table, if the conference program was not so restricted that it could not produce real results.

107 Castle was “glad” to have such an open conversation. “I asked him straight questions and he answered very frankly. We went over the situation pretty thoroughly and, as he is a very intelligent man, I was might glad of the opportunity to hear things from some one who had just been on the spot.” Castle to Houghton, 2 Nov 1923, file 52, Castle Papers.
The ambassador warned against anything that might endanger this project.  

Despite Wiedfeldt’s stated position about the directorate, the call came on 10 November. Wiedfeldt refused the offer, replying that other important matters kept him in Washington where he might render greater service in the German interest. Wiedfeldt certainly had in mind his work with Hughes towards American help in the reparations question and the commercial treaty which was about to be negotiated.

On 9 November the notorious Hitler-Ludendorff putsch took place in Munich. Trouble in

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108 While most Germans, Wiedfeldt noted, understood that a directorate means a small cabinet unhindered by parties or parliament, to the Americans it meant a military dictatorship or restoration of the monarchy. Wiedfeldt to AA, 5 Nov 1923, Nr. 347, R28489, Büro RM-USA, Bd.3, D619001, p. 122.

109 General von Seeckt sent a secret telegram through the Hamburg-America Line, ordering its New York director to go immediately to Washington to deliver the message to Wiedfeldt that both the Commander of the Army and the German president requested that the Ambassador take up the position of Chancellor and Foreign Minister in a new German government. The reply was also to be by secret cable. as an “official cable” to Berlin was “impossible.” Arndt von Holtzendorff to Julius P. Meyer, Telegramm an Hamburg-America Linie New York, 10 Nov 1923, reprinted in Schröder, “Otto Wiedfeldt als Politiker und Botschafter der Weimarer Republik,” p. 219.

110 In his own written reply to General von Seeckt, Wiedfeldt explained his refusal. Although thankful for the great trust both von Seeckt and Ebert had in him, Wiedfeldt felt he could better serve Germany from his position in Washington. In the first place, Wiedfeldt thought he was the wrong man for such a directorate, for while he had the friendship and trust of many influential men, he had no party or interest group behind him. He did not have the trust of the agricultural sector, or the workers, and felt that his was often a minority opinion among the industrialists as well. Furthermore, after almost two years’ absence from Germany, it would take him far too long to master the details of the current domestic and financial situation. More importantly, he felt that while he could only be a burden to a “small cabinet,” he could influence the most important matters from his post in Washington during the coming months. Wiedfeldt cited his work for food credits and private relief committees, noting that this would go far to relieve the hunger threatening Germany which undoubtably underlay the reasons such a directorate was thought necessary. Wiedfeldt to von Seeckt, 24 Nov 1923, reprinted in Die Kabinette Stresemann II, Anhang Nr. 6, pp. 1216-17.
Bavaria had long been expected and was of concern to Washington. The so-called Beer Hall Putsch quickly collapsed when the police proved loyal and fired on the putschists, bringing Adolf Hitler’s first attempt to seize power to an inglorious end. These events in Munich, did, however, have an effect on Germany’s diplomatic situation, because they happened in the midst of the negotiations over the form and scope of the experts committee.

At a time when Hughes was attempting to place public pressure on Poincaré to accept a broader, more inclusive mandate for the proposed experts commission, the events in Germany handed Poincaré further arguments in support of his position. The French seized on the Munich putsch, in which the former Quartermaster General Ludendorff, the most prominent symbol of old German militarism played a major role, as proof of the continuing danger Germany posed to Europe. But opinion in America and in Europe was turning markedly against Poincaré’s intransigence. The French press was concerned about this “general offensive” against France, which threatened to isolate it. The position of Belgium was uncertain; and there was a further estrangement from Britain. Of most concern was the strained atmosphere with the United States. In Washington, Jusserand was instructed to do all he could to express the French view to the American government and public, namely that the Hitler-Ludendorff putsch was a timely example of the threatening nature of Germany,


112 The story of Hitler-Ludendorff putsch is well known. For the best discussion of the putsch as well as the circumstances in Bavaria which spawned it, see Gordon, Hitler and the Beer Hall Putsch.

113 After 1917, Ludendorff had been virtually military dictator of Germany until almost the end of the war. After the war, Ludendorff was the central figure among radical nationalists and racists opposed to the republic. See Franz Uhle-Wettler, Erich Ludendorff in
demonstrating that the Versailles treaty needed to be reaffirmed. In Paris, Hoesch thought it likely that Poincaré would attempt to break the “anglo-saxon diplomatic offensive” by demanding an Allied joint demarche and shifting the moral pressure onto Germany.  

America Accepts the Invitation

Poincaré’s response to Hughes’s refusal was to move to set up an inquiry through the Reparation Commission where he believed he could control its conditions. It was also a move which had the possible advantage of removing the onus for Germany’s condition from France and placing it on the United States. On 13 November, Barthou agreed to allow German representatives to present their case to the Reparation Commission regarding the formation of an experts committee. On 16 November, Poincaré followed up by securing his political base in France base in a lengthy speech before the Chamber of Deputies in which, to the standing applause of almost all members, he reaffirmed the determination of France to decline to cancel any of the C bonds except in proportion to the cancellation of the debt owed by France to the other Allies. If Britain and the United States wanted France to reduce German reparations under the London Schedule, they should pay for it.  

Britain’s response to Poincaré’s initiative was to attempt to determine Hughes’s current intentions.  

seiner Zeit (Berg: VGB, 1995).  

114 Hoesch to AA, 8 Nov 1923, Nr. 236, ADAP VIII, pp. 606-7.  

115 The French proposal was that the committee, which would not have a German representative, would be limited to evaluating Germany’s present capacity to pay reparations and to fix the payments through 1926. It would also evaluate German resources and particularly German assets held abroad. The Reparation Commission would set the program for the inquiry by the experts committee. The committee would present their findings to the Germans but any issues raised by German would be addressed to the Reparations Committee. According to the understanding of the French delegation, the committee of experts would take the 1921 London Schedule of Reparations as the basis of their work. Bradbury to
position. Chilton was instructed to see Hughes on 14 November and explain to him the importance that the British government attached “to an accurate knowledge of the exact position of the United States,” without which it was impossible for Britain “to consider what further steps are open to them.” Britain would also “warmly welcome” any suggestion he could offer. Hughes responded that the French were aware of his terms, and that his position was the “onus of breaking down and of exclusion of the United States participation is therefore on the French and that he wished it to remain there.” Hughes reiterated that he had never told the French or anyone else that the door had been closed. He would accept an invitation, but not one that contained Poincaré’s limitations. The French would have to come to reason, but he had no suggestion to make. Hughes’s position left the United States holding the moral high ground and the British with the task of making Poincaré see reason.

Poincaré’s misjudgment of his ability to control the Reparation Commission and his decision to utilize it as a vehicle for the expert committee inquiry gave Bradbury the opportunity he had been waiting for. The first step was to hear the German presentation. When the German government presented its case to the Reparation Commission on 23 November, its spokesman, Dr. David Fischer, challenged the Franco-Belgian occupation as a violation of the Versailles treaty. He argued that the efforts of Germany to establish a sound currency and a balanced budget were thwarted by actions of the occupying powers that were endangering social and political order in Germany. If France and Belgium would leave the Ruhr and confine their activities in the Rhineland to those prescribed by the treaty, Germany was prepared to continue with the fiscal and monetary reforms already begun and provide

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116 Chilton to Curzon, 14 Nov 1923, no. 469, DBFP XXI, pp. 667-68.
security for reparation payments at a very early date.\textsuperscript{117}

Taking advantage of Poincaré’s effort to establish an expert committee within the Reparation Commission, Bradbury had been working to find a compromise position that would allow an expert inquiry and had made some progress with Barthou by 27 November. Bradbury’s plan was to create two committees, one to develop a plan to re-establish German credit by balancing its budget and stabilizing the mark and the other to placate the French by investigating German capital investment abroad and how it might be repatriated for the purposes of reparation payments. Bradbury considered the second committee to be “mere eye-wash” designed to save the “face of the French.” In addition he agreed to the exclusion of Germany from representation on the second committee but insisted on American representation on the first committee.

Bradbury was reasonably certain of Italian and Belgian support, but not about American acceptance. He pointed out to Curzon that in any case the British would be “none the worse off for making the attempt.” With British general elections scheduled for 6 December, the effort would “at least tide over the time until our elections are over and will afford sufficient answer to any complaint that His Majesty’s Government are doing nothing.” Bradbury hoped that a joint invitation from Britain, France, and Italy would be politically difficult for the United States to refuse. His plan was for to Logan to attempt to prepare the way with

\textsuperscript{117} Fischer’s presentation ended with an impassioned plea. “The responsibility that the Reparation Commission owes to world history is tremendously great: history will judge if the Reparation Commission will fulfill its mission.” In Bradbury’s opinion the problem was no longer getting Germany to commit to reparation payments but rather that, because of German anxiety to obtain relief from an intolerable situation, they would make offers beyond their capability of fulfillment and thus make a settlement ultimately unworkable. Rede des Vorsitzenden der Kriegslastenkommission Fischer, 23 Nov 1923, Nr. 16, \textit{ADAP IX}, pp. 31-45, quote on p. 45; Bradbury to FO, 23 Nov 1923, no. 478, \textit{DBFP XXI}, pp. 678-80.
Hughes before Britain contacted the State Department with the proposal.\footnote{Minute by Sir E. Crowe, 27 Nov 1923, no. 480, DBFP XXI, pp. 681-82.}

Logan informed the State Department of the compromise proposal on 29 November, including a letter from Barthou inviting American participation. He also and told Hughes that Louis Delacroix, the Belgian representative on the commission, had notified him and Bradbury that he had assurances from Barthou that while the French representative could not join in a proposition to reduce the London schedule of reparations, he had given his “confidential and definite assurance” that he would not attempt to limit the scope of the discussion. Logan explained that any open debate on this issue would make the position of Barthou and Poincaré impossible.\footnote{Herrick to Hughes, 28 Nov 1923, FRUS 1923 II, pp. 98-101.}

The State Department, unimpressed by what it considered a “vague whispered suggestion,” would not regard Barthou’s statement as indicating a change in Poincaré’s attitude nor, having heard nothing from the British government, was it prepared to proceed on the basis of “an undefined secret authority.” Nor would it countenance an American expert being named by the Reparation Commission without the support of the American government. The department, would, however, accept a confidential assurance from the French government of their acceptance of an enlarged scope of the inquiry.\footnote{The State Depart had been previously informed by Harvey that Britain would not respond to Poincaré’s proposal until after the British elections on 6 December. Phillips to Herrick, 30 Nov 1923, FRUS 1923 II, pp. 101-2.}

Curzon cabled Chilton to see Hughes at once, to clarify developments in the Reparation Committee and to convey Britain’s understanding that the first committee would have a wide frame of reference, including judgments on capacity to pay and moratoriums. Hughes was
also to be informed that Britain strongly urged the United States to support the committee’s mission. Hughes told Chilton on 3 December that if the scope of the inquiry was to be what the British understood it to be, this appeared to be satisfactory, but he wanted to know the nature of the promise given by Barthou and to be assured that Poincaré would not insist on last-minute changes. Hughes reserved final judgment until this information was supplied by the British.\footnote{Curzon to Chilton, 1 Dec 1923, no. 481, DBFP XXI, pp. 683-85.}

On 3 December, at Stresemann’s request, Wiedfeldt met with Hughes and informed him that Bradbury was working on another compromise. Although Germany would not be invited to the conference, Stresemann urged American participation; at the very least, the United States should send observers who could become active participants if matters worked out satisfactorily. The next day, Wiedfeldt found Hughes still skeptical of the possibility of success. Hughes told Wiedfeldt that as long as there were no actual assurances that the experts’ mandate would be usefully expanded, he would continue to reject the invitation. The danger was too great that the endeavor would fail, something neither the administration nor the Republican Party could afford.\footnote{Wiedfeldt was told that the State Department had been working closely the whole month with the British. The American position was that France’s insistence that the experts committee by advisory to the Reparation Commission was seen as only a formality that would allow France to save face. The United States would not have rejected the compromise of 30 November if it had not heard that Poincaré would reject it. Wiedfeldt noted that Hughes was personally hurt by the behavior of the French. Stresemann to Wiedfeldt, 3 Dec 1923, Nr. 35, ADAP IX, pp. 83-84; Wiedfeldt to AA, 17 Dec 1923, Nr. 66, ADAP IX, pp.}

In the Reparation Committee, Logan and Delacroix concocted a letter for Barthou to send to Logan for transmittal to Hughes, elaborating the scope of the first committee and asking the United States to acquiesce in the participation of American experts. In forwarding
Barthou’s invitation on 6 December, Logan added his own assurances that “the Reparation Commission would ask the experts to give it in all sincerity their professional opinion on the questions submitted to them” meant there would be no restrictions on the total amount of German reparation indebtedness or the time period of years which could be considered.\(^\text{123}\)

Curzon instructed Chilton “to do what we reasonably can to overcome the scruples of the American government without at the same time assuming to direct a responsibility for their ultimate participation.” The British reaffirmed to Hughes that the proposal was an independent undertaking of the Reparation Commission, not the result of governmental discussions between Britain and France. The proposal was designed to secure a comprehensive inquiry but not in a form that would immediately and directly challenge Poincaré. Bathou had agreed that if the experts recommended the reduction of Germany’s capital debt, the French experts would disassociate themselves from the recommendation but would not seek to restrict the liberty of the other experts’ proposals. Bradbury did not believe that there would be any attempt to restrict the inquiry, because he had made it clear to

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\(^{123}\) Herrick (Logan) to Hughes, 6 Dec 1923, \textit{FRUS} 1923 II, pp. 102-4. Logan’s optimistic assumptions were not shared by Bradbury. While there was nothing in the letter that went back on Barthou’s private assurances, Bradbury considered its tone as “far more appropriate to a French newspaper article designed to cover M. Poincaré’s retreat than to a demonstration for the satisfaction of the United States Government that he has, in fact, retreated.” Bradbury, however, believed that while he was not enthusiastic about the language and doubted that Washington would be, “it just might do.” He advised that Washington be informed in regard to Barthou’s attitude that he was as anxious to cooperate as far as he dared and he would do his best to take Poincaré along with him and would even be prepared to fight Poincaré “when, but not until, he thinks it is politically safe to do so.” Bradbury cautioned that he believed that the more conciliatory attitude on the part of the French was due to their nervousness about the outcome of the British 6 December elections and that after the elections the French attitude would stiffen again. Curzon to Chilton, 6 Dec 1923, no. 488, \textit{DBFP} XXI, pp. 703-5 and n. 3.
the French that any such attempt would result in a British withdrawal from it. 124

When Chilton saw Hughes on 7 December, Hughes was noncommittal, asking Chilton to return in a few days. 125 On that same day, after Wiedfeldt met with Coolidge to again urge American participation, he received a call from Hughes upon his return to the embassy. When he met with Hughes, he was told that Hughes, like the president, felt a great responsibility in the matter and although he had received no official or confidential information that negotiations in the Reparation Commission would widen the experts mandate, Hughes and Coolidge had decided to take the risk based on British assurances and the gravity of the situation in Europe. The United States would accept an invitation to participate and appoint a representative of great authority, who would be the key to widening the mandate.

Hughes observed that because opinion in the United States and Congress was still split, it was important that Germany provide a written request for American participation. American policy must be seen as nonpartisan, and American actions as both on the behalf and at the behest of all Europe. After a quick consultation with Berlin, Wiedfeldt presented Hughes with the required note. 126 From Wiedfeldt’s account it is clear that Hughes made his decision on 7 December. In Wiedfeldt’s report to the Auswärtige Amt, he noted that American electoral considerations played an important role in the decisions. 127 After years

124 Ibid.


126 Wiedfeldt to AA, 17 Dec 1923, Nr. 66, ADAP IX, pp. 163-67; Wiedfeldt to Hughes, 7 Dec 1923, FRUS 1923 II, pp. 104-5.

127 Wiedfeldt’s account mentions that during his meeting with Hughes, Hughes had a long telegram on his desk which he kept glancing at during the conversation. It is very
of failed negotiations, many in the Republican Party were skeptical about the success of the committee and feared that the party would pay a price in the 1924 elections if this plan also collapsed after the administration had backed it. But Wiedfeldt noted that it was important to the Republicans to attract the German vote, which had been voicing strong complaints about the lack of the administration's activity during the crisis.\textsuperscript{128}

Hughes accepted the Reparation Commission invitation on 11 December, carefully incorporating Barthou’s formulation allowing for full inquiry and making no mention of Poincaré’s restrictions. Poincaré’s roadblock had been circumvented by phrasing the inquiry into Germany’s capacity to pay in different terminology. In keeping with American policy, Hughes stipulated that the United States would be represented through private American experts rather than official representatives of the government.\textsuperscript{129}

When Hughes was asked by Chilton on 11 December whether he expected any trouble with Congress over the acceptance of the invitation, Hughes replied that he believed that Hiram Johnson (a progressive and isolationist senator from California) and his adherents would attempt to raise criticism over it, but since all the Allied powers and Germany had invited the participation of America “no one could say that it was a pro-French, pro-British or pro German scheme.”\textsuperscript{130} Hughes had covered all his bases and protected the administration from domestic criticism; now, he wanted matters to proceed quickly before the situation in Germany, and Europe as a whole, deteriorated.

\textsuperscript{128} Ibid.

\textsuperscript{129} Hughes to Herrick (Logan), 11 Dec 1923, FRUS 1923 II, pp. 105-6.

\textsuperscript{130} Chilton to Curzon, 11 Dec 1923, no. 490, DBFP XXI, pp. 708-9.
Conclusion

America’s goal was a peaceful reconstruction of Europe that would benefit American financial and commercial interests and satisfy its desire to view itself as a force for good in the world. The reconstruction of Germany was viewed as essential to these goals, which had been threatened by the reparation dispute, which in turn had led to the French occupation of the Ruhr. During the Cuno government when Germany was making reparation offers deemed inadequate by the Allies, and American opinion was predominantly pro-French, there had been little incentive for America to intervene.

Stresemann’s recognition that German foreign policy was dependent on economic reform within Germany, and his hard decision not only to give up passive resistance and initiate domestic reform but also to accept the political and personal consequences, was a major turning point. Unlike Cuno, who continually looked for assistance from abroad, Stresemann insisted that Germany’s foreign policy was linked to domestic reforms that would allow credible assurances of its ability to pay reparations. In addition, Stresemann’s fundamental belief that the United States was essential to Germany’s success made him willing to follow America’s policy leads. This changed the State Department’s initial skepticism about him and began a change in the general American opinion about Germany. Stresemann also deserves credit for holding Germany together, for as Coolidge and Hughes made clear, if Germany fell apart there would be no chance for American intervention.

After the cessation of passive resistance, it was generally expected that negotiations would begin. Even when France refused, instead tightening its hold on the Ruhr and Rhineland, British policy remained divided and uncertain, waiting for France to accept
negotiations. Hughes wisely chose to bide his time. The new Republican administration of Calvin Coolidge could not afford an embarrassing political failure that would leave it open to attacks by isolationist Republicans and partisan Democrats still smarting over the defeat of the Versailles treaty. While Coolidge, under some domestic and international pressure, was willing to re-offer Hughes’s expert committee proposal in early October, both he and Hughes recognized that the time was inopportune. An experts committee could not be imposed on France; it had to be accepted. France, however, was pursuing a policy of attempting to satisfy its security needs in the Rhineland and had little interest in an experts committee.

But by late October, France had gone “too far.” Its actions had pushed Germany to the point of economic collapse and potential political disintegration. In attempting to satisfy its security needs, France had converted the economic problem of reparations into a political issue that threatened the stability of Europe. Britain had become more actively involved but could not manage the crisis on its own. It required the involvement of the United States with its promise to aid European reconstruction. It was this political crisis that brought Hughes to engage in forceful diplomacy meant to compel France to accept an experts committee inquiry that satisfied the United States’s requirement for its scope to be wide enough to achieve useful results.

When France refused to concede to Hughes’s demand, he faced the difficult choice of whether or not to accept an undocumented compromise forged in the Reparation Commission. If he did not accept the compromise, he risked being blamed for the collapse of Germany and the loss of the important German-American vote in the 1924 election. If he accepted the proposal, and it failed because the experts committee was ultimately frustrated by Poincaré, he risked endangering the Republicans in the 1924 election. Hughes deserves
credit for taking the risk and making the correct political decision.

This analysis departs sharply from that of Werner Link, who argues that American policy was guided by economic concerns. According to Link, the United States remained inactive in the first half of 1923 because American exports increased due to the lack of German competition, while in the second half of 1923, the chaos of the Ruhr crisis resulted in decreased American exports, which led America to intervene on behalf of American trade. He dates the American decision to intervene to summer 1923, when the dumping of steel depressed world prices.\textsuperscript{131} This conclusion, however, ignores the fact that both Coolidge and Hughes, the ones responsible for political decisions, opposed American intervention until October. Furthermore, Britain, which was more affected by unemployment, did not note or complain about depressed steel prices until mid-October.

Link further postulates that Hughes’s decision to accept participation in the experts committee was made on 5 November and that his refusal on 9 November was a bluff. This hypothesis discounts Wiedfeldt’s account and de-emphasizes work done in the Reparation Commission by Bradbury and Logan (who deserve much credit for their efforts) to forge a compromise. It also ignores that fact that Hughes needed reassurance from Britain before accepting the compromise. While there is no question that Hughes hoped pressure on Poincaré would lead to a satisfactory compromise and that Europe’s need for American involvement and money would confer a leading role in the experts committee on America, Hughes took a risk; he did not run a bluff. His decision opened the way for the Dawes Plan that would emerge from the experts committee, paving the way for a resolution of the general European crisis that had been building since 1921 and allowing for the reconstruction of

\textsuperscript{131} Werner Link, \textit{Die amerikanische Stabilisierungspolitik}, pp. 203-10 and “Die
Germany.
Chapter VII

The Commercial Treaty

Introduction

Like the negotiation of the Berlin Treaty and the Mixed Claims Agreement before it, the history of the German-American commercial treaty of 1923 provides a good illustration of both the mutuality and the constraints under which German-American relations operated in the years of crisis following America’s rejection of the Treaty of Versailles. Once again, Secretary of State Hughes struggled to maintain control of policy, in this case commercial policy based on an “unconditional” most-favored-nation principle, against the interference of Congress and outside interests. Hughes, representing the internationalists within the Republican administration, sought to steer a new course for American commercial policy, endeavoring to establish a liberal world trading order based on free trade and the Open Door, a policy begun under the Wilson administration.

Germany, embroiled in the Ruhr conflict, had sought a new commercial agreement with the United States since the reestablishment of relations in 1921 and desperately needed a political success and the stabilizing influence an American commercial treaty would bring. With the commercial restrictions placed on Germany at Versailles about to lapse, Germany also wished to re-orient its trade policies and looked to the liberal trading system as a means of revising the Versailles system. Hughes presented a model treaty for Germany to sign,
based on American goals and the political necessities imposed by the Coolidge administration’s contentious relationship with Congress. German diplomatic blundering allowed the State Department to once again press the Germans into a quick signing, but despite these well-worn tactics, the commercial treaty demonstrated that there was a great degree of mutuality of interests between the two nations.

In the end, Hughes was not able to avoid conflict with the Senate over the German commercial treaty, due in part to its free-trade principles but mainly to the personal animosities that had grown since the acrimonious fight over the ratification of the Treaty of Versailles. Eventually the commercial treaty would have to be passed literally over the dead body of the Senate Foreign Relations Committee Chairman, Henry Cabot Lodge, and even then the model German treaty would fail in its ultimate goal of establishing the Open Door policy in Europe. For the Germans, however, the commercial treaty would represent a moral and tangible success. The commercial treaty, in German eyes, bound the two sister republics together in a community of interest in a liberal trading order, free from the constraints represented by the economic provisions of the Versailles system. The treaty also represented the first successful step in Stresemann’s policy of revisionism. Tangibly, along with the loans associated with the Dawes plan, the commercial treaty brought American engagement with Germany that stabilized the Weimar republic during its few good years of the late 1920s.

Historians have interpreted the significance of the German-American commercial treaty in varying ways. The treaty is often cited as an example of the thrust of American policy toward Germany in general or as an example of German-American cooperation in the
only Werner Link, Peter Buckingham and Elisabeth Glaser-Schmidt have analyzed the treaty to any extent. Glaser-Schmidt places it in the context of restoring a liberal world trading order after the first world war and the mutuality of interests existing between Germany and the United States. Buckingham examines the treaty as part of the failed attempt to establish the Open Door in Europe and focuses on Hughes’s efforts to reorient the basis of American commercial policy. Werner Link, writing from the economic deterministic perspective influenced by William A. Williams, covers the treaty both from the perspective of American economic expansion and German political and economic interests. In regard to German-American relations, Link’s valuable study has been highly influential, although his discussion is somewhat marred by the necessity of fitting the treaty into his overall thesis of America’s strive for economic dominance.

This chapter will place the commercial treaty in the context of German-American relations in the critical years 1923-1924. The history of the treaty reveals the motivations, goals and determinants of American and German policy. In this way, the history of the treaty is best understood as a political story rather than an economic one. As a vehicle for establishing an American-dominated liberal world trading order, the treaty proved to be a failure. It is in the political context of Germany and Europe’s great crisis that the real significance of the German-American commercial treaty lies.

By summer 1923, Hughes was finally prepared to submit a draft commercial treaty to the Germans. A commercial treaty with the United States outside of the commerce restrictions

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1 Some examples are Parrini, Heir to Empire; Jonas, The United States and Germany; Berg, Gustav Stresemann und die Vereinigten Staaten von Amerika.

2 Link, Die amerikanische Stabilisierungspolitik; Buckingham, International Normalcy; Glaser-Schmidt, “German and American Concepts to Restore a Liberal World Trading
of Versailles had been a goal of German diplomacy since the reestablishment of relations in 1921. Indeed, the negotiation of such a treaty had been one of the most important reasons for the appointment of the businessman Wiedfeldt as ambassador to Washington. Likewise Houghton, also a former businessman, had assumed that negotiation of a new commercial treaty would be one of his main concerns as ambassador. But the State Department was in no rush to begin negotiations. Castle replied to Dresel’s prompting:

It does not seem to that we can authorize you to say to the Germans that we would welcome the commencement of negotiations for a commercial treaty. We do not particularly care at the moment whether there is such a treaty or not, but we know perfectly well that the Germans would like to have one. Therefore, if they want to begin negotiations, we should probably be reasonably agreeable about it, but we do not want to lose our present strong position by ourselves suggesting the opening of such negotiations.

Houghton also prompted the department to begin negotiations soon after his arrival in Berlin. Hoping to capitalize on the good will created by the exchange of ambassadors, he suggested that it would do wonders for relations if a commercial treaty was offered rather than “held as a club over their heads to obtain a settlement of the Alien Property.” But Hughes preferred to wait until after negotiations for the Mixed Claims Agreement, where the

3 Ernst Schröder, Otto Wiedfeldt: Eine Biographie, p. 123; Alanson B. Houghton Diary, 1 Apr 1922. For German hopes for further negotiations following the ratification of the Treaty of Berlin, see Amerikanisches Angebot eines Friedensvertrags (Unsigned, Undated), ADAP V, pp. 216-17.

4 Castle to Dresel, 16 Feb 1922, file 51, Castle Papers. Castle also expressed his annoyance with the attitude of Hoover who had recently published a letter regarding the commercial treaty: “It is another instance of the Department of Commerce butting in where angles fear to tread.”

5 Note on Houghton’s interview with Haniel, 5 May 1922, RG 59, 711.622/18, DSNA; Schubert to Wiedfeldt, 9 May 1922, Botschaft Washington, Po2a, 959; Houghton to Castle, 6 Jun 1922, file 51, Castle Papers.
prospect of a commercial treaty could be used as leverage.

The New Departure in American Commercial Policy

The negotiations the Mixed Claims agreement, however, was not the only reason to delay presentation of a commercial treaty to Germany. While writing to congratulate Houghton on the conclusion of the claims agreement, Hughes confided:

I should say, however, in confidence, that there is under consideration a new departure with respect to our commercial treaties in relation to the most favored nation clause. This is a matter which affects several treaties that we have in course of preparation and is of such great importance that it requires deliberation and the consideration of the members of the Foreign Relations Committee. I regret that it should even for a short time delay the negotiation of a commercial treaty with Germany, and that the reason for the delay cannot now be stated.  

Hughes had in mind a reordering of American commercial policies to reflect America’s new position in the international economy following the World War, in line with the administration’s commitment to the “liberal world trading system,” the Open Door policy. The United States had emerged from the war as the world’s leading creditor, and a new dependence on foreign markets left American exports vulnerable to discriminatory tariffs. Most existing trade agreements were far out of date; many dating from the period before the Civil War and certainly did not reflect the radically changed conditions of the post-world war American economy. Hughes postulated a set of new commercial agreements based on

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7 The Phase is Glaser-Schmidt’s, who defines liberal in this sense as “lines of conduct aimed at nondiscrimination and the creation of a new framework of international capitalistic growth.” Elizabeth Glaser-Schmidt, “German and American Concepts to Restore a Liberal World Trading System,” p. 354.

8 For example, the Treaty of Commerce and Navigation of 1 May 1828, between the
the use of the unconditional most-favored-nation clause, whereby there could be no
discrimination against the trade of one nation in favor of another and any concession to a
third nation must automatically be extended to the second party to the treaty. The
unconditional most-favored-nation agreements, along with the new Fordney-McCumber
Tariff of 1922 with its penalty provision (Sec. 317), were meant to assure that the Open Door
policy would be implemented among American trading partners.9

This concept was a break from the traditional “conditional” most-favored-nation policy
followed by the United States where concessions were granted only for equivalent
consideration. The vagaries of what constituted equivalent consideration or compensation
often allowed the United States to gain benefits gratuitously, without having to give anything
in return. Protectionists objected to abandoning the traditional policy for the “unconditional”
form, which would provide equal reciprocal treatment for America’s trading partners with no
conditions for concessions. Although the “conditional” form of the most-favored-nation
clause had seemed to serve the interests of the United States in the late nineteenth century,
when much-needed foodstuffs and raw materials formed the bulk of its exports, the shift
toward increased exports of manufactured goods had changed the situation to the
disadvantage of the United States. In the face of increased discrimination against American
manufactured products, switching to an unconditional most-favored-nation policy would

9 For Hughes’s conception of the unconditional most-favored-nation principle, see
Beerits Memorandum, “The Commercial Treaty With Germany,” reel 140, cont. 182, Hughes
Papers, Library of Congress, Manuscript Division, pp. 3-6; Hughes to American Diplomatic
Officers, 18 Aug 1923, FRUS 1923 I, pp. 131-33; Peter Buckingham, International
Normalcy, pp. 153-61; Carl P. Parrini, Heir to Empire, United States Economic Diplomacy,
serve to enforce equality of treatment for American goods.  

In December 1922, Acting Chairman of the Tariff Commission William S. Culbertson wrote a memorandum to Hughes urging the overhaul of the commercial treaty structure of the United States with the new treaties to be negotiated. Culbertson explained that in practice, the old conditional most-favored-nation construct had broken down under the modern tariffs regulations, so that “tariff negotiations have developed into statistical controversies over the relative value of the concessions to be made,” making it “almost impossible to arrive at any agreement upon the equivalent concessions to be made by a third party.” Culbertson summed up the present situation:

Instead of contributing to equality of commercial opportunity among nations, it has become the support of discriminatory reciprocity treaties - a policy again rejected by Congress within the last few months.

To best advance the “open door” principle of equality of treatment in trade for all trading nations, Culbertson recommended the unconditional form of the most-favored-nation clause to Hughes as “the simplest application to commercial intercourse between nations of the

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10 An example of the conditional form of the most-favored-nation clause in treaty relationships would be if country A reduced its duties on American goods in return for similar reductions, country B, which also had a conditional treaty with the U.S., could only claim those reductions provided for country A if equivalent compensation were made. Under the proposed unconditional form of the most-favored-nation clause, all nations in an unconditional treaty relationship with the United States would automatically receive any concessions made without the condition of compensation. The United States would also be freed from having to offer compensations for concessions claimed, thus promoting an environment of free trade. For the workings of the most-favored-nation clause in treaties and the differences between the conditional and unconditional forms, see Beerits Memorandum, “The Commercial treaty with Germany,” Hughes Papers, pp. 4-5; Jacob Viner, “The Most-Favored-Nation Clause in American Commercial Treaties,” International Economics (Glencoe: The Free Press, 1951), pp. 17-39; Richard Carlton Snyder, The Most-Favored-Nation Clause (New York: King’s Crown Press, 1948), especially pp. 211-22.
equality-of-treatment principle and tends powerfully to prevent discriminations against third
countries and all the ill-feeling, distrust, retaliation, and international friction incident
thereto.”

Hughes forwarded Culbertson’s memorandum to Henry Cabot Lodge, Chairman
of the Senate Foreign Relations Committee, who found it “very convincing,” and to President
Harding, who endorsed it on 27 February 1923. The unconditional most-favored-nation
principle had become the administration’s policy.

With these goals in mind, Hughes convened an interdepartmental committee of advisors
drawn from State, Treasury and Commerce to draft a model treaty of amity, commerce and
consular rights built around the unconditional most-favored-nation principle. The
committee finished its work in June 1923. As this was intended as a model treaty, Hughes
had to decide to which nation the model should first be offered. Hughes had promised
Germany a commercial treaty following the conclusion of the Mixed Claims Agreement in
August 1922, and by summer 1923, Germany was most anxious to conclude a treaty.

Therefore Hughes looked to Germany as the best candidate to be presented with the model
treaty, especially as it could be assumed negotiations would go smoothly and German
acceptance was guaranteed. A new French two-column tariff, based on reciprocity

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11 Culbertson to Hughes, 14 Dec 1922, FRUS 1923 I, pp. 121-26. Culbertson’s memo
was written at the request of Hughes as the culmination of a series of discussions with
Hughes regarding the proposed change of policy.

12 Lodge to Hughes, 8 Jan 1923 and Harding to Hughes, 27 Feb 1923, FRUS 1923 I, pp.
126, 128. For the formation of unconditional most-favored-nation policy see FRUS 1923 I,
pp. 121-33 and Parrini, Heir to Empire, pp. 235-42. For adoption as administration policy,
Joan Hoff Wilson, American Business & Foreign Policy, 1920-1933, pp. 80-81.


14 There was an aborted attempt to negotiate a prototype of the model treaty with Spain in
May 1923, also built around the unconditional most-favored-nation principle. Spain had
denounced the 1906 commercial treaty with the United States requiring what the U.S. had
(bilateral as opposed to unconditional) provided additional motivation. The State Department adopted the strategy of presenting the unconditional most-favored-nation model treaty to the former Central Powers and successor states of Europe, which needed to renegotiate their commercial treaties with the United States in any case, as a means of breaking the discriminatory French reciprocity tariff. After Germany, the model commercial treaty would be offered to Austria, Hungary and Czechoslovakia.\(^{15}\)

The State Department had yet another reason for picking Germany to introduce the new model treaty. It was expected that Germany, especially a stabilized Germany, would become an important trading partner for the United States. Before the war, Germany had been rapidly growing into a major market for U.S. exports and this trend was projected to accelerate in the postwar era if stabilization was achieved. German stabilization and economic recovery were still very much open questions when the treaty was presented to Germany in summer 1923. Nevertheless, with an unconditional most-favored-nation based commercial treaty with Germany in place, the United States would be in a better position to capitalize on a recovered German market than competitor producers. The advice to the State Department from its diplomats in Germany was emphatic: “The time to start is now; let hoped would be a quick renegotiation. Spain, however, in its rejection of the unconditional most-favored-nation principle, demanded tariff reductions and provisions for the importation of wine. Despite certain concession by Hughes and the threat of retaliatory tariffs under Section 317 of the new Tariff Act, negotiations broke down in July. By then, the model treaty was ready to be presented to Germany, where its success was far more likely. The treaty drafts were nearly identical. There is no mention of failed Spanish negotiations in the Beerits Memorandum of the Hughes Papers. For the failed negotiations with Spain, see FRUS 1923 II, pp. 831-74.

\(^{15}\) The use of the Commercial Treaty to pressure France in regard to tariffs is well covered in Carl P. Parrini, Heir to Empire, pp. 241-42, and Buckingham, International Normaley, p. 162.
others do the waiting.”

The Draft Treaty

The German model treaty of friendship, commerce and consular rights, as the name suggests touched on more than just matters of commerce. The treaty was also meant to finalize the process of normalizing ties begun by the Berlin Treaty and to lay the foundation for comprehensive relations. Hughes was aware that several provisions would be especially advantageous to Germany; these were incorporated into the treaty “because they are deemed to promote justice as between the peoples of friendly States.”

The first six articles dealt with the rights of nationals residing in the territories of the other, giving the broadest possible rights to resident aliens. The commercial articles of the treaty comprise articles VII through XVI. Article VII was the conceptual core of the treaty, containing the unconditional most-favored-nation clause:

Each of the High Contracting Parties also binds itself unconditionally to impose no higher or other charges or other restrictions or prohibitions on goods exported to the territories of the other High Contracting Party than are imposed on goods exported to any other foreign country.

Any advantage of whatsoever kind which either High Contracting Party may extend to any article, the growth, produce, or manufacture of any other foreign country shall simultaneously und unconditionally, without request and without compensation, be extended to the like article the growth, produce or manufacture of the other High Contracting Party.

16 Consul E. Verne Richardson in his report “Prospects of American Export to Germany,” Quoted in Link, Die amerikanische Stabilisierungspolitik, p. 193. Link has an interesting discussion of U.S. motivations regarding Germany and the treaty, pp. 190-93. Link sees three main reasons the U.S. picked Germany: first, as an export land, Germany would be interested in accepting the unconditional most-favored-nation principle; second, it would wish to place U.S. exports to Germany in a favorable position following stabilization; third, Germany’s weakened position would allow the U.S. to get what it wanted in negotiations.
The United States allowed itself a reservation for Cuba, due to the special political and geographic relationship. No reservation would be allowed, however, for a German customs union with Austria. The treaty also contained a reservation stating that rights of transit through the Panama Canal were governed by other international agreements. But on the whole, commercial relations were to be based on a reciprocal footing. Many of the articles concerning commercial travelers were drawn from recent agreements made with Latin American countries, the provisions of which the United States wanted to make a standard. Articles XVII-XXVIII concerned consular rights. Hughes anticipated no difficulties with his draft treaty, writing to Houghton, “It may be said with entire candor that this treaty embodies no attempt whatever to attain by sharp bargaining any undue advantage over a friendly state, or to request any peculiar favor which the United States is not itself ready to offer in return.”

The draft treaty was presented by Hughes to Ambassador Wiedfeldt on 25 July 1923. The State Department had already decided that negotiations would be held in Washington, where Hughes could directly supervise. Assistant Secretary of State Harrison advised Castle that, “all other factors being equal, it would be to our advantage to have these treaties negotiated in Washington,” further noting that as the Germans are anxious “to have the treaty negotiated and concluded as soon as possible,” they are not likely to object on this point.”

With the invitation to begin negotiations, Hughes immediately pointed out the importance of

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17 Draft treaty marked “Final copy,” enclosed with Hughes to Wiedfeldt, 25 July 1923, RG 59, 711.622/2a; Hughes to Houghton, 3 Au 1923, RG 59, 711.622/22A.

18 Harrison to Castle, 19 July 1923, 711.62/21; Castle tells Houghton the Germans would prefer to have the treaty negotiated in Berlin. Castle to Houghton, 31 July 1923, file 51, Castle Papers.
Article VII which “makes full provision for the enjoyment of the most favored nation clause in its unconditional form.” Houghton was informed a few days earlier that the negotiations would soon begin in Washington and was forwarded a copy of the treaty along with an explanation of the terms and purposes so that he might, if required, answer any questions by the German Foreign Office directly. Hughes expected the negotiations to go forward smoothly. Castle echoed the opinion of his chief, writing to Houghton, “It seems to me a wonderfully fair document, inasmuch as we ask nothing that we are not willing to give ourselves.”

The counselor of the German Embassy, Karl von Lewinski, personally delivered a copy of the draft to Berlin. The Foreign Office was pleased to have a treaty on the table. The idea of a liberal world trading system developed by the Republican administration and State Department corresponded well to the desired commercial policy of the young German Republic whose overarching goal was to reestablish the commercial sovereignty lost at Versailles. The Auswärtige Amt was particularly friendly to the idea of a liberal system of foreign commerce and a return of most-favored-nation status, lost for five years under the Treaty of Versailles, as a means of relief from trade discrimination suffered since the end of the war. A liberal trade policy was promulgated as the best means to reintegrate Germany as an equal partner in the world economy. The American commercial treaty represented, therefore, a major step towards the revision of the Versailles system.

As had been assumed by the Germans since the end of 1918, closer relations with the

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20 On German concepts of liberal commercial policy, see Glaser-Schmidt, “German and
United States, economic or otherwise, were the key to German recovery and revision. The proposal of amity, commerce and consular rights was in itself a diplomatic victory. This was especially true in the context of American coolness towards the German situation since the onset of the Ruhr crisis. Germany felt at last recognized by the United States as a sister republic holding mutual, liberal values and as an equal partner in reconstruction of world trade.\(^{21}\)

Negotiation and acceptance of the German treaty did not, however, move as quickly as the State Department would have hoped. Despite German satisfaction with the principles embodied in the draft treaty and German enthusiasm for a commercial treaty with the United States, the draft treaty languished in Berlin for several months following its delivery by von Lewinski. It was certainly not the best time for it to receive consideration in Germany. The Cuno government had fallen on 12 August, just as von Lewinski would have been arriving with the official copy of the treaty. Likewise, the first Stresemann government fell on 3 October, only to be reorganized three days later amid of political chaos; just as consideration of the draft treaty was beginning in earnest. Conditions within Germany, on the brink of economic collapse and political dislocation following the prolonged stress of passive resistance, inhibited decisive action on the part of the Foreign Office.

Despite the domestic chaos, German foreign office experts began the study of the draft in late September under the direction of Karl von Stockhammern, the commissioner for American Concepts to Restore a Liberal World Trading System,” esp. pp. 357-59.

\(^{21}\) “Zum deutsch-amerikanischen Handelsvertrag,” Handakten Ritter, Amerika, Bd.3, R105561, PA-AA; Wiedfeldt to Berlin, 8 Dec 1923, Abt. III, Politische Beziehungen der Ver. Staaten von Amerika zu Deutschland, B.6, R80136 (hereafter Abt.III, USA) ; Ernst Schröder, Otto Wiedfeldt, pp. 135-36. For discussion of German political and economic interest in the treaty, see Werner Link, Die amerikanische Stabilisierungspolitik in
commercial treaty negotiations. By and large they were quite satisfied with what the Americans were offering. On 1 October, Dieckhoff was requested to ask the State Department for only two minor points of clarification regarding definition of terms.\(^{22}\) Washington replied with a satisfactory answer on 10 October.\(^{23}\)

Representatives of various departments and German states met in the Foreign Office to discuss the draft treaty on 11, 12, and 15 October. Wiedfeldt, who was in Berlin at this time of political crisis, participated in the earlier meetings and lent his support for acceptance. It was agreed that the proposed treaty dovetailed with German commercial policy objectives and the revisionist principle of reciprocity. The opinion of the Reichswirtschaftsministerium [Ministry of Economics] was that the treaty “so surprisingly favorable” that it should be adopted as soon as possible.\(^{24}\) The use of the unconditional most-favored-nation clause was welcomed as it stood in marked contrast to the Entente” restriction imposed at Versailles, under which Germany was required to give most-favored-nation treatment without reciprocity for five years.\(^{25}\) There was some discussion of what the most-favored-nation clause mean for the concessions given in the Treaty of Versailles and the “productive pledges” given to the French in the Ruhr. Wiedfeldt doubted that Washington would

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\(^{22}\) The points of clarification regarded the State Departments understanding of the phrase “or going through” in regard to the passage of persons and goods in Article XVI and the definition of “sodium” regarding reciprocal mineral mining privileges in Article XIII.

\(^{23}\) Dieckhoff to State Department, 1 Oct 1923, RG59, 711.622/23; Phillips to Houghton, 19 Oct 1923; ibid; Wiedfeldt to AA, 8 Dec 1923, Abt. III, USA, K321444.

\(^{24}\) Quoted in Link, \textit{Die amerikanische Stabilisierungspolitik}, p. 194.

interpret the treaty provisions, but regardless, he was of the opinion that “better American capital in the Ruhr then French or English.”

The result of these positive discussions of the draft were instructions sent to Wiedeldt on 6 November giving him a free hand to negotiate the treaty.

The German Indiscretion

Following its corporatist tradition, a tradition only strengthened in the early Weimar Republic, the German government consulted with leading and trusted businessmen and organizations on matters of commercial policy. Copies of the draft treaty had been sent out to these Vertrauensleute [trusted advisors] with requests for criticism. This time, however, this time-honored practice would have adverse consequences for the treaty negotiation and endanger all-important relations with the United States just at the moment of their greatest success.

Due perhaps to the overarching corporatist proclivities of the early Weimar Republic, where industrial interests predominated, the loop of trusted advisors had been cast rather too wide and the draft treaty found its way into the hands of businessmen who either did not understand or did not care that it was meant to be kept secret. Despite Wiedfeldt’s constant warnings that the Foreign Office should be very wary of the various German-American interest groups that had cropped up, a copy of the draft treaty found its way into the hands of a Syndicus, or corporate lawyer, of the trade organization Zentralverband des Deutschen

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26 Quoted in Link, Die amerikanische Stabilisierungspolitik, p. 196.


28 Houghton to Castle, 3 Dec 1923, Castle Papers.
Grosshandels, who passed a copy along to the very dubious Chamber of German-American Commerce in New York. This organization, run by an American named Heinrich Charles, was just the sort of independent “interest group” of which Wiedfeldt was most wary. Charles had at one point been associated with the German consulate in New York and had been a small thorn in the side of German diplomats ever since. His Chamber of German-American Commerce began leaking information about the draft treaty to “interested parties” within the United States.\(^\text{29}\)

By 11 October the State Department had already begun to receive reports that the draft treaty had been leaked and inquiries about its provisions began to arrive soon after.\(^\text{30}\)

Considering the strong protectionist sentiment in the United States including within the Senate Foreign Relations Committee, and the fact that the proposed German treaty would signal a shift in U.S. commercial policy away from traditional protectionism, the State Department had cause for alarm that the draft had been. Hughes asked Houghton to investigate whether the Germans had given out copies of the draft. Houghton replied that indeed the Foreign Ministry had submitted drafts to trusted trade and industry organizations for consultation purposes, following German procedure, but no draft had been shown to the press or individuals. From the German point of view, the matter had been handled confidentially. The Foreign Ministry was worried enough about the State Department’s

\(^{29}\) Houghton to Castle, 3 Dec 1923, file 52, Castle Papers; Lang to AA, 8 Nov 1923, Büro Reichsminister, Verein. Staaten v. Nordam., R28489, PA-AA (hereafter, Reichsminister USA, Bd. 3), D619017; Wiedfeldt to AA, 9 Nov 1923, Reichsminister USA, Bd. 3, D619008. For the AA’s file on Charles see Geheim “Charles,” R30644, PA-AA.

\(^{30}\) Gladwin Bouton to Hughes, 11 Oct 1923 RG59, 711.622/24; Harrison to Charles, 29 Oct 1923, RG 59, 711.622/27.
reaction that Wiedfeldt was asked to explain the German procedures and calm the waters.\textsuperscript{31}

But by mid-November it became clear that the State Department had more than a leak on its hands. Charles and his Chamber of German-American Commerce had distributed hundreds of copies of the German version of the draft treaty and the department was being bombarded with letters of inquiry from journalists, individual businessmen, organizations and even foreign diplomats. Hughes did not want to appear uncandid in responding to the inquires, nor did he wish to discuss the draft model-treaty provisions before they were fully negotiated and signed. Still worse, Congress and especially the Senate had gotten wind of it and were demanding to know why they had not seen the draft before it had been published. Senators brought the matter up with President Coolidge. This was not only embarrassing for Hughes but the early release of the treaty draft and the resultant inquiries before the treaty was signed endangered the administration’s new economic foreign policy. As with the negotiations for peace with Germany in 1921 and the Mixed Claims Agreement in 1922, Hughes would have preferred to keep firm control over policy and negotiations. This turn of events placed him in a position of great discomfort.\textsuperscript{32}

The German diplomats in Washington were quickly made to feel the displeasure of the State Department. Both Dieckhoff and Wiedfeldt were taken to task at different times in late November. On Wednesday, 28 November, the matter came to a head when the ambassador had a stormy meeting with Hughes and Castle. Wiedfeldt noted that he had never seen

\textsuperscript{31} Hughes to Houghton, 28 Oct 1923; RG 59, 711.622/27; Houghton to Hughes, 1 Nov 1923, RG 59, 711622/28; Schubert to Wiedfeldt, 1 Nov 1923; Reichminister USA, Bd. 3, D618987.

\textsuperscript{32} Phillips to Houghton, 30 Nov 1923, \textit{FRUS}, 1923 II, p. 23; Phillips to Lodge, 27 Nov 1923, RG59, 711.622/30A; Wiedfeldt to AA, 28 Nov 1923, Reichsminister USA, Bd3, D619047, Wiedfeldt to AA, 28 Nov 1923, Reichminister USA, Bd3, D619049.
Hughes so angry. The ambassador expressed his great regret over the indiscretion and assured Hughes that the embassy had nothing to do with the draft treaty becoming public.\footnote{Hughes to Houghton, 30 Nov 1923, FRUS 1923 II, p. 23; Wiedfeldt to AA, 28 Nov 1923, Abt. III USA, D619047.} He assured the secretary that there were “only a few points of difference between the American and German wishes with regard to the treaty and that possibly an early signature might be arranged.”\footnote{Memorandum of interview with the German ambassador, 28 Nov 1923, reel 122, cont. 157, Hughes Papers; Wiedfeldt to AA, 28 Nov 1923, Reichsminister USA, Bd3, D619047; Wiedfeldt to AA, 8 Dec 1923, Abt. III, USA, K321444.}

But Hughes threatened that under the present conditions he would have no choice but to withdraw the treaty unless perhaps the Germans would be prepared to sign it right away. Hughes explained that he expected a long debate, given the furor in Congress, unless he could present them with the \textit{fait accompli} he wanted. Wiedfeldt demurred, stating that he did not yet have the authorization to sign and there were still a few points the German government would like to have clarified. Warning that it would be very difficult now that the Senate had the text to change the wording, Castle turned up the pressure on the ambassador. If only Wiedfeldt had the authority to sign, unpleasant discussion could be avoided in the Senate and the public, just now at the time when Germany was asking for food credits and public opinion was favoring American assistance in Europe.\footnote{The State Department was somewhat suspicious due to Charles’s earlier association with the New York Consulate and some funds that had been paid out to him. Wiedfeldt remarked on how well-informed the State Department was, noting this was evidence of its outstanding intelligence service. Wiedfeldt to AA, 8 Dec 1923, Abt. III, USA, K321450.}

Wiedfeldt knew that Hughes and Castle were using the situation as a means of applying pressure for quick acceptance. Long debate in the Senate and public scrutiny of the incident
were in neither party’s interest. But the Germans needed the foreign policy victory the treaty represented even more than the Americans. Accepting German fault for the indiscretion, Wiedfeldt did not want the Foreign Office exposed as incompetent, and he was ever mindful of U.S. public opinion. On the whole the German government was quite satisfied with the draft treaty, so Wiedfeldt suggested what he referred to as a compromise. Wiedfeldt would cable right away for the quickest possible authorization, and in the meantime they could discuss a few points of clarification and the most important of proposed German modifications. Well aware of his weakened negotiating position, Wiedfeldt attempted to salvage what he could of the German wishes. With all advantages on his side, Hughes accepted Wiedfeldt’s “compromise.”

Wiedfeldt was clearly personally embarrassed by the German indiscretion. He had developed a close working relationship with both Hughes and Castle and was furious at the Foreign Office’s handling of the matter. He demanded that the Foreign Office investigate the matter and prosecute those responsible. Stresemann suggested that Wiedfeldt should energetically remind the State Department that the German foreign office had acted according to their protocol and the only German fault lay with the Berlin lawyer who had broken a long-established trust. The real indiscretion had been committed by the American, Charles, in New York. The ambassador ignored this questionable tack and continued to place the blame squarely on the Foreign Office. The State Department was already distrustful of the Foreign Office’s discretion, and this Berlin blunder did not make the

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36 Wiedfeldt to AA, 8 Dec 1923, Abt. III USA, Bd 6, K321444.

37 An investigation established that it was the Berlin lawyer Bernheimer who gave Charles the draft treaty. Bernheim was to be charged with high treason. Stresemann to Wiedfeldt, 30 Nov 1923, Reichsminister USA, Bd3, D619054.
ambassador's job any easier.

Wiedfeldt saw the importance of presenting Germany as an honest, reliable and competent partner to the United States. As for any concessions Germany might have to make in the effort to achieve the primary goal of improved economic and political relations with the United States, they would have to be borne as the consequences of Foreign Office ineptitude. Wiedfeldt repeatedly expressed these feelings in his communications with Stresemann and the Foreign Office. As an outsider to the diplomatic corps and a man of significant political power in his own right, Wiedfeldt allowed himself free rein to express his feelings. This tendency did not make Wiedfeldt any more popular within the Foreign Office, but for the time being he was still regarded as necessary for the post in Washington.

The Negotiations

With the text, albeit the German text, of the draft treaty was out of the bag, Hughes wanted the final version signed as soon as possible. He could then head off questions by presenting the German treaty as a done deal. Although the State Department had been caught off guard by the early and unauthorized publication of the draft, it is unlikely that Hughes would have really pulled the treaty unless the Germans had substantially delayed

38 Wiedfeldt to AA, 28 Nov 1923, Büro RM- USA, Bd3, R28489, p. 179; 8 Dec 1923, Abt. III USA, Bd. 6.

39 Stresemann and Wiedfeldt were political rivals. This became especially true in the fall of 1923 as Wiedfeldt’s name came up in Germany as a possible replacement for Stresemann as chancellor or foreign minister and even perhaps as dictator. Already this rivalry is apparent in the diplomatic correspondence and will only increase with stabilization and the perception that the outspoken ambassador has outlasted his usefulness. With the commercial treaty signed, the Dawes Plan enacted and the Dawes loans secured, Wiedfeldt returned to Germany in February 1925. To his replacement, Ago von Maltzan, Stresemann expressed his great satisfaction that the “era of Wiedfeldt” was at an end. Stresemann to Maltzan, 7 Apr

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negotiations  Despite the snag, the model treaty remained the means to establish a new era of American commercial policy, and Germany was the best place to start in Europe given the mutuality of its commercial policy aims with those of America. It was to be expected that the unconditional most-favored-nation clause would provoke a certain amount of objection within the senate, including the powerful Henry Cabot Lodge, chairman of the Foreign Relations committee. Hughes felt the model-treaty text developed by his interdepartmental commission could be nursed through the Senate without too much trouble. As an added incentive, he hoped the treaty could be signed before President Coolidge’s address at the opening of Congress in mid-December. Although angered by the German indiscretion, Hughes was happy enough to have this added leverage to force a quick signing of the treaty substantially as it stood.  

Immediately after Wiedfeldt and Castle’s confrontational meeting with Hughes on 28 November, the German embassy wired Berlin to obtain authorization from President Ebert to sign the treaty. To expedite matters, Houghton in Berlin received an original copy and cabled confirmation to the State Department. Discussions were held in the Auswärtige Amt among the representatives of the interested ministries and departments. It was agreed that in view of the absolute importance of the treaty, anything that might prevent its conclusion should be avoided. As a result of these consultations, Stresemann wired Wiedfeldt with last-minute instructions. In regard to the German wishes, Wiedfeldt was to press for all that

1925, H158698, NL Stresemann Bd. 23, PA-AA.


41 President Ebert and Stresemann signed the authorization on 1 Dec 1923. See Wiedfeldt to Hughes, 19 Dec 1923, RG 59, 711.622/39.

42 Link, Die amerikanische Stabilisierungspolitik, p. 197.
was possible given the circumstances. The most important point involved a reservation to the most-favored-nation clause in Article VII, of the occupied Rhine and Ruhr where the German government was obliged to make special arrangements with the occupiers about imports and exports. If the text could not be changed, then an exchange of notes dealing with the matter would be acceptable. The treaty was considered so important to Germany that Wiedfeldt was authorized, if necessary, to sign the document without modification.\textsuperscript{43}

After the entire embassy staff worked deep into the night to prepare English translations of suggested German text changes and negotiations began on Friday afternoon, 30 November, at the office of State Department Solicitor Charles Hyde. Wiedfeldt and von Lewinsky were met by Hyde, Castle and three other lawyers for what the State Department officials thought would be a quick meeting. According to Wiedfeldt’s account, the atmosphere was at first strained and the lawyers suspicious of the Germans. A negotiating table had not been set up and it was clear to Wiedfeldt that the Americans wanted to settle the treaty without much discussion. Ever conscious of the need for good working relations with the State Department, Wiedfeldt felt he needed to clear the air of lingering animosity from the German indiscretion. This was especially necessary if Wiedfeldt were to convince the lawyers to sit down and discuss the text in a friendly, non-confrontational manner.

Wiedfeldt apologized for the German indiscretion and the inconvenience it had caused the department which made this meeting necessary, emphasizing once again that the Washington embassy had had nothing whatsoever to do with leak--by implication laying the blame with Berlin, where Wiedfeldt thought it justly belonged. In the name of the German government, Wiedfeldt told the State Department officials that Germany very much

\textsuperscript{43} Stresemann to Wiedfeldt, 30 Nov 1923, BR-USA, R28489, p. 186.
appreciated the treaty and that as Germany also wished to use this treaty as a model for her further commercial relations, there were just a few matters of language that needed to be cleared up. With that, the ambassador got Castle and the lawyers to sit down. According to Wiedfeldt, the discussions were concise and to the point, but conducted in the friendliest possible manner.\footnote{Wiedfeldt to AA, 8 Dec 1923, Abt.III-USA, R80136, K321444, p. 9-10; Hyde to Hughes, 5 Dec 1923, \textit{FRUS} 1923 II, p. 28-29.}

From the perspective of Solicitor Hyde, the German proposals were for the most part “of slight consequence.” Most were resolved by a change of wording, simple explanation or in more important matters, agreement to provide an official letter of explanation. Wiedfeldt reported that a number of the German proposals were accepted and that the State Department gave a satisfactory response to others. In Hyde’s estimation, the major German proposal referred to the question of property confiscation in Article I of the draft, which provided “property shall not be taken without due process of law and without the payment of just compensation.” Because Germany’s constitution permitted confiscation of property without compensation under certain circumstances, Wiedfeldt pointed out that the provision might be a violation of Germany’s fundamental law. The ambassador further explained that while it was unlikely the Reichstag would ever avail itself of this right in regard to the property of American citizens, there was a strong feeling that the Constitution should not be interfered with. The matter was settled with a letter of understanding noting that the provision did not contemplate yielding anything that German constitution forbade and therefore was not a violation of that document.\footnote{Wiedfeldt to AA, 8 Dec 1923, Abt.III-USA, R80136, K321444, p. 9-10; Hyde to Hughes, 5 Dec 1923, \textit{FRUS} 1923 II, p. 28-29.}

Due to the short time available to prepare the German modifications, Wiedfeldt and von
Lewinsky concentrated on the most important issues, although Wiedfeldt admitted to the Foreign Office that some useful improvements necessarily fell by the wayside.\textsuperscript{46} The main trouble was that the Americans had very little understanding of European laws and geography and, according to Wiedfeldt, it took lots of time to explain these things to the State Department jurists. While the State Department allowed itself an exception to the most-favored-nation clause for Cuba, based on special economic ties and geography, for example, Germany was denied the possibility of an eventual customs union with Austria. A tense moment arose when the jurists suddenly revoked the concession regarding reciprocity in coastal shipping, most likely under orders from Hughes.\textsuperscript{47} The Germans quickly gave in when they were brusquely informed that as a result of the German indiscretion, such an alteration would be noticed and criticized by the Senate. Whenever the Germans pressed a point about the draft, the State Department used the past indiscretion as a club to avoid discussion of unwanted changes to the draft. Wiedfeldt reported, “This shows how strongly the American administration will resist giving up the slightest advantage or the smallest right they believe themselves to possess.”\textsuperscript{48}

The discussions continued into the evening and resumed again on the morning of 1

\textsuperscript{45} Castle Diary, 30 Nov 1923; Hyde to Hughes, 5 Dec 1923, \textit{FRUS} 1923 II, p. 28-29.

\textsuperscript{46} Wiedfeldt to AA, 30 Nov 1923, Büro RM-USA, Bd3, R28489, p. 189.

\textsuperscript{47} Hughes knew that matters of shipping would create potential problems in the Senate. The difficulty with the ratification of the German commercial treaty and the eventual reservation regarding shipping show how right Hughes was to be concerned.

\textsuperscript{48} Wiedfeldt goes on to blame the negotiators of the Berlin treaty, which he opposed, for creating the precedent. “Those German gentleman who advised the quick acceptance of the July 1921 Berlin Treaty relying upon the eventual generosity and co-operation of the American administration were motivated by a misconception. ” Wiedfeldt to AA, 8 Dec 1924, Abt. III-USA, R80136, pp. 11-12.
December. Shortly before noon the conference broke up and the State Department representatives withdrew to discuss what German modifications would be accepted. As had been the case with the Treaty of Berlin, the Germans were left to rely on the good will of the State Department. Wiedfeldt and von Lewinsky were called back at 6 p.m. for a final meeting that lasted until 11 p.m. “when the German ambassador agreed to accept the treaty, subject to the modifications to which the Department found it possible to yield or desired to offer.”

Conclusion of the Treaty

The State Department had been particularly anxious for the treaty to be signed before President Coolidge addressed the opening of Congress on December 6. Hughes informed Coolidge when the treaty was about to be signed that “its early signature will relieve us from some embarrassment.” Wiedfeldt received the authority from President Ebert and Stresemann to sign the treaty on 1 December and Houghton in Berlin cabled the confirmation to the State Department as planned. The German embassy worked throughout Sunday, 2 December, to translate the treaty and prepare a memorandum on the explanations given by Hyde of the German questions that had arisen during the 1 December conference. On Monday morning, von Lewinski delivered the German text of the treaty and the memorandum to Hyde at the State Department. Because of difficulty aligning the English and German texts, Coolidge addressed Congress without mentioning the treaty, but by the

49 Ibid.; Hyde to Hughes, 5 Dec 1923, FRUS 1923 II, pp. 28-29.
50 Hughes to Coolidge, 4 Dec 1923, RG59, 711.622/30B.
51 Wiedfeldt to Hughes, 19 Dec 1923, RG59, 711.622/38; Houghton to Hughes, 2 Dec 1923, RG59 711.622/29.
end of the week a fair copy was produced and ready for signature. On 8 December the Treaty of Friendship, Commerce and Consular Rights between the United States and Germany was signed at a small noontime ceremony in Washington.\footnote{Wiedfeldt to AA, 8 Dec 1923, Abt III-USA, Bd6, PA-AA; Memorandum, Handakten Ritter, America 2, K472755, PA-AA; von Lewinski to Hyde, 3 Dec 1923, FRUS 1923 II, pp. 24-28; Hyde to Hughes, 5 Dec 1923, FRUS 1923 II, p. 28-29; Treaty between the United States of America and Germany, Signed at Washington, 8 Dec 1923, FRUS 1923 II, pp. 29-45.}

After the signing, Hughes expressed to Wiedfeldt his satisfaction with outcome of the treaty and his gratitude for the prompt and friendly nature of the negotiations, which had relieved the State Department from an uncomfortable position. The State Department could now refer all questions from Congress and business organizations prompted by the premature publication of the treaty draft to the completed and signed commercial treaty.\footnote{This was a matter of some personal embarrassment to Hughes. He had put off replying to inquiries in the hope that the signing would render them moot. Leland Harrison to Chauncey D. Snow, 19 Dec 1923, RG59, 711.622/16; Wiedfeldt to AA, 8 Dec 1923, Abt. III-}

Wiedfeldt, pleased that the tension resulting from the German indiscretion had evaporated, attributed the friendly atmosphere in which the signing took place to his personal diplomacy. He regarded these good feelings on the part of the State Department in and of themselves as a major diplomatic victory for Germany. Given the constraints on the negotiations, Wiedfeldt felt somewhat self-conscious about the treaty. He admitted that the practical results of the negotiations were modest and wished he could have achieved more, emphasizing yet again that the German indiscretion had indeed caused damage to German interests that would be felt for years. The Foreign Office would have to live with its own blunder. Nonetheless, Wiedfeldt defended and praised the treaty, noting that it was “very favorable and brings us some great advances,” especially in regards to the most-favored-nation principle as a model
for trade agreements with the smaller European states. Furthermore, Wiedfeldt believed the treaty would have the important political effect of supporting the government by endowing it with a foreign-policy success that help unify the troubled Reich, which in December 1923 was struggling with real separatist threats and radical political unrest.  

The German government needed no convincing from Wiedfeldt; the successful conclusion of the treaty was greeted in Berlin with satisfaction. Even while the negotiations were still underway in Washington, von Schubert told Houghton in Berlin that Wiedfeldt had already been telegraphed instructions “to sign without further delay” and the treaty “would probably serve as model for other treaties of similar nature.” Despite having to give way on minor points, more important for precedent than for actual trade relations with the U.S., the establishment of the unconditional most-favored-nation principle as the treaty’s basis was acclaimed by Stresemann and the Foreign Office as a moral and practical victory in Germany’s policy of attempting to revise Versailles. In his report on the conclusion of the treaty, Wiedfeldt was reacting more to the form the negotiations took following the German indiscretion than the seriousness of the concessions themselves. Responding to the more critical comments in the ambassador’s report, von Schubert remarked “the treaty in its present form is absolutely satisfactory. The most important alterations were achieved.”

USA, Bd6, R80136, p. 4.

54 Wiedfeldt to AA, 8 Dec 1923, Abt. III-USA, Bd 6, R80136. Separatism was still a threat in the Rhineland as well as Bavaria and was still in full bloom in the Palatinate. In October the Government used the Reichswehr to subdue far left State governments in Thuringia and Saxony and Hamburg experienced a communist uprising. Early November saw Adolf Hitler’s putsch in Munich.

55 Houghton to Hughes, 2 Dec 1923, RG59, 711.622/29.
German government could not have expected anything more.\textsuperscript{56}

Houghton reported from Berlin on Germany’s satisfaction with the treaty. In his discussion with Houghton, Von Schubert downplayed the significance both of the proposed German changes and their rejection. Houghton wrote to Castle, “Schubert said the German Government approved the treaty as a whole, and only on certain points really wanted changes, and these not as much because of their relation to America as because they now have a similar treaty to negotiate with Turkey and they are afraid of precedents.” Houghton also commented to Castle on the pressure tactics the State Department seemed so fond of when dealing with the Germans since the reestablishment of relations:

I couldn’t help noting how history repeats itself. You remember no doubt the agreement we made last year regarding the establishment of the Mixed Claims Commission, and how at a certain point, owing to the possible unfavorable action of Congress, a quick signature was forced? It was given, although the German Constitution stood in the way, and had later to be amended, but it was given. Now I note that a wicked Congress was again likely to cause trouble, and haste again became imperative, and so a signature was obtained once more in jig time. In this instance fortunately Wiedfeldt was impressed with the necessity of quick action and no one but myself, I think, noticed the similarity in the procedure, but it has given me some quiet enjoyment. Next time, I suspect we would do well to give ourselves greater leeway.\textsuperscript{57}

\textsuperscript{56} Quoted in Link, \textit{Die amerikanische Stabilisierungspolitik}, p. 198; Gustav Stresemann, “Die Vereinigten Staaten von Amerika und Europe,” 8 Dec 1923, Nachlass Stresemann, Bd. 5, H154905, PA-AA.

\textsuperscript{57} Houghton to Castle, 3 Dec 1923, file 52, Castle Papers. Houghton might also have mentioned that the same tactic was applied during the negotiation of the Treaty of Berlin in July of 1921 where the threat of congressional action forced a quick German response. See Chapt. 1 above. This tactic reflects the very real political difficulties the “internationalist” Hughes encountered in dealing with a more “isolationist” Congress, well aware of its powers and bitterly divided following the fight over the Versailles treaty. In an effort to keep the administration in firm control over U.S. foreign relations, Hughes found it necessary to present Congress with a diplomatic \textit{fait accomplis}, especially about the sensitive issues surrounding the reestablishment of peaceful relations with Germany.
Stresemann was anxious to exploit the conclusion of the long-awaited treaty as a symbol of his successful foreign policy, which under his leadership had finally achieved the bilateral relations with and support of the United States sought since 1920. In an article written on the evening of the signing, Stresemann heralded the conclusion of the commercial treaty as signaling a new beginning in German-American relations. Addressing the Reichstag on the state of Germany’s foreign affairs, in February 1924, he emphasized German success in gaining the treaty along with American participation and work in the experts committees then meeting in Paris to resolve the Ruhr crisis and the larger issue of reparations. That commercial relations would be based on an unconditional most-favored-nation principle was a in and of itself a success and would serve as the basis for future German trade policy.

While Stresemann acknowledged that the treaty was still being debated in the Senate Foreign Relations Committee and Germany did not secure all it had desired, he noted, “But a closer study of the Treaty should convince everyone that it is an instrument that will place the future relations between the two countries on a healthy and sound foundation.” Stresemann understood that both the treaty and the associated cooperation between the United States and Germany fulfilled long-standing goals and would form the foundation on which new policy would be built.

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Problems of Ratification

Hughes also had reason to be satisfied. His model commercial treaty was signed and ready to be presented to the Senate for ratification just as the new congressional session was opening in December 1923. He hoped for a speedy ratification, so the State Department could move forward with negotiating the other pending commercial treaties designed to support the new policy of the Open Door, especially in Europe. The German treaty was submitted to the Senate on 10 December 1923 and the Foreign Relations Committee began deliberations on 14 January 1924.\(^6\) Hughes had kept Senator Lodge informed on the adoption of the unconditional most-favored-nation principle in the model treaty and thought he had Lodge’s qualified support for the German treaty and the administration’s new tariff and commercial policies.\(^6\) Lodge however, warned ominously, “There are indications that we are going to have some difficulty over the favored-nation clause.”\(^6\)

Some opposition in the Senate was expected because the unconditional most-favored-nation clause would directly challenge the protectionist provisions of the Jones Merchant

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\(^6\) Hughes to Coolidge, 10 Dec 1923, RG59, 711.622/30; Lodge to Hughes, 14 Jan 1924, RG59, 711.622/36.

\(^6\) Beerits Memorandum, “The Commercial Treaty with Germany,” Hughes Papers, p. 6

\(^6\) Lodge to Hughes, 14 Jan 1924, RG59, 711.622/36. Lodge requested information about the differences between prewar commercial arrangements between the United States and Germany and the new treaty. Hughes replied with a 50-page memo that included an article-by-article explanation of the treaty and its antecedents. Hughes to Lodge, 17 Jan 1924, RG59, 711.622/36.
The commercial treaty provided Germany with so-called reciprocal national treatment, levying the same duties and charges on foreign ships as those imposed on U.S. shipping (Articles VII, VIII and IX). The United States had increased its ship-building tremendously during the First World War and there was significant support in Congress for protecting American shipping and reducing idle tonnage. But adopting a policy of discrimination, Hughes feared, would result in retaliations that would be disastrous, as the United States exported far more than it imported. Hughes urged the adoption of “the policy of the open door—of equal opportunity, and of promoting agreements which would put an end to discrimination breeding ill-will and strife.” In regard to the shipping issue Hughes felt “that with the equality of opportunity the United States could hold its own throughout the world.”

William S. Culbertson, Hughes’s close associate in the effort to revise America’s tariff and commercial structure, testified at the committee hearings to defend the German treaty. In the face of protectionist resistance, fortified by the testimony of Republican Senator Wesley L. Jones, author of the Jones Merchant Marine Act, that national treatment provisions about shipping would cripple the American merchant marine, Culbertson justified the adoption of the unconditional most-favored-nation clause as the guiding principle of commercial policy in line with the new tariff policy. Culbertson urged that the benefits of Open Door and the chance to break the preferential tariff systems of Europe not be sacrificed.

Section 34 of this act directed the president to inform foreign nations of the unilateral abrogation of commercial agreements not conceding the right of the United States to give preferential treatment to its shipping vessels. Presidents Wilson, Harding and Coolidge ignored Section 34 for as many as 32 treaties would have to be abrogated. Peter H. Buckingham, International Normalcy, p. 164.

Beerits Memorandum, “The Commercial Treaty with Germany,” Hughes Papers, pp. 8-
Hughes took up the defense of the treaty directly in a 13 March letter to Senator Lodge, focusing on the two points of contention most associated with the policy goals embodied in the treaty: “national treatment” and “unconditional” most-favored-nation treatment.

Citing examples from commercial treaties then in force, Hughes pointed out that providing national treatment was not a new concept, but that the refusal to provide national treatment would be a departure from the policy embodied in existing treaties. Hughes warned of the danger of retaliatory discrimination if the United States imposed discriminatory tonnage or cargo duties. He specifically indicated the effect on shipping: “The effect of such retaliatory measures would probably be that if American ships coming from abroad entered American ports with full cargoes they would go back empty.” Challenging the goals of the protectionists, Hughes reminded Lodge that a policy of discrimination could not be an end to itself but rather “merely to enforce proper regard for our own interests.” He concluded that discriminatory policies would be “fatal to our interests, not only in the highest degree embarrassing so far as our shipping interests are concerned, but having by-products in resentment and ill-will and in the encouragement of other efforts to cripple our trade which would make us pay dearly for our experiment.”

In contrast to the national treatment principle, the unconditional most-favored-nation

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66 Hughes quoted at length the Treaty of 1815 with Great Britain and the Treaty of 1853 with Argentina. He also noted the reciprocal national treatment provisions in the treaties with Denmark, Norway, Colombia, Costa Rica, the Netherlands, Bolivia, Paraguay, Honduras, Italy, Belgium, Spain and Japan. Hughes to Lodge, 13 Mar 1924, FRUS 1924 II, pp. 184-86.

67 Hughes to Lodge, 13 Mar 1924, FRUS 1924 II, p. 188.
provisions of the German treaty were an innovation and signaled a shift in policy. Hughes reminded Lodge that it had been the decision of both the Harding and Coolidge administrations to abandon the old practice of conditional most-favored-nation treatment in order to expand the principles of the Open Door around the world. Hughes noted that the old constructions were out of date given America’s new economic position in the world. Hughes wrote, “As the United States attained to a position of first rank as a World Power, we, in defense of our essential interests, became an active champion, in fact the foremost champion of the principle of the ‘Open Door’ in the field of international commercial relations.” Regarding the need to shift to the unconditional most-favored nation practice, Hughes wrote, “Under present conditions, the expanding of foreign commerce of the United States needs a guarantee of equality of treatment which cannot be furnished by the conditional form of the most-favored-nation clause.” This process was already underway, explained Hughes, by the Tariff Act of 1922, which shows “that Congress realized that we had entered upon a new era, calling for new methods and new attitude.” Hughes continued, “The time has come for demanding that conditions of commercial competition be placed upon a basis which will both assure our own interests and contribute to the peace of the world by eliminating unnecessary economic contentions.” Hughes explained that if the Senate approved the German treaty, similar treaties would be negotiated with other powers on the basis of unconditional most-favored nation treatment. The letter concluded with the statement, “If the treaty with Germany is approved, we shall be in a position to conclude negotiations with other Powers upon the same basis and in this way most effectively to remove whatever discriminations may now exist to the prejudice of the United States.”

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68 Hughes to Lodge, 13 May 1924, FRUS 1924 II, pp. 189-92.
Hughes expected that his explanations to Senator Lodge would be conveyed to the Foreign Relations Committee in order to address Congressional concerns and smooth acceptance of the treaty. However, after the initial hearings in early 1924, nothing further was done and the treaty did not move out of the Senate Committee. Throughout 1924 Hughes would continue to respond to certain questions and objections to the treaty reported in newspapers or the Congressional Record by writing “elaborate memoranda” to Lodge. Yet still the Senate took no action. In the meantime, while the fate of the treaty remained in doubt the State Department could not offer the draft treaty to other nations. When Lodge died on 9 November 1924, to be succeeded by Senator William Borah as Chairman of the Committee on Foreign Relations, still no action had been taken on the German treaty. Hughes discussed the matter with Borah and was astonished to learn that Lodge had never presented any of Hughes’s letters of explanation answering objections to the treaty. Lodge had pigeonholed the treaty in committee.69

German Pressure for Ratification

Germany was anxious to have the treaty ratified and in effect as quickly as possible, and the Foreign Office was frustrated by the delay. Wiedfeldt suggested that Hughes should be asked, during his short visit to Berlin in July 1924, to explain why the treaty was tied up in the Senate, reminding the Auswärtige Amt to emphasize the common goals in creating a liberal trading order. The ambassador, however, was doubtful about how forthcoming Hughes would be about difficulties in the Senate, explicitly citing the personal animosity

between Hughes and Lodge as the real reason.\textsuperscript{70} The point was to give Hughes a gentle reminder that Germany wished to get on with the implementation of the treaty.

Germany sought to reestablish its commercial relations with other nations on the basis of an unconditional most-favored-nation policy and hoped to use a ratified American treaty as a precedent. With the commercial restrictions placed on Germany by the Treaty of Versailles due to expire, during 1924 the Foreign Office had begun negotiations with France and concluded commercial treaties with Spain and Great Britain. Staatssekretär Ago von Maltzan, informing Wiedfeldt about the treaty with Great Britain, noted that “a speedy ratification of the German-American treaty would very much improve our position by the remaining commercial treaty negotiations, especially with France, Italy and Belgium.” \textsuperscript{71}

Both the State Department and the Commerce Department were concerned over the nature of German trade negotiations with the other European countries, especially France. There was a fear that the United States would lose some advantages as Germany concluded other treaties before the American commercial treaty came into effect. In particular, it was rumored that the negotiations with France included special provisions about Alsace and Lorraine that might contradict the most-favored-nation clause of the American treaty. But as a memorandum from the State Department’s Office of the Economic Advisor pointed out, “As long as we do not ratify [the Commercial treaty with Germany] we are in a weak

\textsuperscript{70} Wiedfeldt to AA, 8 July 1924, Nr. 190, ADAP X, p. 477. In the copy found in the Reichsminister’s files, Stresemann underlines Wiedfeldt’s suggestion in blue pencil, R28490, Reichsminister USA, Bd. 4, D619402, p. 40, PA-AA. It is uncertain whether Stresemann did bring the matter up with Hughes. For Hughes’s visit to Berlin, see Chapter. IX.

\textsuperscript{71} Link, Die amerikanische Stabilisierungspolitik, p. 327; Maltzan to Wiedfeldt, 1 Dec 1924, Nr. 242, R28490, Reichsminister USA, D619491, p. 134. As State Secretary, Ago von Maltzan was the administrative head of the Foreign Office and would replace Wiedfeldt as ambassador to Washington in 1925.
position to insist that Germany maintain unimpaired the pledges which the treaty contains.”72

After Lodge’s death the German foreign office sought to exert what pressure it could to get the commercial treaty ratified. In late November, Hughes assured Wiedfeldt that the administration and the State Department were pushing hard for the treaty and that he was sure it would be quickly accepted during the current congressional session.73 With growing impatience, von Schubert wrote to Wiedfeldt on 19 December asking for a cable report on the outlook for the treaty’s acceptance.

Commercial relations between the two nations were tentatively proceeding under an agreement reached in September that had extended most-favored-nation status on a provisional basis, but this was due to expire on 10 January. Von Schubert told Wiedfeldt that this would not necessarily by automatically extended but should be regarded as a special concession. The ambassador wired back the next day reporting that the treaty was still in the Senate Foreign Relations Committee, where questions were being raised over how the most-favored-nation clause of Article 7 would affect American shipping interests. While the State Department felt that the shipping interests would be won over, the administration had no control over the Senate and Hughes had yet to meet with the committee.

Von Schubert thought it was time to try to exert some explicit pressure on the United

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72 Quoted in Link, Die amerikanische Stabilisierungspolitik, p. 329. Link, approaching the topic as an economic determinist, emphasizes the fears of the State and Commerce Departments that the U.S. might be left out, seeing them as the main reason Hughes took the initiative to force the treaty through the Senate. As for the reasons the treaty languished for so long in the Senate, Link cites conflicting commercial interests--especially the shipping lobby. Link, however, makes no mention of the personal conflict with Lodge which even Wiedfeldt knew was holding up the treaty in 1924. The importance of personal agency is often overlooked in broad theoretical approaches.

73 Wiedfeldt to AA, 26 Nov 1924, Nr. 263, R28490, Reichsminister USA, Bd. 4, D619486, p. 129.
States. On 24 December he handed Houghton a memorandum observing that the speedy ratification of the commercial treaty was in the interest of both the United States and Germany. He warned:

Should the ratification not be obtainable before January 10 the German Government is ready to allow the present status to continue but hopes that the treaty will be accepted by the present congress. In case this is not done it would be necessary to discuss a further provisional arrangement beyond March 4. It must however be pointed out that a discriminatory treatment of German shipping on the basis of the Jones Bill would be unendurable and would make the treaty containing such provisions unacceptable to us.\footnote{74}

Although Germany was hardly in a position to place real pressure on Hughes, this pressing no doubt added to the sense of urgency with which Hughes now took up the matter with the Senate.

Ratification with Reservations

The Senate Foreign Relations Committee took up the German treaty in earnest in January 1925. Borah arranged for Hughes to address the committee directly to defend his treaty and advance it on to the Senate floor. Because the principles embodied in the treaty were an indispensable part of the administration’s goal to reorient the commercial policy of the United States, Hughes was very much attached to this endeavor. It was a nervous Secretary of State that gathered his subordinates at his home to rehearse his testimony before he addressed the committee on 2 February 1925.\footnote{75}

\footnote{74 Quoted in Link, Die amerikanische Stabilisierungspolitik, p. 331. This threat, as events would later show, was almost certainly a bluff but it is an indication of how much had changed in German-American relations, especially since the implementation of the Dawes Plan and securing the accompanying loan.}

\footnote{75 Beerits Memorandum, “The Commercial Treaty with Germany,” Hughes Papers, pp. 8-}
The focus of his address centered on the issue of reciprocal national treatment, the point where the treaty met its most vigorous opposition. Hughes again warned against a policy of discrimination, arguing that “retaliation would be the certain consequence,” and noting that as other maritime powers imported more from the United States than they exported, it would be the United States that would be the chief sufferer. His testimony highlighted the effect of the Open Door, “of equal opportunity,” in diminishing international ill-will, strife and its promotion of world peace.76 While strongly urging the adoption of reciprocal treatment provisions, Hughes acknowledged a suggested compromise whereby the Senate might adopt a reservation providing for the termination of the reciprocal national treatment clauses “on reasonably short notice.” Hughes was willing to accept such a compromise, giving the president the authority to cancel national treatment, if it would allow the German treaty to be accepted by the Senate.77

The following day, the committee accepted the treaty with the compromise reservation and passed the matter to the full Senate.78 However, objections were raised there that the power to cancel national treatment had been left to the executive. Protectionists, led by Senator Jones, amended the reservation giving Congress the right to terminate the shipping

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77 Ibid.

78 There was a second reservation specifying that nothing in the treaty could be construed to conflict in any way with immigration restrictions passed by Congress. New York Times, 4 Feb 1925, p. 12; Buckingham, International Normalcy, p. 167.
clauses after the treaty had been in force for twelve months.\footnote{The compromise reservation provided that the clauses and articles regarding shipping would remain in force for twelve months from the date of the exchange of ratifications and if not terminated on 90 days’ previous notice, Congress would have the right to cancel those provisions with 60 days’ notice, leaving the rest of the treaty intact. Beerits Memorandum, “The Commercial Treaty with Germany,” Hughes Papers, pp. 9-10.}

On 10 February, the Treaty of Friendship, Commerce and Consular Rights with Germany was ratified by the United States Senate.\footnote{Dieckhoff to AA, 10 Feb 1925, Nr. 38, R28490, Reichsminister USA, Bd. 4, D619579, p. 222.} The German Embassy expressed its dissatisfaction with the nature and form of the Senate’s reservation, but the embassy counselor was informed that the State Department was gratified the Senate had gone no further and that Germany “was deemed fortunate to have the opportunity to accept the treaty as it came from the Senate.”\footnote{Charles Cheney Hyde, “Charles Evans Hughes, The American Secretaries of State and Their Diplomacy vol. X, ed. Samuel Flagg Bemis (New York: Cooper Square Publishers, 1963), p. 316.}

The Senate’s shipping reservation was not well received in Germany. The Hamburg Senate, representing German shipping interests, called for the right to cancel treaty provisions as well. They were quickly joined in this demand by the Bavarian state government and the Reich Finance Ministry. It was former Ambassador Wiedfeldt, just recently returned to Germany, who managed to calm the storm by pointing out the central reality still governing the German-American relationship: Germany needed the United States. With this fact in mind, it was senseless for Germany to place reservations on the treaty that would lead to its collapse. Germany, Wiedfeldt argued, would not be offered another commercial treaty by the United States any time soon and certainly not one so favorable to German interests. The German interest in the treaty was far greater then that of
the United States and with Germany increasingly dependent on American credit, Germany could not afford the ill-will the collapse of the treaty would engender. Wiedfeldt reminded the critics that both Hughes and Secretary of Commerce Hoover personally identified with the treaty and had a political stake in achieving its goals. Wiedfeldt pointed out that in the end German shipping would not be any worse off if the treaty were accepted than without any treaty at all. Just the opposite would be true, in fact, as it was highly unlikely the United States would cancel the shipping provision while President Coolidge was in office.\(^8\)

Although unhappy with the reservations, the critics accepted Wiedfeldt’s arguments. On May 21, 1925, the new Ambassador Ago von Maltzan presented a letter to the new Secretary of State Kellogg stating that Germany agreed to the Senate reservations.\(^8\)

Hughes left office in March 1925 and declared himself pleased with the treaty as the Senate accepted it, asserting that the theory of the treaty had been respected “to an extent that surpassed his hopes.”\(^8\)

The shift from the conditional to unconditional most-favored-nation principle was indeed successful; the adoption of reciprocal national treatment, however, had been severely undermined by the Senate’s reservation. With the qualified success of the German treaty behind it, the State Department under Frank B. Kellogg proceeded with the negotiation of other commercial treaties based on the model treaty and carrying on the struggle against the national treatment reservation.\(^8\)

\(^8\) Link, *Die amerikanische Stabilisierungspolitik*, pp. 334-35. Link quotes Wiedfeldt’s arguments from a report by the Hamburg representative to Berlin.

\(^8\) *FRUS* 1923 II, p. 46. Maltzan took over the Washington embassy on 11 Mar 1925. Hughes had resigned as Secretary of State in early 1925, to be replaced on 4 Mar by Frank B. Kellogg, who had been serving as Ambassador to the Court of St. James.


\(^8\) With the ratification of the German treaty, other treaty negotiations that had been
The German Reichstag accepted the treaty with the Senate reservations on 12 August, and ratifications were exchanged in Washington with President Coolidge proclaiming the treaty in force on 14 October 1925.\textsuperscript{86} The German-American commercial treaty served the Weimar republic well, but with the coming of Adolf Hitler to power in 1933, German priorities in commercial policy changed. Hitler abrogated the treaty in 1934, despite warnings from both Hans Luther, then the German ambassador to Washington, and from the head of the trade section of the Auswärtige Amt, that such a step would antagonize the United States and harm German trade. The treaty was extended in 1935, but without the central most-favored-nation provision. In 1953, the 1923 treaty was again brought into force.\textsuperscript{87}

Conclusions

This chapter places the commercial treaty in the context of German-American relations of the period as a whole and thereby attempts to illustrate the nature of those relations at the end of the crisis year of 1923. Detailed examination of the history of the treaty illustrates more completely the motivations, goals and determinants of both American and German shelved were reopened. Hungary signed commercial treaty based on the German treaty on 24 Jun 1925 and after difficult negotiations the Austrian treaty was finally signed 19 Jun 1928, both with the Senate reservations regarding national treatment. The State Department continued to fight against the Senate reservations in the attempt to forge an Open Door commercial order in Europe until the Great Depression made the attempt futile.


policy. There is no doubt that the treaty was driven by the economic and commercial priorities of the State Department. But the fate of the treaty in the Senate also makes clear that these priorities were far from broadly accepted, even within Hughes’ own Republican Party.

As with the Berlin Treaty of 1921 and the Mixed Claims Agreement of 1922, Hughes’s struggle for the commercial treaty’s acceptance underscores the limits imposed by the necessity of congressional approval, limits within which American foreign policy had to operate when it came to the sensitive issues around the reestablishment of full relations with Germany. Glaser-Schmidt is correct to emphasize the mutuality of economic interests. But more than that, the commercial treaty represented to Germany a great success in regard to its tightly interwoven economic and foreign policy. It was the first tangible victory for the policy of revisionism. With the signing of the treaty in December 1923, Germany had succeeded in its policy, followed since before the Berlin treaty, of establishing full relations with the United States on a basis outside of the Versailles treaty system, and this opened the door for commercial relations that would propel Germany into the prosperity of those few good years of the Weimar Republic in the late 1920s.

The history of the commercial treaty reveals that it is a political story first and foremost, rather then economic one, and best understood in the political context. Houghton felt he was sent over to Berlin to negotiate a trade agreement, and Wiedfeldt was plucked from his office at Krupp and sent to the United States with the sole mission of reestablishing economic and commercial ties. Germany had pressed for a commercial treaty since wartime conditions were ended in 1921. Germany’s interest in a commercial treaty was far more than just economic; it was eminently a political interest which sought to use the prospect of increased
trade with America to establish a community of American banking and business interests to press for American support for Germany.

Manfred Berg may be correct in interpreting the treaty as the beginning of Stresemann’s America-oriented revisionist foreign policy, but it was even more dramatically the culmination of German’s policy of the primacy of America, followed since 1921. The signing of the commercial treaty marked the high point of Wiedfeldt’s embassy and he felt he had completed his mission. Wiedfeldt was anxious to return home to Krupp as relations normalized with the United States, and with his political rival Stresemann at the helm, Wiedfeldt’s relations with the Auswärtige Amt deteriorated in 1924.

The discussions over the commercial treaty also shed light on the motivations and forces acting on Germany and the United States in regard to policy development. Those who see American policy as driven by single factors must remember that, after Wilson, Congress was reasserting itself and various--often conflicting--interests often inserted themselves into foreign policy considerations, limiting the State Department freedom of action. Historians who sought to broaden the field of American foreign relations from the confines of the economic determinist view have developed the idea of “corporatism,” which emphasizes the role of corporate entities in the formation of foreign policy. However, the example of the commercial treaty calls into question the applicability of the corporatist theory to Germany and Europe in the postwar period of crisis.

Within the United States the interests of the various corporate entities were often very

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89 The leading proponent of corporatism is Michael J. Hogan. See Hogan, Informal Entente (Columbia, Missouri: University of Missouri Press, 1977); “Corporatism: a Positive Appraisal,” Diplomatic History 10 (Fall 1986), pp. 363-72; “Corporatism,” Journal of
much opposed and not the least unified on policy goals. It is for this reason that the Secretary of State sought to keep a firm hand on policy, dreading the interference of Congress where corporate entities such as agriculture, labor, banking, and in the case of the commercial treaty, shipping interests, all exerted their narrow interests. Conflicting interests within the Senate first held up the German treaty and then placed very unwelcome, from the State Department point of view, reservations on the treaty as well as those other European commercial treaties which followed.

Conversely, the treaty reveals the level of real corporatism found in the development of German foreign policy. Corporatism was a dominant feature of the political structure of the Weimar Republic as the various economic and social groups sought a place at the political table following the 1918 revolution. There was a long tradition of German businessmen serving as top advisors to the Auswärtige Amt and this practice was only amplified as reparations issues and revision of the Versailles restrictions dominated foreign policy considerations. The State Department was astounded that the German foreign office would discuss the still-secret draft treaty with business interests groups, a practice that was quite normal for the Germans. While Hughes did all he could to avoid interference from interest groups, holding the treaty a secret, the Germans invited interest-group participation, which resulted in the leaking of the draft treaty to the great embarrassment of the State Department.

Much has been made of the way the State Department pressured the Germans in the negotiations. Link, Glaser-Schmidt and Berg all make a point of the weak position of Germany in regard to the United States with the implication that Germany had little choice

American History, 77 (June 1990), pp. 156-60.
but to sign on Hughes’s terms. However, all concede that the treaty was a great success for Germany and conformed to German interests. It was the form rather than the content of the negotiations which bothered Wiedfeldt at the time and has since inspired critical comment. Yet the conclusion of the commercial treaty fulfilled fundamental and long-standing goals of German diplomacy and the signing was clearly understood by the Germans as a moral and diplomatic victory.

The commercial treaty provided Germany with most-favored-nation status with the United States, thus breaking out of the commercial restrictions imposed by the Allies at Versailles and providing a German success in its struggle for revision. This was, as it turned out, only a moral victory since ratification was held up until 1925 and the Versailles restrictions had already expired. But more importantly, the commercial treaty brought Germany closer ties with the United States. The treaty gave America an interest in Germany and established Germany as an equal partner.

The conclusion of the commercial treaty occurred at a time when Germany desperately needed a diplomatic success, for in early December 1923 the establishment of the experts committee was still unsure. It confirmed that the United States was interested in Germany as an equal partner. Some commentators see the commercial treaty and the Dawes Plan as interdependent and part of a thought-out new American economic policy toward Germany and Europe. This is perhaps an over-interpretation. Both the treaty and the Dawes Plan did work toward bringing Germany back to prosperity. The treaty facilitated American trade

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91 Link, *Die amerikanische Stabilisierungspolitik*, p. 199; Glaser-Schmidt, “German and
with Germany that boomed after the adoption of the Dawes Plan. German reconstruction would be supported by the wealth of America.

In the end, although Hughes got his model treaty without much of a fight from the Germans, the State Department was to be disappointed with the outcome of the commercial treaty project. It did not lead to an Open Door in Europe. It did not affect the French tariffs or the British system of imperial preference. The commercial treaty was, by contrast, a great diplomatic success for the Germans.
Chapter VIII
The Dawes Plan
January - June 1924

Introduction

The experts committees established by the Reparation Commission began meetings in January 1924, and in April submitted their report on the economic and fiscal rehabilitation of Germany and the resolution of the reparation crisis, known as the Dawes Plan after the committee’s chairman, Charles G. Dawes, who was president of the Central Trust Company of Illinois and a prominent Midwestern Republican.\(^1\) The plan began the process of the settlement of the Ruhr crisis, but it would require an international conference held in London in the summer of 1924 to work out the details of the French withdrawal from the Ruhr that ended the threat to Germany’s territorial and economic unity at the expense of French dominance in Europe. The plan also established the groundwork for an increased American economic involvement with Europe, thus beginning the fulfillment of Germany’s goal of modifying the Versailles settlement through its relationship with the United States. Together, the work of the Dawes Committee and the subsequent London Conference marked a diplomatic turning point in the modification of Versailles.

\(^1\) Dawes had been a brigadier general in France during the war and afterward served as the first director of the U.S. Bureau of the Budget. He was known as energetic and pro-French. Following the success of the Dawes Plan, he was elected vice president in 1924.
The Dawes Plan set a reparation schedule based on Germany’s capacity to pay, the first significant reduction from the 1921 London Schedule that Germany had long desired to revise and a precedent for further downward revision. Avoiding the issue of the total sum of German reparations, it established a rising scale of payments. The plan called for the reorganization and stabilization of the German monetary system, tax reforms, the financing of reparations through mortgage bonds on industry and the German railroads, and excise taxes. A system for the transfer of reparation funds, designed to prevent destabilization of the German monetary system, proposed a loan of 800 million gold marks to help the stabilization of Germany’s currency and aid the initial reparation payments. This would set Germany on the road to economic recovery. The plan also marked the beginning of the fulfillment of the long-held German goal of American involvement Europe and economic engagement with Germany, which were key elements in Stresemann’s foreign policy.

How historians view the Dawes Plan depends in part on the nations and issues they examine and the theoretical framework they choose. The consensus, however, is that the Dawes Plan marked a transition in European diplomacy. Historians who utilize a framework of economic determinism tend to see the Dawes Plan as a vehicle for American economic expansion into Germany. Werner Link’s study of American-German relations, which approaches the Dawes Plan from the perspective of a revisionist in the tradition of William Appleman Williams, therefore views the plan as reflecting the American interest in economic penetration of Germany. To Link, the decisive reason for American engagement was that the Dawes Plan opened the door for economic expansion into Europe. According to Link,

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2 William Appleman Williams, The Tragedy of American Diplomacy. For Williams’s view of the Dawes Plan, see p. 136.
“The United States was primarily interested in this agreement because only an economic and political peace in Europe could guarantee the expansion of American exports, which the United States understood as the *conditio sine qua non* for its own well being.” This accounts for the “astoundingly wide consensus” in the United States for the Dawes Plan and explains the energetic participation of the Coolidge administration in pushing for the acceptance of the plan at the London Conference in the summer and fall of 1924.³ This view, however, underplays the role of political interest, but for Link political and economic interest are inexorably bound together.

Michael J. Hogan analyzes the Dawes Plan through his modified economic construct of corporatism. He conceptualizes the Dawes Plan as the application of principles of the emerging American corporatism to international affairs. “The Dawes Plan and the bankers’ loan to Germany were further realizations of the American Plan to organize cooperation in European recovery through private programs, arranged by financial experts, and proceeding through normal investment channels.”⁴ Hogan’s study places the emphasis on American-British cooperation by arguing that the implementation of the American program was made possible by an Anglo-American economic entente that reached its height in 1924-1925. This entente was reflected in central and private bank cooperation and in a common British and American approach to debts and reparations. He sees in it the implementation of Hoover’s ideas and cites Hoover, who termed the Dawes Commission “a peace mission without parallel in international history”⁵ While Hogan recognizes that the Dawes Plan


⁵ Ibid, p. 77.
provided only a temporary reprieve to the European crisis, the study is limited by its focus on
the American and British relationship with little analysis of the broader international crisis.

Bruce Kent examines the Dawes Plan in the context of his economic study of the history
of war debts and reparations from 1918 to 1932, in which he sees the political leaders
attempting to evade the domestic financial consequences of the war. He views the Dawes
Plan as a “flimsy improvisation which depended for its survival on continuing financial and
political fair weather within Germany and abroad” rather than a “realistic settlement” which
would have required the United States and Great Britain to make the “necessary gestures of
financial renunciation.” While Kent accepts that in the shorter term it provided “a substantial
breathing space and an institutional framework more suitable than that of the London
schedule for working out a viable long term reparation scheme,” he concludes that Dawes
was just a milestone on the road to the collapse of the entire interlocking structure of war
debts and reparations with the onset of the depression. The close focus on economic issues
de-emphasizes the political and security concerns involved in the Ruhr crisis.

The title of Schuker’s major work, The End of French Predominance in Europe, states his
thesis that the Dawes Plan marked the deterioration of France’s security position against
Germany. Schuker sees it as offering both a hope and a challenge: “a hope of ending the
stalemate in the Ruhr and in the chancelleries of Europe, and a challenge for each nation to
negotiate a reparation settlement most advantageous to its political and economic interests.”
The major emphasis in Schuker’s extraordinarily valuable study is on the position of France.
In his political analysis of the Dawes Plan and its implementation, he reaches the conclusion

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that French financial weakness forced it to accept a liquidation of the Ruhr crisis on unfavorable terms that marked the deterioration of France’s security position against Germany. Schuker’s perspective is thus the ending of an era. Sally Marks shares this perspective.8

Historians specializing in German history often have a more positive assessment of the Dawes Plan and its effects. Gerald D. Feldman’s masterful study of the German inflation, The Great Disorder, also places the Dawes Plan at the ending of an era. The financial reforms which preceded and followed its implementation put an end to great German inflation. The Dawes Plan, although not the definitive settlement of the reparations question, did provide Germany with “breathing space” in the form of a moratorium and restored the basic economic unity for which Stresemann had fought so hard.9

Manfred Berg sees the Dawes Plan, along with the commercial treaty, as heralding a new era of American-German cooperation and paving the way for Stresemann’s policy of peaceful revision. Berg argues that Stresemann’s actions during 1923-1924 (the cessation of

8 Sally Marks’s views on the Dawes Plan follow from her long-standing view that Germany could pay the reparations set by the London Schedule. She views French policy in the Ruhr as an attempt to save the Treaty of Versailles and its reparations clauses. France won the battle but lost the war when Britain organized a coalition of “erstwhile allies plus Germany to undo the French victory.” Marks, similarly to Schuker, views the reparations set by the Dawes Plan “as being unquestionably within German capacity” and the plan as “constituting the first major revision of the Versailles Treaty as well as a bitterly decisive defeat for France.” See Sally Marks, “Smoke and Mirrors,” in The Treaty of Versailles: A Reassessment after 75 Years, ed. Manfred F. Boemeke, Gerald D. Feldman and Elisabeth Glaser (Washington: German Historical Institute, 1998), p. 368; “The Misery of Victory: France’s Struggle for the Versailles Treaty,” Historical Papers (1986) pp. 127-28; The Illusion of Peace: International Relations in Europe: 1918-1933 (New York: St. Martin’s Press, 1976), p. 54. Walter A. McDougall also judges the final reparations agreement as “a crushing defeat for France.” McDougall, France’s Rhineland Diplomacy, p. 369.

passive resistance, the stabilization of the Reichsmark, his unambiguous support for the work of the Dawes Committee, and his firm stance in the domestic quarrels over the Dawes Plan) served to convince the United States that Germany was willing the “to meet the political and economic conditions” that America required before it would agree to participate in the solution of the reparation problem. The political benefits for German revisionism would materialize during the ensuing years.\(^\text{10}\)

This chapter examines the American role in the creation of the Dawes Plan within the context of the European crisis precipitated by the occupation of the Ruhr. It will illustrate how the plan provided the basis for a compromise solution, very much on American terms, which would end the persistent crisis and stabilize Germany and Europe until the trauma of the Great Depression. While recognizing the importance of economic issues, its analysis is predominantly political. It views the Dawes Plan not only as establishing the basis for the ending of the European crisis but also as providing the solution to the efforts of the United States since 1921 to find its new role in European political and economic life within the strictures of domestic political realities. Whereas Schuker and other historians emphasize the defeat of France and the consequences in the 1930s, this chapter’s analysis is colored by a viewpoint that sees a success for the United States and through it a success for Germany with the possibilities for a more peaceful and prosperous Europe.

The Dawes Plan was predicated on the idea that if a practical compromise could be achieved between the European nations regarding reparations, American capital could then be mobilized to provide the loans and investments that would lead to an European economic recovery. It was not designed as “a solution of the whole reparation problem” but rather as a

\(^{10}\) Berg, Gustav Stresemann und die Vereinigten Staaten, quote on p. 441.
foreshadowing of a “settlement extending in its application for a sufficient time to restore confidence” and would facilitate “a final and comprehensive agreement as to all the problems of reparations and connected questions as soon as circumstances make possible.”¹¹ While some political conflicts over economic issues were resolved within the context of the plan, major issues regarding security matters were recognized and deliberately sidestepped with the recommendation that they would be settled within a political framework.

To accomplish their task the Dawes experts committee would have to face the contentious struggle of agreeing on the amount of reparations that Germany was capable of paying. It also had to determine the revenue sources from which reparations payments could be drawn and a means of payment that would not destabilize the German currency that they were charged with stabilizing. Most of the issues within the committee were subject to contentious debate not only between the national delegations but also within each nation’s delegation. Dawes, who had strong Francophile inclinations, strove to accommodate French interests whenever he deemed them not destructive to the overall integrity of the plan, but joined with the British to resist French attempts to subvert the overall vision.

While the American role in the creation of the Dawes Plan is mostly seen as mediating between the positions of France and Britain to achieve a settlement of the German reparations problem and the Ruhr crisis, there was also an underlying struggle between the United States and Britain over which nation would predominate in the economic

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reconstruction of Europe. In the end the need of each nation for some workable plan, combined with Dawes’s continuous drive to forge a unified plan, led to the necessary compromises that produced the final report.

The Development of the Plan

The Dawes Committee was advertised to the American public as a sensible and practical “business committee concerned with facts and the constructive inferences that could be drawn from them.” Prior to leaving for Paris, Dawes met with Hughes and a variety of experts in the areas of business, banking, and European affairs. In their press statement in Paris on 8 January, Dawes and Owen Young made a point of announcing that the carefully selected and screened American experts were there “as private citizens without instruction and without obligation of making reports except to the Reparation Commission.” In reality the report produced by the committee was “a compromise between economic principle and political necessities.”

In an effort to court French opinion, Dawes made a show of meeting with French military leaders with whom he had worked during the war, expressing his happiness in “finding myself among my old comrades, once again in France—a country so near the hearts of all


13 Ibid., pp. 1-5.

14 Dawes’s statement to the press, Paris, 8 January 1924, reproduced in Dawes, Journal, pp. 11-12.

Dawes had been a supporter of the French occupation of the Ruhr. In January 1923, he had given an interview to the Literary Digest stating that in his view the occupation of the Ruhr was essential to bring Germany to the realization that it had to pay reparations and France to the realization that only reasonable reparations could be collected. In a 6 February journal entry, he reiterated his view previously expressed in that Literary Digest interview and noted that the French Army had been “the safeguard of Western Civilization in Europe.” He asserted that without the occupation of the Ruhr the experts committee would have never come into existence.17

In his opening address to the Reparation Commission, Dawes spoke of his experiences during the war and recalled the hundreds of thousands of Allied soldiers sacrificed for victory. He reassured the commission that the experts committee would work on the basis of the status quo and would not challenge the legality of the occupation of the Ruhr, a threat that Britain had held over Poincaré’s head. Dawes defined the experts’ task as being within the scope of the Reparations Committee’s powers for “considering the means of balancing the budget and the measures to stabilize the currency,” and he conspicuously omitted any reference to reducing the total sum of German reparation obligations.18

Dawes’ speech was well received by the State Department, which hoped that he could keep the discussions of the committee in the public eye and “prove to French opinion that


17 Literary Digest, 27 Jan 1923, reproduced in part in Dawes, Journal, pp. 77-81.

conditions in Germany were not as rosy they felt.” The State Department felt that a great deal could be accomplished but believed speed, and not non-essential details, were “absolutely essential,” a feeling shared by Dawes who noted in his journal, “Action is the by-word. We must reach agreement.”

Dawes organized the experts into two committees consisting of two primary representatives from the United States, Britain, France, Italy and Belgium, who were assisted by a staff of technical experts from their respective nations. The First Committee of Experts was charged with stabilizing Germany’s budget and currency as well as establishing a new reparations plan. Dawes, who served as a co-chairman with Owen Young, had a dominating role in the construction of the plan. The Second Committee was charged with investigating what German assets were held abroad and could be utilized for reparations. The primary representatives, who did not hold current governmental positions, were drawn from business, banking and finance. Many had past experience in government in areas relating to budgeting and taxation. The American technical experts were for the most part drawn from Herbert Hoover’s Department of Commerce.

In determining the reparation schedule, Dawes and Young from the very onset recognized that “the French are the key to the situation” and throughout the deliberations attempted to accommodate French concerns. They decided on 13 January, even before the committees formally met, to concede to Poincaré’s demand that no change be made from

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20 Owen Young was Chairman of the Board of both General Electric and RCA.
21 Dawes, Journal, p. 70.
22 Ibid., p. 13.
the 1921 London Schedule total reparations sum of 132 billion gold marks and relied on “the
great common sense of the British and their right-mindedness” to accept their decision, since
in the final analysis Britain would not allow the experts committee to fail over this issue.\textsuperscript{23}

Dawes argued that with differing expert opinions on the matter of what Germany could pay,
only actual experience, as Germany recovered economically, would provide an answer. By
making the total sum of reparations a question “of the future” the committee could focus on
the immediate practical question of “what substantial can be given to Poincaré for whatever
tangible he gives us in the Ruhr in order that Germany under a new plan can put itself in
shape to commence a general reparation-paying policy.”\textsuperscript{24}

Poincaré, facing upcoming elections and forced to defend both his Ruhr policy as well as
his need to raise French taxes, welcomed the experts committee in his speech to the Chamber
of Deputies in which he set forth French demands. Poincaré claimed credit for the
committee asserting that it was a product of his initiative in the Reparation Commission. He
took comfort from the implication in Dawes’s address that the “peril” of having the German
total reparation sum reduced was “warded off.” He insisted on an minimum of 26 billion
gold marks from the A and B bonds and a reduction in the C bonds only to the extent that
French war debts were reduced by Britain and the United States.\textsuperscript{25} He invited the Allies to
join France in exploiting the French pledges in the Ruhr and Rhineland where France was

\textsuperscript{23} Ibid., p. 17.

\textsuperscript{24} Ibid., p. 73.

\textsuperscript{25} Here again it is clear that the C bonds had a real worth. There is no reason to doubt
that Poincaré was serious in his plans and did not consider the C bond obligations a “fiction”
as they have been characterized by Sally Marks. At the least, the C bonds were a powerful
bargaining chip in the hands of Poincaré. See Sally Marks, “Reparations Reconsidered: A
willing to lighten but not end its military occupation. He declared that the function of the committee was to establish to reparation pledges in unoccupied Germany. Poincaré also demanded cessions of railroad and mines for reparation purposes and “as a guarantee of French and Belgian security.” French occupation costs should paid before reparation receipts were to be paid and that the larger part of any loan to Germany was to be assigned to reparation payments.²⁶

Dawes optimistically took Poincaré’s speech as indicating that France would not oppose the reestablishment of normal business relations between the Ruhr and unoccupied Germany and would accept reducing its military forces to the minimum simply to ensure that Germany make reparation payments. Dawes accepted the continued military occupation of the Ruhr as a matter of course.²⁷ By early February the outline of a reparation plan which had general agreement began to take shape. A new German bank would be established to issue currency, reparations would be determined on a definite amount per year that would be established based on a percentage of Germany’s total national revenues rather a fixed sum for a definite period of years, and German assets such as railways could serve as securities. The final plan, however, would not emerge until April as the committee struggled over the details of what they could offer Poincaré in the way of secure reparations that also would obtain the

²⁶ Poincaré’s speech to the Chamber of Deputies, 20 Jan 1924, reproduced in part in Dawes, Journal, pp. 40-49, quote on p. 46.

²⁷ Ibid., p. 49. Young was also willing to accept a strictly military occupation if that was what it took to satisfy the French, noting “if the French want to continue armed forces in the occupied regions, well and good; but they must not interfere with production, and France must pay for them.” But privately Young worried that the continued occupation might retard German economic recovery. Quoted in Buckingham, International Normalcy, p. 136.
acceptance of the other powers and how that could be accomplished in actual practice. 28

On 8 February, the French economic advisor Charles Louis Seydoux 29 signaled the
British Embassy what aspects of the general line being taken by the Dawes Committee might
be acceptable. He recognized that the policies of the Labor Government that had recently
taken power under MacDonald were likely to be “more widely separated” from French
policy than those of Baldwin had been. Seydoux suggested that France could agree to the
following proposals: the new bank in Germany that would issue a new currency, an
international loan, pledges based the German railroad revenues, and excise taxes that would
be paid into a special reparation account which could be used as security for the loan to pay
reparations or returned to Germany to help balance the budget during a moratorium period.
France would also accept rendering the military occupation of the Ruhr almost invisible so
there would be minimal interference with the economic life of the population.

But France would not accept a complete military withdrawal from the Ruhr or making
the repayment of the loan the first charge on German assets, ranking before reparations,
because France was uncertain as to what Germany could actually pay. 30 Dawes was
informed by French military contacts that President Millerand and General Foch also favored
a minimal military presence in the Ruhr that would not interfere with normal business and
economic life, agreeing that military pressure was not necessary. 31 For their part, Young and


29 Seydoux was Deputy Director of Political and Commercial Affairs in the French
Foreign Ministry as well as General Secretary of the French delegation to the Reparation
Commission.

30 Crewe to MacDonald, 10 Feb 1924, enclosure, no. 357, DBFP XXVI, pp. 538-40.

the British insisted on the “lifting of any embarrassing economic pressure which would
harass business or lessen the confidence of investors in the plan.”  

On 29 February, Dawes achieved the agreement of Jean Parmentier, the leading French
representative in the First Committee, that the existing political guarantees and penalties that
were intended to assure German reparations hampered reconstruction and would be
withdrawn or modified as soon as Germany put the new proposed plan into operation. They
would not be re-imposed except in the case of a German flagrant failure to fulfill the
conditions of the plan. Dawes now believed that “all doubts as the unanimous report of our
committee was over.”  

Poincaré, however, had not yet consented to Seydoux’s acquiescence to German economic unity or to Paramentier’s ideas.

The French Financial Crisis

The more accommodating attitude by French officials reflected France’s deteriorating
international position. As the Dawes Committee began its deliberations in late January,
France was slipping into a financial crisis. The franc had begun to depreciate with the
beginning of the Ruhr Crisis in January 1923 and by December 1923 had lost 30 per cent of
its exchange value against the dollar. France had also exhausted its capacity for domestic
borrowing. By early March, the franc was under attack by speculators.

With the end of passive resistance in September and the signing of the MICUM

32 Ibid., p. 130-31.

33 Ibid., p. 132.

34 For an extensive and cogent discussion of the French financial crisis see Schucker, End
of French Predominance, pp. 31-56, especially the table of franc-dollar exchange rates from January 1922 to March 1924 (p. 53). For French limits on long term borrowing, see p. 33.
agreements in November 1923, the occupation of the Ruhr had begun to turn profitable. However, Poincaré was forced to admit that when the costs of occupation were subtracted from the profits, the net yield for 1923 was only approximately 130 million gold marks and the estimates for 1924 would be only 600 million gold marks, of which France was only entitled to 52 percent.\footnote{Kent, \textit{Spoils of War}, p. 251.} In January, Poincaré proposed a 20 percent across-the-board increase in taxes, the double décime, rather than a broad program of tax reform, but it became a matter of protracted debate in the Chamber of Deputies and Senate and was not passed until March 1923.\footnote{For an extended discussion of the legislative debates and party politics see Schuker, \textit{The End of French Predominance}, pp. 57-88.} The domestic support of Poincaré was beginning to erode as the economic premises of the his policies were called into doubt.

France was forced to resort to an international loan and turned to J. P. Morgan & Co., a long-standing supporter of France. Morgan was willing to double the French request for $50 million but insisted on the passage of the proposed French tax program and that expenditures be kept in line with revenue without further borrowing.\footnote{There is a debate among French historians as to whether Morgan or the United States government required a French pledge to accept the Dawes Committee plan as a condition of the loan. Schuker found no evidence for this in \textit{The End of French Predominance}, pp. 108-9. Review of the historical debate in n. 58.} Hughes, without consulting his staff, bypassed the normal loan review process and approved the loan with the condition that it not adversely affect the chance of the experts’ plan being accepted.\footnote{Ibid., p. 112-13.} Houghton was of the opinion that success of the experts committee depended on the franc falling which would...
force France to treat with the Germans.\textsuperscript{39}

Dawes and Owen Young, however, in giving approval for the loan, were of the opinion that the loan to support the franc would do no harm and that what really mattered was French acceptance of the experts’ plan. Unless the committee produced a unanimous report (Dawes was confident it would) and France accepted it, “the franc would go far towards joining the mark.”\textsuperscript{40} The Morgan loan enabled France to repel speculative attacks against franc, but Houghton was correct in pointing to French financial weakness. It exposed the French vulnerability and ultimately would weaken its position when it came to defending French policy interests when the Dawes Plan came to be implemented.

The Final Construction of the Dawes Plan

By middle of March 1924, the committees had reached the point where the various components of the Dawes Plan were ready to be put together and the final details worked out. Dawes, as usual, urged speed. One of the British representatives, Sir Robert Kindersley, concerned that Britain would have to live with what the American dominated committee rushed through, strongly urged that the plan “must be well considered and matured, for mistakes made now could not be corrected hereafter.”\textsuperscript{41} Bradbury reported that all the three main plans, the new German bank, the railways, and the assignment of revenues are “hideously complicated and bristle with both political and administrative difficulties.”\textsuperscript{42}

\textsuperscript{39} Robbins to Castle, 12 March 1924, file 52, Castle Papers.

\textsuperscript{40} Dawes, \textit{Journal}, pp. 159-60, quote on p. 160.

\textsuperscript{41} Ibid., p. 161-63.

\textsuperscript{42} Bradbury to Phillip Snowden, the new British Chancellor of the Exchequer, 17 March
The crucial issue of how much Germany would be required to pay in reparations was not completely settled until the final days of the committee. The guiding principle was that Germans should have to bear a tax burden equivalent to the highest one paid by any of the Allies. In calculating this, the committee noted Germany’s internal debt had been virtually eliminated by inflation as had the debts of industry, agriculture, and railroads, and that these segments of the German economy should carry a burden commensurate with other nations to eliminate the trade advantage over other nations. The First Committee recognized that on a practical basis such fully commensurate sums were unrealistic and would be unacceptable to Germany. Jean Paramentier, one of the two French representatives, demanded that the standard German annual reparation bill be set at 3 billion gold marks. Sir Josiah Stamp, the British tax expert on the First Committee, argued for a standard payment of 2 to 2.25 billion marks. Owen Young, however, held out for 2.75 billion.

Among the American experts, opinion was divided. The American technical experts agreed with the British viewpoint, and Dawes was also inclined toward the lower figure. Owen Young, who in Bradbury’s judgment had “an entirely exaggerated notion of Germany’s recuperative power and her capacity to pay,” argued for a 2.75 billion gold mark figure which was close to Poincaré’s demand of 3 billion gold marks, a position which the

1924, No. 387, DBFP XXVI, p. 577.


Kent, Spoils of War, p. 249, citing Arthur N. Young Diary, 1 April 1924.

Schuker, End of French Predominance, p. 194.

British saw as making it more difficult for them to get the French and Belgian to lower their demands. The problem, as Bradbury viewed it, was that the Americans “were afraid of a reduction of the German reparation liability getting them into political trouble through its repercussion on European debts to America.”47 Dawes acknowledged that he and Young had to “face the fear” that the setting of “the maximum Germany can pay may create a feeling of hopeless that inter-allied debts can ever be met.”48 Dawes, and especially the other American experts, however, were more inclined to the British point of view than was Young.

When the compromise figure of 2.5 billion gold marks was settled upon, the American technical experts whose opinion had been largely ignored in considering the reparations sums bitterly called the schedule “absolutely unrealizable” and threatened to denounce the whole plan and declare that any loan to Germany would be “unsound.” Houghton, who met with Logan and Young in Paris, held a personal view closer to that of the experts, but nevertheless, recognized that “Young was not so much interested primarily in a sum as in an agreement on a sum” and credited Young with getting France to reduce its demands by siding with the French and allowing himself to be “moved” down, ultimately reaching a figure which at least “bears some relationship to reality.”49

Dawes was willing to support Young’s compromise figure. When a newspaper published a report that he and Young differed as to Germany’s ability to pay, he asserted that “Young

47 Bradbury to Snowdon, 12 March 1924, no. 387, DBFP XXVI, p. 577.
49 Houghton to Castle, 6 April 1924, file 52, Castle Papers; Dawes, Journal, p. 164.
and I have no difference of opinion at any time.” Dawes had little patience with the critical attitude of the American technical experts. He was convinced that “international bodies largely dominated by expert opinion rather than practical opinion, get nowhere.” He condescended to show them a copy of the final report for “their own peace of mind” but noted that their comments “would have as much effect on our committee as snow flakes falling on a red-hot stove.”

While Dawes could dismiss the American technical advisors, he could not dismiss Stamp, who by threatening a minority report, forced a last-minute reduction in the German payments in the last two of the partial moratorium years (the third and fourth years under the plan.) In his account, Bruce Kent notes that Parmentier told Poincaré that the French experts had to back down over the size of the reparation German annuities because the Americans threatened to publish the American expert belief that even a standard payment of 2.5 billion gold marks was unreasonable and unacceptable.

The Dawes Plan fixed German reparations payments as beginning with one billion gold marks for the first budget period, 1924-25, and then rising until it reached a standard payment of 2.5 billion gold marks in 1928-29. The report avoided setting the total

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50 Ibid., p. 174.

51 Ibid., p. 206-8.

52 Ibid., p. 183-85.

53 Kent, Spoils of War, p. 250.

54 1924-25 period: 1 billion gold marks; 1925-26 period: 1.22 billion; 1926-27 period: 1.2 billion, subject to contingent addition or reduction of 250 million gold marks; 1927-28 period: 1.75 billion, subject to a contingent addition or reduction of 250 million gold marks; 1928-29 period: 2.5 billion. Thereafter, 2.5 billion would then continue as a standard payment with supplement that would be computed on the basis of German prosperity. The annual sums represented all the obligations for which Germany would be held liable
reparations sum by providing no mention of the number of years Germany would be required to pay reparations as well as no mention of whether the annual payments represented interest or principal. If the payments were to be continued without change for the 64 years of the London Schedule without any increase based on German prosperity, it has been estimated to have had a current capital value in 1924 of 40 billion gold marks, a significant reduction from the full London Schedule.\textsuperscript{55}

But the Dawes Plan was designed as an interim plan that could resolve a crisis situation and not as a decades-long, definitive solution to the reparation problem. The immediate difficulty, because the annual payment represented “all the amounts for which Germany may be liable to the allied and associated powers arising out of the war,” was how the reparation payments would be divided up among the powers. In the preparation of the final report, Dawes and Young had included the term “associated powers” which preserved the United States’s claim to having its occupation costs paid out of Germany’s annual payment, a demand to which Britain had strongly objected.\textsuperscript{56}

The funding of the reparations was fixed so that approximately half the standard payment would come from the German budget, with the remainder obtained from the interest on mortgage bonds issued by German industry and railways. Revenues from customs and taxes including reparations, war costs, the expense of the occupation armies, and the Allied commissions of military control and supervision. Report of the First Committee of Experts, Summary of Part I, reprinted in Dawes, \textit{Journal}, pp. 289-90.


on alcohol, tobacco, beer and sugar were to serve as a secondary guarantee of funds. An international loan of 800 million gold marks was to be used for the establishment of a new bank and the stabilization of currency issued by that bank as well as to provide funding for deliveries in kind during the transition period.

The problem of how Germany could transfer reparations payments without destabilizing its currency was dealt with by having all the sums required by Germany under the plan deposited into a special reparation account in a new Reichsbank, the bank that would also establish and issue a new currency for Germany. A transfer agent would be responsible for the administration of the plan and would serve as chairman and member of a six-member Transfer Committee, the other five members consisting of members from France, Italy, Britain, Belgium and the U.S. The Transfer Committee would determine how much could be safely transferred. If the full reparation sum could not be safely transferred, the Transfer Committee could authorize the investment of the funds unable to be transferred in loans or bonds in German industries. Since the Transfer Committee subsumed some of the functions of the Reparation Commission, its composition effectively ended French domination of the Reparation Commission.  

While the Dawes Plan constructed a plan for Germany’s economic rehabilitation and a vehicle for the payment of reparations, it was forced to leave some issues vague and define other important issues as being outside its jurisdiction. Any chance of restoring Germany’s credit and obtaining the loan necessary to implement the plan was dependent on achieving German fiscal and economic unity, and therefore both the Americans and British were

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emphatically insistent on this condition. The Dawes Plan stated that it was based on the assumption that “the fiscal and economic unity of the Reich will be restored.” Without mentioning the MICUM agreements specifically, the Plan pointed out that “existing measures in so far as they hamper that activity will be withdrawn or sufficiently modified as soon as Germany has put into execution the plan recommended.” Such measures were not to be re-imposed except in the case of “flagrant failure” on the part of Germany to fulfill the conditions of the agreement. It specified a procedure that would make the re-imposition of unilateral sanctions difficult and unlikely. The report specified that there had to be “common agreement” on the “flagrant failure.” In case of such failure it was up to the creditor governments acting with “consciousness of joint trusteeship for the financial interests of themselves and others who will have advanced money upon the lines of the plan, and then to determine the nature of sanctions to be applied and the method of their rapid application.”

The plan rejected, except in extreme circumstances, direct or indirect control of all of Germany’s revenue and expenditure and suggested that taxes on customs, alcohol, beer, tobacco and sugar serve as a collateral security.

The Dawes Plan defined the question of the military occupation as being outside its


60 Ibid., pp. 335-37, Appendix III, The Committee’s Conclusions and Scheme, XIV. Guarantees in Addition to Railways and Industrial Bonds.
jurisdiction, leaving it an open question.\textsuperscript{61} Dawes strongly believed that military occupation of the Ruhr as distinguished from economic control had to be conceded to France, “not only in the interest of her proper protection, but as safe-guarding the performance of the entire program in the future.”\textsuperscript{62} Young, however, wanted military evacuation included in the report but deferred to Dawes so as not to split American opinion in the report.\textsuperscript{63} When pressed by the British for assurances that France would eventually evacuate the Ruhr, Dawes took the position that the pressure of public opinion for a settlement was such that England and France would both accept the committee’s report whether it advocated immediate military evacuation in the Ruhr or recognized it with the proviso that it was not to interfere with normal economic functioning.\textsuperscript{64}

Since the French held that control of the Rhineland railway system was necessary to maintain their military occupation, Dawes left open the possibility for some French-Belgian control of the Rhineland railroads. The Dawes Committee recognized that the conversion of Germany’s railroad system into a joint stock company would be a major source of reparation revenues, but left the administration and management of the railroads to German management. It also suggested that the German railroad system could be divided into different systems without detrimentally affecting their financial unity.\textsuperscript{65} France could now


\textsuperscript{62} Ibid., p. 99.

\textsuperscript{63} Kent, \textit{Spoils of War}, p. 252, citing Arthur N. Young Diary, 18 March 1924.

\textsuperscript{64} Dawes, \textit{Journal}, p. 136.

argue that the Régie, which it considered necessary for the support of its occupying troops, could be operated as a separate system without impairing fiscal unity. For France, the Ruhr represented a security issue as well as an economic one and Dawes was willing to accommodate France on all issues where economic productivity of reparations was not affected in order to achieve French acceptance of the plan.

The Second Committee, charged with investigating German assets abroad that could be reparation payments, played little role in the formation of the Dawes Plan. Estimates of the different sources of capital abroad varied; the best that the committee could do was to arrive at a guess of between 5.7 billion gold marks and 7.8 billion gold marks and conclude that the average of two figures, 6.75 billion gold marks, was the approximate total. Nor did they think that there was any realistic way to compel the return of capital to Germany. They concluded that the best way to prevent the exodus of capital from Germany and to encourage its return to was to halt the inflation and allow the capital to return on its own.  

The Gold Discount Bank

The Dawes Plan sought to stabilize Germany’s currency as a central part of the reconstruction of Germany, which was seen as essential to the reconstruction of Europe as a whole. To that end it called for a 800 million gold mark loan which would fund a new Reichsbank that would issue a stable currency and allow for the funding of Germany’s initial and Scheme, IX. The Normal Resources from which Germany Should Make Payments, (b) Railway. For discussion of the Dawes Plan and German railways, see Alfred C. Mierzejewski, The Most Valuable Asset of the Reich vol. I (Chapel Hill: The University of North Carolina Press, 1999), pp. 92-100.

reparation payments required under the plan. Since this bank would play a crucial role in
German and European recovery, the United States and Britain, which both sought a dominant
role in European reconstruction, had competing interests on whether that new bank would be
established on a gold or sterling standard.

This competition came to a head when Germany sought the Dawes Committee’s approval
to establish a Gold Discount Bank that would serve as a temporary measure to provide
credits for foreign imports desperately need by industrial firms. Since it was expected that
this specialized bank would be folded into new Reichsbank, Britain would have a leg up in
having the new Reichsbank similarly based on sterling. That in turn would give Britain an
initial advantage in trade with Germany and Central Europe and would keep the pound
sterling as the major international currency for finance and trade. If the Discount Bank were
based on gold, these advantages would go to the United States.

Prior to the war London had been the world’s financial center, but by 1924 the United
States, the only major power remaining on the gold standard, had become the world’s largest
creditor with over half of the world’s gold supply, which gave it financial predominance. The
ever-increasing gold supply posed the risk of domestic inflation. The United States could
accept some inflation and expand the money supply, thus reducing the value of the dollar,
and making it easier for the Europeans to pay off their debts and compete with the United
States. The United States could also choose to cancel or reduce war debts which would
reduce the inflow of gold, but there was little appetite for either reducing American
competitiveness or remission of the war debts in the Coolidge administration during an
election year.\textsuperscript{67}

\footnote{67} \textit{Feldman, The Great Disorder}, p. 827.
Benjamin Strong, the governor of the Federal Reserve Bank of New York, believed that American trade suffered because the Europeans lacked the reserves required to stabilize their own currencies. He sought an international currency stabilization based on the gold standard, believing that unproductive American gold should be used for international loans and investments which would help European recovery and increase American trade. This plan, however, required that Britain return to the gold standard.\footnote{Ibid., Schuker, \textit{The End of French Predominance}, pp. 161-63.} To do so, Britain would have to decrease its international lending to accumulate the reserves necessary for a return to a gold standard and overvalue the pound at $4.86, which would leave Wall Street the leading international finance center. If the new German currency to be issued by the new bank were stabilized on a gold standard, there would be increased pressure on Britain also to return to the gold standard to avoid a trade disadvantage. This was well recognized by Britain. Sir Otto Niemeyer, Controller of Finance at the British Treasury, warned of a “serious problem for this country” if Germany “gets back to gold standard before we do.”\footnote{Memorandum by Mr. Niemeyer on the Reparation Experts Report, 14 April 1924, no. 430, \textit{DBFP} XXVI, p. 633. Britain would return to the gold standard in April 1925.}

The American-British rivalry surfaced in the initial meetings of the Dawes Committee when the committee was immediately confronted with the problem of the stabilization of the German currency which Dawes saw as the first priority.\footnote{Dawes, \textit{Journal}, 15 Jan 1924, p. 20.} Hjalmar Schacht, the new Reichsbank president, met with the committee on 19 and 21 January to seek the committee’s approval to start the new Gold Discount Bank. The bank would mobilize some part of the free reserves of the gold and foreign currencies which still might exist in Germany and also
obtain some foreign capital. Backed by gold, the bank could begin to service German industrial firms so that they could obtain much-needed imports.\(^{71}\)

Schacht had already met in early January with Montagu Norman, the Governor of the Bank of England, and obtained his support and a promise of a three-year, five million pound credit at 5% interest.\(^{72}\) Norman, who favored Britain’s eventual return to the gold standard, wanted to delay that return until Britain had reestablished its position of financial leadership in European trade.\(^{73}\) Norman went so far as to teasingly play to Germany’s revisionist dreams by inquiring of Schacht if, in the event of a German takeover of Danzig and an Anschluss with Austria, Germany would remember its debts to the Bank of England.\(^{74}\)

Norman and Schacht believed that Germany’s economic difficulties required immediate attention and could not wait until the experts committee finished its report. The French were opposed to the idea and other members of the committee had concerns that Schacht’s new bank might in some way compromise their proposals for the new Reichsbank which were not yet fully formulated. Dawes and Young, however, were concerned that the committee’s disapproval of the plan could precipitate a financial crisis in Germany for which the committee could be blamed. They compromised by issuing a qualified public endorsement on 23 January 1924. At the same time, they insisted that Schacht’s new bank would

\(^{71}\) Ibid., 20 Jan 1923, pp. 49 and 23 Jan 1923, p. 53. After the sudden death of Rudolf von Havenstein on 20 November 1923, Hjalmar Schacht was appointed as the new Reichsbank President. The death of the unpopular Havenstein was itself an event that lent a degree of confidence to the process of German stabilization.

\(^{72}\) Feldman, \textit{The Great Disorder}, p. 829.

\(^{73}\) Schuker, \textit{The End of French Predominance}, p. 114.

\(^{74}\) Feldman, \textit{The Great Disorder}, p. 828; Kabinettssitzung, 8 Jan 1924, \textit{Die Kabinette Marx} I, Nr. 51, pp. 206-8. For Schacht’s report to Stresemann on the Gold Discount Bank,
eventually have to be merged into a reconstituted Reichsbank that the Dawes Committee would eventually establish to issue a new German currency.\textsuperscript{75}

The approval of the Gold Discount Bank was a major diplomatic victory for Germany with important dividends in both the short and long run. The immediate effect was to improve Germany’s position in the occupied Rhineland and the Ruhr. At the end of 1923, Rhineland leaders such as Konrad Adenauer, the mayor of Cologne, along with industrialists and bankers, the most prominent of which were Hugo Stinnes, Louis Hagen and Albert Vögler, argued that the Rhineland and Ruhr should separate itself from Prussia as an autonomous state within the German Reich and orient itself towards France.\textsuperscript{76} Agreements between French and German heavy industries would be established giving each minority participation in the other’s industry and trade agreements. A Rhenish-Westphalian bank with French backing would be established that would be able to provide much-needed credits to German industry. For Paul Tirad, the French High Commissioner in the Rhineland, the bank represented the best opportunity for prying the Rhineland loose from Germany since the separatist movement had already begun to collapse with the exception of that in the Bavarian Palatinate.\textsuperscript{77}

The approval by the Dawes Committee of Schacht’s temporary Gold Discount Bank,

\textsuperscript{75}Dawes, \textit{Journal}, 23 Jan 1923, pp. 53-57 and 8 Feb 1923, pp. 87-88. Part of Dawes’s and Young’s concern regarding the Discount Bank stemmed from their appraisal of Schacht: “His pride is equaled only by his ability and desire for domination.” Ibid., 23 Jan 1923, p. 55.

\textsuperscript{76}Schwarz, \textit{Konrad Adenauer}, pp. 188-90. For an extended discussion of the industrialists plans, see Wulf, \textit{Hugo Stinnes}, pp. 485-507.

\textsuperscript{77}Ibid., pp. 507-19; Maier, \textit{Recasting Bourgeois Europe}, pp. 396-402; McDougall, \textit{France’s Rhineland Diplomacy}, p. 333; Feldman, \textit{The Great Disorder}, pp. 823-25; Nadler,
which allowed German industry foreign credits, strengthened the hand of Marx and Stresemann in hindering the creation of a Rhineland Bank. Stinnes informed Houghton “the industrialists would not sign up with the French pending the outcome of the Committee’s work.”

Britain pitched in by refusing to participate in any French-controlled Rhineland Bank, thus effectively killing the project and dealing a crippling blow to the movement for an autonomous Rhineland.

The United States saw British support of the Gold Discount Bank as an effort to have Germany eventually stabilize its currency on a sterling standard which would give Britain a dominant position in the monetary and financial reorganization of European trade. Paul M. Warburg, president of the International Acceptance Bank, sent Owen Young a cable asking “Could not America be brought into the first line right now pari-passu with British banks. Pardon this cable, but I am frankly alarmed at the thought that we may miss this unique opportunity for putting America’s discount market on the map and complete our position as world leaders.”

Warburg organized a consortium of American banks which offered the Gold Discount Bank a $20 million credit at 6.5 percent, topping the British offer by $5 million, a generous offer since the Federal Reserve discount rate was 4 percent.

The Discount Bank was established in April, with Schacht accepting first only $5 million and later the full $20 million from the American banking syndicate along with the British

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78 Feldman, *The Great Disorder*, p. 826, citing Arthur Young Diary, 5 Feb 1924; Ministerbesprechung, Rhein-Ruhr-Frage, 26 Jan 1924, Nr. 73, *Die Kabinette Marx I*, pp. 278-80.

financing. The British ambassador in Washington recognized that the significance was “much wider” than just $5 million or $20 million credit. He warned MacDonald that Warburg’s American syndicate represented the 21 largest banks in the United States and was being characterized in the press “as assuring complete revival of German-American prewar trade.” But for Germany this American involvement not only helped stabilize its currency but also heralded the flow of American capital into Germany, which Germany had long seen as the instrument of German recovery and escape from the strictures of Versailles.

In the Dawes Committee there continued to be opposition to the American insistence that the new Reichsbank be established utilizing a gold standard. Norman expressed apprehension as to the effect on Britain. French experts attached to Jean Parmentier, the French representative on the First Committee, argued that it was unfair to authorize a gold standard for Germany while France was still struggling with an un-stabilized currency. But Parmentier supported Dawes and Young.

Norman hoped to have the new Reichsbank act as a partner to the Bank of England. By threatening to withdraw the support of the Bank of England from the new Reichsbank and the proposed 800 million gold mark loan, Norman was able to stop the proposed American plan to have the new Reichsbank placed under foreign control.

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81 Ibid.
82 Howard to MacDonald, 26 April 1924, no. 447, DBFP XXVI, pp. 656-57. The syndicate was called the International Acceptance Bank, New York.
83 Dawes, Journal, 17 March 1923, pp. 163-64. Parmentier’s support of the American position may have reflected that fact that France had successful negotiated a loan from J. P. Morgan.
84 Feldman, The Great Disorder, p. 832. Had the Bank of England withdrawn from the
successful in forcing the Americans to temporarily postpone the gold convertibility of
banknotes to be issued. While they would be valued on a gold basis they would not be
immediately convertible to gold.85 But the United States had won the larger battle. The
German Reichsbank would be based on the gold standard and the Bank of England would be
forced to return to the gold standard in 1925.

The Dawes Plan taken as a whole was an important step toward the resolution of the
reparation crisis and offered a framework for the reconstruction of Germany. It may have
represented the best practical compromise that could be obtained at the time. It promised
Germany unity and provided a breathing space by demanding relatively moderate initial
payments. But many of the compromises required leaving important issues unresolved. It
left the door open for continued French-Belgian military occupation and control of German
railroads. To obtain French agreement, it set a level of reparations payments which most
experts believed was too high and failed to specify what sanctions for noncompliance would
be applied to Germany, thus leaving the door open for French unilateral action.

The United States had prevailed in its effort to have the new Reichsbank established on a
gold-standard basis and in having its army occupation costs covered through German
reparations. Britain resented Dawes’s and Young’s dominance during the proceedings.
Bradbury believed that Dawes’s insistence on forcing unanimity came at “price of

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85 Dawes, *Journal*, 19 March 1924, pp. 172-73 and Report of the First Committee of
indefiniteness in matters that provoked controversy.\textsuperscript{86} At the British foreign office, Sir Eyre Crowe angrily noted, “The less we allow the American to meddle the better. They do nothing but complicate and spoil matters.”\textsuperscript{87}

But despite their reservations, the British experts were willing to accept the final plan. It offered the promise of American economic involvement with Europe. It also provided a framework which carried moral authority around which the various powers would have to negotiate. The plan was presented to the Reparation Commission on 9 April.

Reactions to the Dawes Plan

Stresemann and Marx quickly decided to accept the Dawes Plan in its entirety as a practical basis for a rapid solution to the problems of reparations. The German cabinet’s decision to accept the Dawes Plan, however, was made only after a contentious debate in a meeting with the Minister-Presidents of the German States on 14 April. The difficulty was to obtain an agreement to accept the report in its entirety, without questions or reservations. Concerns were raised regarding the following issues: the explicit restoration of Germany’s political and administrative sovereignty in occupied areas, French willingness to end the military occupation in the Ruhr, guarantees for the release of prisoners held by France and the return of those expelled from the Ruhr, the danger of re-imposition of sanctions by France and concerns that in the implementation of the plan, controls would be placed on

\textsuperscript{86} Bradbury to Snowden, 12 March 1923, no. 387, DBFP XXVI, pp. 577-78.

\textsuperscript{87} Record by Mr. Lampson of a conversation with the U.S. Counselor, 25 March 1924, ibid., no. 399, p. 598, n. 6.
Germany that went beyond those detailed in the report.\textsuperscript{88} Schubert informed D’Abernon that the plan would be presented to the Reichstag as a treaty fully accepted by Germany, to avoid the perception that it was yet another ultimatum imposed upon Germany by the Allies, as had been the case at Versailles and at the London Reparation Conference of 1921.\textsuperscript{89}

Prior to the meeting with the Minister-Presidents, Stresemann had informed D’Abernon that he had expected resistance in the meeting; MacDonald responded by making it clear that he expected Germany to accept the plan “in its entirety without hesitation or delay.”\textsuperscript{90} Houghton added the weight of the United States by informing Stresemann “to swallow it whole.”\textsuperscript{91} Both the United States and Britain sought to preserve the momentum provided by the Dawes Plan’s achievement of a report that all the experts had accepted, but both nations needed German acceptance before throwing their weight behind the plan. Dependent on American and British support, Germany, despite its reservations, could ill afford not to follow the tactical lead of the United States and Britain. Germany notified the Reparation Commission of its acceptance on April 16.\textsuperscript{92}

MacDonald was concerned that a German refusal to renew the MICUM agreements due to expire on April 15 would result in coercion by France which could jeopardize the Dawes

\textsuperscript{88} Besprechung mit den Ministerpräsidenten der Länder, 14 April 1924, Nr. 175, Die Kabinette Marx I, pp. 555-65; D’Abernon to MacDonald, 15 April 1924, no. 431, DBFP XXVI, pp. 638-39.

\textsuperscript{89} D’Abernon to MacDonald, 15 April 1924, no. 432, DBFP XXVI, p. 639.

\textsuperscript{90} D’Abernon to MacDonald, 14 April 1924, no. 427, DBFP XXVI, pp. 627-28; MacDonald to D’Abernon, 14 April 1924, no. 428, DBFP XXVI, p. 628.

\textsuperscript{91} Besprechung mit den Ministerpräsidenten der Länder, 14 April 1924, Nr. 175, Die Kabinette Marx I, p. 558.

\textsuperscript{92} Stresemann, Diaries, p. 332.
Plan. Urged by MacDonald, Germany agreed to extend the MICUM agreements for an additional two months with covert German government subsidies to the industrialists.  

Great Britain announced its full support of the Dawes Plan on 24 April. MacDonald, while acknowledging that some of the proposals could be improved, emphasized that the report was unanimous and that “such a report supported by such authority must command general assent.” He emphasized that the report was “an indivisible whole” and had to be accepted “in their entirety.” In a message to both Germany and France he asserted that the plan had “to be given a real chance” and “waiting to make any modifications which may appear necessary after experience and by common agreement” would not be desirable, a comment specifically directed at Poincaré.

Unofficially, Britain had many concerns. In the Treasury Office, Sir Otto E. Niemeyer considered the reparation scheme to be a “facade.” Niemeyer believed that German reparations were set too high and criticized the plan for leaving the total sum of German reparations open. Niemeyer considered the prosperity index, which increased the standard payment based on measures of economic growth, as a “dubious proposition.” He saw multiple difficulties with how the plan would work in actual practice. He also envisioned difficulties arising from those issues the plan had bypassed. These included such matters as

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93 MacDonald to D’Abernon, 11 April 1924, no. 422, DBFP XXVI, p. 622; Besprechung mit der Sechserkommission des Bergbaulichen Vereins, 9 April 1924, Nr. 171, Ministerbesprechung, 9 April 1924, Nr. 172, and Besprechung mit der Sechserkommission des Bergbaulichen Vereins, 10 April 1924 Nr. 173, Die Kabinette Marx I, pp. 544-51. For a detailed discussion of the negotiations surrounding the renegotiation of the MICUM agreements, including the German government’s unsuccessful attempt to get British permission to fund costs from the 800 million gold mark foreign Dawes loan, see Maier, Recasting Bourgeois Europe, pp. 417-18.

95 MacDonald to Crewe, 10 April 1924, no. 419, DBFP XXVI, pp. 619-20.
disagreements among the Allies as to how the German reparations, which were to be all-inclusive, would be divided among the Allies and also problems related to the MICUM agreements. He also expected that France would pressure Britain to commit to enforcing sanctions, including reoccupation, if Germany defaulted, an action which “might ruin the (mainly English and American) subscribers to the loan.” Niemeyer was also concerned that unless there was an evacuation of the Ruhr it would be impossible to raise the loan.

Despite these and other criticisms, Niemeyer’s conclusion was that the report had to be accepted. It carried with it the “implication of American assistance in solving Europe’s financial problems” and was the only constructive suggestion “to escape from the present position which, if left, must inevitably lead to war, open or concealed between France and Germany.”

Official Washington, which had been concerned as to whether to Germany would accept the plan, was delighted with the acceptance of the experts report by the Reparation Commission and by the German cabinet. The public reaction in America to the Dawes Report was overwhelmingly positive. The details mattered less than the fact that it was perceived as “Made in America.” American opinion was that just as American intervention and troops brought victory to the Allies, American experts serving as honest brokers and applying American common sense had again saved Europe. D’Abernon noted in his diary that “[t]he Experts Report has many merits. Among others this one—that it is regarded by the

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97 As late as 5 April, Castle believed that a German refusal was more likely than a refusal from the French. Castle to Houghton, 5 April 1924, file 52, Castle Papers.

98 Literary Digest, 26 April 1924, pp. 10-12.
Americans as their child—they treat any criticism of it or any hesitation to apply it almost as an insult to the American flag.”

On 17 April, MacDonald urged Coolidge to make a public statement in support of the plan, explaining that such a statement might help European governments (i.e., Germany and France) who were in difficult circumstances because of elections “to do the right thing.” Hughes informed the British Ambassador, Sir Esme Howard, that Coolidge was waiting until he was assured that public opinion was favorable. On 22 April, with American public opinion having crystallized in favor of the plan, Coolidge gave a ringing endorsement to the plan as the basis “for a practical solution to the reparation problem.” America, Coolidge proclaimed, “was justified in looking at the results with great pride.” He acknowledged Germany’s willingness to cooperate and stated: “Nothing of more importance in Europe has occurred since the armistice.” Coolidge gave what amounted to a presidential endorsement to the anticipated 800 million gold mark loan ( $200 million) in stating that not only would American private capital participate in the loan but also that “there were sound business reasons” to do so.

Coolidge further noted that adoption of the Dawes Plan “would benefit trade and commerce” and, courting the Midwest farm vote, specifically noted agricultural exports. In accordance with the Federal Reserve policy, Coolidge noted America’s “notorious” growing accumulation of gold and promoted greater international loans and investments by suggesting that some of America’s gold “can be used more to our greater financial advantage


100 Kellogg to Hughes, 17 April 1924, FRUS 1924 II, pp. 12-13; MacDonald to Sir E. Howard, 18 April 1924, no. 439, DBFP XXVI, p. 648, n. 5.
in Europe than it can be in the United States.” Coolidge expressed hope for a further
disarmament conference and a hope that disagreements could be settled through the Hague
Tribunal or the International Court of Justice.101

Coolidge and Hughes had taken a political gamble in allowing American participation,
albeit by “non-official” experts, in the attempt to solve the European reparation crisis without
involving the issue of war debts, and it had been successful. For Germany the benefit of
Coolidge’s speech was that the administration was now politically committed to the
successful implementation of the Dawes Plan, which had left many issues for later resolution
for which Germany would need American help.102

Poincaré’s overall goal was to maintain as much of his productive pledges, including the
coal tax and the custom barrier, for as long as possible. He also sought to maintain military
forces in the Ruhr, and to maintain control of the Régie. Those interests that he might have
to give up he hoped to trade for concession in war debts owed to Britain and the United
States. He wanted British agreement that if Germany defaulted, Britain would join France in
a reoccupation of the Ruhr or at least allow unilateral French action. His initial intended
tactic was to stall the acceptance of the report in the Reparation Commission, but was
convinced by Barthou that France would be isolated if it attempted to delay a vote in the
Reparation Commission. On 11 April Barthou achieved a compromise with Bradbury and
the Reparation Commission accepted the experts’ report, approving the conclusions and

101 Excerpts from a speech delivered by President Coolidge at the Annual Luncheon of

102 Von Maltzan to Wiedfeldt, 26 April 1924, Nr. 44, ADAP X, pp. 112-13, n.3;
Wiedfeldt to AA, 28 April 1924, Nr. 123, Büro RM-USA, R28489, D619344, p. 496.
Wiedfeldt noted that the opinion of the whole land stands behind the plan and that it is a
triumph for the administration.
methods of the report insofar as they were within its jurisdiction but only recommending those conclusions relating to matters that fell under the authority of the Allied governments.  

With the French election scheduled for 11 May, Poincaré could not afford to allow the Dawes report to be seen as a diplomatic defeat for France. At a speech at Luna Park on 15 April, he pointed out that the Dawes report demonstrated that Germany could pay reparations that would eventually rise to a sum greater than that proposed by Bonar Law in 1922. He noted that since it did not fix a final sum, France could exchange the C bonds for inter-Allied debts. France also could only be asked to exchange its present productive pledges against other more remunerative payments, but only after Germany had put into execution a definite plan. Furthermore, there was no question that France would withdraw from the Ruhr before payment of the share due to France. France retained the right to impose sanctions in the case of the default and would hold on to the Régie, which would make it easier to impose them. Poincaré also insisted that in accordance with the Treaty of Versailles, German delegates could be heard by the Reparation Committee but could not be called into consultation.

Poincaré’s reply to the Reparation Committee on 25 April reflected this program. Poincaré insisted that Germany pass unconditionally all the necessary legislation for review by the Reparation Commission before the commission gave its approval to the Dawes Plan. Similar to the procedure at Versailles, Germany would be allowed to be heard but not to

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104 Crewe to MacDonald, 16 April 1924, Nr. 434, DBFP XXVI, pp. 641-42.

105 Crewe to MacDonald, 21 April 1924, no. 441, DBFP XXVI, p. 650.
negotiate. The governments involved would also have to give approval to the German laws. Furthermore, the governments would have to decide among themselves which productive pledges held by the French and Belgian governments could become the object of a fusion or of an exchange for the pledges to be handed over to the Allies.\footnote{Crewe to MacDonald, 25 April 1924, no. 445, \textit{DBFP} XXVI, pp. 654-55; Hoesch to AA, 25 April 1924, Nr. 41, \textit{ADAP} X, pp. 104-7.}

In an interview with Crewe on 26 April, Poincaré asked that Britain approve the resumption of economic and industrial controls of the Ruhr as a sanction if Germany defaulted, controls he was prepared to abandon if the Dawes Plan was implemented. Poincaré, however, insisted on maintaining a skeleton military force in the Ruhr in case of default. Poincaré indicated that he had heard from the French ambassador in Berlin that Germany would accept such a force. Crewe pointed out that three British governments had refused to admit the legality of the Ruhr occupation and that that policy was not likely to change. Poincaré also insisted on Allied representation on the railway board that would control the Rhineland-Ruhr railway system so as not to leave the French and Belgian troops “in the air.” When Crewe pointed out that this would have to be negotiated with Germany, Poincaré accepted the idea of negotiations as long as the Allies had the right to impose the system if negotiations failed.\footnote{Crewe to MacDonald, 26 April 1924, no. 449, \textit{DBFP} XXVI, pp. 658-60.}

In Berlin, D’Abernon immediately picked up on Poincaré’s statement that Germany would not raise any serious objection to the maintenance of a skeleton military force in the Ruhr after French and Belgian economic evacuation. He noted that at a speech at Magdeburg on 29 April, Stresemann had claimed that the all-inclusive clause of the Dawes
Plan, which threw the costs of military occupation primarily on France, would result in an early reduction of French troops and eventual total withdrawal. D’Abernon’s soundings in the German foreign office gave him the impression, perhaps derived from Stresemann’s line, that the foreign office considered Germany’s unity in financial, economic and administrative spheres as its first priority and that it was willing to leave the question of military occupation aside for the time being and wait for economic pressure on France to force the withdrawal of the troops. But they were well aware that German public opinion could change their views. ¹⁰⁸

Separating Belgium from France

Aware that Belgium was eager to find some compromise position to end the reparation crisis, Mac Donald attempted to separate the Belgians from France. Meeting with the Belgian Ambassador on 17 April, he insisted that the Dawes report be accepted in its entirety. He argued that to threaten Germany with sanctions would have a “psychological effect upon Germany which was thoroughly bad” and would simply strengthen the nationalist movement. He proposed that a better solution was to internationalize the problem of any future German default by involving the League of Nations. He also questioned whether the American loan could be obtained if Germany was under the threat of reoccupation as a sanction. He further informed the Belgian ambassador that Britain had no intention of wiping off the war debts owed to it. He warned that if the Allies did not accept the experts’ report, he would not continue “the passive attitude” of the previous British governments. He reminded the ambassador that Britain had always denied that the extent

¹⁰⁸ D’Abernon to MacDonald, 1 May 1924, no. 455, DBFP XXVI, pp. 668-69.
German default in 1923 justified the occupation of the Ruhr, that it never accepted the
legality of the Ruhr invasion; that it had protested against the MICUM arrangements; that it
opposed the Régie; and that it had not agreed the extension of powers taken by the Rhineland
Commission during the occupation. He also noted that Britain did not believe that the
Rhineland Commission was in strict accordance with the treaty and other agreements.
MacDonald, however, readily agreed to a Belgian proposal for a conference to settle
outstanding issues. He stipulated that it should be held in London, which would give the
British the “home court” advantage.  

MacDonald’s warning stiffened Belgian resistance when Georges Theunis, the Belgian
Premier, and Paul Hymans, the Belgian foreign minister, met with Poincaré in late April.
They resisted Poincaré’s demand for a gradual release of the economic control of the Ruhr
corresponding to German performance under the Dawes Plan and obtained his agreement
that the economic evacuation would begin once Germany had passed the necessary
legislation and the Reparation Commission had accepted it. They also resisted Poincaré’s
demand that the operation of the Transfer Committee, in which France held only one vote out
of six, be delayed for two years during which time the Reparation Commission, which
Poincaré hoped to dominate, would exercise the Transfer Committee’s powers and make sure
that no significant amount of cash would be allowed to accumulate, thus guaranteeing France
the maximum payment allowed under the Dawes Plan. The Belgians argued that such a plan
would end the possibility of obtaining the Dawes loan. No agreement was reached on
military evacuation of the Ruhr, although the Belgians questioned the utility of the current

109 MacDonald to Sir G. Grahame (Brussels), 17 April 1924, no. 436, DBFP XXVI, pp. 643-46.
level of troops. It was, however, agreed that some security for troops left in the Ruhr was necessary, but how the Régie was to be modified so as to provide security without impairing the economic activity of Germany was to be left for experts to decide. While not abandoning Poincaré completely, Belgium was no longer prepared to support his hard line.\textsuperscript{110}

When Theunis and Hymans visited Britain 2-4 May, they sought some compromise that would save Poincaré’s face since French elections were scheduled for 11 May. Taking a hard line, MacDonald asserted that since the Dawes Plan required Germany to accept conditions that went beyond the Treaty of Versailles, the workings of the plan would have to be discussed with the Germans. MacDonald also hinted that the international banking community would require military evacuation if a loan were to be obtained. Theunis asked for British agreement to sanctions consisting of boycotts of German goods or a naval blockade, the type of sanctions contemplated by the League of Nations. MacDonald would not accept specifying economic sanctions in advance; he was willing to involve the League of Nations’s moral authority. MacDonald pointed out that if Poincaré were confronted by a united front of Britain, Belgium and Italy, he would have to give way.\textsuperscript{111} MacDonald was clearly attempting regain the diplomatic initiative which France had held since the occupation of the Ruhr. Governing with the support of the Liberal party, MacDonald had limited opportunity to implement an ambitious domestic program, and his accomplishments would be measured by the success of his foreign policy.

The importance of splitting Belgium off from France was also recognized by Hughes,

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\textsuperscript{110} Crewe to MacDonald, 29 April 1924, No. 451, DBFP XXVI, pp. 661-64; Sir G. Graham (Brussels) to MacDonald, 29 April 1924, no. 452, DBFP XXVI, pp. 663-65.
\textsuperscript{111} MacDonald to Crewe, 2 May 1924, no. 456, DBFP XXVI, pp. 669-71; Schuker, \textit{End of French Predominance}, pp. 211-16.
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whose continuing concern was the ability to raise the American loan upon which the Dawes Plan depended. On 2 May, Kellogg, at Hughes’s request, informed Theunis and Hymans that the military occupation must not affect the ability of Germany to meet its reparations payments and that the Ruhr-Rhineland railway system would have to be incorporated into the German railway administration if a loan was to be raised. Hughes followed MacDonald in refusing to agree in advance to an economic boycott in the event of a German default. Hughes warned that if France and Belgium did not accept the experts’ report, they would forfeit “the last chance they would get of any assistance from the United States or any outside powers.”

Neither the United States nor Britain, which both looked forward to economic trade with Germany, wanted to see confidence in German economic stability impaired by the threat of economic sanctions if Germany defaulted. Hughes, like MacDonald, also had domestic political concerns. After Coolidge’s ringing endorsement of the Dawes Report, the administration could not afford politically to see it fail. But unlike MacDonald’s more public diplomacy, Hughes’s preference remained for quiet diplomatic maneuvering.

By the beginning of May, the controversial issues which would dominate the agenda of the London Conference had come into focus: the military evacuation of the Ruhr, the preservation of the Régie, the freeing of prisoners held by the French, the return of those Germans who had been expelled from the occupied territories, the nature of potential sanctions, the requirements for a loan, the powers of the Reparation Commission as opposed to the Transfer Committee, and the question as to whether or not Germany would be a participant in the conference. But before that conference could be held, May elections in

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112 MacDonald to Howard, 5 May 1924, no. 458, DBFP XXVI, pp. 676-77.
both France and Germany would alter the diplomatic scene.

The Elections in German and France

Stresemann, faced with elections on 4 May, immediately sought to capitalize on the publication of the Dawes report and made it the centerpiece of his campaign in an election where it was widely expected that the government coalition would lose representation in the Reichstag. The Dawes report, along with the yet-to-be-ratified American commercial treaty, represented the first major successes of Stresemann’s policy and allowed him to counter the criticism from the Nationalists for his termination of passive resistance. Stresemann argued that acceptance of the reparations and controls imposed by the Dawes report was preferable to the continuation of the occupation of Ruhr by France which threatened the unity of Germany.  

Most importantly, the Dawes Plan marked the re-involvement in European affairs of the United States, which Stresemann saw as essential to German prosperity and return to Great Power status. In a campaign speech at Magdeburg on 29 April, Stresemann reassured those who believed that Germany had been deceived by Britain and France in the past and who feared that Germany would ultimately not receive the benefits promised in the Dawes Plan. While he did not believe that Britain could do very much against France, the “participation of the United States suggested that the prospects would be carried through.” Stresemann also argued that since the proposed reparation payments covered all the German costs, France would be forced to move its troops out of the Ruhr because it would not be able to afford to

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keep them there.\textsuperscript{114} The prospect of an international credit of 800 million gold marks, which would come primarily from the United States, also led the \textit{Reichsverband der deutschen Industrie} to strongly endorse acceptance of the Dawes Plan and continue its financial support of the DVP.\textsuperscript{115}

Stresemann’s political dilemma was that his need to shore up support among the right wing of the DVP conflicted with his need to maintain a favorable opinion in the United States. In a major political blunder, he yielded to monarchist opinion in the DVP by including in the election platform a pledge to seek a republican monarch for Germany. The \textit{New York Times} immediately seized upon this with an editorial headlined, “Stresemann joins the Junkers.” Stresemann was forced to follow up with an interview with the \textit{New York Times} in which he defended himself by stressing the point that favoring a constitutional monarchy did not interfere with his loyalty to a republican form of government.\textsuperscript{116}

From the Berlin embassy, Robbins reported that nationalism was on the rise, noting that Ludendorff’s acquittal and Hitler’s light sentence reflected the strength of nationalist sentiment. He reported that the DNVP was gaining support at the DVP’s expense and that Stresemann was facing a serious political crisis. Von Schubert reassured Robbins not to take Stresemann’s monarchist comments seriously since they were made for domestic political

\begin{itemize}
\item \textsuperscript{114} Ibid. Speech at Magdeburg, 29 April 1924, p. 338
\item \textsuperscript{116} \textit{New York Times}, 1 April 1924, p. 20, and 5 April 1924, p. 1; Press Statement, 4 April 1924, H155490, NL Stresemann Bd. 8, PA-AA.
\end{itemize}
consumption. Nevertheless, Castle termed Stresemann’s action “the most amazing political statement on the part of a responsible minister which I have ever heard.” Castle was concerned that the fall of the French franc, while making France more willing to compromise, might have led the Germans to believe that if they held out long enough they could “avoid paying much of anything in the way of reparations.” Castle felt that this attitude could be reinforced by the fact that British Labor appeared to be friendlier to Germany than the Baldwin government had been. Castle thought that Germany was now more likely ultimately to refuse the Dawes Plan than was France. All this reinforced the State Department’s negative impression of Germans as being psychologically “an amazingly stupid crowd.”

Although the Dawes Plan represented a real success for Marx and Stresemann, the plan could not save the Marx government from a major defeat in the 4 May election. There was a swing to the extremes with the Nationalists (DNVP) emerging as the largest party, with 106 seats, and the Communist Party, with 62 seats, gaining at the expense of the SPD, whose seats were reduced from 171 to 100. The middle class parties that comprised the government all lost seats. The government’s advocacy of the Dawes Plan was not decisive in the

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117 Robbins to Castle, 2 April 1924 and Castle to Houghton, 5 April 1924, file 52, Castle Papers. Wiedfeldt in Washington was horrified at Stresemann’s comments. Never missing a chance to have a go at his political rival, Wiedfeldt wrote to President Ebert complaining of the difficulties made by Stresemann’s speech in pressing Germany’s case in the United States. Stresemann angrily denied ever having spoken in favor of a monarchy and challenged Wiedfeldt to show where in the speech such words could be found. Wiedfeldt replied that it was not a matter of what Stresemann actually said in Hanover, but rather the impression made on foreign correspondents. The ambassador noted that, as per his instructions, he had worked with great care for two years to build good will in the U.S. and Stresemann’s speech has made a very bad impression on American politicians, businessmen, intellectuals and church groups. Stresemann to Wiedfeldt, 26 May 1924, H155822, and Wiedfeldt to Stresemann, 20 June 1924, H155988, NL Stresemann.
election, which reflected the multiple economic grievances that resulted from passive resistance and inflation. The SPD losses stemmed from the high levels of unemployment and the SPD’s acceptance of the loss of the eight-hour workday and other labor rights that accompanied the emergency decrees, as well as poor economic conditions. The Nationalist gains reflected the anger over Germany’s humiliation at the hands of France but also stemmed from such domestic issues as the layoff of large numbers of civil servants, middle class anger over the devastating effects of the inflation, higher taxes, and the failure to stabilize the currency at a higher level, as well as disappointment over the failure of the government to provide a higher revaluation of government bonds widely held by the middle class.  

After the election the Marx cabinet questioned whether it could remain in power but decided to stay in office until the Reichstag reassembled in June. The Nationalist’s gains in the election raised British anxieties regarding final German acceptance of the Dawes Plan. Geoffrey George Knox, the British chargé in Berlin, met with von Schubert to express his concern that the German Nationalists would insist on attaching conditions to the German

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118 The DVP was reduced by almost one-third, to 44 seats; the Bavarian People’s Party (BVP) had 16 seats; the DDP dropped to 28. The Center Party underwent only a minor loss, to 65 seats, as Catholic members of Catholic labor unions remained faithful to the party. The far-right German Racist Freedom Party won 32 seats. A cogent analysis of the election results can be found in Maier, *Recasting Bourgeois Europe*, pp. 450-58, with a table of popular votes on p. 450 and table of party seats gained on p. 456. Maier’s view that the election results did not hinge on the Dawes Plan but rather on domestic issues is also supported by Kent, *Spoils of War*, p. 255, who points out that although the Nationalists officially disapproved of the plan, during the campaign they equivocated or avoided the issue, especially after the *Reichsverband der Deutschen Industrie* favored acceptance of the plan. Stresemann told D’Abernon that the swing to the political right could be attributed to hatred of the Jews and the French. The growing anti-Semitism reflected the belief that Jewish speculations had profited at the expense of other Germans during the inflation. D’Abernon, *Ambassador of Peace III*, p. 57; Feldman, *The Great Disorder*, p. 780.
acceptance of the Dawes Plan. The reorganization of the German railway system called for in the Dawes Plan required modification of the German constitution, which needed a two-thirds majority vote in the Reichstag, a majority that could not be achieved without some Nationalist votes.

Von Schubert, thumping the table, replied that “by hook or by crook,” Germany would accept the report. If necessary the Reichstag would be dissolved and new elections held or Germany would hold a referendum. Knox’s concern was that any failure of the new Reichstag to accept the report would be “unfavorably regarded outside of Germany and even if a referendum were successful it would reveal a large block of irreconcilable opinion definitely opposed to acceptance” which would make foreign impressions of Germany even worse.\(^{119}\)

Hughes shared the British concerns. With the nature of the future German government uncertain, he wanted to know if he could rely on German acceptance of the Dawes Plan. Houghton, having been told by German Nationalists that they would ultimately have to accept the Dawes Plan, informed Hughes of the likely acceptance of the plan. Houghton, however, wanted reassurance from Stresemann. On 13 May, Houghton reminded Stresemann that German acceptance of the Dawes Plan without reservations was essential to obtaining a loan from America. Stresemann promised Houghton that the plan would eventually be accepted, by new elections if necessary or by a referendum. Stresemann then took the opportunity to push for American pressure on France by telling Houghton that unless Germany obtained from France “a clear understanding as to the date on which the

\(^{119}\) Knox to MacDonald, 10 May 1924, no. 466, DBFP XXVI, pp. 690-91; Sthamer to AA, 2 May 1924, Nr. 55, ADAP X, pp. 138-39; Aufzeichnung des Ministerialdirektors von Schubert, 20 May 1924, Nr. 91, ADAP X, pp. 225-27.
Ruhr would be evacuated,” the German government could “not withstand public opinion.”\textsuperscript{120} When the German cabinet met on 15 May, it decided that since the SPD was unwilling to enter the government unless the eight-hour workday was restored, it would have to negotiate with the DNVP in hopes of forming a majority government.\textsuperscript{121} This further alarmed Houghton who, meeting with Stresemann again on 19 May, noted that he “could not shake off a strong sense of anxiety” when he reflected on the DNVP’s announcement that they did not regard the decision of the Marx government to accept the Dawes Plan without reservations as binding on them. Houghton again warned that the essential American loan could not be obtained in such an uncertain political situation.\textsuperscript{122}

In the political negotiations regarding the DNVP joining the government, the Nationalists overreached and demanded that Admiral Alfred von Tirpitz be given the chancellorship and that modifications in the Dawes Plan be made. The Center party rebelled at this and made it known it would not enter a government under Tirpitz’s leadership.\textsuperscript{123} Knox attempted to aid Stresemann in his party struggles by informing him that Tirpitz’s appointment as chancellor would be poorly accepted in Britain, where he was held responsible for the unrestricted submarine campaign during the war.\textsuperscript{124}

\textsuperscript{120} Stresemann, “America and the German Elections,” Diaries, p. 342; memo, 13 May 1924, H155680, NL Stresemann.

\textsuperscript{121} Ministerbesprechung, 15 May 1924, Nr. 199, Die Kabinette Marx I, pp. 633-39.

\textsuperscript{122} Stresemann, “Houghton again visits Stresemann,” Diaries, pp. 344-45; memo, 19 May 1924, H155739, NL Stresemann.

\textsuperscript{123} Stresemann, “The Future Cabinet,” 13 May 1924, Diaries, pp. 342-44; Ministerbesprechung, 16 May 1924, Nr.201, Die Kabinette Marx I, pp. 640-43; Berg, Vereinigten Staaten, p. 198.

\textsuperscript{124} Knox to MacDonald, 20 May 1924, No. 471, DBFP XXVI, p. 701-2. At the same time France fueled Nationalist opposition by requisitioning a number of public buildings in
The German government, hoping to attract Nationalist support, sounded out the Americans and British as to what flexibility the government had in offering concessions to Nationalists demands. Von Schubert discussed with Knox the possibility of attracting Nationalist support for the government by adding a qualification to the German acceptance of the Dawes Plan asking for military evacuation of Düsseldorf, Duisburg and Ruhrort, the three cities occupied under the London Ultimatum sanctions of 1921, as well as the Ruhr. When Knox replied that Germany would be ill-advised to raise this issue, von Schubert, himself, had to agree that it was necessary to allow France to save face on this issue.\textsuperscript{125}

When Stresemann met with Houghton on 19 May, he raised the question of German prisoners held by the French and the thousands of Germans who had been expelled from the occupied territories. Houghton replied that it was not possible to accompany the report by any reservations and offered only the comfort that the moral argument would be understood in America.\textsuperscript{126} With little to offer the Nationalists, the cabinet on 26 May submitted its resignation to President Ebert, who asked that it continue to carry on for the time being. Marx continued to negotiate with the Nationalists, who now agreed to have Marx continue as chancellor but refused to accept the Dawes Plan unconditionally.\textsuperscript{127}

Houghton, surveying the scene, informed Castle that most likely Marx would form a new


\textsuperscript{126} Stresemann, Diaries, pp. 344-45; memo, 19 May 1924, H155739, NL Stresemann.

\textsuperscript{127} Stresemann, Diaries, p. 345; Ministerbesprechung, 26 May 1924, Nr. 209, Die
cabinet and that the Dawes Plan would be accepted. He did not believe that the Nationalists “ever seriously considered rejecting the plan.” But while the middle parties would accept it unconditionally, the Nationalists wanted conditions. Houghton felt party politics were getting tiresome. “There seems to be no large sense of obligation to the country. Everything is based on party interest.”

Marx continued to negotiate with the Nationalists until 2 June. The Nationalist asked for Stresemann’s replacement as Foreign Minister. For four days Stresemann’s fate was undecided until Marx and Karl Jarres, the leader of the right-wing faction of the DVP, ended negotiations when the Nationalists further demanded the end to the Great Coalition government of the State of Prussia. A new minority government consisting mostly of ministers of Marx’s first cabinet, including Stresemann as foreign minister, was approved by the Reichstag with SPD support on June 6. But it was a government that remained hostage to pressure from the Nationalists since the support of some of their members was necessary for the two-thirds majority to pass the Dawes Plan.

Houghton, meeting with Stresemann on June 4, once again wanted reassurance that the plan would be accepted. Optimistically, Houghton told Stresemann that he was positive that once the plan had been accepted and France realized that it would obtain its share of reparations, the military occupation would have to end. Houghton, attempting to managing

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128 Houghton to Castle, 28 May 1924, file 52, Castle Papers.

129 Kabinettssitzung, 3 June 1924, Nr. 213, Die Kabinette Marx I, pp. 675-76; Stresemann, Diaries, p. 405; D’Abernon, Ambassador of Peace III, p. 68; Turner, Stresemann and the Politics of the Weimar Republic, p. 168; Maier, Recasting Bourgeois Europe, pp. 455-58.
Germany’s public relations and repair some of the damage to American and world opinion caused by the election, asked Stresemann to make some statement that “a new era was approaching, but that it could only bring peace to Germany if it were supported by a renewed confidence in Germany.” Stresemann dutifully accommodated Houghton in a speech at Dessau on 19 June. D’Abernon noted that while the Nationalists were divided as to their future policy, they were united in disappointment at “being out in the cold” and intended to make full use of their freedom. His assessment was “Solution attained --although admittedly of precarious duration.”

In the 11 May election, the Bloc National coalition headed by Poincaré was defeated by a coalition of left-oriented parties, the Cartel de Gauche led by Edward Herriot who headed the Radical Socialist Party. Herriot and the Radical Socialists had gradually moved away from Poincaré’s policy when the end of German passive resistance failed to produce the promised benefits for France. In January they broke with Poincaré by voting against his foreign policy.

While opposition to Poincaré’s foreign policy played a role in his defeat at the polls, domestic issues also played a large role in the outcome. The fall of the franc with resulting inflation and the high indirect taxes imposed by the double décime angered the working class. The turnover taxes hit the small businessmen who formed much the Radicals’ base of support. Economy measures imposed by Poincaré resulted in layoffs of government employees.

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130 Aufzeichnung, 4 June 1924, Nr. 122, ADAP X, pp. 294-96; Stresemann, Diaries, p. 347; Dessau speech, p. 352.

131 D’Abernon to MacDonald, 4 June 1924, no. 481, DBFP XXVI, pp. 713-14.
The Left also indicted the Bloc National for its clericalism. The cartel won a clear victory in seats but not in votes. The election represented a protest vote rather than a reflection of confidence in the cartel itself. The new majority was prepared to accept an American reconstruction of Europe and an end of the turmoil of the reparation crisis through the Dawes Plan. But Herriot’s government, which would not take office until 15 June, was dependent on the support of moderate republicans who shared much of Poincaré’s thinking but did not want to break with the Radicals, which limited how far Herriot could go in sacrificing Poincaré’s position vis-à-vis Germany. American and British diplomacy thus confronted a situation where both German and French foreign policy options were limited by the more nationalist elements in their nations.\(^{132}\)

While the United States election would not take place until November 1924, the Republican convention opened on 10 June. Coolidge, who had been perceived as a weak president since he assumed office, dominated the convention. The outstanding question was the choice of a vice presidential candidate. Coolidge wanted a vice-presidential candidate from the progressive wing of the Republican Party in the Midwest, to counter Robert LaFollette.\(^{133}\) The choice fell on Frank Lowden, governor of Illinois, who was nominated on the second ballot. In a major surprise, Lowden declined the nomination. In the confusion

\(^{132}\) For an analysis of the election results see Maier, *Recasting Bourgeois Europe*, pp. 458-80, with a useful table of election results on p. 476. See also Krieger, *Poincaré*, pp. 308-10, who notes that the Second Internationale organized collections in Austria, Britain, and Germany to fund the Socialist election campaign, an indication of the international hostility of the Left to Poincaré’s policies. Jeannesson, *Poincaré, la France et la Ruhr*, p. 399-400; Wright, *France in Modern Times*, p. 341.

that followed Dawes was nominated, defeating Hoover on the third ballot. In an election that was charged with domestic political scandal, Coolidge wanted to tout Republican foreign policy successes. Dawes would serve that purpose nicely and Coolidge would use Houghton as well to actively campaign for him among German-American voters.

Wiedfeldt notified the Auswärtige Amt that he questioned how much of a benefit Dawes would add to the ticket since he was not liked by workers and the farmers, and that leading Republicans were not happy with him as he is “acclaimed more than his work deserves.” Wiedfeldt recommended that Germany recognize his nomination but “not celebrate it.” Nevertheless, the selection of Dawes heightened American interest in the Dawes Plan, thereby strengthening the Coolidge administration’s interest in seeing it successfully implemented before the November election and being willing to use American pressure to see that it was.

Conclusion

The Dawes Plan provided a major turning point in the diplomatic history of the 1920s. It was the product of complex diplomatic, political, and economic negotiations. The Dawes Plan provided a possible detailed framework for a compromise that aimed to end the persistent crisis over reparations. It proposed the mobilization of American capital for the reconstruction of Europe, the prospect of which was vital in achieving unanimity in the final report. In exchange for the reestablishment of the economic unity of Germany it offered


135 Wiedfeldt to AA, 14 June 1924, Nr. 168, Büro RM-USA, D619385, p. 18.
France guarantees of future reparation payments above what it was able to extract from its occupation of the Ruhr. The plan allowed, through its silence, the French security priorities of maintaining a military occupation and some control of the railway system to remain an open question with the understanding that these measures should not interfere with German economic life. The crucial issue regarding the military occupation of the Ruhr would have to be settled later at the London Conference. Reparation payments were set at a level that most regarded as too high, but transfer mechanisms provided a check on excessive payments.

The United States accomplished its primary goals. The Dawes Plan set Europe on a course towards resolution of its crisis, thus vindicating the foreign policy of the Republican administration during an election year. It did so while avoiding any discussion of revision of war debts and preserving American claims for its occupation costs. The United States preserved its freedom of action and avoided any “European entanglement.” The United States succeeded in its goal of stabilizing Germany’s monetary system on a gold standard rather than on a sterling basis. The plan offered the prospect of a more peaceful and prosperous Europe which would benefit the American economy.

For Germany, the primary importance of the Dawes Plan was the decisive return of the United States to Europe and its involvement in Germany, whose recovery was seen by the United States as essential to the recovery of Europe. This in turn promised the reintegration of Germany into Europe with the hope of a future return to Great Power status. It provided Germany with the hope for a better future. When the situation of Germany in October and November 1923, when it was threatened by dismemberment, revolt and the loss of economic sovereignty via the MICUM agreements, is compared with that of April 1924, Germany was far better off. Its currency had begun to stabilize and the plan offered further stabilization.
through a large loan. The standard of living, which had been devastated by inflation, was beginning to improve as the currency again began to have value. The Gold Discount Bank diminished separatist and autonomist sentiment in the Rhineland, thereby removing the threat to political unity. The Dawes Plan was predicated on the return of economic unity to Germany. An atmosphere of hope for a better future was created.

While Germany had to accept high reparation payments along with international controls, these represented the lesser evil compared to continuation of the French occupation. The annual reparation payments were less then those of the London Schedule and the plan promised the end the system of exploitation of productive pledges. The requirement that sanctions only be applied in case of flagrant default protected Germany against an imposition of later sanctions. The all-inclusive feature of the payments would mean that France would have to pay its occupation force in Germany at its own expense. France would have to weigh the security advantage provided by its military occupation of Ruhr against the costs of providing for it.

While the Marx government paid a price in the May elections for the domestic problems Germany had suffered through since September 1923, it was in large measure able reconstitute itself and could look forward to negotiating with a France led by Herriot and not Poincaré.

Nevertheless, in June 1924 the plan was not completely assured of success. Many details remained to be settled and the United States and Britain faced the task of forcing a German-French compromise which offered Germany enough to attract the necessary support to carry through its legislative implementation. Germany had not been formally involved in the construction of the plan and to that extent its critics would call it a second Versailles. In
reality, however, it looked forward to the beginning of a revision of the Versailles system as interpreted by France under pressure from the United States and Britain.\textsuperscript{136}

How much of its security position France would be able to maintain at the upcoming London Conference remained to be determined. The Dawes Plan was only a plan. It still had to be accepted by the governments involved and the loan had to be secured. There was no agreement on the French military occupation, the fate of the \textit{Régie}, amnesty of prisoners, return of the expellees, the relative powers of the Reparation Commission and Transfer Committee, or the role Germany would have in these negotiations. These controversial issues would have to be settled among the powers, but because of the promise of the Dawes Plan and the American involvement with it, the negotiations would take place in an atmosphere where world opinion was expecting a settlement. This expectation would facilitate American and British efforts to push Germany and France into a compromise both could accept.

This examination of the internal deliberations that created the Dawes Plan also offers the opportunity to examine the utility and limitation of the corporatist synthesis model in a specific case setting of international history. In reference to the 1920s, advocates of the corporatist model view Herbert Hoover as “the central figure in efforts to implement this brand American brand of corporatism.”\textsuperscript{137} One aspect of corporatism as described by Hogan is the reliance of policy makers on experts drawn from academic circles. Another

\textsuperscript{136} For a discussion of the domestic discussion over the Dawes Plan in Germany, see Kurt A. Holz, \textit{Die Diskussion um den Dawes- und Young-Plan in der deutschen Presse} (Frankfurt/Main: Haag + Herschen Verlag, 1977), pp. 35-58.

\textsuperscript{137} Hogan, \textit{Informal Entente}, p. 3.
feature is that decision making is bureaucratized, thus constraining the freedom and power of the individual in decision making. This implicitly de-emphasized the personal characteristics of the individual.\textsuperscript{138} This de-emphasis is noted by John Lewis Gaddis in his skeptical analysis of corporatism.\textsuperscript{139}

At the organizational level the workings of the Dawes committee do not fit well into the corporatist paradigm. Dawes was chosen to head the experts committee precisely because he was known for ignoring the consideration of the details in favor of action. Sir Josiah Stamp noted that the personality of Dawes himself, who was noted for “his prompt action, vigorous and picturesque speech,” as well as keeping himself free from detail, allowed him to serve as a “final court judgment” in the deliberations of the committees.\textsuperscript{140} The advice of the American technical experts who were noted by Dawes as being “for the most part were drawn from the organization of Herbert Hoover, who should always live in history - and that perhaps is the best statement to make in order to explain their qualifications” was devalued and disregarded in favor of political compromise.\textsuperscript{141}

While consideration of economics, domestic politics and geopolitical issues remain essential for diplomatic history, attention should be given to the individual personalities of

\textsuperscript{138} Michael J. Hogan, “Corporatism: A Positive Appraisal,” \textit{Diplomatic History} 10 (Fall 1986), pp. 363-72.


\textsuperscript{140} Dawes, \textit{Journal}, “Forward by Sir Josiah Stamp.” p. xiv.

\textsuperscript{141} At the highest levels of decision making there was little evidence of a “corporatist synthesis.” Coolidge said of Hoover, whom he personally disliked, “That man has given me nothing but advice, and all of it bad.” Robert Sobel, \textit{Coolidge}, p. 142.
essential actors. The weapons which Montagu Norman had to defend the pound were 
weak and he had to rely on what he termed “personal influence” to attain his ends. The 
importance of the individual was noted by Dawes, who observed that meetings with 
personalities such Norman and Schacht “face to face with actual conditions” played an vital 
role in the decisions.

While the nature of the task of the Dawes committee was economic, its economic 
rationalization was compromised by political considerations outside the realms of 
economics, most specifically the security interests of France. A more multifaceted approach 
than that of corporatism provides a more useful analysis for the study of international crises 
with multiple interacting actors.

The Dawes Plan was created in response to an international crisis. Michael H. Hunt 
suggests that it is useful to recognize that “participant nations will view the crisis from their 
own perspective and framework and will tend to conceptualize the other participants from 
that framework.” In is therefore necessary to understand the interaction of these 
frameworks during a crisis and how each participant struggles to understand and accept 
compromises that stem from the framework of other actors and the immediate necessities of 
the crisis.

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145 Michael H. Hunt, “Internationalizing U.S. Diplomatic History: A Practical Agenda,”
Introduction

The London Reparation Conference of July and August 1924 was called to complete the work of Dawes Plan and put it into operation. It was the largest international conference since Versailles. It was also the first time since 1919 that United States had taken part in a diplomatic conference settling European affairs. At one level the meeting worked out the economic details of the Dawes Plan and at another, and more important political level, it settled the Ruhr crisis.

France and Germany struggled over the issue of the ending of the military occupation of the Ruhr, the future ability of France to apply sanctions on Germany, and the nature of their economic relationship. Germany sought revision of the Versailles framework while France tried to keep Germany in check so as to maintain its dominant position in Europe. Both France and Germany had to struggle with domestic nationalistic opinion that opposed compromise. The United States and Britain, each with their own political needs, would serve as mediators attempting to forge a compromise between Germany and France. Not an official part of the conference, but crucial to its success, were the bankers who would have to underwrite the loan to Germany upon which the Dawes Plan depended and who had own their views of a political settlement that would make the loan viable. At stake was the nature
of the United States’ relationship with Germany and the future of Europe.

This chapter examines the interaction of various actors in producing the final settlement and the role that the United States played in the settlement. It recounts how U.S. influence was exercised, officially and unofficially, how important was it, and what were its consequences. It also examines German diplomacy—how well the Germans played their hand, how much of their revisionist program they were able to obtain, and what it all meant for the future of Germany. In addition, this chapter considers the questions of what the Dawes Plan meant for Britain and its relations with France, Germany and the United States; and what results were for international relations in general and the prospects for Europe in the 1920s.

There have been few detailed studies of the London Conference. Stephen Schuker’s major study of the Dawes Plan and the London Conference, *The End of French Predominance in Europe*, stands out as the definitive work to date and is a necessary reference for anyone engaging the topic for the wealth of material he has gathered. But whereas his work focuses on France, his examination of the conference places the emphasis on the German-American relationship. Historians who have examined the conference in larger studies have reached varying verdicts regarding the conference. There is almost unanimity that the conference marked a defeat for France, but these studies differ in emphasis as to the causes of the France’s defeat and as to its implications.

Schuker sees French financial weakness as its primary weakness. He credits Stresemann for his skillful tactics at the conference but does not like its results. He views the London Conference as marking the loss of France’s ability to contain Germany and suggests it began a line of revisionism that could not be contained “within the confines of Europe’s exiting
political structure.”¹ Sally Marks, who also views the conference as a turning point, sees a “wily” Stresemann and an “underrated MacDonald” as having “ganged up” on a disorganized and idealistic Herriot and also sees the American bankers as having “dictated” the terms of the conference and being “concerned chiefly of getting maximum security for their money.”² Walter MacDougal’s view is that given the strength of the French position in November 1923, the London conference can only be seen as a “crushing defeat for France.”³ Writing from the British perspective, O’Riorden sees the London Conference as a triumph for the British position, but views Herriot’s willingness to compromise as the reason for Britain’s success. The role of America receives less attention and she believes that it is open to debate whether the British would have been so successful had Poincaré been at the helm of France.⁴ Historians whose studies have dealt with Stresemann view the outcome more favorably. Henry A. Turner sees the negotiations as convincing Stresemann that rapprochement with Britain and France was the pathway for German revision of Versailles. Jonathan Wright views the conference as a major success for Germany and emphasizes that it marked “the moment when Germany again met the Allies on equal terms and began to be treated as a more as a partner than an ex-enemy.”⁵ Manfred Berg characterizes the results of the London

¹ Schuker, The End of French Predominance, p. 393.
³ McDougall, France’s Rhineland Diplomacy, p. 369.
⁴ O’Riordán, Britain and the Ruhr Crisis, pp. 171-72.
Conference as confirming the correctness of German, as well as American policy. Stresemann’s difficult strategy of holding out for American intervention and a multilateral solution was crowned with success at London. Despite the compromises demanded by America, Berg views the London Conference an “extraordinary success” for Stresemann and Germany, opening the way for Stresemann’s revisionist policies.⁶

For Werner Link, whose study of American policy toward Germany emphasizes the economic determinants, the German and American success at London was based on parallel economic interests in stabilization and reconstruction which led to Germany’s integration into the western capitalist system. As the price of this integration, Germany would obtain revision to the Versailles system with freedom from coercion, greater sovereignty and equal rights as a state. This parallel economic interest, in which American bankers wanted to make loans and Germany wanted to borrow the money, led to American advancement of German political interests at the conference. For Link, London is also a turning point where the American role as a balancer in European affairs is institutionalized and Germany is transformed into an economic check on France by the British and American bankers. As a result, the intervention by the United States created a period of stabilization allowing for economic penetration of Germany and its development as a market for American overproduction.⁷

All these interpretations view London as a turning point. Many of them explicitly or implicitly make judgments regarding the winners and losers of the conference. Given the

position of Germany before and after the conference, for them the conference was a clear success, despite the grumbling of Stresemann afterwards. For the United States, the conference also was a success, opening the way for a fuller engagement with Europe. This chapter will examine the supposition that perhaps the London conference was success for all the participants, including France which retained possibilities for a reconciliation with Germany. This study will address these interpretations and examine the possibilities for Europe that existed at the time.

Prelude to the London Conference

Since the Dawes Plan had left open important political questions, Edouard Herriot, who had assumed the duties of President of the Council and Foreign Minister of France on June 15, was anxious to meet with British Prime Minister Ramsay MacDonald to diminish the conflicts regarding Germany and to establish better relations with Britain. When the meeting took place at Chequers on 21-22 June, MacDonald was able to obtain Herriot’s agreement to an inter-Allied conference to establish the necessary arrangements for putting the Dawes Plan into operation. In addition to Belgium, Italy and Japan, the United States would also be invited. After the conference reached agreement Germany would be invited to attend, but not, MacDonald insisted, “in order to be confronted with a document definitely settled which she shall be required to take or leave, but to meet the allies in conference for discussion and negotiation.” MacDonald proposed a reciprocal and binding protocol with Germany by which, once Berlin had completed the necessary legislative measures, all fiscal and economic sanctions would be withdrawn. Herriot accepted the proposal reserving only the sensitive issue of the railways. Thereby Herriot abandoned the strict adherence to the Versailles
framework which had characterized Poincaré’s policy.

When MacDonald raised the question of adequate guarantees for the American loan, Herriot acknowledged that evacuation might be necessary and offered to withdraw the military in proportion to the commercialization of the German railway and industrial bonds called for in the Dawes Plan. Withdrawal would thus only take place as France was paid. But since it would be almost impossible to find buyers for the bonds given the conditions in Germany, MacDonald found it easy to dismiss the idea. MacDonald conceded that Britain would not object to a skeletal occupation of a few key points provided it was not an aggressive presence, but insisted that Britain would not agree to establishing in advance definite sanctions that Germany would face for a flagrant default.

He then addressed the powers of the Reparation Commission. He maintained that since the Dawes Plan required German agreement to measures beyond those specified by the Treaty of Versailles, the Reparation Commission did not have the legal power to declare a default. He suggested that a financial committee of the League of Nations might be brought in for that purpose. Herriot demurred on this issue and no agreement was reached.8

When Herriot explored what France might receive in exchange for giving up its position in the Ruhr, MacDonald would offer little. When Herriot brought up the issue of France’s war debt to Britain, MacDonald took a hard line and disavowed Bonar Law’s offer to ask of the Allies and Germany only what it had to pay to the United States. MacDonald also refused to offer any security pact, offering Herriot only a moral commitment for collaboration. He precluded these issues from the agenda of the conference. MacDonald had

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obtained significant concessions from Herriot while avoiding what Herriot wanted most, a French-British security pact and a reduction in the French war debts owed to Britain.⁹

Recognizing the importance of the United States to the settlement, MacDonald had informed the American ambassador, Frank B. Kellogg, on 18 June, that he would like to have United States participation in the conference and that the representative should be a figure of prominence whose presence would add influence.¹⁰ Hughes did not respond until 24 June, when he informed Kellogg that he would not welcome an invitation for the United States government to be represented at the London Conference. While conceding the American interest in having the Dawes Plan put into execution, Hughes did not want to involve the United States officially in what he continued to categorize as a European project. Logan could informally serve United States’ interests at the conference.¹¹

But before Kellogg could inform the British of Hughes’s position, MacDonald had already announced in Parliament that an invitation would be sent and Crowe had sent out the formal invitation. The invitation spoke of the “greatest importance attached by the Allied governments” to United States representation and called attention to the fact that the Dawes Plan was largely a product of American experts. More importantly, the plan was dependent on the Dawes Loan which would be predominantly raised in the United States.¹²

Kellogg reassured Hughes that MacDonald in his announcement of the conference to Parliament had clearly stated that the subject of inter-Allied debts would not be discussed at


¹¹ Hughes to Kellogg, 24 Jun 1924, FRUS 1924 II, p. 27.
the upcoming conference and added that he believed that an American refusal would have a “depressing effect” in Britain.” After consulting with Coolidge, Hughes decided in view of the attention the issue was already receiving in the press that United States could not afford to decline a public invitation and designated Kellogg as representative for the “purpose of dealing with such matters as affect the interests of the United States and for information purposes.” Logan was assigned to assist. Thus, the often-celebrated first official participation in an international conference dealing with the European reparation crisis by the United States did not come about because of any major change in policy, but rather through the accidental delay in the timing of diplomatic exchanges between the United States and Britain.

The State Department recognized that the likely results of the London Conference would be some form of a protocol “which would avoid the appearance of a treaty specifically modifying the Treaty of Versailles even if it had the practical effect of so doing.” Hughes instructed Kellogg that the United States was “not in a position to join in an undertaking to execute the recommendations of the Dawes report.” Hughes specifically did not want any protocol “necessitating submission to the Senate for advice and consent to ratification” since he believed that it “would involve delay which was important to avoid.” Hughes did not want a repeat of the fight over the Versailles treaty in an election year.

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12 Kellogg to Hughes, 24 Jun 1924, FRUS 1924 II, p. 27.
13 Kellogg to Hughes, 25 Jun 1924, FRUS 1924 II, p. 31.
14 Hughes to Kellogg, 25 Jun 1924, FRUS 1924 II, p. 31.
16 Hughes to Kellogg, 27 Jun 1924, FRUS 1924 II, pp. 32-35.
Hughes made it clear that the United States was not a party to economic and military sanctions and would not accept formal participation in a sanction protocol. He instructed Kellogg that the United States to was to use its “moral influence” to see the Dawes Plan executed “without the introduction of elements of political controversy which might tend to prevent satisfactory settlement.” The overall American objective was to be “promotion of the economic recuperation and recovery of just claims against Germany in such a manner as will render unnecessary impositions of sanctions as has been imposed in the past.” Therefore Kellogg “should do nothing by which it would be made to appear that this Government was participating in imposition on Germany of onerous conditions.” He should use his influence informally so that “measures of compulsion which may not flow from the plan and from its spirits be avoided.” Hughes’s ‘big stick’ was the American loan. He told Kellogg that while he could not express “the exact views and feelings” of the American investment community, he could “without involving this Government in any responsibility” informally indicate to the French that retention of measures which would amount to economic interference in the occupied territory would mean “on the basis of your knowledge of views of the American investment public, that under those conditions the loan could not be floated in the United States.”

Hughes did see a specific American interest in the proceedings at the scheduled London Conference. Since the Dawes reparation payments were all-inclusive, Hughes wanted to protect United States’s interest in having the costs of the American Army of Occupation and the American claims arising from the Mixed Claim Agreement reimbursed from German reparations. Both of these issues were important to Congress, and Hughes vigorously

\[17\text{Ibid.},\text{quotes on p. 34-35.}\]
maintained that these American rights were covered by the Treaty of Berlin. Hughes engaged in a back-and-forth correspondence with Logan as to how to best preserve the American claim in any protocol relating to the division of the all-inclusive German annuities among the Allies.\(^\text{18}\) Logan finally warned that any attempt to preserve these rights in a *note verbale* would only be regarded as another “bombshell by the French” and if France and Britain could not come to an agreement at the London conference, the United States could be improperly blamed for the conference’s failure.\(^\text{19}\) Hughes agreed to defer the issue until a meeting after the London Conference of the finance ministers.\(^\text{20}\)

In sending out the invitations to the London Conference, Crowe had made an admitted diplomatic blunder.\(^\text{21}\) Acting on Herriot’s concessions at Chequers, he stated that Britain favored a plan in which the terms of agreement would be signed by both the Allies and Germany and a fixed date would be set by which the legislation required by Germany would be completed and that two weeks later all the fiscal, economic and other sanctions affecting the economic activity of Germany would be ended. It also stated that the terms of the Dawes Plan went beyond the Treaty of Versailles and that the duty of deciding whether a flagrant default had been committed was not to be entrusted to the Reparation Committee but rather to the financial committee of the League of Nations. The French reaction to these

\(^{18}\) Hughes to Herrick (for Logan), 28 Jun 1924; Herrick to Hughes (from Logan), 2 Jul 1924; Hughes to Herrick (for Logan), 5 Jul 1924; Herrick to Hughes (from Logan) 5 Jul 1924, *FRUS* 1924 II, pp. 35-43.

\(^{19}\) Herrick to Hughes (from Logan), 8 Jul 1924, *FRUS* 1924 II, pp. 43-45.

\(^{20}\) Grew (acting Secretary of State) to Herrick (for Logan), 9 Jul 1924, *FRUS* 1924 II, p. 45.

concessions was predictable. The newspapers with the exception of those of the Left exploded with statements that Versailles had been “overthrown,” that the “rights of France” had been denied and that Herriot had been “tricked.”

Stresemann had been encouraged by what appeared to be the initial conciliatory attitude of the new Herriot government. As a “general act of grace,” Herriot, on 19 June, offered a partial amnesty of prisoners and granted permission for some minor German officials and employees who had been expelled from the occupied provinces to return. Uncertain as to Herriot’s policy and what understanding he and MacDonald had reached at Chequers, Sthamer in London attempted to press Crowe as to the nature of the French-British discussions. Crowe termed the inquiry “indiscrete” and refused to discuss the meeting. Sthamer, however, was able to glean from the press office of the Foreign Office that Germany would not simply be given an ultimatum but rather would participate in some manner. The press officer advised Sthamer that Germany should trust Britain, but acknowledged that Germany had been told that before only to be disappointed.

But after Herriot’s return to Paris and the French reaction to Crowe’s memorandum, Germany became more apprehensive regarding French policy. Under domestic pressure, Herriot began to retreat from the concessions he made at Chequers and informed Hoesch that the Reichstag would have to pass necessary legislation before the London Conference and

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22 Philpps to MacDonald, 6 Jul 1924, no. 503, DBFP XXVI, pp. 744-47, see n. 3 for survey of French press reaction.

23 Stresemann, Diaries, p. 351.

24 MacDonald to D’Abernon, 24 Jun 1924, no. 494, Enclosure Record by Sir E. Crowe of a Conversation with the German Ambassador, DBFP XXVI, pp. 735-37; Sthamer to AA, 26 Jun 1924, Nr. 157, ADAP X, pp. 394-97.
rely on French good faith for the French economic evacuation. Stresemann replied that if France wanted German legislation prior to the London Conference, Germany would need agreement on a protocol regarding the implementation of the Dawes Plan from the Allies, which would also include a fixed date for a military evacuation.²⁵

Stresemann, concerned that MacDonald might yield to Herriot’s demands, sought to stiffen the backs of the British. He told D’Abernon on 2 July, and argued that it was impossible to get a vote from the Reichstag before Germany had an agreement showing what Germany would obtain in exchange. Stresemann stated that he was willing to be flexible as to the date of a military evacuation, but needed a fixed date to obtain the necessary Nationalist votes. Stresemann also raised the issue of the evacuation of the three cities seized as sanctions in 1921 (Düsseldorf, Duisburg, and Ruhrort).

In the British foreign office, Crowe and Lampson advised that the issue of the three cites should best be left alone until more important issues were settled. The Foreign Office felt that at a time when an effort was being made in Paris to unseat Herriot it was not in British interests “to expedite the process.”²⁶ MacDonald, who had been informed of Herriot’s retreat from the understanding at Chequers, made it clear to Herriot that Britain would insist on a protocol formally pledging a date for the economic evacuation (the giving up of productive pledges) of the Ruhr, before the Reichstag took up the issue of passing the legislation that was necessary to implement the Dawes Plan. As soon as the legislation was passed, the protocol would be implemented and the economic withdrawal would begin. He


²⁶ D’Abernon to MacDonald, 2 Jul 1924, no. 499, BDFP XXVI, p. 740, with minutes by Lampson and Crowe (n. 7).
pointed out that it would be difficult enough to obtain a majority in the Reichstag even with the protocol. MacDonald warned that if Herriot persisted in his plan to have Germany pass the legislation prior to a protocol on economic evacuation, it would be impossible to achieve passage. Herriot’s position would “gravely imperil the success of the conference and endanger the whole prospect for a reparation settlement.”

The Paris Meeting, 8-9 July

By 6 July Herriot, caught between the uproar in the French press and MacDonald’s and Germany’s insistence on an evacuation protocol, asked that MacDonald meet him in Paris. Sir Eric Phipps, the British Chargé in Paris, strongly supported the meeting, informing MacDonald that Herriot was in danger of being overthrown and urging that he meet with Herriot to satisfy French *amore propre* and offer some support to Herriot. MacDonald agreed to meet with Herriot in Paris on 8 and 9 July.

Prior to that meeting, Stresemann strove to keep the pressure on Herriot. On 7 July, he informed Herriot that France’s demands that Germany pass the Dawes legislation prior to the London Conference was impossible for Germany to accept and was endangering the steps toward a new relationship between Germany and France. Germany could also not pass the necessary Dawes Law without an agreement for a military evacuation of the Ruhr. If France persisted in its demands, Stresemann threatened to resign as foreign minister.

Again on 8 July Stresemann, while expressing an understanding of Herriot’s situation

27 MacDonald to Crewe, 2 Jul 1924, no. 500, BDFP XXVI, pp. 741-42.

28 Phipps to MacDonald, 6 Jul 1924, no. 503, DBFP XXVI, pp. 744-47.

29 Stresemann to Hoesch (Paris), 7 Jul 1924, Nr. 186, ADAP X, pp. 466-68.
and a desire to work with France, insisted that a declaration of the timing of the military evacuation was absolutely necessary to get legislation through the Reichstag. In an effort to soften Herriot up for MacDonald, Stresemann increased the pressure by instructing Hoesch to make it clear to Herriot that if he maintained his present position, the German government would fall, the entire reparations process would collapse, and as a consequence Herriot’s own position would be endangered.\(^{30}\)

At the Paris meeting areas of disagreement immediately arose regarding the powers of the Reparation Commission as Herriot adopted much of Poincaré’s agenda. Herriot strove to maintain the integrity of the Treaty of Versailles and the powers of the Reparations Commission, maintaining that allowing “any wedge to be driven into the treaty” would “simply lead to war.”\(^ {31}\) He continued to insist that he would not sign a protocol with Germany and demanded that any economic evacuation of Germany take place only after the enabling German legislation had been approved by the Reparation Commission. Economic evacuation would then take place only as a concession by the Reparation Commission.\(^ {32}\) He also insisted on the undiminished power of the Reparation Commission to declare a default, offering only as a concession to the fact that the American bankers would provide the bulk of the loan, that an American could sit and vote with the Reparation Commission when an issue of default arose. MacDonald suggested that the Agent General of the Transfer Committee, to be set up under the Dawes Plan, could serve as an arbitrator.

\(^{30}\) Stresemann to Hoesch, 8 Jul 1924, Nr. 188, ADAP X, pp. 470-73.

\(^{31}\) Notes taken during the course of a meeting at the Quai d’Orsay, 8 Jul 1924, no. 507, DBFP XXVI, pp. 749-63, quote on p. 754.

\(^{32}\) Ibid., p. 756.
France was willing to have the Agent General sit on the Reparation Commission but not serve as an outside arbitrator since that would weaken the powers of the Reparation Commission.\textsuperscript{33} MacDonald and Crowe insisted that since the requirements of the Dawes Plan affected internal German affairs that were outside of the scope of the powers the Versailles treaty had given to the Reparation Commission, it had no authority to regulate internal German matters. Since no agreement could be reached on this, Herriot and MacDonald deferred the issue by agreeing to have French and British jurists examine the issue.\textsuperscript{34}

MacDonald was determined to prevent a system whereby the majority vote in the Reparation Commission could determine a default and a government was free to apply unilateral sanctions. MacDonald argued that even if Germany accepted giving the Reparation Commission the ability to declare defaults, Britain would insist on a unanimous vote. Alternatively, if the Reparation Commission could declare a default by a majority vote, the sanctions would require the unanimous vote of the governments. For Herriot this amounted to “tying the French ministers first by the right and then by the left arm.”\textsuperscript{35}

Britain was also unable to obtain French agreement to the proposition that Germany had accepted the Dawes report on the basis that it provided for the economic evacuation of the Ruhr and that the evacuation would not be a concession the Reparation Commission could choose to grant or not grant. MacDonald’s view was that once the Dawes Plan was put into

\textsuperscript{33} Notes taken in the course of a meeting held at the Quai d’ Orsay, 9 Jul 1924, no. 509, \textit{DBFP XXVI}, p. 783.

\textsuperscript{34} Notes taken during the course of a meeting at the British Embassy, Paris, 8 Jul 1924, no. 508, \textit{DBFP XXVI}, pp. 771-72.

\textsuperscript{35} \textit{Ibid.}, p. 777.
operation the economic occupation of the Ruhr should end in fifteen days. Herriot once again insisted that the evacuation should only take place after the Reparation Commission had decided it was fully operational.\textsuperscript{36} On the question of sanctions, MacDonald conceded in the end to a formula which stated that the Dawes Plan provided for the necessary mechanisms to determine defaults of a minor or technical nature by means of its Transfer Committee, but in the case of a general and willful default, the Reparation Commission could declare that such a default existed and the governments would immediately confer to decide the action necessary to protect themselves and the lenders. The language specifically avoided the issue of unilateral action by one or more of the governments. Herriot also postponed any final decision as to whether the Agent General would serve as an arbitrator if the vote in the Reparation Commission was not unanimous. It was also agreed that in the eventuality of certain difficulties of interpretation, the matter would be referred for examination to legal advisors.\textsuperscript{37}

Herriot was no more successful when he broached question of a security agreement with Britain, raising the specter of a new Bismarck arising in the future and recouping the left bank of the Rhine. MacDonald simply noted that, because of the Dawes Plan, if Germany attacked France, it would essentially be in a state of war with all the Allies including the United States, but to put this into a formal pact would be unacceptable to public opinion in Britain and the Dominions would not accept it. He put Herriot off with vague suggestions of an entente with Britain that would engage the League of Nations. MacDonald suggested that

\textsuperscript{36} Notes taken in the course of a meeting held at the Quai d’ Orsay, 9 Jul 1924, no. 509, \textit{DBFP} XXVI, p. 779.

\textsuperscript{37} \textit{Ibid.}, pp. 782-85.
the best solution would be through disarmament. He predicted that regardless of whether the Democrats or Republicans won the next American election, Washington would seek a disarmament conference with a view of protecting the security of all states.38

The Paris meeting, while providing support for Herriot, failed to achieve agreement on crucial issues. There was no agreement on the details of the economic evacuation, when Germany would be invited to the London Conference and what role it would play, how a default would be decided, whether sanctions would require a unanimous agreement, whether the Régie would be continued, when a military evacuation would take place, and multiple other technical issues. These questions would be fought out in the London Conference.

The Selection of an American Agent-General

Hughes received a British memorandum on the Paris conference which included a joint British and French request for an American to serve on the Reparation Commission in case the Commission had to decide a question of a default, or if that were unacceptable, requesting that the Agent-General, who should be an American, serve in that capacity. Hughes could not accept an American serving in an official manner on the Reparation Commission. Once again, such an appointment would require congressional approval and once again, Congress would not be back in session until December. Hughes had no objection to the appointment of an American as Agent-General and the Reparation Commission was free to avail itself of his opinion if it chose to do so.39

38 Notes taken during the course of a meeting at the British Embassy, Paris, 8 Jul 1924, no. 508, DBFP XXVI, pp. 763-70.

39 British Embassy to Dept. of State, 11 Jul 1924, FRUS 1924 II, p. 46; Acting Secretary of State (Grew) to Kellogg, 12 Jul 1924, FRUS 1924 II, pp. 50-51.
The selection of an Agent General, however, turned into a controversial issue that reflected the politics of an American election year. Logan wanted the position and was backed by both Dawes and Houghton. The British, however, considered him of insufficient stature for such a position. Norman asked Morgan to recommend someone with the experience and reputation that would provide investors with a greater degree of confidence in the loan. Morgan selected his own partner, Dwight Morrow. Houghton and Young, however, questioned whether German Nationalists would accept Morrow since he had taken charge of French financing in America.

More important, Coolidge became concerned that German-American and Irish-American voter who had opposed the war would turn to Senator Robert LaFollette of Wisconsin, who was running on the Progressive ticket. The choice of Morrow could also antagonize Midwestern voters who were suspicious of and disliked Wall Street bankers whom Morrow epitomized. Coolidge vetoed the choice of Morrow and asked Owen Young to take the position. Young, however, would only agree to serve temporarily and it would not be until after the conclusion of the London Conference that Seymour Parker Gilbert, a 32-year-old lawyer, was chosen as the Agent General.

Hughes informally solicited Germany’s opinion as to the selection of an Agent General. Germany’s primary concern was that the position go to a strong, influential and experienced individual who was aware of the goals of various politicians and knew the “tricks of


41 Memorandum on the immediate steps to be taken to apply the Dawes Scheme, 19 June 1924, no. 490, DBFP XXVI, pp. 724-30.

negotiations over reparations.” Wiedfeldt was convinced that the Dawes Schedule of Reparations was unrealistic and wanted somebody who, when the plan failed, would have the influence to protect Germany from being blamed. The individual had to have sufficient authority to demonstrate that the Dawes Plan was impractical and required a further revision of Versailles. Wiedfeldt personally liked Logan but felt he was “too small a fish.” Owen Young would be the ideal candidate, in Wiedfeldt’s assessment, as Young invented the transfer system and would know how to use it on Germany’s behalf. Wiedfeldt personally had no objection to Morrow although he believed that German public opinion would “yell about how he had financed our enemies.”

The Bankers

The primary source of American influence at the London Conference would be the bankers. The 800 million gold mark ($200 million) loan was an essential feature of the Dawes Plan. It was generally assumed that J.P. Morgan & Co. would be the lead bank. The initial reaction at the Morgan bank was favorable to the idea of the loan. Dwight Morrow, a leading partner at the bank, initially believed that a prosperous Germany could

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43 Ritter to Wiedfeldt, 5 Jun 1924, Nr. 126, R28490, Büro RM-USA, Bd. 4, PA-AA, D619378, p. 11; Wiedfeldt to AA, 14 Jun 1924, Nr. 167, R28490, Büro RM-USA, Bd. 4, PA-AA, D619383, p. 16; von Schubert to London, 19 Jun 1924, Nr. 308, R28490, Büro RM-USA, Bd. 4, PA-AA, D619388, p. 21. Germany was disappointed with the choice of Gilbert, feeling that he was too young to command the international respect Germany had hoped for. Von Maltzan to Bergmann (Paris), 22 Aug 1924, Nr. 672, R28490, Büro RM-USA, Bd. 4, PA-AA, D619427, p. 65.

pay reparations. He saw the conflict as being more political than economic and believed that if all parties agreed that French and Belgian troops could remain in the Ruhr as long as they did not interfere with the economy of the region, then the bonds could be successfully marketed and had so advised the Dawes committee when consulted in February and March.\textsuperscript{45}

But as the Morgan bank began a detailed analysis of the completed Dawes report in April, the problems that resulted from Dawes’s forced compromises became apparent. Russell Leffingwell, who performed the initial financial analysis at the bank, believed that the German payment of reparations began too soon and rose too high. Germany did not have sufficient current capital to allow for economic expansion and was unlikely to accumulate it under the Dawes Plan, a conclusion that had also been reached by American and British technical experts during the creation of the plan. Leffingwell concluded that there was insufficient certainty regarding Germany’s economic recovery to market the plan to investors.\textsuperscript{46}

Despite this initial analysis, Morgan informed Bradbury and Barthou on 26 April that the loan could be arranged once the European governments had reached an agreement on the Dawes Plan and there was sufficient security and protection for the bondholders. The optimism among the Morgan bankers was reinforced by a reduction of interest rates by the Federal Reserve. Coolidge’s public endorsement of plan gave the Morgan bank further reason to support it and hope that political difficulties could be resolved. Yet there remained a sense of uneasiness regarding the financial viability of the loan, given the uncertainty of the political conditions. Unwilling to make any public statement which could appear as dictating

\textsuperscript{45} Schuker, \textit{The End of French Predominance}, p. 274.

\textsuperscript{46} Ibid., pp. 277-79.
political conditions, the bankers decided informally to inform Owen Young and Bank of England Governor Norman of their concerns.⁴⁷

By July the Morgan Bank, which had questions about Germany’s economic ability to meet the eventual standard payment of the Dawes Plan, wanted to have at least political security for the loan in case of a future reparation crisis. The Morgan partners wanted an assurance that France would not reoccupy the Ruhr and unilaterally seize productive pledges. Morrow was not opposed to France maintaining a skeletal military force in the Ruhr; it would save face and allow France to claim that it had satisfied its security interest which might allow it to make greater concessions on the issue of reparations. Morrow was more concerned that Germany would not be able to meet its required deliveries in kind and that if the Allies re-imposed sanctions the economic disruption would jeopardize the payment on the loan. He wanted the Agent General to have the power to suspend reparation payments. Alternatively the Agent General or the Reparation Commission could serve as a fact-finder and a conference of prime ministers would rule on any question of default. If they could not agree, the matter could be referred to the World Court or the League of Nations.⁴⁸

Thomas Lamont, a Morgan partner, was sent to England in early July to negotiate the European contributions to the loan. He was met by Montagu Norman, whose expressed goal

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⁴⁷ Ibid., pp. 272-83. Logan earlier had met Morgan in Paris and Morgan, who was to meet with Poincaré, had asked Logan as to what political conditions he should insist upon. Logan advised Morgan to tell Poincaré that he had not read the Dawes report so as to deprive Poincaré of saying that France had been confronted by an ultimatum from the bankers. Logan, however, informed Stresemann that he was convinced that the question of the military evacuation of the Ruhr would be brought up at the loan negotiations and that the Americans would not subscribe to the loan if the military occupation of the Ruhr continued. Stresemann, Diaries, pp. 347-50.

was to cripple the power of the Reparation Commission. Lamont’s feeling regarding the Reparation Commission was shared by MacDonald, who believed that since the Dawes Plan was outside the framework of Versailles, the powers of the Reparation Commission should be limited. France, Belgium and an often-unpredictable Italy could outvote the British and any possible American representatives.

MacDonald turned to Norman who enlisted Lamont in agreeing that Transfer Committee, which the Americans and British dominated, should have the power to declare a default.49 Norman went even further, drawing up a memorandum which also demanded the immediate military evacuation of the Ruhr, a timetable for the gradual evacuation of the Rhineland and the end to the Régie. Norman then passed this memorandum on to Owen Young and Logan, who had arrived at London for the conference.50 The American bankers also felt that the loan should be used to stabilize the German currency and not to pay for reparations. They proposed that one-quarter of the loan should be raised in Britain and another quarter in France and other European nations, so that those nations would have a stake in a favorable outcome for Germany.51

Norman and Lamont then made a tactical decision to formulate their maximum demands. With the differences between France and Britain not settled, they were concerned that Young, Logan and others would promote compromises at their expense and therefore they should start with maximum demands.52 In the Reparation Commission, which had been

49 Lamont, The Ambassador From Wall Street, p. 203.
invited to the conference, Bradbury was forced to accept the French position that the plan would not be considered to have been brought to the point of execution necessary to secure the economic evacuation of the Ruhr until the loan had been obtained, a concession to France that had been originally made by Owen Young during the formulation of the Dawes report. Bradbury, however, was able to reassure Crowe that the concession would not have much impact, since bankers were making it perfectly clear that there would be no loan until the economic evacuation of the whole occupied territory and possibly the military evacuation of the Ruhr are “faits accomplis.”  

German Preparations for the Conference

On 3 July, the Marx cabinet met with the Minister-Presidents of the States to review Germany’s situation prior to the opening of the London Conference and to win approval for the cabinet policy of accepting the Dawes Plan with the hope of bringing it into operation by October. The central theme of the meeting was that Germany’s political, financial, and economic situation left it no other option than to accept the Dawes Plan and rely on the United States and Britain. Finance Minister Luther painted a dismal picture of the capital-starved German economy. Without foreign long term credits Germany faced the danger of further inflation which would be a catastrophe for its economy, particularly agriculture. No matter how hard Germany worked to improve production, it had to accept that for a certain period of time it would need help which could only come from the United States and

53 Sir J. Bradbury to Sir E. Crowe, 15 Jul 1924, no. 514, BDFP XXVI, pp. 791-93.

54 Besprechung mit den Staats und Ministerpräsidenten der Länder, 3 Jul 1924, Nr. 243, Die Kabinette Marx II, pp. 766-855.
England.\textsuperscript{55}

Stresemann argued that Germany would have to temporarily accept the reparation schedule but it was not as bad as it appeared. Under the transfer scheme Germans would never be able to meet the 2.5 billion gold mark reparation payment since that would require a German position in the international economy greater than it had in 1913, a situation which would be unacceptable to Britain. From his conversation with Reginald McKenna, who had served as the British chairman of the second Dawes committee, Stresemann believed that the Americans and British had arranged things “with a wink to the political side of the matter” to show the world that reparations question did not work as once thought, where Germany would simply just be told “Germany must pay so-or-so much.” Stresemann argued that the fact that no final sum was mentioned in the Dawes Plan was not so bad for Germany. He was not afraid of taking that risk since, “In a few years people will think about the final capacity to pay and they will think differently from now.” He was certain that with the developments over the next years reparations would “decrease and not increase.”\textsuperscript{56}

Coolidge’s statement following the publication of Dawes Plan regarding American investment abroad as well as the competition between the United States and Britain regarding the Gold Discount Bank and the future Reichsbank was evidence of American and British interest in Germany. What Stresemann was counting on was that the Dawes Plan would bring international capital, predominantly from the United States, into Germany which would not only be a great help in Germany’s current crisis but also would result in greater interest in Germany and, in the long run, would help restore Germany’s participation in the

\textsuperscript{55} Ibid., pp. 796-97.

\textsuperscript{56} Ibid., pp. 777-88.
world. He pointed out that if American capital had not been mobilized against Germany, it would not have lost the war.\textsuperscript{57} He asserted that “England alone against France is weak.”

Engaging in some wishful thinking, Stresemann added that if the United States were to “push the button” and demand France pay its interest on the war debts owed to the United States (an action Hughes had specifically avoided taking throughout 1923), the French economy would collapse. He concluded that, “Therefore the French cabinet could not say ‘No’ in opposition to the United States.”\textsuperscript{58}

Stresemann acknowledged that Germany would have to accept controls on its military, but argued that it would be easier to bear psychologically if compliance “brought us the freedom of the Rhine and the Ruhr.” When pressed by a Nationalist minister regarding the idea that future military action would sort out the problems of Europe, Stresemann recognized that such a time could come. But while he agreed that “in the end all great questions are decided by the sword,” he hoped and wished that such a time should be postponed for as long as possible. Stresemann pointed out:

I can see only destruction of our people as long as we actually don’t have the sword. If we think that the time will again come when the German people will be strong enough to play an important role, we must then first give the German people a foundation on which to do so! Only then can they hope for the future. There must first be a foundation and to establish this is what we are dealing with at this hour.\textsuperscript{59}

\textsuperscript{57} Ibid., pp. 826-27.

\textsuperscript{58} Ibid., pp. 776.

\textsuperscript{59} Ibid., pp. 828-29. Stresemann’s statement that “in the end all great questions are decided by the sword” has been subject to varying interpretations regarding Stresemann’s ultimate goals. Stresemann was a realist who sought a revision of the Treaty of Versailles and would take those opportunities open to him. He recognized that Germany had little power or influence, and saw the Dawes Plan as the best opportunity German had at the moment. Stresemann, however, looked forward to a time when Germany could regain its status as a Great Power. Jonathan Wright in his biography of Stresemann notes that his strategy was to become a “worthwhile ally” for other nations and to use that to bring about a
After the results of the meeting between MacDonald and Herriot became known, Stresemann was no longer as confident as he had been at the cabinet meeting of 3 July. Stresemann complained to D’Abernon on 11 July that the results of the Paris meeting had created an intolerable situation for Germany. He was dismayed by the fact that it was now likely that Germany would not be invited to the conference and that the military evacuation of the Ruhr had not been openly discussed at Paris. Stresemann warned that he could not hold a majority in the Reichstag for acceptance of the Dawes Plan if he could not get some explanation regarding the military evacuation of the Ruhr. Stresemann also did not see how adding an American to the Reparation Commission would help matters much.

D’Abernon acknowledged that mistakes had been made at Chequers, but tried to soften the blow by pointing out that things had not gone well for Germany when it attended conferences at Cannes, London and Genoa and that negotiations would be better if carried on through quiet diplomacy in Berlin. He agreed to inform London that complete economic and military evacuation was an indispensable condition for obtaining the necessary Reichstag revision of Versailles. He points out that Stresemann had little use for Germany’s attempt to secretly rearm since Germany could not produce heavy artillery or thousands of planes without damage to its foreign policy that would bring no benefits. Nor did he see closer relations with the Soviet Union as having any realistic chance of immediate successes. Wright does suggest that Stresemann later looked to a time when Russia would again be a Great Power and Germany might be able to capitalize on its central position to mediate between East and West and in so doing, achieve its aims regarding Poland. Wright, however, denies that Stresemann was contemplating a war. Jonathan Wright, Stresemann pp. 285-86 and “Gustav Stresemann: Liberal or Realist,” in Personalities War and Diplomacy: Essays in International History, ed. Thomas G. Ott and Constantine A. Pagedas (London: Frank Cass, 1997), pp. 96-97. Schuker, however, suggests that Stresemann shared the Nationalist “outlook and ultimate goals,” represented by the German policy of rejecting a reconciliation within the confines of the post-Versailles European structure, a policy which eventually did lead to war. Schuker, The End of French Predominance, pp. 263, 393.
majority.\textsuperscript{60}

As the 16 July date for the opening of the conference approached, Stresemann turned his attention to Herriot in an attempt to soften France’s stance. Hoesch warned Herriot that the German government would fall unless it obtained a quick economic evacuation of the Ruhr and some agreement on a military evacuation. Stresemann cautioned that public opinion in Germany was turning against acceptance of the Dawes Plan. He did not require that a specific day or month be given for the Ruhr to be completely evacuated, it could be attached to some event which was directly related to the fulfillment of the Dawes report, but he needed some final deadline for the last French soldier to leave the Ruhr if he was to maintain any support in the Reichstag.\textsuperscript{61}

When Hoesch met with Herriot on 14 July, he found him pessimistic and under significant strain. When he told Herriot that Germany could not get a loan without a military evacuation, Herriot erupted, exclaiming that he was being placed under “infamous pressure.” Herriot doubted that he would be able to come to an understanding with the British. He had conceded the admission of an American on the Reparation Commission to the British, but he could not run the risk “of making a country so damaged by the war a victim to a possible regrouping of powers.” He believed that the current system of defaults and sanctions should continue for “years to come.” He would not alter his conditions for the military evacuation of the Ruhr, but was willing to make accommodations to Germany that were compatible with the Treaty of Versailles and was inclined to invite Germany to the later sessions of the

\textsuperscript{60} Stresemann, Diaries, pp, 360-62; D’Abernon to MacDonald, 11 Jul 1924, no. 511, DBFP XXVI, p. 788.

\textsuperscript{61} Stresemann to Hoesch, 13 Jul 1924, Nr. 201, \textit{ADAP} X, p. 503; Stresemann to Hoesch, 13 Jul 1924, Nr. 202, \textit{ADAP} X, pp. 504-6.
conference. But he felt that the conference was premature and that he was not fully prepared. The conference therefore must proceed slowly and cautiously since public opinion would not “follow him in the surrender of deeply rooted rights, and he could not defy the onslaught of his critics.”

At the German cabinet meeting of 15 July, Stresemann assessed the situation. He believed that England would not present Herriot with an ultimatum in support of a reasonable solution for Germany. Mussolini was avoiding the conference because of the open conflict between France and Britain. Stresemann was convinced that only American intervention could provide a solution. “America must be willing to use its position as the financier of Europe to provide the necessary pressure” to achieve a solution. Stresemann did not think that the battle for a military evacuation was lost. He had informed the ambassadors of all the relevant nations that the German government would fall and with it the Dawes Plan if there was not an agreement on the military evacuation. He was encouraged that Belgium, America and Britain had left him in no doubt that the acceptance of the Dawes report would lead to military evacuation. Marx and Stresemann both agreed that it was Germany’s task to emphasize the “Spirit of the Plan” and the German willingness to carry it out to world opinion and rally support for Germany.

The London Conference

When the London Conference opened on 16 July, the essential task of the United States

62 Hoesch to AA, 14 Jul 1924, Nr. 205, ADAP X, pp. 513-16; Stresemann, Diaries, pp. 365-6. For Herriot’s eruption see Ministerbesprechung, 15 Jul 1924, Nr. 252, Die Kabinette Marx II, pp. 884-85.

63 Ibid., pp. 884-89.
and Britain was to achieve an agreement between Germany and France which would allow their governments, both of which were weak and opposed by nationalistic opinion, to survive. At the same time they had to satisfy the bankers who would be underwriting the loan essential to the implementation of the Dawes Plan. All of the controversial issues which had been avoided in the creation of the plan and about which MacDonald and Herriot failed to reach agreement would now have to find some resolution. It would be a task that they would labor over for over a month.

The conference was divided into three committees and a council consisting of MacDonald, Herriot, Theunis, Ambassador Kellogg, and the Finance Minister of Italy, Alberto De Stefani, and later a representative from Japan. These members and their single aides constituted what was termed the Council of Fourteen. The importance of America can be seen in the fact that Kellogg was the only member to serve on all three committees. The First Committee’s primary function was to determine the procedure in the event of a German default. The Second Committee, working with the Reparation Commission, was charged with developing the specifics of a plan to end the economic occupation of the Ruhr and reestablishing German unity. The Third Committee examined the use of reparation payments, issues related to the transfer of payments and the details as to how payments in kinds were to be made.64

The issue of default and sanctions in the First Committee dominated the first stage of the conference. The understanding that emerged from MacDonald’s meeting with Herriot in

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Paris was that an American citizen would vote with the Reparation Commission when it ruled on a default, failed to satisfy either the bankers of J.P. Morgan or Norman and Snowden with whom the First Committee consulted. Lamont argued that it did not eliminate the possibility that the three continental powers could outvote the American and British representative. Herriot met with Lamont on 22 July to plead with him for the bankers to relax their pressure, only to be told by Lamont that the bankers were only acting on the basis of what American investors would demand to purchase the German government bonds.65

By 23 July the First Committee was deadlocked. MacDonald was furious that the controversy had been leaked to the press and warned that “from the point of view of the British public opinion, the matter published in the French press has done more harm to the success of this conference than I can describe.”66 With the intent of sparing Herriot political embarrassment, Owen Young proposed that the committee solve the deadlock by separating the political and financial issues. He suggested following the Dawes Plan which the left the power to declare defaults with the Reparation Commission, but also to appoint a special committee that would negotiate with the bankers any other conditions necessary to obtain a loan. As a sweetener, the loan, in the event of default and sanctions, would be the first charge on German reparation revenues.67

Confronted by Norman’s demand that the power to declare a default be taken away from the Reparation Commission and given to the Agent General and the Transfer Committee,

65 Lamont, The Ambassador From Wall Street, p. 204.


France agreed to an additional provision stating that the Reparation Commission would not declare default until after consulting with the Agent-General and a representative of the foreign bondholders. This concession failed to satisfy Morgan and his partners who, joining Norman, simply stated that under these conditions they could not recommend the loan to investors. American bankers looked forward to involvement in the peaceful reconstruction of Europe. While the loan itself might be secured, any action by France toward declaring a German default could cause financial chaos in Europe and jeopardize other international loans and investments. The bankers also had to consider the threat of an actual default. The majority of American and British experts on the Dawes Committee believed that German reparations were set a too high a level. Stresemann, as he announced in the cabinet meeting of 3 July, was already looking forward to the possibility to an eventual renegotiation and reduction of German reparations.\footnote{Ibid., pp. 301-9.}

Lamont consulted Hughes and Mellon, secretary of the treasury, who endorsed the bankers’ substantive demands up point, but who also were “exceedingly anxious” to see “some adjustment” made.\footnote{Ibid., p. 309; Lamont, The Ambassador from Wall Street, pp. 203-4.} By 23 July, the American bankers began to feel that matters had dragged on too long and they ran the risk as being seen as the obstacle to the settlement. Leaks to the press resulted in reports that the bankers were applying financial pressure to support the British position.\footnote{On 5 July, The London Daily Telegraph reported that Lamont had presented an ultimatum to the premiers in London saying that the bankers would have nothing to do with the loan unless their demands were met. In the United States reaction was mixed. The Times of Madison, Wisconsin, the state which progressive the Robert LaFollette represented, headlined “International Bankers Rule the World,” while the New York Tribune commented,} Lamont wrote a letter, which he first cleared with Hughes
and then delivered to MacDonald, stating the bankers would make the loan available if the Allied governments would be willing to “cover the position of both the loan and the debtors.” This, however, in case of a German default, would have placed MacDonald in the position of paying for the German Dawes Loan and was refused.\footnote{Schuker makes the interesting point that the American and Allied leaders who spoke of the need to save the future and peace of Europe could have easily covered the maximum payment of $20 million for both interest and amortization of the loan. Schuker, \textit{The End of French Predominance}, pp. 306, 309-10.}

By 30 July, President Coolidge, who had committed the United States to the acceptance of the Dawes Plan and was campaigning with Dawes as his running mate, was concerned the London Conference would break up in failure if the deadlock could not be broken. He sent a message to Kellogg to hold the conference together because he was prepared to make the offer that in case of a German default, the Chief Justice of the United States would undertake to arbitrate. Coolidge had cleared the proposal with the attorney general and felt that public opinion in the United States would support it and that France would find it very difficult to refuse.\footnote{Joseph C. Grew, \textit{Turbulent Era: A Diplomatic Record of Forty Years, 1904-1945}, vol. 1 (London: Hammond, Hammond & Co. Ltd., 1953), pp. 628-30.}

Coolidge’s proposal was rendered unnecessary by the personal intervention of Hughes, who arrived in London ostensibly to address the American Bar Association which was meeting there. Hughes met at lunch with Herriot who was sympathetic but feared that any concession he might make would be used against him by Poincaré. Pressed by Hughes, Herriot clapped his hands to his head and cried, “I’ll fall, I’ll fall.” Hughes rejoined that he

\footnote{“Five years and more after the Armistice European statesmen have been compelled to admit that in the final analysis the dollar really talks.” Lamont, \textit{The Ambassador from Wall Street}, pp. 202-5.}
would fall anyway if he did not carry out the plan.

Hughes also used intermediaries to pressure Herriot. He dispatched Lamont to ask Belgian premier Theunis to persuade Herriot to give in or the conference would fail. Lamont explained to Theunis precisely what would happen to the French franc and also to the Belgian franc should that occur. In an effort to relieve the domestic pressure on Herriot, Hughes, then in Paris, informed Poincaré that if France turned down the Dawes Plan, France could expect no further economic or diplomatic help from the United States. France was in a particularly vulnerable position since the $100 million loan from Morgan was due for renewal in September.

The combined pressure led Herriot to make one final concession. He agreed on 30 July that if the Reparation Commission declared a default any member could appeal the decision to a three-person arbitration panel, the president of which would be a citizen of the United States. This was unanimously accepted by the conference. This lengthy procedure, while theoretically preserving the rights of the Reparation Commission, was sufficiently cumbersome to make a declaration of a default highly unlikely. Territorial sanctions would be difficult to obtain. The success of the idea of arbitration in breaking the sanction deadlock led the conference to apply the principle to other areas in the implementation where disputes

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74 Lamont, The Ambassador from Wall Street, p. 209.

could arise, a procedure which significantly expedited the proceedings.

The work of the Third Committee proceeded smoothly with only some technical problems related to deliveries-in-kind. These issues concerned the right of Germany to restrict the amount of important materials such as dyes that would be delivered if they were needed for the German economy. Most problems were solved by referring future difficulties to arbitration panels.76

The Second Committee, in coordination with the Reparation Commission, was charged with developing a specific plan for the economic evacuation of the Ruhr and the restoration of German fiscal unity. On most issues, the work of this committee went relatively smoothly. The committee unanimously agreed on beginning an economic evacuation of the Ruhr about six weeks or two months after the conditions laid down by the Reparation Commission had been fulfilled. The major exception to this harmony was the controversial question of the Régie.77

Embedded in the question of the Régie was the crucial issue of the continuation of the military occupation. For France, the Régie represented an issue of security. If France could prolong its military occupation of the Ruhr or found it necessary to reoccupy the Ruhr, some control of the railroads offered some military advantage.78 Also, as long as it remained there was an issue over which Germany would have to negotiate with the French; it provided


77 Fourth Plenary Meeting, 2 Aug 1924, no. 4, Proceedings, pp. 49-65.

78 Schuker, The End of French Predominance, pp. 321-23. Schuker notes that civilian railroad workers were essential to France since the entire French army contained only two regiments of railway engineers and to siphon them off for an emergency in the Rhineland would compromise domestic mobilization.
France with some additional bargaining leverage.

The French and Belgians demanded that the railways in the occupied territories in the Ruhr and the Rhineland be placed under a single regional management which would be composed of Allied personnel that would be under the only general control of the German Railway Board in Berlin. They were willing to accept German control of regional management only if there was an Allied supervisory board which would have the power to block any measures that might impair the security of the Allied occupation forces. The French representatives in the Dawes committee had fought hard for acceptance that the German railway system could have regional administrative control and Dawes had accepted the French position and incorporated this possibility into the Dawes Plan.

In London the British military recognized this as an effort by the French to maintain the Régie and argued that the Inter-Allied Railway commission in the Rhineland provided sufficient support for the troops. As a compromise the French and Belgians offered to allow direct German control but while keeping some 5000 French and Belgian civilian railroad workers employed by the line in the Rhineland. This compromise was accepted by the Second Committee and recommended in its report on 24 July, but it was recognized that it would require further resolution. Nevertheless MacDonald told his cabinet on 30 July that

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80 Report of the Second Committee, 24 Jul 1924, no. 16, Proceedings, pp. 120-31. MacDonald to Lord Kilmarnock, 25 Aug 1924, no. 555, DBFP XXVI, pp. 858-62. The British representative on the subcommittee assigned to study the matter Sir William Acworth while privately believing that the French intention was to “keep a hand on the central points of the strategic railways in the Rhineland.” He was also of the opinion that the French plan would violate the economic unity of Germany was well as create “perpetual and serious friction” between the French and Belgians workers and German railroad authorities. Nevertheless he accepted the French and Belgian proposal on the grounds that he had been directed to create a joint report with the French and Belgian and could not be influenced by
he was prepared to accept the arrangement provided he could obtain concessions on other more important points, subject to the agreement of Germany. 81 Ambassador Sthamer, who expressed strong objections to Crowe, nevertheless notified Berlin that the French were likely to win the point since the United States was not particularly actively involved in the issue and Britain was unlikely to precipitate a crisis over it. Thus the issue of the Régie would be left for Germany to negotiate with France. 82

Germany had attempted to follow the proceedings at London to the best of its ability, but was only able to get scraps of information which when reported to Berlin were often outdated. As the conference opened, Albert Dufour-Feronce, Councilor in the German Embassy in London, reported to von Schubert that he was pessimistic as to the outcome. Given the impasse between the British and the French, he felt that if the United States did not use its financial power to change the views of the French, the conference would fail and the blame would be placed on France. He felt that it was not a question of money, but of a continuation of Poincaré’s destructive policy. He observed that MacDonald had too many domestic problems to oppose the French effectively. 83

81 Memorandum on the present position of the Inter-Allied Conference, 4 Aug 1924, no. 526, DBFP XXVI, p. 526, n. 12.

82 Record of Sir E. Crowe of a Conversation with the German Ambassador, 1 Aug 1924, no. 525, DBFP XXVI, pp. 806-7; Sthamer to AA, 30 Jul 1924, Nr. 230, ADAP X, pp. 574-75.

Germany at the London Conference

On 21 July Stresemann wrote Sthamer that he feared Germany would be presented with an ultimatum. He was further concerned that there was no discussion regarding the military evacuation of the Ruhr. Stresemann noted that Britain did not appear willing to bring up the issue, and although he had sympathy for the British concerns about difficulty in discussing the matter, it was a life-or-death issue for the cabinet and the fate of the Dawes Plan. He feared the worse conditions would be imposed and that the Americans would not be in a position to stop it.\textsuperscript{84}

On 23 July D’Abernon attempted to reassure von Schubert that Germany would likely be invited and would not be presented with an ultimatum. He also reassured von Schubert that events were moving in Germany’s favor, but that Germany should avoid discussion of a myriad of details and stay on the main topics. Von Schubert warned D’Abernon that Stresemann had major trouble in the Reichstag and desperately needed some agreement on military evacuation, as the opposition from the Nationalists had grown sharper.\textsuperscript{85} On 24 July, von Maltzan, desperate for some understanding regarding military evacuation, approached the French representatives in Berlin and asked for a confidential agreement for evacuation in the form of a personal letter to Stresemann which would only be shown to the party leaders.\textsuperscript{86}

On 25 July, in London, a special committee of jurists reported that the Dawes Plan was

\textsuperscript{84} Stresemann to Sthamer, 21 Jul 1924, Nr. 215, ADAP X, pp. 542-46.

\textsuperscript{85} Aufzeichnung des Ministerialdirektors von Schubert, 23 Jul 1923, Nr. 216, ADAP X, p. 547.

\textsuperscript{86} Aufzeichnung, von Maltzan, 24 Jul 1924, Nr. 217, ADAP X, pp. 548-49.
outside the structure of Versailles and therefore required the voluntary agreement of Germany. For Germany this represented a major victory, it would negotiate the final terms of the agreement unlike what was in their mind the diktat of Versailles. Germany was formally invited to the conference by MacDonald on 2 August.87 Following the report of the jurists, Dufour was more optimistic. He reported that Germany’s fight was being fought by the Americans and that it was perhaps a good thing that Germany was not in London because “the American and English were doing as well as we could and perhaps even better.” He was also encouraged because Stahmer was in close contact with Houghton and had seen Crowe twice. Dufour had also been in contact with Norman, letting him know Germany’s hopes and fears.88

On 31 July Houghton, who had returned to Berlin, met with Marx, Stresemann, Luther, and von Schubert to inform them confidentially of his impressions and to coach them for their meetings in London. He told them that Germany had an opportunity to make a good impression. They should make a “generous and short demonstration” that Germany was willing to implement the Dawes Plan and warned against bringing up unrelated questions, especially the “war guilt” question. Germany had to demonstrate good will again and again.

For Houghton the central issue was the need to obtain the loan. He was aware of the bankers’ concerns and did not want the Germans adding to the difficulty. He told them to leave the question of the security to the bankers. But he cautioned them not to get “caught in


88 Aufzeichnung des Mininsterialdirektors von Schubert, 26 Jul 1924, Nr. 222, ADAP X, pp. 559-60.
the tow” of the British bankers (Snowdon and Norman) whose demands were complicating
the issue in London. Houghton was aware that the American bankers, over whom the
Coolidge administration had some influence, were beginning to retreat from some of their
demands. He advised the Germans to follow the American bankers, who had “cooler heads”
when it came to financial matters. Houghton reassured them that the conference would come
to a solution because the leading British and French personalities were clear on the
consequences if the conference should fail.89

Von Schubert accompanied Houghton back to the American Embassy where they met
with the American military attaché (Arthur Conger). Schubert expressed his concern as to
whether the economic evacuation would really be quickly carried out. He was worried about
the transition period during which Germany would have to continue its heavy payments to
the French and was also concerned that a long transition period would give the French the
opportunity to plunder the assets of the Ruhr. On the issue of the military evacuation
Houghton warned that the French wanted to combine the evacuation with the
commercialization of their industrial obligations and this would take a long time, which he
estimated as around August 1926. Schubert declared that this would be unacceptable to the
Germans. He feared that the evacuation of the Ruhr would be tied to the evacuation of the
first zone of the Rhineland. Houghton replied that Germany would have to negotiate with
France. He believed that two years was too long and advised that Germany should push for
three to six months and agree to a year after which the both the Ruhr and the sanctions areas,
as well as the Cologne zone would be evacuated.

89 Aufzeichnung des Ministerialdirektors von Schubert, 31 Jul 1924, Nr. 235, ADAP X,
pp. 591-92.
But Houghton also recommended that Germany should not insist on a year, but at least that compromise would provide a framework for possible solution. Schubert agreed and believed that they could find a solution Germany could live with. Houghton was continuing America’s tactics that had been evident in the formulation of the Dawes Plan. The United States wanted the crisis resolved as rapidly as possible and needed the agreement of France to accomplish that goal. To gain that acceptance, the U.S. would require Germany to make the necessary accommodations in exchange for the benefits the United States had to offer.

Hughes paid a short visit to Berlin on 4 July. Unlike his visit to London and Paris which were public occasions, Hughes’s visit to Berlin was quiet and discreet, with Hughes meeting with only a few selected individuals. Wiedfeldt had extensively briefed Berlin regarding Hughes. With the German officials following Wiedfeldt’s advice, the visit went well and without incident. Hughes took the occasion to tell the Germans, as he had the French, that if they did not accept the Dawes Plan, American was through. However, he reassured Germany that if it showed good will, the loans would come and peace in Europe would be secured.

Wiedfeldt’s briefing provides an account of how Hughes was viewed through the eyes of a German in Washington. Wiedfeldt described Hughes as a learned jurist who had no problem giving fake reasons for his explanations. He had an “American joy of smiling,” but was without real humor and was cold and careful. He was continually worried about the

90 Ibid.

91 Maltzan to Washington, 4 Aug 1924, Nr. 173, R28490, Büro RM-USA, Bd.4, PA-AA, D619422, p. 60. For Hughes’s warning to Germany see Beerits Memorandum, “The Dawes Plan,” Hughes Papers, p. 27.
Senate and endangering the Republican Party in the elections. Wiedfeldt described Hughes as pro-British but not anti-German. He advised that it was important to discuss the matter of the military occupation, but not to discuss the MICUM, expellees, and particularly not territorial issues. He also advised against talking to Hughes about the German Nationalists because he really did not care which party governed Germany. Wiedfeldt cautioned against talking about the Bolshevik threat because that could endanger the loan. The issue of Russia should be avoided since Hughes was against recognition. Hughes was against the League but pro-World Court which he favored Germany and the United States joining.\textsuperscript{92}

The German delegation led by Marx, Stresemann, and Hans Luther (Finance Minister) joined the conference on 5 August. MacDonald later described the atmosphere at the first plenary conference as “freezing” when the German delegation was introduced and Marx made a short speech, Herriot “looked as though he was having a tooth drawn.”\textsuperscript{93} German negotiations took place at two levels. German technical objections to specific terms of the three committee reports were negotiated within the conference itself, while the crucial negotiations with France took place outside of the conference. On the issue of sanctions,

\textsuperscript{92} Wiedfeldt was also careful to protect important contacts in the United States. Germany should praise the Dawes Plan and America’s help in achieving it, but in a nonpartisan manner so as not to alienate Germany’s friends among the Democrats. Germany should also be careful in regard to talking about international bodies to avoid antagonizing Germany’s friends among the isolationists and absolutely avoid any discussion of American immigration policy or the issue of the costs incurred by the American Occupation Army, since that was a matter between Washington and the Allies. Wiedfeldt, however, did suggest praising the Mixed Claims Commission but asking if it could work faster. He also suggested attempting to probe Hughes about the commercial treaty, which was still stuck in the Senate. Wiedfeldt to AA, 8 Jul 1924, Nr. 190, ADAP X, pp. 475-78.

\textsuperscript{93} David Marquand, Ramsey Mac Donald (London: Johnathan Cape, 1977), p. 345.
Germany objected to the absence of a specific definition of the term “flagrant default.” They feared new sanctions if economic difficulties resulted in Germany being unable to make the required payments. After a contentious debate the German delegation won a satisfactory compromise in which a flagrant default was considered to be one which was willful and deliberate. On 7 August, it was also agreed that the issue of amnesty for prisoners held by the French and Germany, taken during separatist conflict, would be managed by a commission of Franco-Belgian and German jurists.

The Issue of the Loan and the Bankers’ Demands

The issue of the bankers’ conditions for a loan surfaced almost immediately after the German delegation’s arrival. Montagu Norman told Schacht on 6 August that the bankers were demanding “sharp” conditions for a loan which Stresemann felt went even beyond the German demands. Norman acknowledged, however, that Morgan might not be in full agreement with the conditions of the British Bankers. On 7 August, Luther insisted in a plenary session that the bankers be brought in to discuss the conditions for the loan Germany was to obtain. France vigorously opposed the proposal. Clémental, the French Finance Minister, stated that he had talked to the American bankers and that they would not be a problem. MacDonald, who was aware of the bankers’ demands, realized that the bankers’ conditions could collapse the conference, and replied that the time to talk to the bankers was after a political agreement had been reached.


95 Stresemann, Diaries, p. 379.
What resulted was an acrimonious public exchange between MacDonald and Snowdon, his Chancellor of the Exchequer, who also insisted that the bankers had to be brought in. MacDonald announced that in his view an error had been made by the Reparation Commission in drafting the requirement that Germany be obliged to obtain the loan before the Dawes Plan could be considered implemented. In his opinion, Germany had no special obligation, actual or moral, to obtain a loan. If the loan was not forthcoming, no responsibility lay on Germany. MacDonald then put an end to the discussion by stating “Either the report will be adopted, and the loan will be raised; well and good. Or the report will not be adopted and the loan will not be raised, and all will be in vain; also well and good.”

That morning Norman and Sir Robert Kindersley, chairman of Lazard Brothers & Co., told Schacht that the American bankers were even more stubborn than the British. Schacht was concerned that Germany was being put in an impossible position with the bankers demanding more than the Germans were. If they followed the bankers the conference could fail; if they did not press for the bankers’ demands, they ran the risk of not getting the vital loan. Norman and Kindersley told Schacht that the Americans were against the Reparation Commission and wanted its powers ended. Kindersley realized that Herriot could not accept that and that some form of arbitration would be agreed to outside the conference itself. Schacht, however, pointed out that Germany was in a weak position and that it would have to be up to the bankers to fight the Reparation Commission. At the same time Schacht realized that Germany had to be careful not to create the appearance that the bankers were the

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German auxiliaries fighting its battles. The German delegation had to be careful that it did not demand more than the bankers and the bankers not demand more than Germany.\footnote{Aufzeichnung des Ministerialdirektors von Schubert, 7 Aug 1924, Nr. 8, ADAP X, pp. 17-18.}

On 8 August, Marx and Schacht met with Norman, who again urged that the bankers meet with the conference, and Owen Young, who strongly opposed that idea. Heeding Houghton’s advice to follow the American lead, Marx decided not to press the issue any further in the conference. For Marx, the primary issue was to obtain the loan and he was reluctant to antagonize Young.\footnote{Tagebuch, 8 Aug 1924, Die Kabinette Marx II, pp. 1288-91.} Germany was once again placing its faith in the United States upon whose support it counted.

On 9 August, McKenna warned Stresemann that the British public had the mistaken belief that there was complete agreement between Britain and France based on agreement on the technical points at the conference. But the public was not aware of large differences over the difficult political issues such default and sanctions. He feared that if the conference failed, Germany and the bankers would be blamed. He informed Stresemann of the wide-ranging conditions that both he and Norman wanted, including freedom of all the sanction areas, security from French sanctions, limitation of the Rhineland authority, and a court to decide the interpretations of the Versailles treaty. McKenna stated that the conference knew the bankers’ demands, but were ignoring them. He maintained that the conference should discuss the demands but that France was loath to do so. Stresemann did not see any way out of the dilemma since Young had emphatically warned Germany against quoting the bankers’ demands at the conference. Stresemann noted that the ever-persistent Snowden had made an
agreement with the Italians who would suggest that the conference meet with the bankers.99

Morgan and Lamont shared the concerns of Norman and McKenna regarding the lack of
discussion of the bankers’ demands. When Lamont met with Clémental to discuss French
finances and the renewal of the Morgan loan for the Bank of France, he brought along a
memorandum concerning what the bankers wanted for the Dawes Loan. They had no precise
formula for the withdrawal of French troops but wanted a prompt withdrawal. They wanted
a satisfactory declaration of plans for the evacuation of the Rhineland and on the future
policies of Rhineland Commission. Fearing the appearance of an ultimatum, Clémental
asked that the memorandum not be made as a formal communication to Herriot. Lamont
agreed to give it to Belgian Premier Theunis, who could give a copy to Herriot
unofficially.100

The Debate over the Transfer Committee

Within the committees, significant progress continued to be made on technical issues. By
9 August Germany was able to settle its differences and sign an agreement with the
Reparation Commission.101 By 11 August there were only three major unresolved items for
the committees. The first was the issue of Régie where France and Belgium were insisted on

99 Stresemann to AA, 9 Aug 1924, Nr. 15, ADAP XI, p. 38.

100 Lamont assured Clémental that the Morgan firm did not want to have relations “with
the German government or German interests generally.” It would consider the loan only with
the hope of “rendering a service to the Allied government and of assisting in the work of the
reconstruction of the benefit to the European countries and secondarily to America.”

101 Minutes of a Meeting of the Reparation Commission, London, 9 Aug 1924, no. 44,
Proceedings, pp. 311-19.
maintaining 4000-5000 railway men to maintain some control. This remained unresolved until the last days of the conference when Herriot gave up the demand as a concession. The second was the question of amnesty, where Germany insisted on a general amnesty that would allow the expellees to return to the Ruhr and Rhineland. This was referred to a committee of French and Germans for negotiations which would continue after the conference.

The most contentious issue was the question of funds accumulated in the Transfer Committee. On 8 August, a bitter fight arose between the French and the German delegation over the relations between the German government and the proposed Transfer Committee. The issue at stake was whether France could gain participation in German industry over German objections. The Dawes Plan provided that accumulated funds, which could not be transferred without causing exchange-rate problems, would be held by a Transfer Committee. A creditor nation could request that the Reparation Commission allow a private individual of that nation to use the funds for long-term investment in Germany. The creditor state’s reparation fund would then be credited. The types of investment that could be made were subject to an agreement between the Transfer Committee and the German government, taking into consideration the necessity of making maximum reparation payments while allowing Germany to maintain control of its own internal economy.\(^{102}\)

France saw this as a means of gaining participation in German industry. It was agreed at the Third Committee that if there were a dispute between the German government and the Transfer Committee, an arbitrator would be appointed.\(^{103}\) The Germans saw this as reducing


German sovereignty in financial and economic matters. The French delegation turned argued that if arbitration was not allowed on this issue, then the principle of arbitration that the conference had recommended in all other area would be endangered. Snowden vociferously argued that arbitration would be a “menace to British industrial concerns” and give foreigners “complete control over Germany’s industrial concerns.” MacDonald closed the debate only to have it reemerge on 12 August.\textsuperscript{104}

During the interval, France obtained a statement from some members of the Dawes Committee who were available in London, which held that any attempt by Germany to restrict the list of possible long-term investments would be considered a “financial maneuver” forbidden under the Dawes Plan. When debate was resumed on 12 August, MacDonald asserted that the experts’ opinion was not binding on the conference and that it could not be regarded as official since it involved only a few members of the committee. Ambassador Kellogg supported him by announcing that he had no intention of attempting any official interpretation of the Dawes report.

MacDonald proposed that the question of arbitration be referred to special committee. Herriot backed by Theunis vigorously opposed this and again threatened that if the principle of arbitration where denied in this case, France would withdraw its agreement to the other cases where arbitration had been accepted. Luther emphasized the importance of the issue to Germany and insisted that if a court of arbitration was accepted, its competence would have to be very carefully designed. With the support of Kellogg, MacDonald and the ever-

\textsuperscript{104} Marquand, Ramsey MacDonald, pp. 346-47; Stresemann to AA, 9 Aug 1924, Nr. 13, ADAP XI, pp. 29-33; Tagebuch, 8 Aug 1924, Die Kabinette Marx II, p. 1289.
vociferous Snowdon, Germany again won the day.\textsuperscript{105} The final agreement held to the original language of the Dawes report but allowed for an arbitrator to be appointed in case of disagreement between the Transfer Committee and Germany.\textsuperscript{106}

This weakening of the French initiative regarding arbitration was an important loss for France. As a result it would not be able to use the vehicle of the Transfer Committee to use German reparations owed to it to purchase a sufficient share in German industry to force those industries to collaborate with French industries. France would have to negotiate the desired industrial collaboration with Germany directly. The previous day Clémental had proposed to Stresemann a close collaboration between French ore industries and the German cokeries, suggesting that it might be desirable to promote French participation in German heavy industries by having French industries acquire at least a half-share in the heavy industries of the Ruhr. Stresemann refused this suggestion.\textsuperscript{107}

The German - French Negotiations

The first negotiations between Stresemann and Herriot took place at a private dinner given by Kellogg on 8 August. Kellogg urged Herriot to reach an agreement as to evacuation of the Ruhr. Herriot immediately stated it was not on the agenda and that he had promised his cabinet that he would not discuss the matter. He had a divided cabinet and

\textsuperscript{105} Stresemann Diaries, p. 391-94; Stresemann to AA, 12 Aug 1924, Nr. 28, \textit{ADAP} XI, pp. 65-9.


\textsuperscript{107} Besprechung zwischen Minister Stresemann und dem Finanzminister Clémentel, 11 August 1924, Nr. 20, \textit{ADAP} XI, pp. 48-49.
feared the opposition of Poincaré. Kellogg insisted that there would never be a settlement until the troops were withdrawn or at least a definite date was fixed for their withdrawal. Stresemann insisted that the votes of the Nationalists were need for approval of the Dawes Plan, and that required that he have a definite withdrawal date and it must be months not years. Herriot promised that he would meet with his cabinet and on his return make a definite proposition.\textsuperscript{108}

When Herriot returned from Paris on 11 August, he informed Kellogg and MacDonald that after a difficult debate in the French cabinet, the most he could offer was that France would end the military evacuation after one year when France would be begin to receive reparation payments from the loan, which would soothe public opinion. MacDonald suggested that Kellogg inform the German delegation. Kellogg had already been assured by Hughes following his trip to Berlin that Germany would accept a one-year occupation. Kellogg believed that his intervention could be more useful and perhaps necessary at a latter stage and insisted that MacDonald should be the one to inform the Germans of Herriot’s decision. Stresemann would therefore have to rely on MacDonald for help in gaining further concessions from Herriot.\textsuperscript{109}

On 11 August, Herriot, Clémental and Seydoux attempted to see what economic concessions they could obtain from Stresemann. The provisions in the Versailles treaty that allowed products from Alsace-Lorraine to enter Germany duty free and required Germany to extend to France most-favored-nation privileges for five years would expire in 1925. France

\textsuperscript{108} Stresemann to AA, 9 Aug 1924, Nr. 15, ADAP XI, pp. 36-39.

\textsuperscript{109} Bryn-Jones, Kellogg, p. 151. It is likely that this information was given to Hughes by Houghton rather than directly by the Germans.
wanted Germany to extend the duty-free exports privileges for three years, and most-favored-nation treatment for six months. In addition they wanted participation in German industry. The German industrialists in Berlin opposed using economic concessions to France as a means of shortening the military occupation, noting their difficult financial situation. Stresemann, however, insisted that the political interests of the nation could not be sacrificed on behalf of the industrialists.\(^{110}\) France made its case only weakly and once Stresemann realized that France was not making German concessions as a requirement for military evacuation, he was able to avoid any economic concessions.

That evening Herriot told Stresemann directly that after having met with his cabinet, the most he could offer was that France would end the military evacuation in one year. Stresemann replied that he understood Herriot’s difficulties, which is why he did not insist on an immediate evacuation, but that a year was too long, and that the Reichstag would not pass the legislation. Herriot replied that he personally saw the military occupation as a violation of international law and that he would do what he could to shorten the interval.\(^{111}\) On the subject of railways Herriot, while he continued to insist that they were necessary from a military point of view, had already told the British that he was prepared to yield on this

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\(^{110}\) The cabinet approved only a six-month extension of the most-favored-nation treatment for France in exchange for some reciprocity from France. If necessary after strong resistance they would agree the Alsace-Lorraine duty-free exemption for not longer than six months. Besprechung mit Vertretern der Industrie, 10 Aug 1924, Nr. 272, Die Kabinette Marx II, pp. 945-48; Stresemann to AA, 11 Aug 1924, Nr. 18, ADAP XI, pp. 43-45; Aufzeichnungen des Staatssekretärs Trendelenburg über eine Besprechung zwischen Luther, Trendelenburg, Clémentel und Seydoux in London, 12 Aug 1924, Anhang Nr. 3, Die Kabinette Marx II, pp. 1313-17; Kabinettsitzung, 12 Aug 1924, Nr. 273, Die Kabinette Marx II, pp. 948-51.

\(^{111}\) Stresemann, Diaries, pp. 389-91; Stresemann to AA, 12 Aug 1924, Nr. 27, ADAP XI, pp. 62-65.
August 13 and 14 were the decisive days of the conference. On the morning of 13 August Marx, Stresemann and Luther met with Herriot and Perretti and the Belgians, Theunis and Hymans. They worked through the technical issues such as deliveries-in-kind and then reached the crucial issue of the evacuation of the Ruhr. Herriot maintained that he could not agree to anything less than a one-year delay in the military evacuation, and that it was not in his power to concede an evacuation by stages. He also declined to say when that year would begin or under what conditions the maximum would be shortened. Herriot told Stresemann that Kellogg had expressed his support for the French view that an evacuation within one year was reasonable.

Stresemann pushed for a staged withdrawal without success. The Belgians supported Herriot, asserting that his proposal was a “far reaching compromise.” Herriot did, however, suggest that if relations the two nations went well, he would consider reducing the number of troops. Later that day, an upset Stresemann confided to Sir Maurice Hankey, General Secretary of the London Conference, that “if only the Americans had kept themselves uncommitted they might have been so great a help at this stage.”

Prior to the afternoon meeting between the German and the French, Herriot privately told Marx that if there were good relations between France and Germany, he would consider the possibility of an earlier evacuation and while he could not agreed to a staged evacuation,

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a reduction in the army of occupation could take place during the time limit. But at the afternoon meeting at which Charles Nollet, the French Minister of War, and Clémental were present, Herriot’s attitude stiffened and he refused further compromise. Luther, previously informed by Schacht, who had met with Norman, of the bankers’ demands, attempted to pressure Herriot by raising the critical issue of Germany’s ability to obtain the loan, but Herriot would go no further.

Stresemann met with MacDonald at midnight. MacDonald told him that Kellogg had expressed his support of Herriot’s position which had considerable strengthened the French resolve. MacDonald did not see what further progress could be made. Stresemann urged MacDonald to press the French for some final concessions, proposing evacuation by stages and a quicker evacuation of Düsseldorf, Duisburg and Ruhrort. He also asked that the one-year time period should start from April, when the German cabinet had accepted the Dawes Plan. MacDonald, however, did not think that any further concessions were possible.

Early on 14 August, the German delegation cabled Berlin for advice about how to proceed. The cabinet was divided, with some members suggesting an offer of economic concessions to France in exchange for an earlier evacuation, while others thought it better to accept the one-year delay and press for further concessions. President Ebert wisely counseled that the tactic should be left to the delegation. To provide flexibility two telegrams were sent, one rejecting the offer that could be used for pressuring further

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116 Ibid., p. 397.
concessions and the second requesting Stresemann to try to obtain a firm date for the evacuation, an easing of the occupation, and for some area to be immediately evacuated.\textsuperscript{117}

Kellogg confirmed to MacDonald on the morning of 14 August that the United States accepted the French position regarding the one-year time period. MacDonald was upset but agreed to accept the United States’ decision to preserve a united front. MacDonald complained to Hankey that he had taken the utmost care to keep himself entirely uncommitted “so as to remain impartial until the last possible moment,” and felt that it would have helped if Kellogg had done the same.\textsuperscript{118}

Kellogg and MacDonald then met with Herriot and persuaded him to agree secretly to evacuate the Dortmund district after the accords had been signed. Herriot also proposed that the year should run from the date that the conference protocol was signed, which would provide an August rather than an October start date.\textsuperscript{119} Kellogg and MacDonald then met the Germans and strongly urged them to accept Herriot’s last offer. Marx tried again to invoke the bankers and asked, if the occupation were prolonged a year, would the bankers provide the loan. Kellogg, without clear certainty of this, assured the Germans that the loan could be obtained. Kellogg believed that a “critical moment had been reached” and the time had come for “decisive action.” He would “take chances on the loan” and rely on Morgan to raise it. It was “worthy of trying.”\textsuperscript{120}

\textsuperscript{117} Ministerrat, 14 Aug 1924, Nr. 274, Die Kabinette Marx II, pp. 952-55, n. 5; Maltzan to deutsche Delegation in London, 14 Aug 1924, Nr. 37, ADAP XI, pp. 86-87.

\textsuperscript{118} Hankey to Lampson, 14 Aug 1924, no. 541, DBFP XXVI, pp. 836-38.

\textsuperscript{119} Marquand, Ramsay MacDonald, p. 350; Schuker, The End of French Predominance, p. 378.

\textsuperscript{120} Bryn-Jones, Frank B. Kellogg, p. 152; Aufzeichnung über eine Besprechung zwischen
Marx and Stresemann evaluated the situation. Stresemann favored accepting the French offer. He calculated that he could obtain the immediate evacuation of Dortmund as well as a binding agreement for the evacuation of the sanction cities. Schacht believed that the government might be hostile to acceptance, but if that were the case he would hold the threat of restricting credit from the Reichsbank over their heads. Stresemann also felt that MacDonald and Herriot were so exhausted and their nerves so strained that negotiations were beginning to suffer and that an agreement had to be concluded quickly.\textsuperscript{121}

Marx and Stresemann then ran a bluff. They told MacDonald they needed to send Luther back to Berlin for consultations and could do nothing for four days. MacDonald, fearing that conference would collapse, found Kellogg and together they convinced Herriot to agree formally to the evacuation of Dortmund. Stresemann, believing that he had obtained Herriot’s last concession, then cabled Berlin for approval to accept. The next morning Germany obtained two additional concessions. Herriot would widen the Dortmund area from which French troops would withdraw and agreed to evacuate the three sanction cities of Düsseldorf, Duisburg and Ruhort at the same time as the rest of the Ruhr.\textsuperscript{122}

The German cabinet met and gave its approval in principle to Herriot’s last proposal. Karl Jarres, Interior Minister and Vice Chancellor, considered it “favorable beyond expectations.” But at Ebert’s insistence the cabinet asked Stresemann and Marx to press for

\textsuperscript{121} Stresemann, \textit{Diaries}, pp. 397-401.

even more concessions. Stresemann would try but had little success.

When Marx gave a speech at the closing ceremonies, the Americans vigorously applauded. Stresemann noted in his diary that Kellogg’s applause was apparently due to “a very bad conscience” over having forced Germany to accept the full one-year interval before the evacuation would begin. One German expert on the delegation complained to the press that “MacDonald and Kellogg were always to be found in the French trenches.” America could never do enough for Germany.

In Paris, Herriot won votes of confidence regarding the agreement in both the Chamber of Deputies and the Senate, by large majorities. For Marx and Stresemann, however, the Nationalists remained a problem. Much of the necessary Dawes legislation was adopted by simple majority on 27 August. It was only on 29 August, however, after the third reading of the crucial railway legislation requiring a two-thirds majority, that 42 Nationalists broke ranks and provided the majority necessary to pass the bill. Houghton may have helped in this by meeting with a few industrial leaders in the DNVP, and with the stick of American disapproval of Germany and the carrot of American loans and investments to come gained their support. On 30 August the agreements were signed in London.

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123 The cabinet wanted a shorter interval before withdrawal, evacuation by stages, fewer French troops with the occupation made invisible, assurances of the return to German administration, and most important, guarantees that no further support would be given to the separatists. Ministerrat, 15 Aug 1924, Nr. 276, Die Kabinette Marx II, pp. 959-62.

124 Stresemann did obtain a letter from MacDonald expressing his opinion the Ruhr evasion was illegal, that he regretted that the military evacuation had not taken place sooner, and that a speedy evacuation should take place. Stresemann, Diaries, 403-5; Stresemann to AA, 15 Aug 1924, Nr. 40, ADAP XI, pp. 93-95.

125 Stresemann, Diaries, p. 405-6.

126 Turner, Stresemann and the Politics of the Weimar Republic, pp. 172-73, Stresemann
In the United States the problem of the loan remained. Morgan would not underwrite the loan unless all of the partners agreed. Morrow had serious doubts about Germany’s future attitude toward the loan. He wanted support from the State Department. Hughes wrote back that without the loan there would be “chaotic conditions abroad” and that he hoped they would undertake the participation that the “world expects and that is essential to the Dawes Plan.” That was enough for Morrow and the agreement for the loan was signed on 10 October. The offering took place on 14 October and was oversubscribed in both New York and London. The Dawes Plan was now ready to be put into operation and the reconstruction of Germany and Europe to begin.127

Conclusion

The London Conference marked a major turning in the post-World War I period. It altered the relations between the major European powers and marked a changed in Germany’s relationship with the United States. For Germany, the conference was a success. Its participation, albeit only in the final weeks, altered the pattern of Versailles. Germany achieved the end of the military evacuation of the Ruhr within a year. The threat of future

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Diaries 406-7; Werner Liebe, Die Deutsch-nationale Volkspartei, 1918-1924 (Düsseldorf: Droste Verlag, 1956), pp. 86-88.

127 Morgan required European participation the loan. Of the approximate $200 million, the United States took $110 million with the rest assigned to Europe to motivate Europeans to see to it that the Dawes Plan worked. France objected to its share of $13 million. Clémental said told Lamont that it would be unwise to impose a German loan “upon communities still filled with mutilated combatants.” Lamont pointed out that without France taking its shares, other European countries would cut back on their allocation. The loan would fail “with disastrous consequences for Europe.” Clémental accepted the allocation. In November as a reward for its cooperation France would receive a $100 million dollar 25-year loan floated by a Morgan-led syndicate. Lamont, The Ambassador from Wall Street, pp. 207-12.
military occupations as sanctions had almost vanished. This strengthened the position of Germany in the Rhineland and would work to change attitudes and expectations in the Rhineland, diminishing sentiment for some form of autonomy. The unity of the Reich would be preserved. The powers of the Reparation Commission would weaken as the Transfer Committee assumed much of its functions.

The London Conference also strengthened Germany economically. It secured the vital loan need to stabilize its currency. Since France made the error of bringing up demands for economic and commercial concession late in the conference and then with only little force, Germany was able to avoid making economic concessions. Germany would preserve its advantage in industrial strength over France. While France still would remain for a time the dominant military power in Europe, the future power balance between the two nations had been changed in Germany’s favor.

Germany’s success at the conference was achieved when the United States, Britain and their bankers all placed pressure on Herriot to provide a date for the ending of the military occupation and to accept the diminishment of France’s ability to apply sanctions to Germany in the future. Their success was facilitated by Herriot’s personal opposition to Poincaré’s policy and the financial weakness of France. Nevertheless, Stresemann’s diplomacy deserves credit. He skilfully used the threat of the agreement being rejected by the German Nationalists to obtain the military evacuation of the Ruhr within a year. He avoided economic concessions and was able to extract last-minute concessions for the military evacuation of Düsseldorf, Duisburg and Ruhort from Herriot. Germany did not get all it wanted, but it the end it obtained enough, along with the prospect of future American aid, to obtain sufficient Nationalist support to pass the agreement in the Reichstag. His success at
the conference helped to establish his continuing policy of pursuing German revisionism through rapprochement with France and Britain.

For the United States, the conference was highly successful. It accomplished all of its primary goals. The Ruhr crisis had been defused and Hughes’s diplomacy was vindicated and celebrated just before the 1924 elections. America could look forward to participation in the reconstruction of Germany and Europe in general. It had demonstrated the influence and economic power of America to world. It also succeeded in keeping the question of war debts from being discussed.

Europe’s need for United States involvement in Europe’s reconstruction gave the United States great influence and Hughes used it to good effect. Hughes’s goal was a settlement that would allow the loan to be obtained. Hughes personally intervened directly by telling France, Belgium and Germany that the involvement of the United States in Europe was dependent on their accepting the Dawes Plan and reaching a workable agreement. When in Berlin, Hughes came to the conclusion that Germany would accept a year’s delay before military evacuation. In the conference Kellogg supported Germany in making sanctions very difficult to obtain because it was in America’s interest to prevent a future political crisis erupting over reparations. Similarly he aided Germany in its effort prevent France from using non transferable reparation funds to obtain large scale participation in German industry. But when the conference was faltering over German demands for further concessions that Kellogg felt Herriot could not make, Kellogg intervened, telling the Germans, much to their resentment, that America would not support further concessions. America was not pro-German; it was for European reconstruction which required the reconstruction of Germany. American diplomacy succeeded in finding the required balance.
The bankers of J.P. Morgan & Co. played a significant role in obtaining French concessions, but their maximum demands were not met. Although some historians such as Werner Link emphasize that American economic concerns directed American policy, it should be noted that the bankers were reluctant to make the loan and in the end required a request directly from Hughes. In addition, the strongest demands for French concessions came from the British financial community and not American bankers. Morgan and his partners in underwriting loans bore a fiduciary responsibility to buyers of the bonds and had good reason to be concerned about Germany’s ability or willingness to pay in the future. Morgan was sympathetic to France and was disinclined to invest in German loans. It was on basis of the political needs of the United States and not economic incentives that the decision to make to loan was made.

For Britain the conference can also be termed a success. While it is true that they would still have the unpleasant task of mediating between France and Germany over issues such as the military control of and the evacuation of the Cologne zone of occupation, the crisis had been settled and relations with France would become more harmonious. For France, it put an end to its ambitions in the Rhineland which would have poisoned German-French relations, it provided for a period of years a source of reparation from Germany, it provided the opportunity to restore its finances, and perhaps most importantly it provided a period of time to recover from the war and the tensions that accompanied the Ruhr crisis. It is not surprising the Camber of Deputies and the Senate provided Herriot with large majorities in their vote of confidence. It opened up possibilities for more peaceful relations with Germany and stability in Europe.

The London Conference also changed the nature of German-American relations. By
ending the Ruhr Crisis, it opened the door to an increasing economic relationship between
the two nations. Germany would no longer have to turn to America as a supplicant in crisis.
The relationship would be one of normal relations between two nations. Stresemann’s
continual conviction was that the best hope for a solution to Germany’s economic and
political difficulties was engagement with the United States. His hopes for greater American
interest in Germany were realized. During the last half of the 1920s American loans and
investments would flood into Germany. Possibilities for the Weimar Republic were opened
and its “golden years” began.
Conclusion

When the Great War drew to an end in 1918, it was generally recognized that the central problem in establishing a new international order was Germany and its future role within the new system. It was equally understood that the economic reconstruction of Europe would require the participation of the United States which had emerged from war as the world’s greatest economic power and the leading creditor nation. This dynamic of Germany being the problem and America being the solution, were it to become engaged, gave the German-American relationship its critical importance in achieving a post-war settlement that could allow the United States to use its economic might to foster the peaceful reconstruction of Europe. Germany made engagement with the United States central to its foreign policy. America viewed the recovery of Germany as essential to its long term goal for a peaceful reconstruction of Europe that would serve America’s political and economic interests.

However, the complex interplay between international politics and the domestic politics in each nation as well as complicating cultural differences between the two nations resulted in the bilateral relationship proceeding in steps that would be characterized by expediency imposed by domestic politics of the United States. In addition, American could not fully engage Germany until European crisis over reparations was resolved. This would require Germany to summon the political will to reform its economy and agree to pay reasonable reparations. Only then would American public opinion become more accepting of United States’ participation in the resolution of the crisis which would then allow for full
engagement of Germany. The development of the German American relation was intermeshed with the international politics of the early postwar years. The purpose of this study has been to explicate the vicissitudes of this complex interaction.

The statesmen of the postwar period faced the difficult and complex task of balancing their perceived national interests with the need to reconstruct a new international political system. The costs of the war, materially, socially and economically made European reconstruction a pressing problem. But how the costs of the war were to be distributed both within each nation and between the nations were contentious domestic political issues. This had the effect of heightening the role of domestic politics in international affairs thus constraining the freedom of action in democracies where governments had to carefully attend to public opinion. Economic questions thus became political issues both at the domestic and international levels. It was in this political environment that the statesmen of the time struggled to re-establish a stable post war system which could foster reconstruction. It is therefore in the political analysis of the period that the motivation and priorities the statesmen of the period are best revealed.

These issues were first confronted internationally at the Paris Peace Conference. The resulting Versailles Treaty and its subsequent failure to be ratified by the United States established the framework in which the diplomacy of the early 1920's would take placed and the German-American relationship forged. Woodrow Wilson had sought a “just” peace, but believed that Germany should be punished and constrained. The Treaty imposed harsh terms on Germany, reducing its territory, military power, and financial strength; but Wilson and Lloyd George refused to satisfy French desires completely by separating the Rhineland from Germany. Wilson recognized that the economic recovery of Germany and its eventual
reintegration would be necessary for European recovery. Germany was left with the potential to return to great power status as Europe’s leading industrial nation. For Wilson, the League of Nations was to be the ultimate security guarantee for France reinforced by a promise of American and British aid if France were to be attacked. Wilson saw American interests as being best served by a liberal international order based on the “Open Door” principle of trade. He assumed that Europe could recover through its own efforts and the involvement of private American capital. America’s refusal to link the question of Allied war debt owed to the United States to German reparations, a position that Britain and France would seek to revise, intensified the crucial issue of setting the sum of German reparations which was left for later resolution. The Versailles Treaty’s blend of realism and Wilsonian idealism has been a subject of contentious debate from its inception to the present. It was, however, a product of its own time and circumstances and the compromises that had to be made under the pressure of time.

There is some justification for the interpretation that the treaty was too harsh for Germany to reconcile itself to its defeat and the consequences that followed from it while at the same time not sufficiently severe to provide France a sense of security against a recovered and revisionist Germany. Germany’s consistent foreign policy goal became to escape from the strictures of the Treaty while France would counter with strict enforcement of its terms and saw reparations as a mean of limiting the strength of Germany’s recovery. The Treaty could have been enforced and revised, if necessary, over time with American participation, but Wilson’s stubborn refusal to face political realities and agree to the Senate’s ratification of the Treaty with reservations dealt a severe blow to the international system. It would not be until 1924 that the needed American involvement and engagement
with Germany would facilitate the European powers adopting a workable post-war settlement that was freely accepted by Germany and allowed the reconstruction of Europe to begin.

America’s withdrawal from the arena of European affairs left Britain and France to manage the enforcement of the treaty and the problem of German reparations which exposed the significant differences that divided those nations. They could not reach a lasting agreement on the sum of German reparations or the sanctions to be employed to enforce payment. Britain sought to serve as the balance of power in Europe and believed that it had more to gain economically from the recovery of Germany than it had from extracting the maximum amount of reparations from it. France, left without a security guarantee after America failed to ratify the Versailles Treaty and Britain’s subsequent refusal to provide a guarantee alone, increasingly viewed reparations not only as essential to its recovery, but also as a security issue against Germany.

While Germany sought to exploit the divergence between France and Britain, it placed ultimate hope for its recovery on the United States making this the keystone of its foreign policy from the very ending of the war. With some illusions about its intent, Germany had turned to the United States for an armistice based on Wilson’s Fourteen Points and his promise for a just peace. Although the armistice terms were severe, Germany unrealistically retained the hope that Wilson’s influence would provide it with a lenient peace treaty and entrance into the new world system promised by Wilson. It believed that having reconstituted its government as a parliamentary democracy, it would be viewed as having rejected its militant past and would find greater favor in American eyes. The arrival of American food shipments further underscored the importance of the United States to Germany. When the Versailles Treaty confronted Germany with the reality of defeat, it felt
betrayed by Wilson. But this hostility towards Wilson did not alter Germany’s core belief that engagement with America was essential for the rehabilitation of Germany and the revision of its position in the European system. It did, however, create a self-serving feeling that America owed a moral debt to Germany and this attitude would often color the tone in which Germany couched its appeals to the United States and prove counter-productive in its effect.

German hopes for American assistance rose after the Senate’s failure to ratify the Versailles treaty and the Republican victory in the 1920 election. The German Foreign Office, once again misreading American policy, believed that the United States’ desire for trade and investment opportunities in Germany would lead to a rapid American engagement and mediation on its behalf. This misconception led Germany to deliberately submit an unrealistic reparation offer to Britain and France just prior to the London Reparation Conference of 1921 and then to issue an appeal for Washington to mediate a settlement on Germany’s behalf. Hughes, to whom Harding had given wide latitude in formulating American foreign policy, shared Wilson’s belief as to the importance of Germany to the American goal of the peaceful reconstruction of Europe. The new administration followed Wilson in holding that Germany should pay for its aggression, but that reparations should be based on experts’ determination of what Germany could pay and still contribute to European recovery. Unwilling to separate America from the Allies, Hughes would not exert any American pressure on them, and would only make a confidential and informal offer for American participation in a committee of experts if agreeable to Britain and France. This policy would serve as the framework of Hughes’ future approach to the problem of reparations. The only result of Germany’s appeal was to reinforce the State Department’s
belief that Germany had not accepted the consequences of its defeat, was insincere in its reparation proposals, and was obtuse to the sentiments and interests of other nations. It also underscored the potential of Germany to complicate the State Department’s relations with the Senate and the Allies. Hughes would carefully seek to minimize such problems in his later negotiations with Germany.

The 1921 London Schedule of Reparations has a matter of intense debate from the perspective of theoretical economics as to whether it was within Germany’s capacity to pay and if the transfer of such sums could take place without impairing fiscal stability. The problem of German reparations, however, was at its heart a political issue. German opinion viewed the London Ultimatum as a second Versailles, an unjust and unrealistic punishment which only served to benefit its former enemies while keeping it from economic recovery. Critics of the reparation schedule in Britain and the United States reinforced and sustained this belief. The Weimar Republic had purchased social peace through inflationary economic policies and feared making the political decisions that would heighten domestic conflict over how the economic costs of reparations should be distributed among the varying socioeconomic groups. The resulting lack of political will within Germany to face its reparation burden would lead to the reparation crisis that dominated international politics in the early post-war years. As the issue of reparations became increasingly important in German domestic politics, its relations with the United States were seen as the only solution to Germany’s dilemma. Fehrenbach’s failure to obtain American mediation in the 1921 reparation settlement did not alter the hope for eventual American intervention, a hope that already survived the disappointment of the Armistice terms and the Versailles Treaty. The reparation crisis that followed the London Ultimatum simply intensified it.
This analysis of German foreign policy reveals how the importance of America became increasing central to its diplomacy and made the engagement of the United States on Germany’s behalf its prime priority. America was seen as essential for the rehabilitation of Germany and the revision of its position within the European system. Germany viewed the United States as a nation that saw itself as being above the political fray that characterized Europe and thus being able to serve as a useful mediator on Germany’s behalf. The successive German governments of Wirth, Cuno, Stresemann and Marx would cling to this view and would be judged domestically by the progress that they made in fostering the American relationship as they tacked to what they perceived as the prevailing American wind. They relied on what they believed was America’s need for Germany both for trade and for the larger goal of having a recovered Germany serve to foster a more general European reconstruction to result in an American engagement with Germany. But this belief overestimated America’s need for trade with Germany, underestimated the ambivalence regarding engagement with of Europe that characterized the American political scene and Hughes’ reluctance to complicate relations with the Allies. Germany’s engagement with the United States would therefore only take place in steps beginning with the United States’ political need to resolve to the bilateral issues that resulted from America’s failure to ratify the Versailles Treaty.

The first step in the reestablishment of post-war relationship was the Treaty of Berlin, America’s separate peace with Germany. The treaty was the product of the politics of expediency, and was not part of predetermined policy regarding Germany. Hughes’ foreign policy options were constrained by domestic politics. The prevailing political mood of America had become more isolationist in nature. While some agricultural, business, and
financial interests favored increased engagement with Europe, the general opinion that was that America had sacrificed enough for Europe. It wanted lower taxes, avoidance of entanglement in European disputes, and a return to the “normalcy” that Harding had promised. Congress, divided between Republican internationalists, Republican isolationists, and partisan Democrats, sought to recapture its prerogatives and limit the administration’s freedom of action. At the same time it lacked any consensus regarding foreign policy. It found a common purpose, however, in acting in response to the French and British reparation demands by legislating to preserve American financial claims against Germany. The Knox-Porter resolution ending the state of war with Germany claimed all the rights and privileges of the Versailles Treaty while not accepting the responsibility for its enforcement and making any American participation in its institutions dependent on Congress’ approval. Hughes, who agreed with the general framework of the Versailles Treaty, would have preferred to resubmit the Versailles treaty with reservations and without the League. Blocked by Senate opposition, Hughes incorporated the Knox-Porter resolution as the basis for the Treaty of Berlin.

Examination of the domestic and international politics that were in the involved in the formulation of the Treaty of Berlin and the negotiations that led to Germany’s acceptance reveals a pattern in which Hughes, constrained by Congress and needing to preempt Congressional action, demanded Germany accept America’s terms and timetable. The Wirth government was willing to sign the treaty not only because they viewed the relationship with America as crucial, but also to satisfy their political need to demonstrate to the German public progress in the engagement of the United States. The treaty was therefore was a product of what can be characterized as the politics of expediency. The domestic political
needs of Hughes would set the pace and parameters of American-German relations. This would be the pattern in the Mixed Claims Agreement in 1922 and the Commercial Treaty of 1923.

The Wirth government had mistakenly believed that the United States’ desire for trade would provide sufficient leverage for Germany in the negotiations over the peace treaty to obtain the sequestered German assets and a commercial treaty which then could lead to greater economic engagement with the United States. What Germany received was only the promise of further action, but even that would depend on Congress. The Wirth government, desperate for some demonstration of progress in the engagement of the United States, accepted the treaty and promoted it to the public as a negotiated peace establishing bilateral relations with the United States outside of the framework of the Versailles system. But while the Treaty of Berlin established the framework for American-German bilateral relationship, Hughes had no desire to separate American policy from the overall European settlement of Versailles or to create difficulty with America’s war time Allies. It was as much of the Versailles Settlement as he could obtain from Congress. Germany paid a heavy price for its separate peace when Congress in ratifying the treaty sought to prevent a reduction in Allied war debts being used to facilitate a reparation settlement and forbade any official American representation in the crucial Reparation Commission.

The Wirth government’s policy of fulfillment which was designed to demonstrate that the German reparation burden had to be reduced succeeded only in stimulating inflation. When the United States failed to extend its relationship, Germany turned to Britain for financial support and protection against France only to find that Britain in the absence of American involvement could not constrain France. The failure of the Genoa conference demonstrated
how essential the United States was the solution of the European crisis. Rathenau’s urgent request at the time of the Genoa conference for Wiedfeldt to immediately take up the crucial position as Ambassador in Washington illustrates the continuing importance of America.

The United States had refused to attend the conference because it believed that it was premature since the Europeans would have to institute domestic financial and economic reforms before any progress could be made in European reconstruction. Washington’s prevailing view was that American engagement, while remaining a long term goal, was not of such immediate importance that American would risk a confrontation with the Europeans over the issue of Allied war debts. But although Hughes refused American official participation at Genoa, he supported J.P. Morgan’s participation in the Banker Committee as a private banker, but with instruction to avoid the issue of war debts. Morgan’s participation represented a turning point in that it signaled the willingness of American financial circles to become involved in Germany’s reparation problem. Germany’s approach to Russia at Rapallo, was in large measure a product of frustration over the lack of success achieved by Germany’s fulfillment policy, but Germany’s hope continued to rest with the United States.

In answering the question of how the German-American relationship developed, attention has to be paid to the role that Otto Wiedfeldt and Alanson B. Houghton played as ambassadors. The exchange ambassadors was an important benefit that Germany did gain from the signing of the peace treaty. Neither came from the foreign service. Wiedfeldt was chosen specifically for his economic and business background which made him well respected in the American industrial and banking community whose support Germany sought. Houghton, who also had extensive business and political connections, was sympathetic to German concerns, but was realistic in his assessments. He was regularly
consulted by the German government on all matters of policy. Their backgrounds and abilities gave both Houghton and Wiedfeldt a significant advantage in addressing German-American issues and proved to be highly effective in the mission they were given.

The German-American engagement was complicated by differences in culture, values, customs, and ideas about political economies. This led to frequent misperceptions and misunderstandings. The State Department often characterized Germans as being thick headed, stubborn, diplomatically insensitive, and bungling. Germany held very mixed attitudes regarding the United States. The Germans viewed Americans as naïve, uncultured and materialistic. While convinced that only the United States could help, it felt that America had a moral duty to help Germany and would resort to reminding America of that duty, especially when America was inactive. This was somewhat mitigated by the fortunate choice of Ambassadors. Houghton’s sympathetic, but realistic, assessments of Germany won him the trust of successive German governments and eventually the trust of Hughes and the State Department. Wiedfeldt disabused the German Foreign Office of its optimistic appraisals of the American policy and discouraged amateurish approaches to lobby the United States. His courting of influential figures in politics, banking and industry helped smooth the way for the eventual acceptance of American involvement in the Ruhr crisis.

The Mixed Claims Agreement was the necessary second step in the bilateral development of the German-American relationship. Hughes skillfully achieved a successful balancing of domestic and partisan concerns of Congress with the practicalities imposed by the problem of inter-allied debts and reparations. The Mixed Claims Commission would keep war claims against Germany out of the American courts where excessive Court awards would complicate his diplomacy with both Germany and the Allies. The use of the Commission, as
opposed the court system, also served to keep emotionally charged issues related to war
damages out of the public eye where they could further heighten public hostility towards
Germany. While the agreement reflected American needs and interests, both Rathenau and
Wirth considered it of crucial importance to demonstrate German willingness to
accommodate American priorities at a time when Germany was desperate for American aid
as the reparation crisis intensified.

The final step in establishing normal bilateral relations between the United States and
Germany, a commercial treaty, would not take place until late 1923. The delay resulted
from the need of United States to establish its economic and commercial priorities before
presenting a draft treaty to Germany. Hughes’ efforts to keep both Congress and special
interest groups out of his formulation and negotiation of the commercial treaty, as he had
previously done in the Mixed Claim agreement, calls into question the applicability of
“corporatism” as an explanatory theory applied to American foreign policy of this period.
The commercial treaty was further delayed by the inability of the German Foreign Office to
take decisive action during the economic collapse and political dislocation that characterized
the autumn of 1923. While Germany was once again pressured into accepting American
terms, it welcomed a commercial treaty which gave Germany most-favored-nation status
with the United States allowing it the opportunity to break out of the commercial restrictions
imposed by the Versailles Treaty. More importantly, it confirmed American interest in
Germany at a time when the establishment of the Expert’s Committee’s was still uncertain.
In the long run it was more of a success for Germany than for the United States. It did not
lead to an “Open Door” for the United States in Europe, but after its ratification in 1925 it
would facilitate the reconstruction of Germany being supported by the wealth of America.
But all this could not have taken place without a resolution of the Ruhr crisis.

While the Mixed Claims agreement allowed the Wirth government to demonstrate some progress in its relationship with America, it failed to help its central problem which was the building conflict over reparations and resulting inflation that was rapidly diminishing Wirth’s options in both foreign and domestic policy. The ever increasing inflation exacerbated the tensions between industry and labor. Industry demanded the end of the eight hour day for its cooperation in obtaining an international loan while labor vehemently rejected any change. Germany could not resolve its domestic situation without some resolution of its reparation problem, but it could not make credible reparation offers without domestic reforms. It saw external assistance as its only politically acceptable solution. Britain’s attempted intervention of the Balfour Note in August 1922 only served to anger Washington which rightfully recognized it as an attempt to embarrass America into intervening. It also had the effect of hardening the attitude of Poincaré who increasingly looked to the seizure of assets in the Ruhr as a means of obtaining reparations. Unable to make progress in obtaining American assistance the Wirth government collapsed in 1922.

Cuno’s appointment to replace Wirth as Chancellor was to a significant degree based on his close business connections with America. Although promising domestic reforms that would allow Germany to make credible reparation proposals that would find favor in America, his weak government could not obtain the necessary support from industry and business. With Britain unable to restrain France, Germany once again made a last minute plea for American intervention through an expert’s committee. Cuno’s additional offer of a Houghton inspired Rhinepact had little meaning without the British and American security guarantees to France. Concerned about the imminent French occupation of the Ruhr, Hughes
now publicly made his New Haven proposal. This reflected not only the administration’s long term desire for a European settlement under America’s guidance, but also Hughes’ political need to avoid partisan criticism that the administration had done nothing in response to the European crisis. But after Poincaré’s earlier experience with the Morgan and Banker’s Committee which had recommended a reduction of the Germans reparation burden, there was little chance of France accepting Hughes’ proposal without an offer of a reduction in its war debts. Bonar Law’s last minute attempt to avoid French action in the Ruhr failed when Germany, resigned to a confrontation with France, submitted an embarrassing unrealistic offer. Given the United States failure to ratify the Versailles treaty and its attitude regarding war debts, the differences between Britain and France in their attitudes towards Germany, the German sense of injustice regarding the Versailles Treaty and the London Ultimatum along with its inability to overcome its social divisions and France’s justifiable anger at not receiving German reparations, there was certain inevitability to the French and Belgian occupation of the Ruhr.

Why did occupation go on for over one year before a useful intervention by America and Britain could be achieved through the Dawes Plan and the London Conference of 1924? The crisis became acute because it rapidly became a test of national strength between France and Germany with each believing it would prevail. Cuno was willing to gamble that French financial weakness would lead it eventually to accept American and British mediation that would result in a reparation settlement more favorable to Germany. The French and Belgian occupation of the Ruhr led to a nationalistic reaction of outrage throughout Germany which initially led to a sense of national unity. Workers responded with spontaneous non-compliance and strikes which the Cuno government then organized and financed, believing
that passive resistance would lead France to negotiate. But underneath this patriotic reaction, the social divisions remained and would frustrate any attempts by Cuno to make any reparation offers sufficient to provide an opportunity for American and British intervention.

In the United States, the initial response of Congress, which sought to avoid any entanglement in the European embroilment, was to insist on the rapid withdrawal of American occupation troops. Hughes had little to offer after Poincaré’s refusal of his proposal. In Britain, the weak Bonar Law government faced a divided public and cabinet opinion regarding the occupation and retreated into a policy of “benevolent neutrality.” Both nations expected that negotiations would become possible within a reasonable period of time after Germany and France had experienced their “bit of chaos.” But the intensity of the struggle between France and Germany frustrated hopes for an early solution.

During the spring and summer of 1923, Hughes’ policy was to wait on events and hope that Europe would solve its own problems. With American opinion predominately pro-French, the ever cautious Hughes had no incentive to adopt an active policy where was no likelihood for success. Cuno’s clumsy reparation proposals that were limited by the political hold industry had on his government not only reinforced this attitude, but also served to cool relations with the United States. Britain, whom Hughes looked to for management of the crisis, was unwilling on its own to pressure France and Curzon’s attempted initiatives faltered in the face of cabinet opposition. It would not be until August when Germany was confronted with galloping inflation that threatened the disintegration of the social fabric, the economy and the state itself, that a new great coalition government led by Gustav Stresemann would accept the realities of Germany’s domestic and international situation.
Stresemann took office with the firm belief that only the United States could provide the help Germany needed. To his credit, he recognized that Germany’s foreign policy was linked to domestic reform and was willing to break through the political constraints that had paralyzed his predecessors to achieve it. Unable to obtain aid from Britain, he made the difficult decision to give up passive resistance which under Cuno had come to be pursued for its own sake rather than for any useful purpose. His strong determined leadership, in contrast with the weakness of Cuno, made an important difference. Germany owed much to his forward looking and realistic appraisal of Germany of what was required to achieve American assistance.

When Poincaré refused negotiations, the international political dynamics changed and Poincaré lost his best the opportunity to negotiate a settlement under conditions most favorable to France. While Britain and the United States might well have accepted strong French measures to achieve guarantees of it reparation payments, neither would condone a unilateral revision of the Versailles settlement. Poincaré had gone too far. It was no longer Germany, but instead France with its ambitions in the Rhineland and its actions which threatened to cripple Germany that had become the obstacle to the resolution of the crisis. British policy then hardened and became more confrontational towards French actions.

Coolidge did not want to go into the 1924 elections faced with the charge that it had allowed Europe to fall into chaos, but at the same time he did not want to try and fail since he and Hughes saw America as one indispensable nation and guarantor of international stability. Nevertheless, under domestic and international pressure, Coolidge re-offered Hughes’ expert committee proposal but left it to Britain to achieve French acceptance. At the same time he warned Germany, which as a consequence of giving up passive resistance faced threats to its
integrity from both the left and the right as well as a separatist movement in the Rhineland, that American intervention depended in Germany holding together. Such was the chaos in Germany that this would require extra-parliamentary emergency and dictatorial measures, but Germany held together. It was German weakness and not her strength that resulted in the combined American and British intervention.

When Britain took the initiative and called for an expert’s committee, Poincaré accepted because the crisis was threatening France’s relationship with Britain. He had only reluctant support from Belgium, and faced serious domestic financial problems. He was also aware of the potential rewards American engagement in Europe might bring France, including a reduction in French war debts. In addition, he believed that he would hold a strong hand in the negotiations and could keep open the possibilities for a change in status in the Rhineland. When Poincaré attempted to limit the scope of inquiry, Hughes refused to associate America with an effort that would not provide useful results and could damage the election chances of the Administration and the Republican Party. Hughes used his very public refusal to exert the pressure of international opinion, which recognized the necessity of American involvement against France. This provided British diplomacy the ability to forge a tentative confidential compromise in the Reparation Commission. Hughes and Coolidge, departing from their cautious policy of acting only when assured of success, concluded that the time had come to throw the weight of America into the balance and accept the risk of participation. This reflected not only their political calculations regarding the 1924 elections, but, also to their credit, the recognition of the gravity of the European situation.

The Dawes Committee and 1924 London Conference provided the basis for the international settlement of the crisis. Europe’s need for American involvement and money
gave America the leading role in the committee. While the committee devoted its time to economic issues, its decisions were ultimately political in nature. The committee succeeded in producing a reparation schedule and plans for a loan that offered Germany the ability to stabilize it currency and to recover economically. Although most economic experts considered the eventual sums Germany would have to pay unrealistically high and the eventual total amount Germany would have to pay was left undecided, these compromises were politically necessary to achieve French acceptance. Stresemann, for whom economic and administrative unity of Germany was of prime importance, was willing to pay the price of the reparation schedule. While American-British rivalries surfaced over the issue of the gold standard, Britain recognized the reality of American economic dominance and yielded on the issue which allowed fruitful American-British collaboration. The committee recognized the political need to leave open military and security issues. This together with threat of Hughes, who was now committed to a successful resolution, to withdraw crucial American involvement was sufficient for Poincaré accept the Dawes Report. American had achieved its goals without involving the issue of Allied war debts. The success of the committee and its enthusiastic reception in the United States ensured America’s future commitment to the completion of it work at the London.

The London Conference which worked out the implementation of the Dawes Plan represented a major turning point in the post-war period. While it modified the Versailles settlement, it remained within its framework. Neither the United States nor Britain would accept France’s unilateral action to alter the verdict at Versailles that the Rhineland and the Ruhr would remain German. Both nations, as they had at Versailles, viewed it in their interests that Germany return to a level of prosperity that would allow it to pay reparations
and be reintegrated into the European system fostering a general recovery. The threat of future military occupation as sanction for reparation defaults almost vanished as the powers of the Reparation Commission were reduced. Reparations would be once again reduced to an economic issue and not the means of enhancing France’s security agenda. The time table established at Versailles for the ending of German commercial concessions to France was adhered to when Stresemann diplomacy warded off France’s weak efforts to extend them. A workable agreement on the withdrawal of the French military from the Ruhr within one year was reached. Hughes correctly judged that the need for French acceptance of an agreement and the preservation of Herriot’s political viability outweighed the need for Stresemann and Marx to satisfy the political posturing of the German Nationalists and limited MacDonald’s efforts to extract further concessions from Herriot.

Herriot, who had opposed the policies of Poincaré, fought to preserve French interests, but at the same time, also recognized the destructiveness of the Ruhr conflict to France as well as to Germany. He was acutely aware of the need for France to recover from the emotional and financial strains of the war and the Ruhr crisis. He also sought to repair the damaged relations with Britain and reduce the virulence of the French-German relationship. Herriot’s attitude facilitated the success of the conference, and it is questionable whether Poincaré could have received better terms at London in the face of Anglo-American opposition. France would receive its much needed reparations and a period of rest to heal its wounds.

Britain would inherit the problems of managing the settlement, but that would be the price of resuming its desired role of serving as the balance of power in Europe while attending to its Imperial needs. Its task would be eased by the economic involvement of the
United States in the recovery of Europe. For the United States the conference was highly successful. It avoided the issue of war debts. It achieved its goal for economic engagement of Europe through private investment without American political involvement. It was a diplomatic success that assured the Republican victory in the 1924 elections.

The American relationship with Germany would also be changed. The relationship would be one of the normal relations between two states, rather than one of Germany turning to America as supplicant in crisis. Stresemann’s goal for German recovery funded by American wealth was realized as American loans and investments poured into Germany. While the immediately following years were not completely “golden,” Germany’s constitutional structure survived and it had an opportunity to recover from its years of crisis.

Most importantly the Dawes Plan and London settlement changed the international atmosphere of the immediate post war years. Problems remained, but the sense of general disillusionment with possibilities of diplomacy faded. The settlement also allowed for the bitter feelings resulting from the war to lessen. People of each nation could entertain the possibility that their hopes for a more peaceful and prosperous future could be realized. With France receiving German reparation payments made possible by American loans and investments in Germany, the question of reparations ceased to threaten the peace and stability of Europe. The nature of international diplomacy changed. The divergent national interests of each nation which had been often self-contradictory coalesced into a more common purpose of managing the political problems of French security and German revisionism pursued by Stresemann through diplomacy. This was a significant accomplishment and any assessment of the diplomacy of the early years of the 1920's should be in the context of its own times and not the events and contingencies of the 1930's which
unraveled the system.

The German-American relationship, as it developed between 1921 and 1925, provided the crucial link to the resolution of the European post war crisis and transformed the European system which originated out of the Versailles settlement. In the process, German-American relations were changed. Germany would no longer have to turn to the United States as a supplicant in crisis. During the last half of the 1920's American investments and loans would pour into Germany, albeit in excessive amounts. This new American involvement with Germany would serve to underwrite the “golden years” of the Weimar Republic and all its promise.

The Great Depression would end the European recovery. Hitler’s rise to power and the resulting shift in German policy from one of peaceful revision within the system of Versailles to one of aggressive German expansionism would force America once more into war - a war actively sought by Hitler’s Germany. Learning the lesson from the European crisis following the First World War, the United States would this time remain engaged with Europe and Germany. American aid would help restore Germany following its defeat and it would serve as the protector of West Germany from encroachment by Soviet Russia. When the Soviets withdrew from East Germany, it would be America that would advocate a united Germany despite the misgiving of France and Great Britain. Today German-American relations are in a period of flux as Germany has to decide how to balance its relationship with the United States with its commitment of the European Union. Yet German-American relationship, forged with such difficulty in the early years of the Weimar Republic, remains strong. This relationship continues to be important for both Germany and America, as well as to Europe as a whole and is well worthy of continued study.
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